

~ FIRST QUARTER 2015 NEWSLETTER ~

Quarterly Summary

The fourth longest bull market in the past 85 years continued this past quarter, albeit with unimpressive vigor. All major asset classes delivered modestly positive results, with the exceptions of commodities and international bonds. International stocks outpaced domestic issues and real estate put up gains as interest rates continued to meander ever lower.

Over the past three quarters, the dollar rose at its fastest pace in 40 years. The resulting 14% gain against global currencies and 25% rise against the euro places the dollar among the most overvalued currencies in the world. Resulting implications are widespread. Returns of international investments have been depressed dramatically. U.S. economic growth has already been hindered, and will continue to face headwinds in coming quarters. Likewise, currency strength restrains inflation and weighs on the profitability, competitiveness, and growth of U.S. based multinational companies. On that note, earnings expectations have been slashed this year by the widest margin since the financial crisis. Once forecasted to grow by as much as 9%, first quarter year-over-year earnings growth for S&P 500 companies is now expected to decline by 5%.

Of course, while a contributor to the decline in earnings, dollar strength is not the only factor. The 55% decline in oil, also over the past three quarters, has played havoc with the profitability of energy companies.

Lest we paint dollar strength and submarined oil prices as universal negatives, the U.S. consumer is an unequivocal beneficiary of both. Adding in labor market strength, the lowest mortgage rates in nearly two years, and a reversal of last summer's housing market

weakness and you end up with the most upbeat U.S. consumer in eight years.

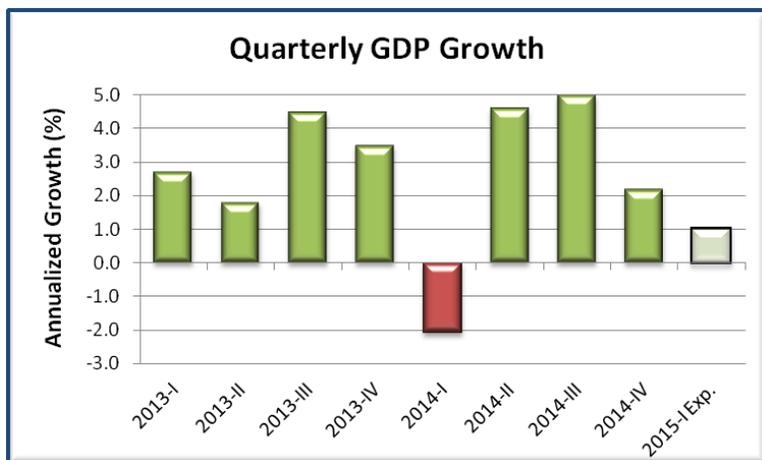
As mentioned, interest rates have once again declined. The move is a reflection of weak global economies, dangerously low rates of inflation, and the resulting herculean response by monetary authorities. The actions of over 20 central banks to ease monetary conditions have driven interest rates in many places to unprecedented lows. Case in point, a full one-quarter of all European sovereign debt maturing in over one year now trades at negative yields. That's a cool \$2 trillion worth of debt where creditors actually *pay* for the privilege to lend their money. Going to these kinds of monetary extremes poses a conundrum of sorts for investors. On the one hand, aggressive monetary action emphasizes the weakness and challenges faced by the global economy. On the other, monetary support has thus far inflated investment assets and [presumably] improves the outlook for global growth.

In closing, today's common wisdom can occasionally be refuted through the passage of time. In that vein, the following are interesting observations to contemplate:

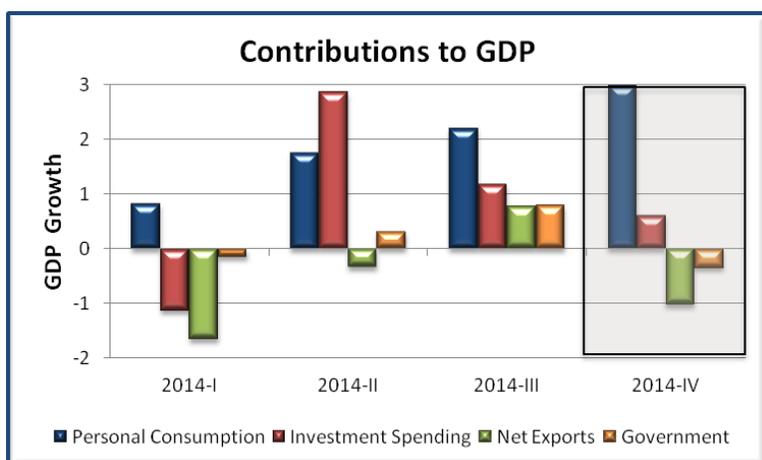
- Warren Buffet's Berkshire Hathaway tends to make prescient moves when market dislocations become particularly extreme. Could the firm's first euro denominated debt offering (€3 billion worth) be suggestive of yields going too far in Euro land?
- Walmart, McDonald's, and Target, respectively the first, third, and sixth largest employers in the U.S., have each announced wage increases in recent weeks. Could such actions, generally dismissed out of hand by analysts and economists alike, suggest sanguine inflation expectations are misguided?

