ABL Investment Advisors

PORTFOLIO MANAGEMENT

ANDRÉS BISONÓ

JUNE 9, 2015

DREXEL UNIVERSITY
LeBow
College of Business

Table of Contents

Portfolio Objective and Strategy

The Portfolio seeks to realize superior investment returns while minimizing risk. The Portfolio's manager applies intensive bottom-up analysis and macroeconomic insights to identify investment opportunities. The manager have an extensive background in mathematical analysis through its completion of Mechanical Engineering degree as well as a financial understanding of portfolio management through its concentration in Finance.

Due to your standing situation (family, wealth, retirement plans, etc) we have concluded that the Portfolio should have a moderate risk. Currently the investors have two children, which in the near future (10 – 14 years) will need financial support for their college studies. Additionally, the investors are planning to retire in 26 years. Also they are interested in the buy a beach house. Therefore, returns should be persistent in order to guarantee the needed funds for the children college education, yet the investors can still take some extra risk in order to maximized their retirement wealth. We believe that in order to have a sustained wealth growth the Portfolio should undertake partial risk, as it will also offer higher returns. Returns will be maximized and risk will be minimized through a diversification practice across various sectors of the market. Based on macroeconomic conditions, we believe that US economy will continue to improve while other countries will still have some years before they can achieve similar returns. Nevertheless, we will evaluate the markets in order to make the possible best investment according to the chosen strategy.

Current Holding

Commercial Paper: Sam and Amy have invested a total of $113,212.41 in commercial paper up to the current period. Through the time they have hold this security they made 10.67% return after taxes. Although commercial paper is a safe investment because it can only be issued by investment-grade companies, this type of short-term instrument is not FDIC-insured. But it still gives security and at the same time liquidity to the investor. Return rates of commercial paper tend to go up as interest rates increase, or in other words as the nation economy improves. As Sam and Amy were aware in January 2003 when they decreased their annual investment increased in commercial paper from 50% to 10%, the interest rates were decreasing significantly. Currently interest rates remain very low and lower than 2003 rates (1.292% vs. 0.162%). Additionally the latest report from the Bureau of Economic Analysis displays that the US economy in Q1 of 2015 had a poorer Real GDP Percentage Change (0.2%) in comparison to the previous quarter (2.2%).[1] Along with this information, the Fed has not made any announcement on when interest rates will start to rise. On the other hand, there are other securities with similar liquidity and risk that offer a higher return. This is the case of municipal bond, which had a higher average yearly return (5.53% vs. 2.38%) and which also offers some tax exemptions. These conditions suggest that Sam and Amy should not invest in commercial paper and instead consider another type of liquid security.

Stocks: Overall Sam and Amy are not diversified. Currently they hold only three companies (TWX, TWC, and Dollar Tree), which two of them correspond to similar industries. TWX industry is considered entertainment, TXC industry is considered CATV Systems, and Dollar Tree industry is considered discount, variety stores. This is supported by the correlation between the stocks: TWX and TWC correlation is 0.367 and the lowest correlation is between Dollar Tree and TWX of -0.15. Also, it is considered that a portfolio is fully diversified when has investments in 15 assets or more from different industries. Since they are a retail investor and without an extended knowledge of finance they should had invested in a mutual fund which offers diversification and at the same time money can be put into it in small denominations.

Time Warner, Inc. (TWX): For the period that Sam and Amy hold TWX stocks (from 4/1/1994 to 3/31/2015), it had a return of 30.87% and a risk of 47.25%. In the first quarter of 2015, the company had a decreased of net income by 24.9% in contrast to the period of 2014. Yet, its revenue was 4.8% higher and above expectations. The increased in revenue was mainly due to successful projects like: *American Sniper, HBO Now* (launched in Q2 of 2014), *Turner*, among others. On the other hand, *Warner Bros'* (after some movies poor performance [2]) was the main dragging factor as its profit decreased by 12.2%. Overall, profits had a great impact due to the high currency exchange rates as a consequence of foreign transactions and due to the "rising film and advertising costs".[3] Since the company has increased its revenue and profits are lower mostly due to the strong dollar, I would say that Sam and Amy could hold the stocks. Recently the dollar strength has been decreasing which should help TWX increase its profits and stock price.4 TWX revenue is mostly generated in the US (63.3%), yet the company has assets in Venezuela which due to the recently change to the SICAD 2 exchange rate and the strong dollar TWX faced currency losses.[5] We should stay tuned on the economic situation to decide when will be the right time to sell the holdings. Additionally, we should follow the company news and interest in merging with CBS as this might increase the stocks value in the long-term (and in the short-term due to speculations).[6]

Time Warner Cable (TWC): TWC had a total return of 35.39% with a risk of 25.03%. Currently, I believe they should watch closely their investment of TWC as the stock price might increase with the merger interests. Yet, I believe that for the long term investment the couple should consider another company within the industry (or use the funds for any other investment) while on the short-term they could hold it. On the first quarter of 2015 it

