ASCENTIAL WEALTH ADVISORS

Spring 2015

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Focus:

- ✓ Maintain fixed income strategy with less sensitivity to rising interest rates
- ✓ Add to overweight position in US stocks by increasing small cap
- ✓ Maintain exposure to international markets through rebalancing

US Markets Stand Out

Index:	2014	2013	2012	2011	2010
S&P 500	+13.7	+32.4	+16.0	+2.1	+15.1
DJIA	+10.0	+29.6	+10.2	+8.4	+14.1
EAFE (Int'l)	-4.9	+22.8	+17.3	-12.1	+7.8
BC Ttl Bond	+5.9	-2.0	+4.4	+7.7	+6.5

Dow Jones Relative Risk Benchmarks					
Conservative	+3.9	+1.4	+5.4	+5.3	+8.5
Moderate	+5.4	+14.5	+11.2	+0.3	+14.0
Aggressive	+6.6	+27.0	+16.8	-5.1	+19.4

There was a pronounced divergence between US and international markets' performance, as the US economy continued to improve at a faster pace than the rest of the globe. This disparity generally resulted in underperformance for diversified portfolios when compared to US equities and bonds.

In the US, it came as a surprise when interest rates fell, with the yield on the 10 year treasury moving from 3.0% at the beginning of the year, to 2.2% at the end of 2014. This resulted in higher bond prices and solid performance for most US fixed income. For 2015, an interest rate increase by the Federal Reserve is broadly anticipated assuming growth continues on its current trajectory.

Oil prices experienced a steep decline due to both increased global supply and inaction by OPEC to cut production.

Looking forward, lower energy prices should help the global economic recovery. In the US, GDP growth is expected to come in around 3.0% for 2014, and projections for 2015 fall within the 3.0%-3.5% range.

Focus

Our message for the year ahead is "patience is a virtue" with regard to both fixed income portfolios and international equities. While the cost of hedging against rising rates turned out to be a drag on performance in 2014, we believe rates are poised to rise and continue to seek protection by maintaining a hedged fixed income strategy. In our opinion, hedging is similar to the purchase of insurance, which can feel expensive until a loss occurs.

Patience is also in order with international equities. Slower than expected economic recovery has held both developed and emerging markets back, however they hold opportunities for return as valuations overseas remain attractive relative to the US.

While equity valuations in the US have continued to advance, they are not unreasonable on a historical basis and are compelling when compared to the inflated valuations of bonds today. We recommend maintaining an overweight position in US equities, and adding to small cap stocks which benefit more from domestic growth.

Fixed Income

"We believe recent performance in US bonds was an anomaly and expect rising rates and declining bond prices going forward."

After a year of rising interest rates in 2013, they unexpectedly fell in 2014. Just as the Federal Reserve ended its bond buying program, demand from foreign investors pushed bond prices higher and rates lower.

We believe recent performance in US bonds was an anomaly and expect rising rates and declining bond prices going forward. Projections are for the 10 year US treasury yield to rise from 2.2% to anywhere between 2.8% and 3.5% over the coming year.

Based on this, we feel it is prudent to maintain a portfolio of bonds that are less sensitive to rate changes, and the cost to hedge against rising rates will prove worthwhile. This portfolio includes high yield bonds, which are currently experiencing default rates well below average. We also prefer hedged traditional bonds, floating rate, and emerging market sovereign debt, which are all usually less sensitive to rising US rates.

	Real US 10- Year Treasury Yields	
	Today	1958-2014
Nominal Yields	2.17%	6.30%
Less: Inflation	1.71%	3.80%
Real Yields	0.46%	2.50%
	Historical Real US Corporate Bond Returns	
	Rising Rates 1958-1981	Falling Rates 1982-2014
Annualized Return	3.0%	9.6%
Less: Inflation	5.0%	3.0%
Real Return	-2.0%	6.6%

Source: JP Morgan Asset Mgmt 12/31/2014.

Bond yields today are well below historical averages, and expected to rise. History suggests that real returns on bonds are challenging in periods of rising rates, an important distinction as we exit an extended period of generally falling interest rates.

US Equities

"Though US stocks have had solid performance for several years, given the other investment choices available, we are in favor of maintaining an overweight position."

Equity indices in the US reached new all time highs again in 2014. While we expect normal market volatility and corrections along the way, we do not fear US equities at current valuations. From a price/earnings perspective, the S&P 500 ended the year at 16.2 times forward earnings, up slightly from 15.4 at the end of 2013 and modestly above its long-term average of 15.6. The earnings of S&P 500 companies have continued to rise along with prices, with earnings growing at double digit rates in 2014.

Further supporting continued strength, S&P 500 companies derive over two-thirds of their revenue domestically, and should benefit from improving economic conditions.