ECONOMIC REVIEW AND OUTLOOK

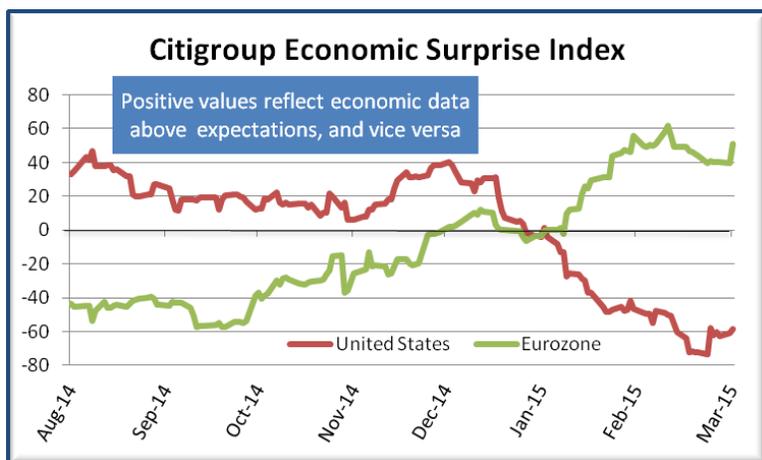
Key Economic Fundamentals



Data Source: U.S. Department of Commerce



Data Source: U.S. Department of Commerce

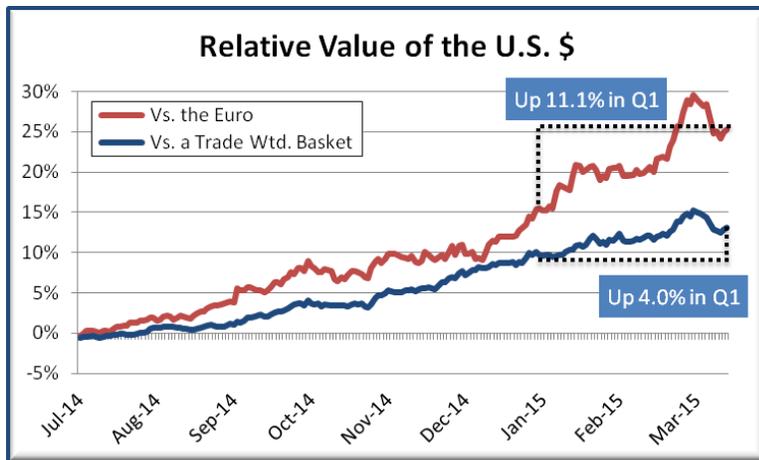


Data Source: Bloomberg

The U.S. economy is expected to grow slightly faster in 2015 than the 2.4% pace last year. Accommodative monetary policy, diminished unemployment, confident consumers, and cheaper energy prices are expected to offset weakness in overseas economies.

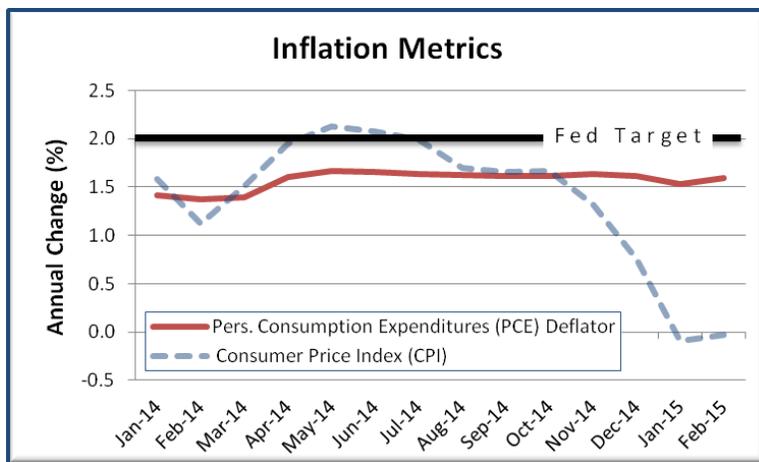
Growth in the fourth quarter of 2014 was disappointing compared to the prior two. The upward trend in consumer spending was offset by a contraction in government spending and unfavorable net exports. Dramatic strengthening of the dollar over the past nine months will continue to be an export/import headwind.