[1] http://economistsview.typepad.com/economistsview/2015/04/real-gdp-increased-at-02-annualized-rate-in-q1.html
[2] http://www.bloomberg.com/news/articles/2015-02-11/time-warner-beats-estimates-as-cable-hbo-fees-offset-ad-decline
[3] http://deadline.com/2015/04/time-warner-q1-earnings-jeff-bewkes-1201417870/
[4] http://www.cbsnews.com/news/dollar-weakness-sends-stocks-towards-new-records/
[5] http://ir.timewarner.com/phoenix.zhtml?c=70972&p=quarterlyearnings
[6] http://www.bloomberg.com/news/articles/2014-12-11/time-warner-ceo-teases-idea-of-cbs-viacom-deals-down-the-road

had a 3.5% total revenue growth in comparison to the previous year mostly because of the increase in its subscribers and the growth of it business services segment.[7] [8] Nevertheless this growth felt short than predicted.[9] It was recently announced on April 24, 2015, that the planned merger between Comcast and TWC would no longer take place.[10] TWC inefficiently expend "more than $200 million in merger-related costs over the past year" and 24 million in the first quarter of 2015.[11] Comcast is ranked as the biggest company in of world's largest media companies, and at the same time it was considered as the "worst company in America" in 2014.[12] [13] One of the main reasons that the merger did not take place was because regulators were afraid that with the consolidated power they would increase their poor customer service practices. [14] Following this announcement, Charter Communications Inc. restated its interest in TWC. [15] The stocks of TWC raised after the bid of Comcast, to about $157 (as of April 30, 2015), a value higher than before the announcement. Now, analysts estimate that Charter Communications Inc. will now bid from $150 to $175 (in contrast to the $132.50 bid in the first occasion). Another factor to consider is that TWC "shares were up 3.8 percent this year while the Standard and Poor's 500 Index gained 2.3 percent". [16]

Dollar Tree (DLTR): During the holding period, DLTR had a return of 21.90% and a standard deviation of 35.49%. Although Dollar Tree is expanding its operation after it recently acquire Family Dollar Stores, the takeover has not only been positive but it has also been accompanied many challenges and other costs. Some of the problems are:

- In 2015, DLTR settled an environmental lawsuit for $2.7 millions [17]
- DLTR has been fined several times by OSHA inspectors and has been cited for "200 health and safety violations since 2009". This points problems to the stores lack of management. [18]
- The Federal Trade Commission has enforced DLTR to sell around 340 stores in order to make their takeover go through. Nevertheless, these stores represent approximately $47.4 million in operating income. [19]

Positive arguments to hold DLTR:

- The company return on assets for the year has been of 15.49% in contrast to the industry average ratio of 0.68% and to the sector's best figure of 6.32%.20 Additionally the current PE ratio is 26.54 (industry PE=23.70 21).22 These figures mean that the company is not only doing good but also that investor are expecting higher earnings growth in the future.
- DLTR management has maintained a debt-to-equity ratio of 0.42, a figure below industry average.
- The market is expecting a growth in the EPS, in 2015, of $3.49 versus $2.90. [23] DLTR EPS for the past 6 months had a growth rate of 69.49% in comparison to the negative growth of -12% experienced by the S&P.[24]
- Most research firms (UBS, Standpoint Research, Deutsche Bank, Cantor Fitzgerald, etc.) suggest to hold or to buy the company stocks. [25]

Even though there are some aspects that we should worry about the acquisition, it places DLTR as "the largest discount retailer in the U.S. and Canada".[26] Also the company current reports and expectations make DLTR a candidate for our investment. Yet we will have to sell some the current holdings (equal to 15.96% of current savings) in order to meet the couple requirement of not having more than a 5% position in any one individual stock.

[7] http://www.zacks.com/stock/news/173098/time-warner-cable-twc-lags-on-q1-earnings-revenues
[8] http://www.zacks.com/stock/news/172998/time-warner-cable-twc-misses-on-q1-earnings-revenue
[9] http://www.bloomberg.com/news/articles/2015-04-30/time-warner-cable-s-earnings-fall-short-after-comcast-deal-ends
[10] http://www.forbes.com/sites/vannale/2014/05/07/global-2000-the-worlds-largest-media-companies-of-2014/
[11] http://arstechnica.com/business/2015/05/04/comcast-spent-336-million-on-failed-attempt-to-buy-time-warner-cable/
[12] http://www.forbes.com/sites/vannale/2014/05/07/global-2000-the-worlds-largest-media-companies-of-2014/
[13] http://www.slate.com/articles/business/moneybox/2015/04/comcast_time_warner_cable_merger_why_it_fell_apart.html
[14] http://www.slate.com/articles/business/moneybox/2015/04/comcast_time_warner_cable_merger_why_it_fell_apart.html
[15] http://www.zacks.com/stock/news/173098/time-warner-cable-twc-lags-on-q1-earnings-revenues
[16] http://www.bloomberg.com/news/articles/2015-04-30/time-warner-cable-s-earnings-fall-short-after-comcast-deal-ends
[17] http://www.capradio.org/articles/2015/04/24/dollar-tree-inc-pays-millions-to-settle-environmental-lawsuit/
[18] http://seekingalpha.com/article/3101386-dollar-stores-have-a-serious-problem
[19] http://www.thestreet.com/story/13105175/1/will-dollar-tree-dltr-stock-be-impacted-today-by-ftc-store-sale-requirement.html
[20] http://www.wsobserver.com/stocks-generating-high-income-on-investments-dollar-tree-inc-nasdaqdltr-visa-inc-nysev-ultra-petroleum-corp-nyseupl/7212993/
[21] http://biz.yahoo.com/p/industries.html
[22] http://finance.yahoo.com/q?uhb=uh3_finance_vert&fr=&type=2button&s=dltr
[23] http://www.thestreet.com/story/13120972/1/trade-ideas-dollar-tree-stores-dltr-is-todays-post-market-leader-stock.html?puc=TSMKTWATCH&cm_ven=TSMKTWATCH
[24] http://www.nasdaq.com/symbol/dltr/guru-analysis/dreman
[25] http://finance.yahoo.com/q/ao?s=DLTR+Analyst+Opinion
[26] http://www.thestreet.com/story/13105175/1/will-dollar-tree-dltr-stock-be-impacted-today-by-ftc-store-sale-requirement.html

Economic Assessment

In this section we will evaluate the economy, especially in the years 2013, 2014 and the current period. When evaluating the economy we should take into account the Gross Domestic Product (GDP) of the country as this number tell us the total economic output for each year. The GDP is composed by: personal consumption, investment, net exports, and government spending. Personal consumption, domestic investment, exports (imports negative effect), and government spending all have a positive effect on the GDP. Bellow we will discuss each factor and its impact on the GDP in a specific period (2013, 2014, and 2015). We will also discuss the Monetary Policy enacted by the Federal Reserve (Fed) as well as other policies changes. Finally we will analyze the financial market and its performance on the given period.

