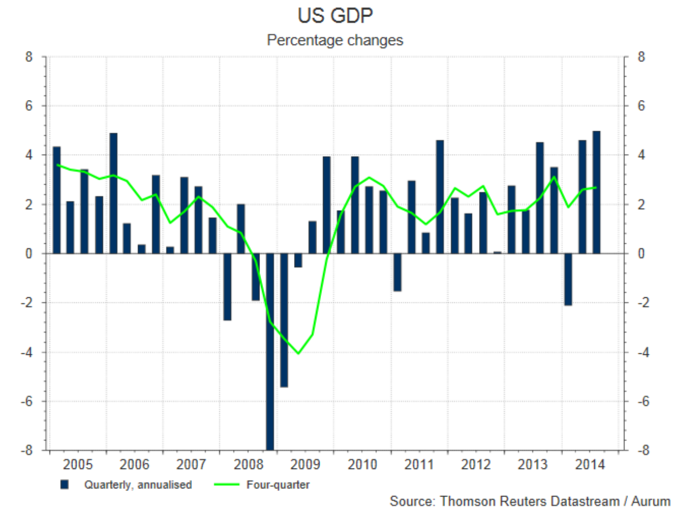
Strategy Newsletter
1st Quarter 2015

- The U.S. economy is on fire with disappointment abroad.
- Equity markets finished on a high note at home while the dollar strength hurt foreign shares.
- The relentless grind lower in yields was a boost to bond returns again.
- REITs and TIPs lead alternatives with strong results during the quarter.

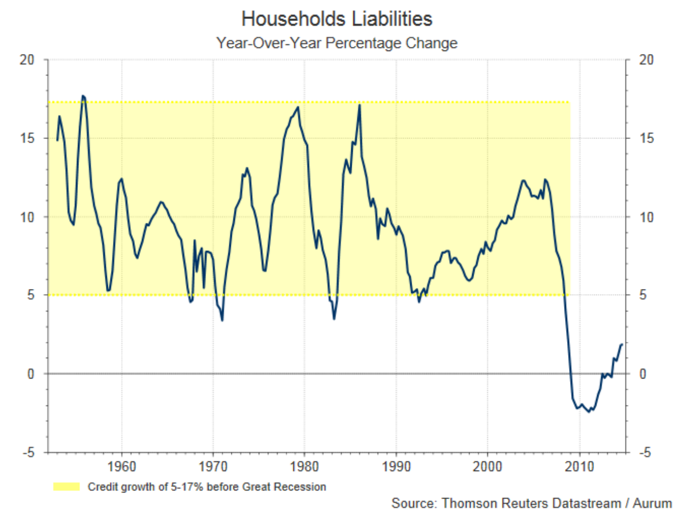
Big Picture

The U.S. economy is picking up steam. After the first quarter 2014 printed a negative GDP number, mainly driven by weather, the second and third quarter were two of the highest quarterly prints in the last ten years at 4.6% and 5%, respectively.



One reason for the strength is that we are finally seeing some credit growth. The unemployment rate stands at 5.6%. Consumers are feeling more confident about job prospects and are finally spending and taking on debt again. This was pretty much how it worked as credit grew between 5-17% from 1952 until 2008. The Great Recession resulted in charge-offs of mortgages and nearly everyone paying down consumer related debt.

Banks also tightened credit standards during the depths of the recession but have begun to loosen.



Debt payments as a percent of financial obligations and as a percent of disposable income are at the lowest levels in 35 years. Our measure of real retail sales per capita hit the highest mark in 15 years.

The fall in oil prices is a boon to consumers at the gas pump, though we are seeing some layoffs in the oil and gas sector, which was the strongest industry of job growth since 2009. The U.S. now produces 9.2 million barrels of oil per day, which is almost double the levels of a decade ago. The investment and production of the energy sector has been amazing, however, there are more than a few projects that will not be profitable if the price of oil stays lower for longer.

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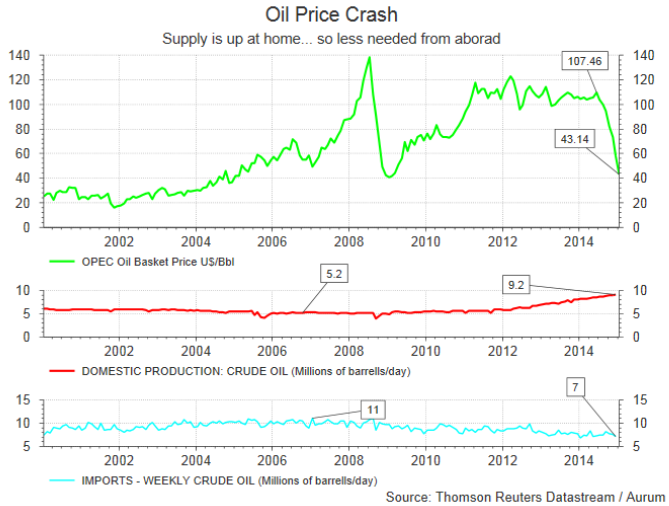


Foreign economies that import oil across Europe along with China and India should see a relative boost to growth thanks to lower oil prices. The stronger dollar should also help exporting nations.