When comparing results to expectations, investors and economists became too optimistic in regards to the U.S. and overly pessimistic toward Europe. As shown, throughout the first quarter actual economic results have outpaced expectations for Europe, while the converse is true for the U.S.



Data Source: U.S. Federal Reserve

Over the past nine months, the dollar is up nearly 14% against a trade weighted basket of currencies and more than 25% against the euro. While currency strength can be evidence of a strong economy, it acts as a drag on an economy. It will pose a challenge for both U.S. corporate earnings and economic growth.



Data Source: U.S. Department of Labor

Low inflation is a concern for many world economies, including the U.S. The Federal Reserve's preferred inflation metric, the PCE Deflator, has been below the Fed's 2% target for 35 consecutive months. As shown by the CPI, plummeting oil prices have caused a further, albeit temporary, decline in inflation.

Global Growth Rates¹ (%)

	Q4 2014	Q1 2015	Q2 2015	2014	2015	2016
Advanced	1.7	2.0	2.1	1.8	2.2	2.5
Euro²	1.4	1.7	1.7	0.9	1.5	1.7
U.S.²	2.2	1.1	3.0	2.4	2.7	3.0
Japan²	1.5	1.2	2.1	0.0	0.6	1.2
U.K.²	2.6	3.4	3.2	2.6	3.0	3.0
Canada²	1.8	0.5	1.1	2.4	1.6	2.1
Emerging	4.8	4.6	4.9	4.9	4.9	5.5
China	7.3	7.2	7.2	7.4	7.0	6.7
India	7.5	7.0	7.5	7.2	7.5	7.9
Russia	-0.6	-4.7	-4.8	0.4	-2.7	1.4
Brazil	-0.2	-2.0	0.3	0.1	-0.6	1.4
World	3.2	3.2	3.5	3.3	3.5	4.0

Data Source: Goldman Sachs, Central Intelligence Agency

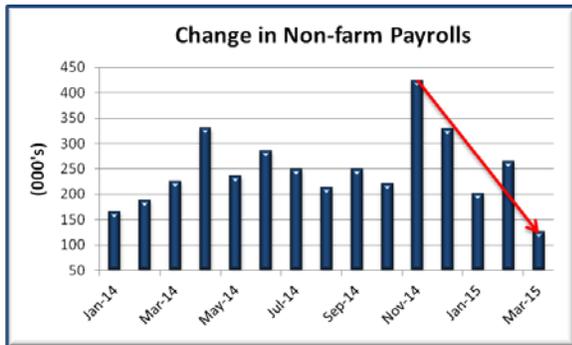
¹Q4 2014 and 2014 are actual, all others are forecasts

²Quarterly numbers are sequential annualized, others are year-over-year

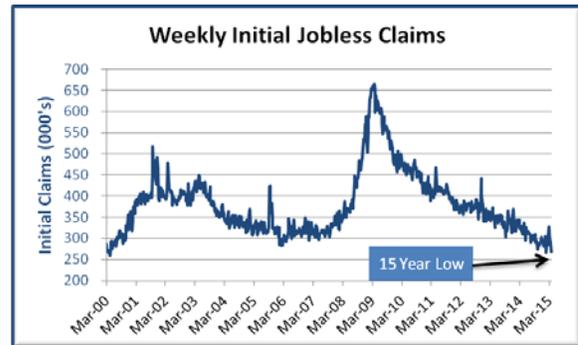
Aside from emerging markets, which are facing an assortment of unique challenges, global growth is expected to accelerate slightly this year and next. Considering the pattern in recent years, however, it's tough to take this to the bank. For years now, expectations (hopes) of accelerating go-forward growth have been met with no change at all.