Figure 1: US Percentage Change from Preceding Year [27]

2013 Fiscal Year

i. GDP components

a) Consumption and Investment

Consumption

Personal consumption in the US represents around 70% of the nation economy.[28] Thus any effect in this area will directly impact the GDP and its potential to grow. Personal consumption in 2013 started with an uncertain potential coming from 2012 and especially from the economic crisis. Consumption spending is believed to be affected by "tighter underwriting standards" and by natural factors such as the Superstorm Sandy in October 31, 2012. Nevertheless, the GDP had a 2.7% growth in the first quarter of 2013 (coming from a 0.1% increase in the fourth quarter of 2012).[29] More specifically, personal consumption increased by 2.33% in 2013.[30] This resulted mainly from an improved labor market. In 2012 the labor market added on average 188,080 jobs per month while in 2013 the labor market added 199,000 jobs per month.[31] With this continuous increase of the labor market, unemployment rate dropped from 7.9% at the end of 2012 to 6.7% in December of 2013.[32] Additionally, consumption improved (figure 2) due to the continued increase of house prices, which expanded the household net worth, "improvements in credit availability, and more optimistic levels of consumer sentiment". Also, consumer expending improved due to the increased in consumer wealth from the gains realized from the stock market (see financial market section).

[27] http://www.tradingeconomics.com/united-states/gdp-growth
[28] http://www.ilo.org/washington/ilo-and-the-united-states/spot-light-on-the-us-labor-market/recent-us-labor-market-data/lang--en/index.htm
[29] http://www.tradingeconomics.com/united-states/gdp-growth
[30] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[31] http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth
[32] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx

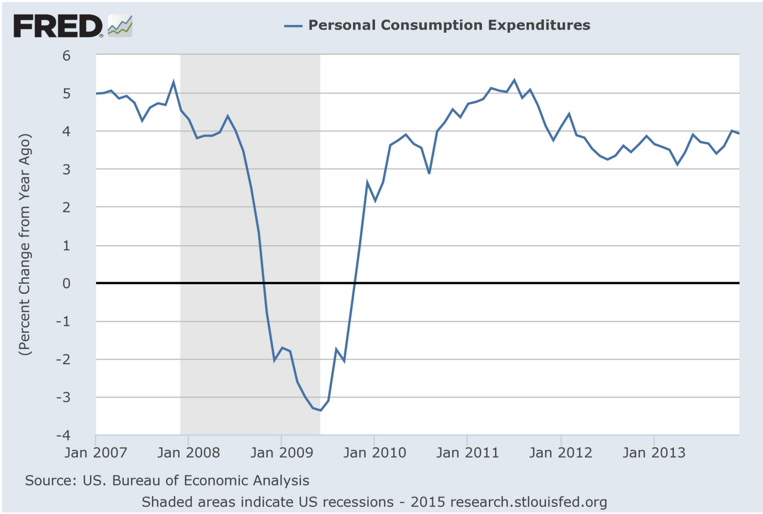


Figure 2: Percent Change From Year Ago of Personal Consumption Expenditures (Jan 2007 – Dec 2013)[33]

Investment

Since the economic crisis of 2007-2008, households have been deleveraging. This was due to the reason that one of the main factors that caused the crisis was the high debt that individuals took which later were not able to pay back. In 2013, "the ratio of household debt to disposable income had declined to its 2003 level of roughly 104 percent".[34] Along with the decline in the ratio of household debt to disposable income, in 2013, the US economy had a growth of equity, and of house activity and prices. [35] These factors help the improvement of the residential investment. Due to the increase of asset prices, aggregate household net worth reached its historical high of nearly $81 trillion in 2013. Figure 3 pictures this increase of aggregate household net worth.

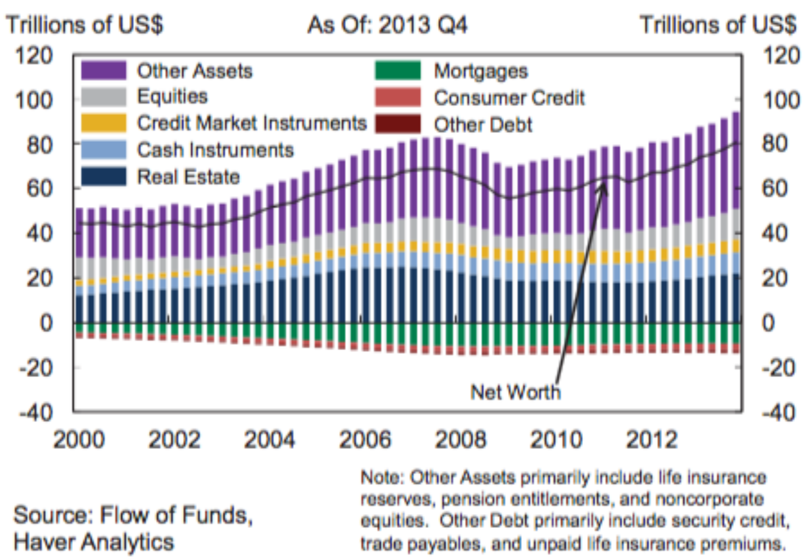


Figure 3: Household and Nonprofit Balance Sheets [36]

