2015: 1st Quarter Summary

“The signpost up ahead…your next stop, the Twilight Zone!” Rod Serling

Readers may recall Rod Serling’s excellent television show from the early 1960s. It focused on tales from an area “between the pit of man’s fears and the summit of his knowledge,” or simply “the imagination.” Investors always prefer an elusive ‘certainty’ in the markets, but the first quarter of 2015 indicates that imaginations are running wild and concocting scenarios that may not be founded on sound analysis. Thus, we may already be in the Twilight Zone.

Here’s a brief summary of various markets and how they performed in the first quarter of 2015, the fourth quarter of 2014 and the full 2014 calendar year:

Index	Q1 2015	Q4 2014	2014
Fixed Income			
Barclays US Agg Bond TR	1.61%	1.79%	5.97%
Barclays US Corp. High Yield TR	2.52%	<1.00%>	2.46%
Citi WGBI [Global Bonds]	<2.51%>	<1.49%>	<0.48%>
U.S. Equities			
Russell 1000 TR [Large-cap Stocks]	1.59%	4.88%	13.24%
Russell 2500 TR [SMID-cap Stocks]	5.17%	6.77%	7.07%
S&P 500 TR	0.95%	4.93%	13.69%
International Equities			
MSCI ACWI Ex USA NR [All Stocks]	3.49%	<3.87%>	<3.87%>
MSCI EAFE NR [Developed Markets]	4.88%	<3.57%>	<4.90%>
MSCI EM NR [Emerging Markets]	2.24%	<4.50%>	<2.19%>
Real Assets			
Morningstar US Real Asset Index TR	1.43%	<0.22%>	3.35%
Bloomberg Commodity TR	<5.94%>	<12.10%>	<17.01%>
S&P Global Ex US REIT TR	2.34%	3.16%	11.88%
S&P United States REIT TR USD	4.74%	14.35%	30.26%

Source: Morningstar, Inc. All data are USD total returns with dividends.

News, as usual, was mixed during the quarter, but some notable developments included:

- The U.S. Federal Open Market Committee (FOMC, or the Fed) began the process of revising its view on interest rates and the economy. Treasury rates ended the quarter flat or lower than year-end 2014. U.S. high-yield bonds recovered from a difficult close to last year.

- Non-U.S. bonds reacted to action by the European Central Bank to begin a program of Quantitative Easing. The U.S. Federal Reserve just completed a similar program with good results.
- U.S. large-cap stocks had a muted start to the year, partly due to earnings-estimate and GDP-growth revisions. The strengthening dollar also had an impact on results. Smaller-cap stocks, which are less sensitive to exchange rates, continued their 4th quarter rally and handily outperformed larger-cap indexes. Earnings estimates for the year have been revised downward, allowing for a lower hurdle to beat expectations.
- International stocks also reversed a weak close to the year, spurred by rising consumer confidence, central bank action, a weakening Euro and Yen, and lower energy-input prices. Returns in local currencies were higher than dollar-denominated returns.
- Real-estate securities (REITs) and real assets were positive, despite fears of U.S. interest–rate increases. Gold and oil were flat and negative, respectively, as currency fluctuations and oil-storage concerns put further pressure on these assets.

These developments, along with mixed economic data on employment and growth, have prompted changes in behavior. These include net inflows into bond and international-equity funds, as well as revisions to U.S. GDP growth and changes in rate-increase expectations.