Employment

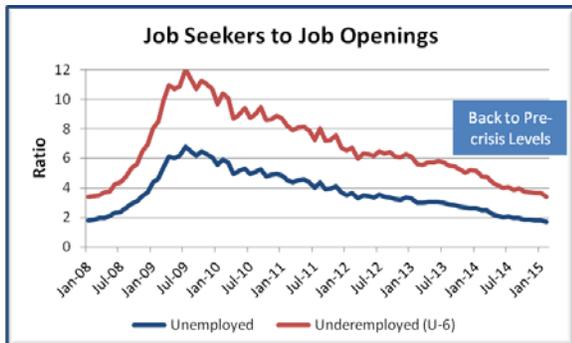
The labor market has improved in recent years and the first quarter was no exception. Payrolls continued to grow, albeit at a declining pace, weekly initial jobless claims hit a new 15 year low, and the ratio of job seekers to positions available is back to pre-crisis levels. Moreover, the unemployment rate ticked ever lower to what was, up until recently, the Fed's estimate of full employment. Their now revised range of 5.0 to 5.2% is still within striking distance and is expected to be achieved by year-end. Some vestiges of the financial crisis remain, however. Underemployment continues to be unusually high in relation to historic norms. Likewise, the portion of the population participating in the labor force, now down to a 37 year low, is both suggestive of slack and a detriment to economic growth.



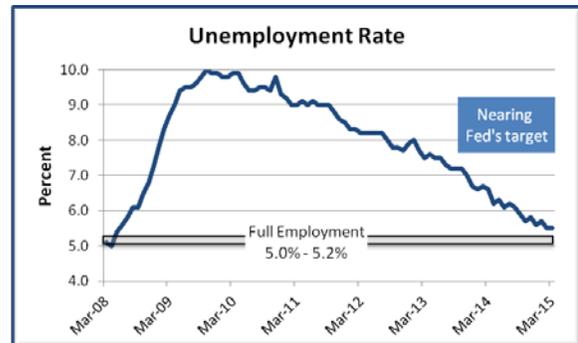
Data Source: U.S. Department of Labor



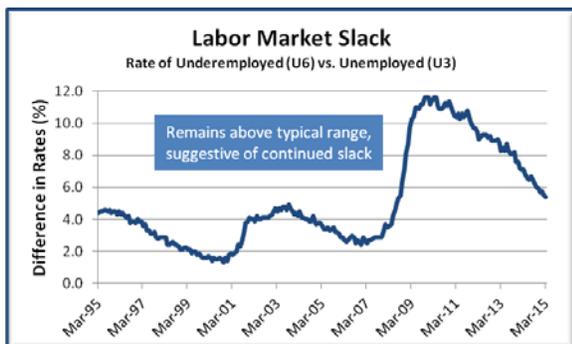
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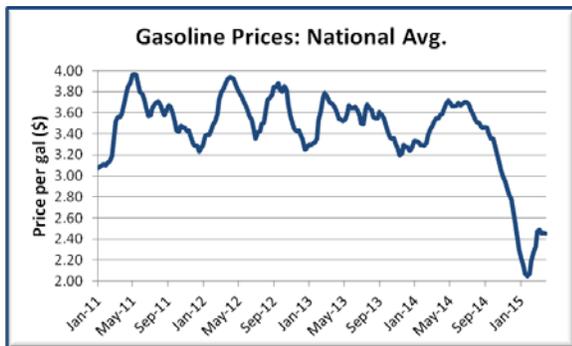
Data Source: U.S. Department of Labor