In 2012 and 2013 residential investment grew from 0.01% in 2011 to a constant percentage increase of 0.33 contribution to GDP. Real estate market improved mainly due to three factors:

- Banks were lending again
- Operation twist made borrowing cheaper
- Employment rate increase
- Deleveraging enable healthier B/S

[33] https://research.stlouisfed.org/fred2/tags/series/?t=consumption+expenditures%3Bquarterly
[34] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[35] http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth
[36] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx

In figure 4 we can see the continue increase of owners of real state since the economic crisis.

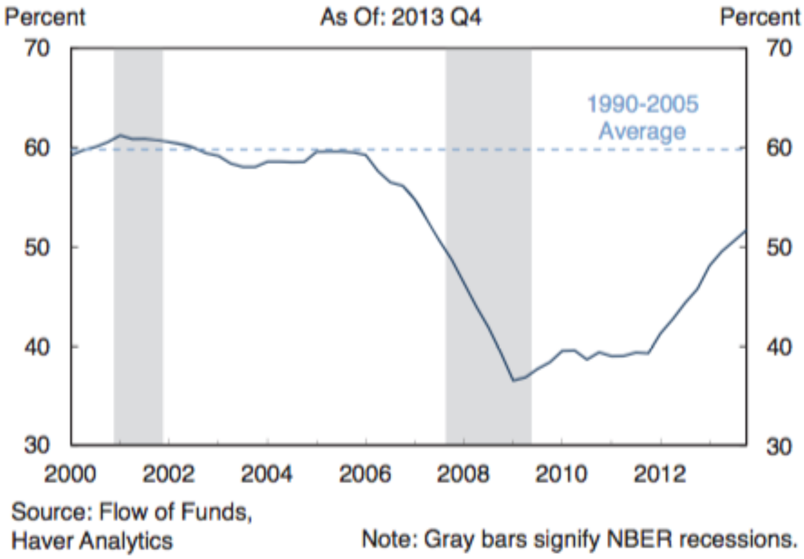


Figure 4: Owners' Equity as Share of Household Real Estate [37]

Although there was a continue growth in residential investment, the overall percentage change of investment to GDP was lower than in 2012. In 2013 the domestic investment had a 0.76% change while in 2012 it was 1.33%.

In this year, business fixed investment was stronger in the second half in comparison to the first half. This was due to an increase in general economic activity and that in the first half the government reached the debt ceiling (expanded below). When the debt ceiling was reached in the first half of 2013, treasury bills experienced a large reaction as the concern for a default treasury payment increased. In figure 5 we can see that in 2013 treasury bills had a more prominent reaction than in 2011 (another year were government reached the debt ceiling). We should also mention that the debt ceiling affected the recovery of the housing market. This problem caused mortgage rates to rise thus affecting the ongoing borrowing and home prices were at a recent high.[38] In the fourth quarter of 2013, residential investment had a negative percentage change in real GDP of -0.28%. High vacancy rates and tense financing for building investment characterized the period.

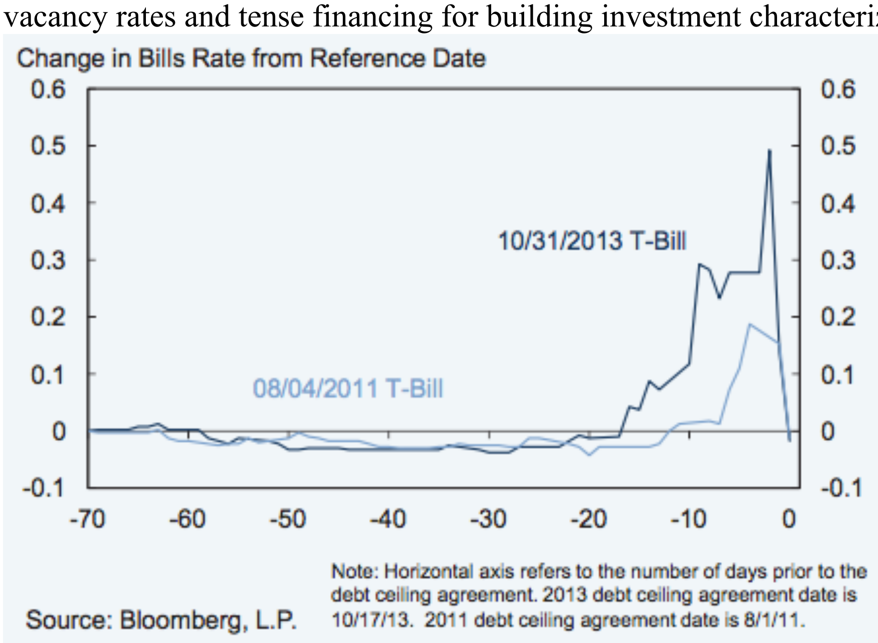


Figure 5: Treasury Bill Yields: 2011 vs. 2013 [39]

[37] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[38] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[39] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx

Global Perspective
2012 represented a poor year for advanced foreign economies. The euro area faced a recessionary period and other advanced economies had a negative growth. Some of the countries that had a contracted GDP were the euro area, Japan, the United Kingdom, and Canada. Although the FMI projected an economic activity improvement and an expansion of 1.2% of the Real GDP in 2013, the GDP growth remained sluggish. It was only to the second half of 2013 that the advanced foreign economies were able to have positive growth. Figure 6 pictures the Real GDP growth of both the advance economies as well as of the emerging economies.