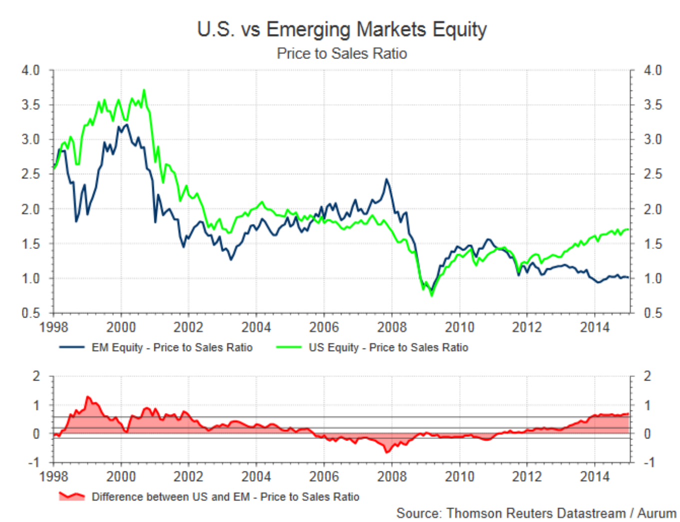
Equity

U.S. markets, led by a comeback in small caps in the fourth quarter, capped the year as one of the best stock markets in the world.

US Equity	4Q 2014
Large Cap Stock	
Dow Jones Industrial Average	5.20%
S&P 500	4.93%
Small & Mid Cap Stock	
Russell Mid Cap	5.94%
Russell 2000	9.73%
Style Indices	
Russell 3000 Value	5.31%
Russell 3000 Growth	5.17%
International Equity	**4Q 2014**
MSCI EAFE	-3.53%
MSCI EAFE Value	-4.81%
MSCI EAFE Growth	-2.25%
MSCI Europe	-4.30%
MSCI Japan	-2.40%
MSCI Emerging Markets	-4.44%

Emerging Markets were outperforming U.S. small caps by 7% through the first three quarter of 2014, but the rally in the dollar against all foreign currencies along with share price declines resulted in negative returns for U.S. based investors. With China's Shanghai stock exchange opening A-Share listed companies to foreign investment, its local Shanghai Index rallied 37% in the quarter, though locals still own the vast majority of shares listed on the exchange. Foreigners outside of China still enjoyed a 7.2% rally in the MSCI China Index during the quarter, in stark contrast to fellow "BRIC" member up north, the MSCI Russia Index fell 33% (and 46% overall in 2014). It still remains 70% below its peak level in 2008.

With the decline of share prices across many countries and the U.S. economic growth outperformance, a gap opened on many valuation metrics for U.S. versus emerging markets. Below is the price to sales ratio, which many prefer since sales cannot be manipulated by company management (unlike earnings).



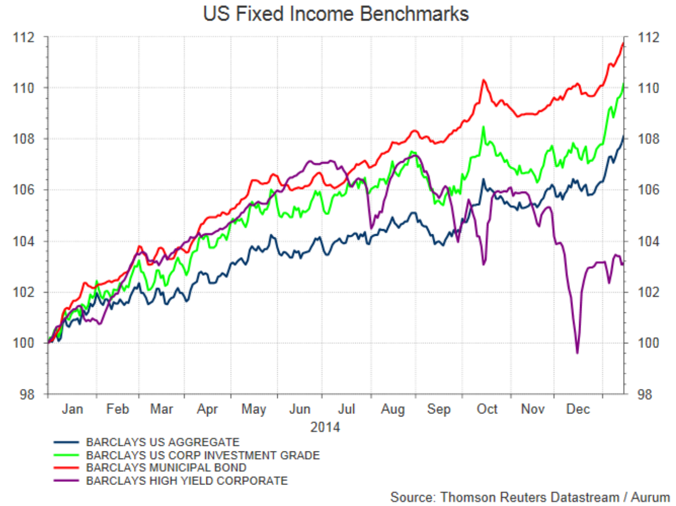
U.S. markets trade at a 1.7 P/S ratio compared to 1.0 for emerging markets. This gap is the widest it has been since early 2002, or 13 years ago. While the rally in the dollar will be a headwind for unhedged equity holdings, we believe it makes sense to increase allocations to these regions of the globe.

Investors in every country are known to have a home country bias, overweighting companies simply due to their birth place, usually to the tune of 80% or more of portfolio holdings. Seeking exposure outside of the borders increases diversification and can increase returns when relative value opportunities arise. Our portfolios typically hold about half of exposure to U.S. equities and half abroad, which is more in line with the total value of global stock markets. The Aurum Asset Allocation frameworks remain equal weight equities.

Fixed Income

Bond markets continued the strong year in the fourth quarter as interest rates fell again.