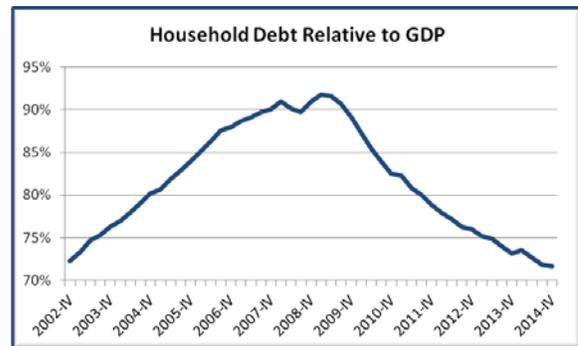
Data Source: U.S. Department of Labor

Consumer

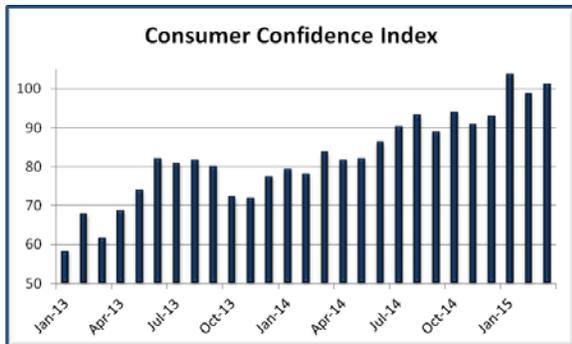
The U.S. consumer is in good shape, and economic developments over the past three quarters have been beneficial. Most particularly, dollar strength improves the global purchasing power of U.S. consumers, and the 55% decline in oil prices provides about \$2.5 billion in gasoline savings each week. Low unemployment and falling mortgage rates are also key positives. Debt relative to GDP has plummeted to a 2002 low and net worth is at an all-time high. It's no wonder why consumer confidence is back to pre-crisis levels. At face value, then, the recent three month drop in retail sales, the most pronounced since the financial crisis, seems at odds with economic fundamentals. Declines in December and January are fully explained by decreased gasoline expenditures. As for February, weakness is likely explained by unusually low temperatures and poor weather conditions experienced across the entire eastern half of the U.S.



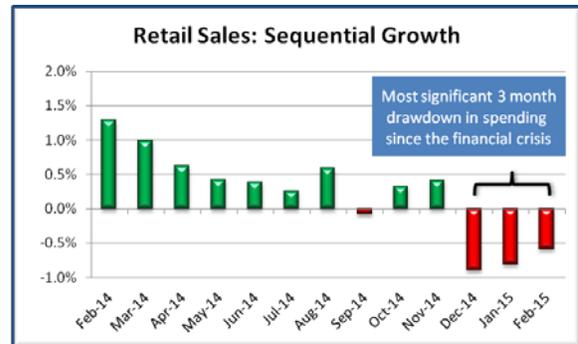
Data Source: U.S. Federal Reserve



Data Sources: U.S. Bureau of Econ. Analysis/ U.S. Federal Reserve



Data Source: The Conference Board



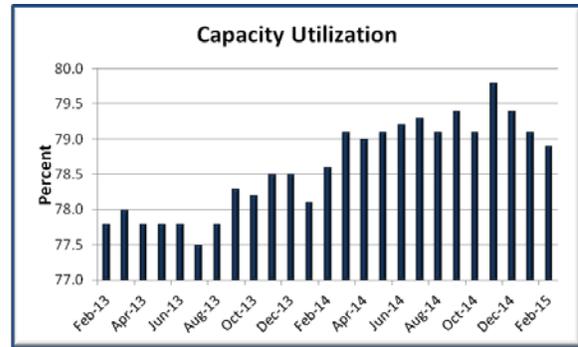
Data Source: U.S. Census Bureau

Business Activity

As shown by graphs on the following page, the negative impacts of dollar strength have begun to weigh on the domestic economy, most particularly the manufacturing sector. The Institute for Supply Management's Manufacturing Index has dropped precipitously since last fall. And the labor component of said index suggests manufacturing employment is no longer growing. The Federal Reserve's gauge of capacity utilization tells a similar story. After recently touching a new high, the metric's three month pullback is nearly unprecedented in the absence of an outright recession.



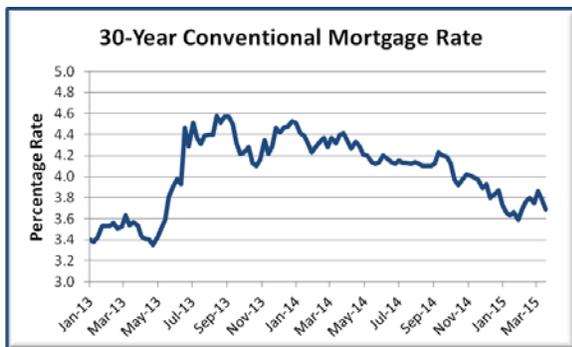
Data Source: Institute for Supply Management