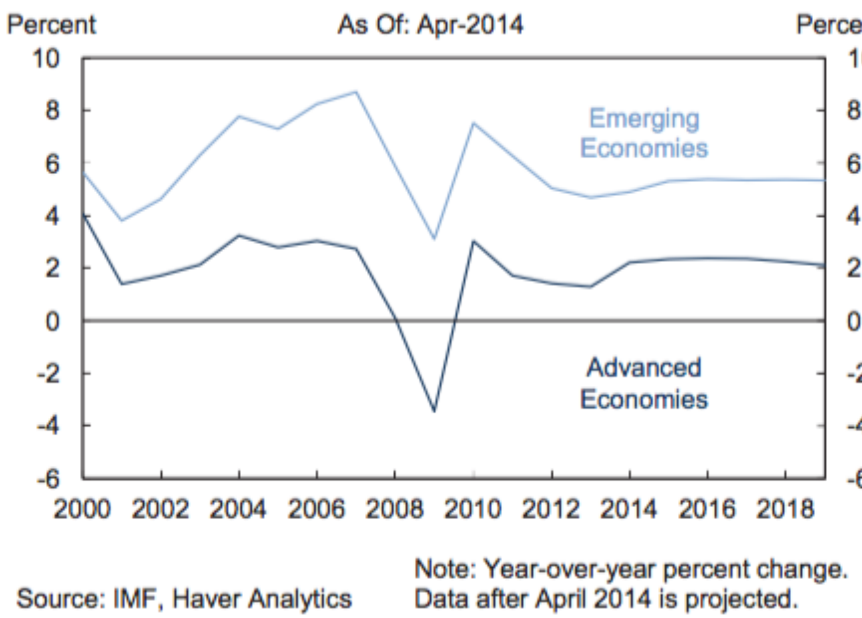


Figure 6: Real GDP Growth [40]

In the Euro Area, positive growth was made possible due to the implementation of "slower pace of fiscal consolidation and significant easing in financial stresses ". Nevertheless, poor economic activity was strongly affecting the area and external demand (e.g. in Greece, Spain, Italy).[41] In Japan, along with fiscal stimulus the improvement of corporate profits triggered an increase in consumer spending. In terms of China, considered as an emerging economy, had a growth of 7.7%. In 2013 China was facing a government reform as they were trying to "slow the pace of credit growth and rein in investment in some sectors of the economy, as well as sluggish external demand in the advanced economies". Although they experienced an account surplus declined (from 10.1% in 2007 to a 2.1% in the last quarter of 2013) their internal situation help the US because of the increase of China imports. This happened along other factors, similar to what the US experienced, such as exchange rate appreciation, and weak external demand.

An important improvement in this year was the strengthening of business confidence. This was specially the case from the emergence of oil industry and their increase in capex expenditure. Confidence reflected the easing of financial stress with the implementation of global monetary policies and the increase trade between nations. This helps build demand and thus increase GDP. From figure 7 it is evident the strong correlation between global Real GDP and business confidence.

[40] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2013-Annual-Report.aspx
[41] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2013-Annual-Report.aspx

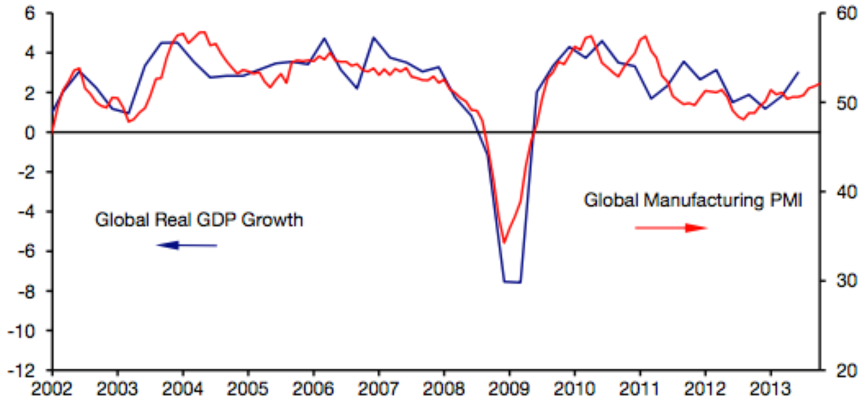


Figure 7: Business Confidence and Global Real GDP Growth [42]

b) Net Exports

In 2013 net exports stayed positive. In 2012 net exports had a percentage change of 0.04 while in 2013 it had a change of 0.22%. This was mainly to a decrease in imports which went from -0.40% to -0.19%. In both 2012 (more drastically) and in 2013, exports decreased due to a fall in demand from abroad, especially from Europe, which decreased by about 4% (America's top trading partner). More specifically in this year, exports had a slower growth of only 2.8% in comparison to 2012 equal to 4.4% and to 2011 equal to 14.5%. Another contribution to the growth of exports in 2013 was the 82% increase from 2009 that US goods exports to China and Hong Kong experienced. This accounted for $164 billion. Likewise, imports had been affected (or net exports strengthened) due to decline of petroleum imports as the US experienced an energy boom.[43] In result, net exports made a small but positive contribution in 2013. As also mentioned in the previous section, energy (oil) companies increase their investment in capital expenditures, which results in an increase of employment levels. Thus also improving other areas of the economy.