Fixed Income	4Q 2014
Barclays U.S. Aggregate Bond	1.79%
Barclays Corporate Inv. Grade	1.77%
Barclays High Yield Bond	-1.00%
Barclays Global ex. U.S. Tres.	-3.09%
Barclays Municipal Bond	1.37%



The "Taper Tantrum" from 2013 is a distant memory, when Ben Bernanke first uttered the word 'taper' when referring to the quantitative easing program. Janet Yellen has a dovish tone and interest rates worked their way lower throughout the year. This resulted in strong returns for fixed income indices, far outpacing the initial starting yield (which is a proxy for future expected returns).

The riskiest area of the bond market is high yield, formerly known as junk bonds. Had government yields been flat on the year, high yield would have lost money as the spread (or difference in yield) widened during the year. Our managers still see opportunity in mortgages along with asset-backed securities. Several held longer dated mortgages and investment grade securities as part of a barbell strategy.

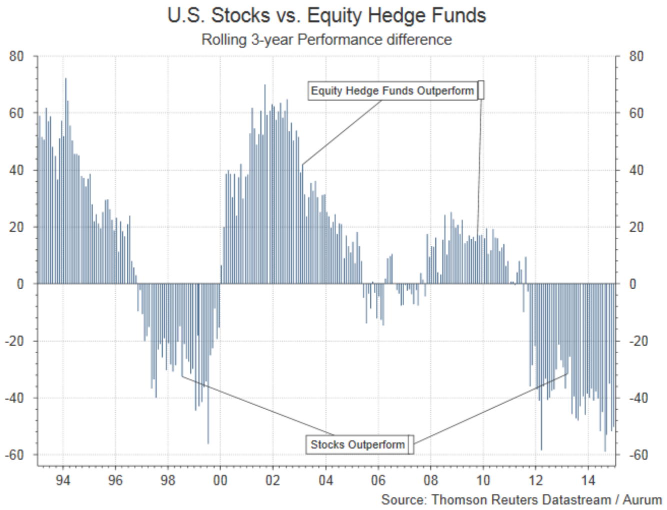
Many are forecasting the Fed to raise interest rates at some point in 2015. Though we claim no ability to forecast this, nearly every year at this time it seems rate hikes are less than twelve months away according to the consensus. Maybe it is different this time? Regardless, the Aurum Asset Allocation Frameworks maintain a slight underweight to fixed income but this could change as yields compress and duration risk increases.

Alternative Investments

REITs exploded higher this year thanks to falling interest rates and a strengthening economy. Few would predict that TIPS would turn in a solid year of +3.64%, though this quarter was flat.

Alternative Assets	4Q 2014
Hedge Fund of Funds	0.96%
Dow Global Select REIT	11.21%
Barclays TIPS	-0.03%

Hedge fund strategies tend to lose their luster when passive indices outperform. Below is a chart of three-year holding periods for stocks and equity hedge funds. From late 1996 to early 2000, U.S. markets went relentlessly higher and hedge funds could not keep up. This was followed by over a decade of outperformance as markets worked off excessive valuation.



The market is up for over three straight years without a 10% correction and a lot of negative press towards hedged strategies. Will above average valuations for markets give equity hedge funds the chance to express negative views on certain stocks and values on the long side? We think these strategies make sense for a portion of the portfolio and to harvest some gains from the last few years.

Conclusion

As we approach the sixth year of the equity bull market, investors are beginning to pour more assets into ETFs and index funds. While there are opportunities, the pickup in volatility may be here for a while, and with it a more difficult return environment that may not greet the new attendees at the party kindly. Two of our international value managers closed the door to new investors last year, which indicates the opportunity set may be dwindling.

Aurum Asset Allocation Frameworks

	Conservative Income		Conservative Balanced		Moderate Balanced		Aggressive Balanced		Aggressive Growth	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Equity	0%	0%	20%	20%	35%	35%	50%	50%	70%	72%
U.S. Equity	0%	0%	12%	8%	20%	14%	30%	22%	42%	35%
Int'l - Develop. Markets	0%	0%	6%	6%	12%	12%	16%	16%	21%	21%
Int'l - Emerg. Markets	0%	0%	2%	6%	3%	9%	4%	12%	7%	16%
Fixed Income	65%	56%	45%	40%	30%	28%	17%	16%	10%	9%
U.S. Fixed Income	56%	56%	39%	40%	26%	28%	15%	16%	7%	9%
Global Fixed Income	9%	0%	6%	0%	4%	0%	2%	0%	3%	0%
Alternative Invest.	25%	26%	28%	26%	30%	26%	30%	26%	19%	17%
Diversified Strategies	19%	26%	22%	26%	24%	26%	24%	26%	15%	17%
Real Estate & REITs	2%	0%	2%	0%	3%	0%	3%	0%	4%	0%
Inflation-Indexed Sec.	4%	0%	4%	0%	3%	0%	3%	0%	0%	0%
Cash/Equivalents	10%	18%	7%	14%	5%	11%	3%	8%	1%	2%
U.S. Dollar	10%	18%	7%	14%	5%	11%	3%	8%	1%	2%

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.