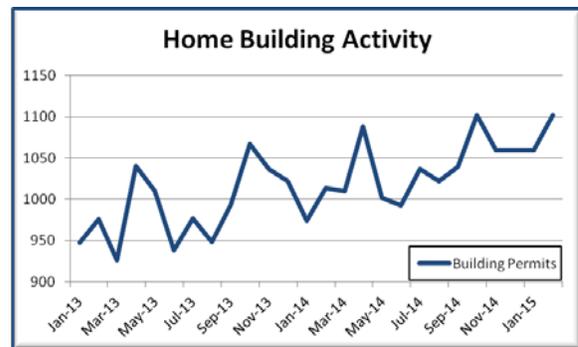
Data Source: U.S. Federal Reserve

Real Estate

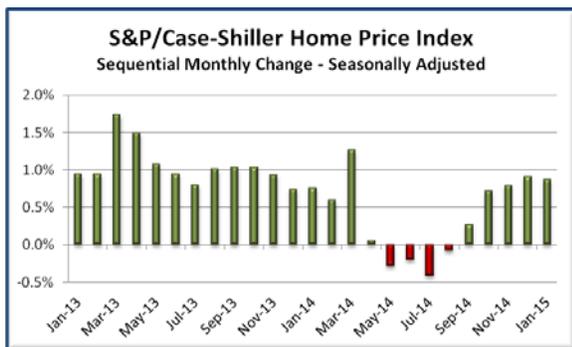
Perhaps assisted by falling mortgage rates and lower energy prices, the housing market slowdown experienced in mid 2014 appears to have passed. Building activity has ticked higher and short-lived sequential monthly price declines have given way to gains comparable to those over the past two years. Lastly, sequential monthly price gains across all 20 major real estate markets confirms improvement is widespread, not a regionally driven phenomenon.



Data Source: U.S. Federal Reserve



Data Source: U.S. Census Bureau



Data Source: S&P/Case-Shiller



Data Source: S&P/Case-Shiller

CAPITAL MARKETS REVIEW

Returns

1 st Qtr 2015	
Cash and Fixed Income	
U.S. Treasury Bills	0.0%
Barclays Aggregate Bond	1.6%
Barclays Municipal Bond	1.0%
Barclays Gbl Agg. ex. U.S.	-4.6%
Hedge Funds and Alts.	
Bloomberg Commodity	-5.9%
DJ US Real Estate	4.3%
HFRI FOF Composite	2.5%

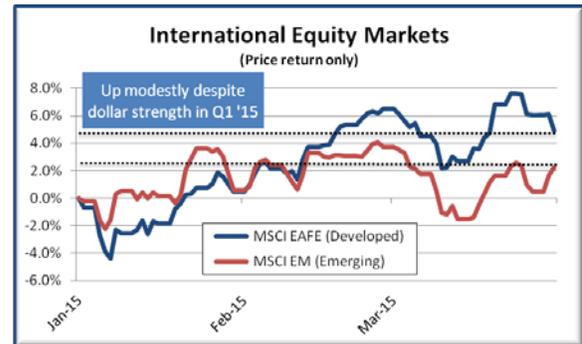
1 st Quarter 2015	
Domestic Equities	
Wilshire 5000	1.7%
S&P 500	1.0%
Russell 2000	4.3%
International Equities	
MSCI ACWI ex. U.S.	3.5%
MSCI EAFE (Developed)	4.9%
MSCI EM (Emerging)	2.2%

Data Sources: Morningstar & Hedge Fund Research, Inc.