c) Government Spending and Regulations

In 2013 several factors affected the government policies resulting in a negative effect on the economy. Fiscal policy change due to two factors: the expiration of the temporary payroll tax cut (from the Bush administration) which the government then decided to increase income taxes for high-income households, and the reductions in government investing and spending due to reaching the debt ceiling. The former affected consumer spending and the latter affected domestic demand. [44] The changes in taxable incomes were somewhat upset by the rising wages that year and by the rising number of jobs that were being created. Both of these helped to boost consumer spending by successfully creating more demand (see above). On the other hand, the reached of the debt ceiling in 2013 and the failure to pass spending measure by the US government caused a partial shutdown of federal services. This put under threat the potential of the effort that the government was able to take in order to continue its policy to improve the economy. By taking no action, or worst in the case of defaulting, the government could eventually drag on economic growth, or even cause a recession.[45] This was a concern in 2013, when the Republicans in Congress proposed to default on debt again in 2013 (previously in 2011).[46] [47] Although, the government reached an agreement to increase the debt ceiling (and not to default), they had to put extraordinary measures like the suspension of "investments in certain federal trust funds". [48] Likewise the shutdown had a negative effect on GDP growth. It is estimated that GDP growth was reduced between 0.3 (BEA actual estimate) to 2.3 (maximum after a two-week shutdown) percentage points. [49] [50] This put in question the potential of which the government was able to continue mitigating the economic crisis and how they can make decision for the best of the US.

[42] https://www.iif.com/publication/gem/november-2013-global-economic-monitor
[43] https://www.uschamber.com/blog/2013-year-trade
[44] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[45] http://www.cfr.org/budget-debt-and-deficits/us-debt-ceiling-costs-consequences/p24751
[46] http://fivethirtyeight.blogs.nytimes.com/2011/06/24/on-the-claim-that-republicans-want-a-debt-default/
[47] http://thinkprogress.org/economy/2013/10/30/2858621/senate-republicans-vote-debt-default/
[48] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[49] https://www.bea.gov/newsreleases/national/gdp/2014/pdf/gdp4q13_adv_fax.pdf
[50] http://www.bloomberg.com/news/articles/2013-09-27/shutdown-would-shave-fourth-quarter-u-s-growth-as-much-as-1-4-

Another consequence of reaching the debt ceiling is that the government, at both the federal and state level, has been facing the need of "shedding jobs". Therefore, the private sector is the sole responsible for jobs creation. With this said, the private sector is the one responsible for an important matter of the economic recovery. In case the open market is hurt by any news or any other downturn, jobs will be severely hurt.

Figure 8: Employment Trend [51]

Through their policy changes, in 2013, the government successfully increase their revenue and controlled their spending, just having a 4.1% budget deficit from the nation nominal GDP in comparison to the previous year which was 6.8%.[52] Nonetheless, this comes along some consequences. When the government cuts spending it affects the GDP thus decelerating economic stimulus. Also, as mentioned above, when the government cuts spending it is forced to layoff employees. We should also realize that now that the economy is improving the government is doing right by gradually decreasing spending and creating more efficiency since it cannot keep taking forever a budget deficit. Also, the debt-to-GDP ratio reached 101.1% in 2013.[53] This is a point that they should consider and also give importance to their financial obligations. If the deficit continues, it could create a negative effect on the US economy. For example: deficits "can spark investors' fears and cause a run on the dollar and a sharp rise in interest rates", and deficits could divert capital from productive uses.[54] The government should take control of their spending but should do it wisely to not mistakenly hurt the economic recovery. The Obama administration already started to do so. Since 2009 the deficit as share of GDP has been decreasing. Since 2009 to 2014 it was -9.79761, -8.64968, -8.37480, -6.72492, -4.05260, -2.78176, respectively.[55] Figure 9 shows the main factors affecting the government budget since 2009 up to forecast years.

---

[51] http://www.bls.gov/web/empsit/ceshighlights.pdf
[52] http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx
[53] http://www.tradingeconomics.com/united-states/government-debt-to-gdp
[54] http://money.cnn.com/2009/07/30/news/economy/federal_budget_deficit/
[55] http://research.stlouisfed.org/fred2/series/FYFSGDA188S

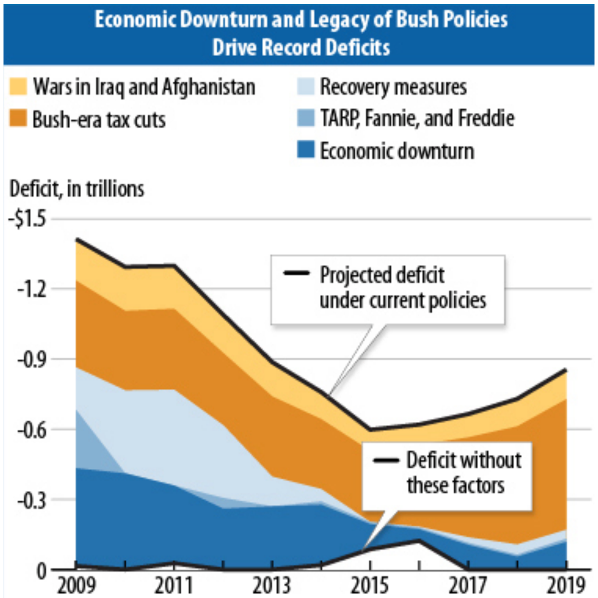


Figure 9: US Deficit [56]

ii. Monetary Policy

As the International Monetary Fund (IMF) suggested in their 2013 World Economic Outlook report, all the countries should adopt strong policies in order to achieve a "sustainable global growth trajectory". They argue that strong policies will help prevent any downsize in the economy.[57] The economic policies put for discussion are the fiscal policy, discussed in the above section, and the monetary policy. In this section we will focus on the monetary policy as it is solely controlled by the Fed and not by the US government. This is a tool that allows the Fed to help the market since it does not have control over the economy and especially over the employment rate. With the different implemented policies the Fed attempts to boost demand through business and personal spending as well as market confidence. If these were accomplished, employment would improve.

