April 2015

Market Update

The First Quarter of 2015 was led in performance by the international sector; Europe, Japan and China outpacing the rest of the pack. While besting all comers in 2014, the US large cap space noticeably slowed down in Q1 of 2015, with a mediocre 0.95% return. The small cap space has somehow contributed to the price appreciation of the index with a 4.32% number on the quarter.

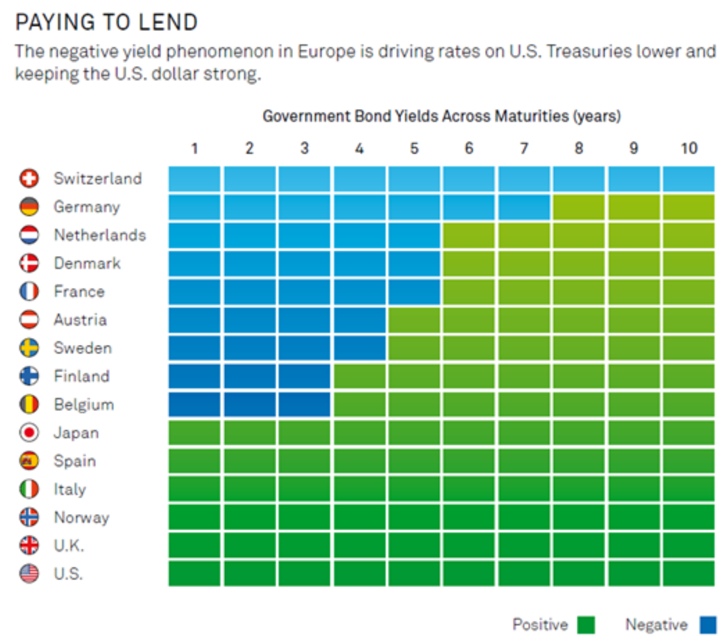
March Benchmark Returns		
Domestic Benchmarks	**Mar**	**YTD**
Large Cap: S&P 500	-1.6%	1.0%
Small Cap: Russell 2000	1.7%	4.3%
International Equity Benchmarks		
Developed: MSCI EAFE	-2.0%	4.2%
Emerging: MSCI EM	-1.4%	2.3%
Fixed Income Benchmarks		
Domestic: Barclays Aggregate	0.5%	1.6%
Foreign: Barclays Global Aggregate	-0.1%	0.3%
Other Benchmarks		
Municipal: Barclays Municipal Bond	0.2%	0.9%
High Yield: ML High Yield Bond	-0.5%	2.7%
Commmodity: Dow Jones UBS Commodity	-5.1%	-5.9%
Real Estate: FTSE NAREIT All REITS	1.0%	4.0%
Risk Free: US Treasury CD 3 Month	0.0%	0.0%

The US economy has taken a breather in Q1 of 2015. There have been many excuses made to justify this slowdown. First, the harsh winter weather in the Northeast was blamed. Second, the rising dollar against foreign currencies has put a damper on US earnings. Third, the rapid decline in oil prices produced a ripple effect throughout the economy. These issues have complicated the decision making of the Federal Reserve. Prior to Q1, it was clear that the Fed was going to start "lift off" of the Fed Funds rate in June. With this mediocre data piling in, we should see the Fed delaying their first rate hike until at least September of this year.

We have these excuses pile up year after year. While the impacts of these events are real, a slowdown would not occur if we had a wildly expanding economy. To us, the US economy is puttering along and will slow down with every excuse it gets. In a low interest rate economy, there is very little incentive to make decisions quickly. The phrase "Time is Money" has been diced up and thrown out. What's the point of purchasing something quickly if you have a 50/50 chance the price will be lower 6 months out? This does not mean, in our opinion, we are heading toward a recession. It does mean that our expectations of economic growth need to be tempered with a dose of reality.

Interest Rates

There continues to be very little reason that interest rates in the US will be headed upwards any time soon. As we commented last month, the US has some of the highest interest rates in the developed world. As the chart to the right indicates that low interest rates around the globe are not the norm; NEGATIVE interest rates are the norm. Global investors in search of yield will be looking to the astronomically high US treasury at 1.9%. This should continue to attract foreign funds to the US, keeping a continued demand for US dollars.