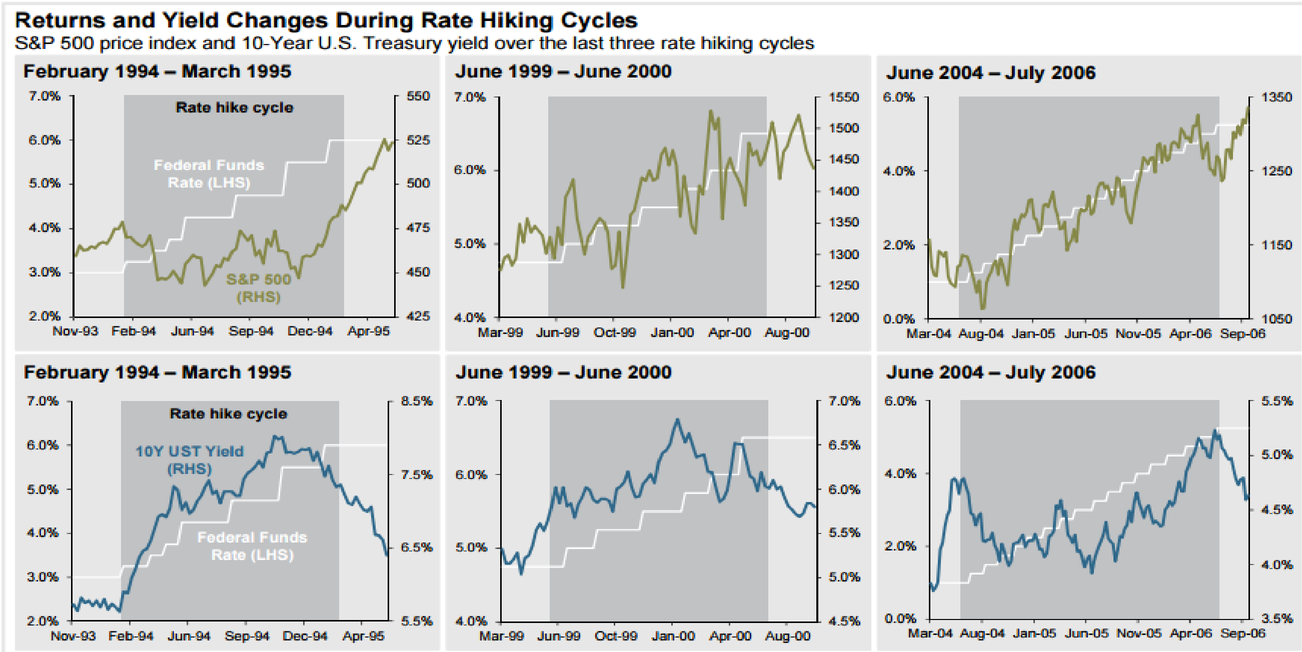
"Fasten your seatbelts, it's going to be a bumpy night!" Robin 'Mork' Williams

Robin Williams (in 'Mork and Mindy') was attending a cocktail party where people with different behaviors and agendas were expected to clash. We're seeing some of this behavior in markets right now, focused primarily on:

- **Expectations of higher market volatility**. Thus far, the end of U.S. Quantitative Easing hasn't promoted the equity volatility investors expected. The VIX (a popular stock volatility gauge) ended the quarter lower than year end, with 19 days of moves of +/- 1.00% in the S&P 500 price index. There were 11 such days in Q1 2014.

- **International stocks underperforming U.S. stocks**. Again, expectations have not yet met reality. Lower input prices, specifically for interest rates and oil, are generally good for economic growth. In addition, Euro-area inflation is rising slightly, unemployment is dropping slightly, and credit trends and consumer confidence are rising. Money is following value, and Europe is a good story right now.

- **Expectations that interest rates will rise**. They most likely will, at some point. However, rates are low or negative in Europe, and have barely budged in the U.S. The Fed has not actually begun a rate-increase program, but only discussed the conditions under which it would occur. And, as this chart shows, Fed-driven rising rate periods aren't uniformly bad:



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Data are as of March 31, 2015.

These graphs show the past three Fed interest rate increases. While the Fed-Funds rate and the 10-year U.S. Treasury yield end higher in each period (bottom), the UST 10-year does not end at its peak yield. Coupled with the changes in the S&P 500 price index (top), which ends each period higher, we think that owning stocks AND bonds is one way to dampen the negative effects of rate increases. In fact, rising rates and inflation are often good for the economy, as they allow for wage and price growth and investment. The table below illustrates selected median bond-fund category and equity performance over the latter two periods shown above:

Period	June 1999 - May 2000		June 2004 - July 2006	
Category / Index	**Return**	**No. Funds**	**Return**	**No. Funds**
Intermediate-Term Bond	1.46%	156	5.83%	196
High Yield Bond	0.28%	70	14.80%	98
S&P 500 TR [INDEX]	9.65%	-	16.22%	-

Source: Morningstar Data, J.P. Morgan Asset Management.
NOTE: Data as of 3/31/15 and returns are CUMULATIVE data for the period shown. The median fund return has 50% of the fund category returns higher than the stated median level, and 50% lower.

Our portfolios are globally diversified and are always ready for changes in seasons no matter the weather (i.e. volatility). As the harsh winter finally becomes spring, we are finding 'green shoots' in some areas we've already seeded, such as European stocks and bonds, smaller-cap U.S., Japanese and emerging-markets stocks. We're hoping for a calm and bountiful summer. As always, we welcome your comments and questions.

-Your Wealth Management Team at JJ Burns & Company

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Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2500 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The Citi World Government Bond Index (WGBI) provides a broad benchmark for the global sovereign fixed income market. It measures the performance of fixed-rate, local currency, investment grade sovereign bonds, currently includes sovereign debt from over 20 countries denominated in a variety of currencies.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The MSCI ACWI index captures large and mid-cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.