The policies applied by the Fed after the economic crisis was Quantitate Easing and Operation Twist. During the discussed period these policies change. Quantitate Easing 3 (QE-3) was expanded, and Operation Twist was ceased. Subsequently we will discuss in more depth both policies.

<u>Quantitate Easing (QE)</u>

QE was first implemented in 2008 after the economic crisis in order to "push longer-term interest rates down and, ultimately, further stimulate borrowing". Following the end of QE-1 and QE-2, QE-3 was announced in September of 2012. Although the three QEs were implemented with the same purpose of injecting more money to the economy to boosting economic activity, they had slightly different changes on how they accomplished the open-market operations. QE-3 consisted on purchasing long-term Treasurys, government-sponsored enterprises debt, and mortgage-backed securities. In contrast to the other QEs, QE-3 (focused on short-term rates and long-term borrowing for corporations) was going to be implemented until the labor market showed a sufficient improvement instead of being until a certain date. Also, QE-3 was increased to $85 billion per month.[58]

In May 22, the Fed president, Ben Bernanke announced a cease which caused a *taper tantrum* of QE-3 because employment was having a good improvement. In this announcement Bernanke recognize that by pulling back QE interest rates would rise but that it would also "carry a substantial risk of slowing or ending the economic recovery and causing inflation to fall further".[59] So when individuals and market pulled back due to the announcement, the Fed said they were not going to pull back since the there was the risk of slowing or ending

[56] http://www.cbpp.org/cms/?fa=view&id=3849
[57] http://www.imf.org/external/pubs/ft/weo/2013/02/pdf/text.pdf
[58] http://www.heritage.org/research/reports/2014/08/quantitative-easing-the-feds-balance-sheet-and-central-bank-insolvency
[59] http://www.marketwatch.com/story/bernanke-premature-tightening-could-end-growth-2013-05-22

the economic recovery. Latter on September 18, 2013, the Fed officially announced that QE-3 was going to continue.[60] The main factors that made the Fed change their decision were the reaction of interest rates or the rise of mortgage rates, the change in fiscal policy, and inflation, which was below the Fed target of 2%.[61] They finally began the taper the following year.

Operation twist

Operation twist consisted on selling short-term and buy long-term with the goal to flatten the yield curve. A flatten yield curve means that interest rates are lower. This translates in a lower borrowing cost. After successfully flattening the yield curve the Fed increments the liquidity in the market which helps boost the economy. When the Fed decreases interest rates it attempts to decrease unemployment as people and businesses are encouraged to spend and borrow more. This monetary policy started on September of 2011, with the purpose of buying $667 billion (roughly $45 billion per month) of longer-term Treasurys from the proceeds of shorter-term Treasury securities.[62] Operation twist was supposed to end on June 30, 2012, yet it was extended to the end of the year.[63] The Fed had to terminate the policy since they "run out of short-dated securities to sell in order to purchase more longer-term securities".[64] With this said, the Fed extended as much as it could this policy in order to continue the improvement of the labor market and to prevent drops in the market. When the first termination date was approaching, in June 20 (same date of the extended announcement[65]), Treasury note rose to 1.65% from 1.62% and S&P 500 Index fell 0.2%. [66] When the public knew that the policy was going to continue, then the market improved. These factors obeyed the efficient market theory, which says that the market quickly adjusts to the new available information.

Form figure 10 we can see the strong effect that the Fed policies have on the market. We can see that when any policy was supposed to end the market experienced a drop.

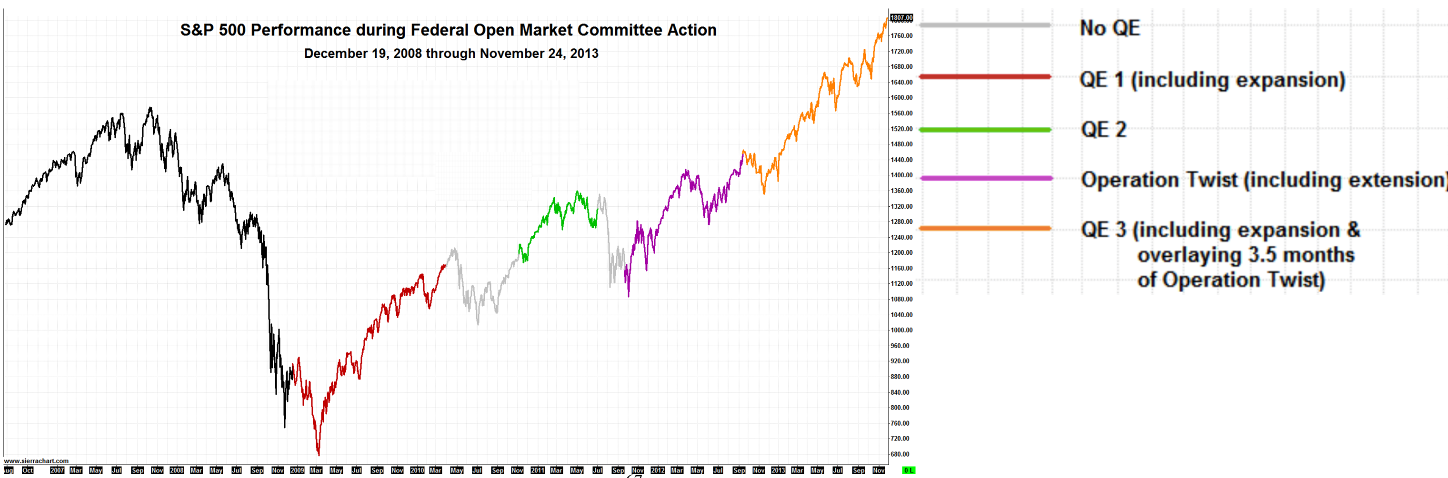


Figure 10: S&P 500 Performance along with Fed Policies [67]

