First Quarter 2015 Financial Market Commentary

April, 2015

Stocks Hit New Highs in a Volatile Quarter

Stock investors in the U.S. and around the globe had plenty to cheer about during the first quarter of 2015 as at least 17 world stock indexes set news highs due to easy monetary policies from major central banks and some encouraging signs of stability in troubled economies. The winners included stock markets in Japan, France, and Spain. U.S. stock indices such as the Dow Jones Industrial Average and S&P 500 hit new records, but the rally stalled in late March on concerns about the impact of a stronger U.S. dollar on the profits of U.S.-based multinational corporations.

The S&P 500 rose 0.95% for its ninth consecutive quarterly gain. U.S. Mid Cap and International Developed Market stocks were the top performers and all stock and bond asset classes generated positive returns for the quarter. Commodities were the only asset class that lost money thanks to a 13% drop in the price of oil. **(See Tables #1 & #2)**.

TABLE #1: 2015 1st Quarter and 1 Year Ending March 31st - Asset Class Index Returns*

	Large Cap Stocks	Mid-Cap Stocks	Small Cap Stocks	Int'l Stocks	Emerging Stocks	Intermediate Bonds	High Yield Bonds	Real Estate (REITs)	Preferred Stocks	Commodities	Cash
1Q 2015	0.95%	5.30%	4.31%	5.04%	2.22%	1.51%	2.35%	3.98%	3.38%	-8.22%	0.003%
1YR 3/31/15	12.62%	12.05%	8.11%	-0.28%	0.86%	3.77%	1.26%	22.68%	10.81%	-40.32%	0.03%

TABLE #2: 2015 1st Quarter and 1 Year Ending March 31st – Bond Sector Index Returns*

	U.S. Treasuries 1-10yr	U.S. Agencies 1-10yr	Corporate Bonds 1-10yr	Mortgage-Backed Securities (MBS) 0-10yr	Municipal Bonds 1-10yr
1Q 2015	1.34%	1.02%	1.93%	1.01%	0.64%
1 YR 3/31/15	3.44%	2.55%	4.59%	5.48%	2.94%

*Source: Bloomberg and Bank of America/Merrill Lynch Indices

U.S. Large Cap stocks (S&P 500 Index) started the year sinking 3% in January for the index's worst month in a year as concern grew that slowing overseas growth would hurt the U.S. economy while declining crude oil prices and a stronger U.S. dollar showed signs of eroding corporate profits. The S&P 500 Index rebounded in February amid a rally in global stocks as the European Central Bank (ECB) announced plans for additional monetary stimulus and Fed Chair Janet Yellen said inflation and wage growth remained too low to raise interest rates any time soon. The S&P 500 Index followed its best month in three years with a 1.6% decline in March, even after reaching an all-time high on March 2nd. It had daily swings either up or down of more than 1% on 19 separate occasions, the most since the second quarter of 2012. Yet, there was not a single session where it closed up or down by 2% or more.

U.S. Treasury bonds rose 1.34% for the quarter marking their fifth consecutive quarterly gain. This represents the longest winning streak for Treasuries in more than a decade. Investors continue to buy Treasuries due to uncertainty caused by uneven global growth and subdued inflation in the developed world. Treasuries offer higher yields than comparable government debt elsewhere in the developed world. Very mixed economic indicators in the U.S. during a harsh winter have bolstered investors' expectations that the Federal Reserve will maintain an accommodative monetary policy, which tends to benefit bond prices. At the March Federal Open Market Committee meeting ***Fed Chairwoman Janet Yellen said the timing of any interest rate increase depends upon how the economy performs in the months ahead. She said the eventual cycle of raising interest rates would be gradual.*** In addition, ***Fed policy makers cut their interest rate forecast and now see the Fed's benchmark rate at 0.625 percent at year end, down from a 1.125 percent forecast in December.*** The Fed last raised interest rates in 2006. It has kept the fed funds target rate near zero since December 2008.

Among the 18 western European stock markets, only Greece fell during the quarter. The ASE Index declined 6.1% on the way towards its longest stretch of quarterly declines in six years. Prime Minister Alexis Tsipras, elected in January, is currently seeking to secure bailout funds and needs to come up with a plan to convince European creditors that it will strengthen the nation's finances. So far, his proposals have failed to satisfy them. The incentive for Greece to leave euro area is much less compelling than it was back in 2010 as Greece has seen its exports increase by over 50% while unit labor costs have declined. Ultimately, we believe that Greece will remain in the euro area, but uncertainty may continue in the near-term.

Early in the quarter we completed the annual re-balancing to the 2015 strategic asset class targets for all portfolios less than $150,000. We followed the annual rebalancing with several tactical trades for portfolios greater than $150,000. First, in early February week we sold our entire position of **AMLP** (Alerian MLP ETF) across all asset allocation strategies. Proceeds of the sale were used to increase an existing position in **VEA** (Vanguard FTSE Developed ETF). We sold AMLP because of the high level of volatility exhibited by this tactical investment over the past 3 months. We bought more **VEA** because it offers diversified exposure to large and mid cap stocks in foreign developed markets. European stocks currently represent about 62% of **VEA**'s holdings, while Asian and Australian stocks make up most of the balance. The fund is a good core holding for investors with a high concentration of U.S. stocks. In late January, the European Central Bank (ECB) announced a larger-than-expected Quantitative Easing (QE) (bond buying) program which has helped to boost economic activity and encourage investors to take risks via buying European stocks. The Bank of Japan is already in the midst of a large scale QE program that began in 2014. On a valuation basis, international stocks are cheaper than U.S. stocks. This purchase moves international stocks to an overweight position versus strategic targets for all asset allocation strategies.