Equity Markets

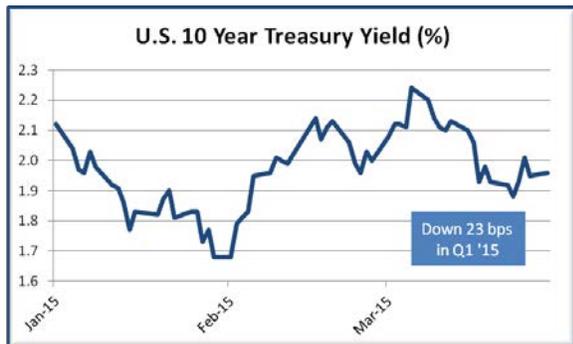


Data Source: S&P Dow Jones Indices LLC

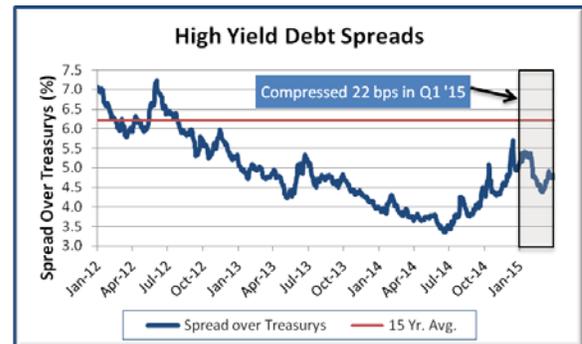


Data Source: Morningstar

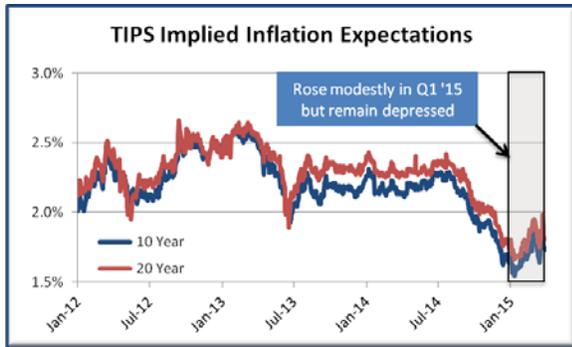
Fixed Income Markets



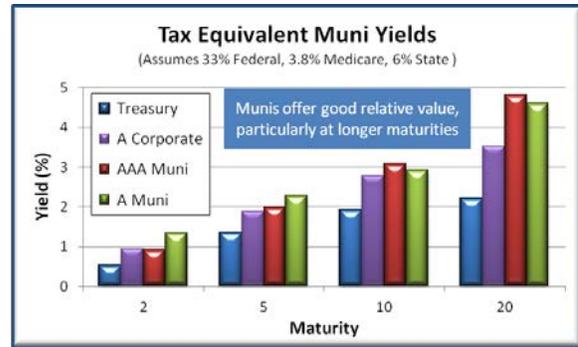
Data Source: U.S. Department of the Treasury



Data Source: BofA Merrill Lynch

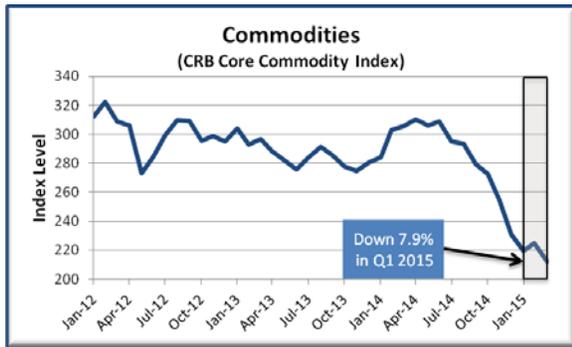


Data Source: U.S. Department of the Treasury

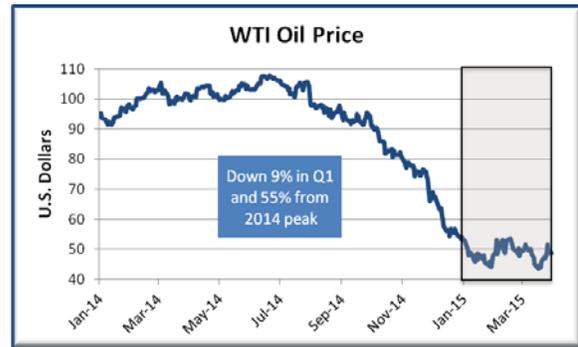


Data Sources: U.S. Department of the Treasury/BondsOnline.com

Alternatives



Data Source: Thomson Reuters



Data Source: US. Energy Information Administration

Disclaimers

This commentary was written by Robert W. Lamberti, CFA, Vice President of Investments and a Principal of Summit Financial Resources, Inc. and Summit Equities, Inc., 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3600, Fax: 973-285-3666. Securities and Investment Advisory Services offered through Summit Equities, Inc. Member FINRA/SIPC, and Financial Planning Services offered through Summit Equities, Inc.'s affiliate Summit Financial Resources, Inc. Sources of Performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Wilshire 5000 Index is a market capitalization-weighted index of the market value of all stocks actively traded in the United States. The index is intended to measure the performance of all U.S. traded public companies having readily available price data. The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. Emerging markets are considered risky as they carry additional political, economic, and currency risks. Real Estate Investment Trusts, REITs, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, have liquidity constraints. The Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bond, Mortgage-backed bonds, corporate bonds, and some foreign bonds traded in the U.S. Fund Category Performance is not inclusive of possible fund sales or redemption fees. Investment grade bond analysis included bonds with ratings of AAA, AA, A, and BBB. Municipal and Corporate Bonds are backed by the claims paying abilities of the issuer. TIPS are inflation-indexed securities issued by the U.S. Treasury in an effort to widen the selection of government securities available to investors. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding market or other financial information, is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

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