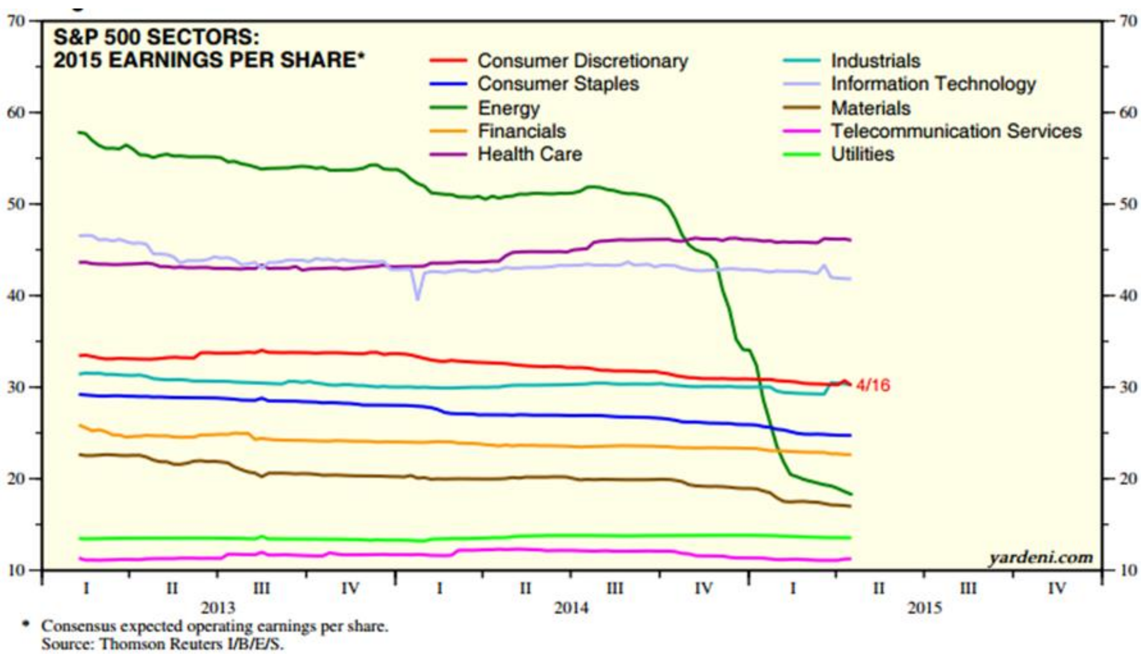
Sources: BlackRock Investment Institute, Thomson Reuters, March 2015.

With this as our starting point, our long term expectations on fixed income are quite muted. If rates over the next 3-5 years rise slightly, core bond holdings will return around 1% annualized. This is nothing to jump up and cheer about. However, we do not just hold fixed income for its return potential, but also its risk characteristics. Should we see a geopolitical shock, a rapid stock decline, or an unforeseen economic event, core bonds would serve as a risk mitigation tool and income protection.

With core bonds looking unattractive, we recognize that there are other alternatives in the fixed income space that have a better risk return ratio. We are working with several bond managers who have done an excellent job at managing credit risk, duration risk, and liquidity risk to boost performance of a core bond portfolio. Bear in mind that these risks are additive in the context of our portfolios, however, over three year time frames, this added risk component has been amply compensated. We continue to view these positions favorable over core bonds.

Domestic Equities

In the large cap space, equities continue to expand their multiple as prices are rising faster than earnings. While this is predominantly a result of the miserable earnings coming from the declining oil prices, it will have an impact on the overall market. As we have said before, on net, the oil price decline is beneficial to the economy, it could have a much bigger lag than we anticipate. As we discussed last month, consumers are much more hesitant to spend newly found wealth. As the earnings have fallen, the consumer spending has not matched the spend on the upside. This will continue to put pressure on equity prices moving forward.



The small cap sector seems immune to the earnings slowdown, jumping measurably on the quarter. Value investors should stay clear of this space as it is getting crowded. M&A activity seems to be the culprit on why these stocks continue to climb. In order to provide value to an acquirer, they don't just have to beat earnings numbers, they can also give access to a particular market that a large company would pay handsomely for. So when we look at multiples in the small cap space, there is good reason that they don't always apply.

International Equities

The international space continues to deliver on performance relative to domestic equities. The rapidly declining values of currencies around the globe has finally begun to spur interest in Europe, Japan, and Emerging Markets. In addition, the international valuations are much more attractive from a risk perspective than on the domestic front. While there has been much time and media energy spent on the 50/50 Greek exit from the Euro, the activity in Germany, Spain, and Italy has begun to pick up measurably. France seems to be the only European country that is not participating.

The Emerging Market space is now getting the bulk of the returns. Our largest exposure to the EM space, a fundamental index, is up over 17% YTD as of this writing. This exemplifies the rapidity of the movement in this space. We always have to keep in mind that the EM space is a very small market relative to the US equity space and fixed income space. So whenever it gets "hot" it moves very quickly. The converse is also true. We are continuing to put energy into evaluating this space as the valuations rise.

As always, thank you for your continued support.

Sebold Capital Management

400 E. Diehl Rd., Suite 210

Naperville, IL 60563

(630)548-9700

www.seboldcapital.com