In early March we completed two sets of trades in the Conservative, Moderate, and Aggressive asset allocation strategies that served to further increase international developed market stock exposure while reducing exposure to U.S. Mid Cap and Small Cap allocations. We reduced exposure to U.S. Mid Cap and Small Cap stocks and invested the sales proceeds into more **VEA** and **IEV** (IShares Europe ETF). These trades increased our overweight position in international stocks versus the strategic target, while Mid Cap and Small Cap stocks were moved to an underweight position. U.S. stocks, particularly Mid Cap and Small Cap stocks have been the standout performance leaders since March 2009. However, going forward earnings growth has begun to stall while valuations of Mid Cap and Small Cap stocks are extremely rich. Financial conditions have begun to tighten in the U.S. as a result of this year's U.S. dollar appreciation and the Fed appears poised to begin raising interest rates later this year. Although we believe the speed and magnitude of interest rate increases will be minimal, Mid Cap and Small Cap stocks have historically underperformed Large Cap stocks at the beginning of a monetary policy tightening cycle.

We'd prefer to overweight stock markets with cheap or reasonable valuations where financial conditions are easing and growth expectations have the potential to surprise on the upside. In our view, European and Japanese stock markets exhibit these characteristics. European stocks currently trade cheap on a price to earnings basis compared to historical averages. In late January, the ECB announced a Quantitative Easing (QE) program (bond buying) that was much larger than expected. Japan continues to have the world's easiest (most stimulative) monetary policy. Weakening currencies in both regions combined with lower oil prices, and reduced austerity measures should help boost economic growth. Therefore, we decided to overweight the international developed market asset class.

Concerns about the longevity of the six-year bull market have grown this year as the economic recovery matures and U.S. stocks trade sideways. However, we believe that the economic recovery in the U.S. and the stock market's run higher still has room to go higher. Exceptionally low interest rates around the globe are a key reason why we expect positive returns to continue in many countries. Low rates will continue to force money into riskier but potentially higher-returning investments such as stocks. In the U.S., equities have a track record of performing well through the back end of the business cycle. In fact, in the last part of the past three expansion periods, the S&P 500 Index has returned an average 13%, according to Citigroup Equities Research.

Given how far U.S. Large Cap stocks have run since March 9, 2009, a correction is certainly a possibility. One which we think will be healthy for the market and will keep the cyclical bull market intact. We believe that any correction that may occur will be 10% or less and will prove short-term in nature. There has yet to appear any sense of euphoria in stocks. Talk of corrections has been prevalent since 2011. Warnings that stocks are in a bubble and market breadth is narrowing are usually things that drive markets higher. Investors have pulled $16.9 billion from stock ETFs over the past year despite 54 record closes for the Dow. Doubts in the stock market prolong gains not end them because it is a sign that investors are under-invested in stocks at a time when economic growth is proving to be sustainable. While a strong U.S. dollar can hurt corporate earnings, it should eventually help the U.S. economy by providing a boost to consumer spending. Inflation is low and the U.S. economy is gradually growing as job growth over the past 6 months has been the strongest period for job gains in the past 15 years.

Interest rates are at historically low levels and may be increased by the Fed later this year. However, the speed and magnitude of interest rate increases will be tempered by the strong U.S. dollar and monetary policy easing in Europe, Japan, and China. While markets are on edge about when the liftoff in interest rates will come, the initial increase is expected to be small and the pace of normalizing monetary policy is forecast to be gradual.

There is a lack of significant global imbalances and signs of overextension that typically lead to a bear market i.e. excessive leverage, valuations. For example, capital expenditures are below the long-term average as companies have instead been more enthusiastic about returning money to shareholders via buybacks.

With all the investor skittishness that currently exists because of the uncertainty about Fed interest rate increases, the strong U.S. dollar, Greece, and global economic growth, it will be very difficult for a significant correction in stock prices to occur because all are examples of why many investors are still under-invested in stocks. A meaningful correction and eventual bear market typically only occurs after there is an over-investment in stocks during a much more euphoric stage than what currently exists.

Global stocks should continue to outperform bonds and cash. In particular, stocks in Europe and Japan should lead the charge higher thanks to easier monetary policy and cheaper valuations than U.S. stocks. While an acceleration of U.S. economic growth and the potential for the Fed to begin raising interest rates are clearly negative for bond prices, we believe the rise in yields will be a slow, gradual process given the unprecedented low levels of inflation in the developed world combined with the current economic weakness in Europe, Japan, and China. ***The appreciation of the U.S. dollar since last summer has already served as a de facto tightening of monetary policy in the U.S. and should further mitigate the need for the Fed to act sooner rather than later in raising rates.*** For now, we are keeping broad asset allocations in stocks, bonds, & cash close to their strategic targets and are looking for tactical opportunities in stock markets outside the U.S.

Andrew Zimmerman – Chief Investment Strategist

First Quarter 2015 Financial Market Commentary

April, 2015

Notes: The DT Investment Partners' Commentary and Outlook discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Investments in various asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International and emerging markets stocks have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. Further, diversification and strategic or tactical allocation do not assure profit or protect against loss in declining markets. Index performance returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index. Past performance does not guarantee future results.