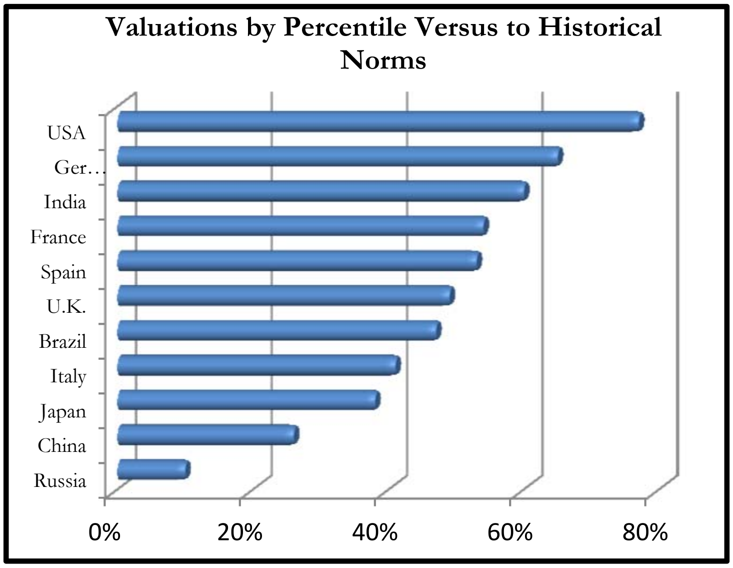
Profit margins are at historically high levels, while corporate debt is below average. Also, while capital spending in corporate America has been lackluster, it is expected to pick up in 2015, supporting earnings growth, particularly in sectors such as technology, industrials, and financials.

Large cap US companies fared the best in 2014, posting double digit returns while small cap stocks fell behind. While energy stocks struggled, the energy transportation companies that we have recommended did well as a whole. Though US stocks have had solid performance for several years, given the other investment choices available, we are in favor of maintaining an overweight position. We recommend adding to US stocks with an increase in small cap, which did not participate as fully in the 2014 rally.

International Equities

International stocks weighed on overall portfolio performance, with returns in negative territory. Economic growth outside the US was generally anemic, and a stronger US dollar magnified investor losses when returns were converted at higher exchange rates.

The S&P 500 has now outperformed international equities (MSCI EAFE) for 4 of the last 5 years. Fundamentally, prices of US companies are hovering slightly above long term averages, however valuations for international equities, particularly in emerging markets, are more appealing (see chart). We believe long term there is greater room for upward movement in international equity prices.



Souce: BlackRock Investment Institute and Thomson Reuters, 11/28/14.

These opportunities will be realized when foreign economies show stronger signs of life. Eurozone economies are expected to improve slightly with a growth rate of 1.2%, and in the Asia Pacific region growth should come in around 5.7%. In order to participate in this recovery, we recommend investors have patience and keep exposure to both international and emerging markets intact as foreign economies work through current challenges.

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Other (Commodities, Real Estate, and Alternatives)

Commodities continued to struggle in 2014 as low global demand kept prices depressed. For now, we look to maintain a marketweight allocation in commodities.

In the US, REITs posted solid performance with results exceeding 20%. However, the historical impact of rising interest rates on real estate companies has been mixed, therefore we suggest maintaining our underweight position at this time.

We continue to recommend a combination of alternative investments and bonds to manage portfolio risk while being sensitive to rising interest rates. The alternative investments we recommend are meant to provide bond-like returns over time with less interest rate and equity market risk.

The currency strategy we have employed as part of our alternative investments does well in a falling or flat dollar environment. With projections for a continued rise in the US dollar, we recommend shifting this portion of the alternative asset class to hedged bonds.

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Heads Up:

- **2014 tax documents will be mailed starting in mid-February. Please be patient, as documents can be amended into March.**
    - **February 2- retirement 1099s**
    - **February 17- March 16 taxable 1099s mailed**
    - **K-1s will begin to become available in March.**
- **Tanya Nichols, Financial Advisor and Certified Financial Planner, joined Ascential Wealth in September 2014. We are excited to welcome Tanya and her clients. For more information on Tanya, see our website: www.ascentialwealth.com**

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Looking Ahead

Although equity indices in the US continue to reach new all-time highs, we believe valuations do not suggest a bubble. We don't think we should be afraid of US equity markets at current valuations; however, market volitality including traditional price corrections are always a possibility. We continue to recommend a diversified, asset allocated portfolio which is exposed to a variety of assets and geographically diverse markets to help mitigate equity risk. While this hampered performance as compared to US markets in 2014, in the long term this type of portfolio can provide reasonable average returns with less risk. If there is a normal market correction, a diversified portfolio should not experience the full downside of the market.

Disclosures

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