iii. Financial Market

2013 was a prosperous year for the financial market, especially as the economy was (is) trying to fully recover. We might have the question of why the financial market performed so well when the economy was not in its best conditions. Since the financial market depends a lot on investor's confidence, what ever is done to increase confidence will result in a market improvement. There were several factors that increased investors confidence including:[68]

---

60 http://projects.marketwatch.com/short-history-of-qe-and-the-market-timeline/#6
61 http://www.foxbusiness.com/government/2013/09/18/fed-decides-not-to-begin-tapering-qe3/
62 http://www.federalreserve.gov/faqs/money_15070.htm
63 http://www.ritholtz.com/blog/2012/09/reviewing-qes-and-operation-twist/
64 http://finance.yahoo.com/blogs/breakout/fed-finale-end-operation-twist-start-qe4-183055950.html
65 http://www.calculatedriskblog.com/2012/06/qe-timeline.html
66 http://www.bloomberg.com/news/articles/2012-06-20/fed-expands-operation-twist-by-267-billion-through-year-end
67 http://finance.yahoo.com/news/one-best-charts-ll-see-140325490.html
68 http://money.cnn.com/2013/12/31/investing/stocks-markets/

- Achieved consensus between political parties to avoid the fiscal cliff, which also gave the public more information of what the government was planning regarding the federal budget.
- Ben Bernanke expressed that the central bank was going to start to scale back its stimulus measures. This brought two reactions: a first reaction that pulled back the market, second reaction from the understood sign that the economy was improving.

In this year, investors added a total of $348.63 billion into the financial market; this figure is the largest annual inflow on record.[69] Although confidence plays an important role, there was an asset allocation shift. A shift occurs when interest rates fall a lot thus incentivizing investors to move their wealth from bonds to stocks in order to earn more returns even if it comes at the cost of bearing a higher risk.

Apart from the good news that improved investors' confidence, other factors like the actual implemented policies and factors that resulted from the improved economy activity during 2013 helped the financial market performance.

1. QE → corporate profits were strengthening a long with better financials produced by higher operation margins
2. Employment increase (beginning of a strong trend)
3. There we no other place to invest: gold was down -28.2%, south America was doing poorly and other areas like Europe (up 20.79%) was not doing as well as the US

In summary returns of the different indexes were:

DJIA	S&P 500	NASDAQ	Russell 2000	FTSE 100	Nikkei	Euro STOXX	China Shanghai	IPC Bolsa	Gold	Oil
26.5%	32.29%	40.12%	38.82%	18.66%	56.72%	20.79%	-6.75%	-0.02%	-28.2%	7.2%

2014 Fiscal Year

i. GDP components

a) Consumption and Investment

Consumption

Overall real personal consumption expenditures had a 1.72% change increased in 2014 in comparison to 2013. Personal income doubled its percentage increase from 2013 to 2014 achieving 4.0% versus a 2.0% increase from 2012 to 2013. Additionally, both disposable personal income (DPI) and personal consumption expenditures (PCE) had an increase in 2014 of 3.8% (versus 1.0% in 2013) and of 3.9% (versus 3.6% in 2013), respectively.[70] Additionally, low oil prices influenced the increase in consumption (not the case in December: although DPI increased 0.3%, consumption changed by -0.3% due to a 4.3% increase in savings and a 6.3% increase in personal interest payments [71]). Having to pay less for oil, households saw an increase in their purchasing power.[72] Another factor that helped consumption was the continue decrease of unemployment. On average the labor market added 200,000 jobs per month in 2014, more than in 2012 and 2013, or approximately 2.3 million jobs in total. In September, the unemployment rate fell below 6%, the best in the nation since 1999. Nevertheless, although there were more people with jobs, wages did not increase enough to give an extra boost to consumption.[73] In 2014, wages were up only 2%, a figure slightly above inflation rate, which was on average 1.76%.[74] Another problem that the labor market faced was the still high number of long-term unemployed workers. The total quantity dropped 28% in October of 2014 in comparison to 2013, but it is still double its pre-recession level. [75] There were both some positive and some sluggish contributions to the consumer spending, but overall it successfully improved in 2014.

[69] http://money.cnn.com/2013/12/26/investing/stock-inflows/?iid=EL
[70] http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm
[71] http://www.thirdlevelthinking.com/?p=63
[72] https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor
[73] http://money.cnn.com/2014/11/07/news/economy/october-jobs-report-unemployment-fall/
[74] http://usinflation.org/us-inflation-rate/
[75] http://money.cnn.com/2014/11/07/news/economy/october-jobs-report-unemployment-fall/

Although overall consumption grew in 2014, the same was not the case for all the quarters. Another effect on the personal consumption was the bad winter, which mainly affected the northeast coast. Weather not only affects consumption but similarly it affects productions. Since the first quarter of 2011, after the economic crisis, the first pullback in GDP growth was in the first quarter of 2014. It is estimated that "the extremes in temperatures and precipitation led to a -1.5% impact on GDP".[76] Likewise, since 2011 the period personal consumption had the lowest growth of 0.83%.

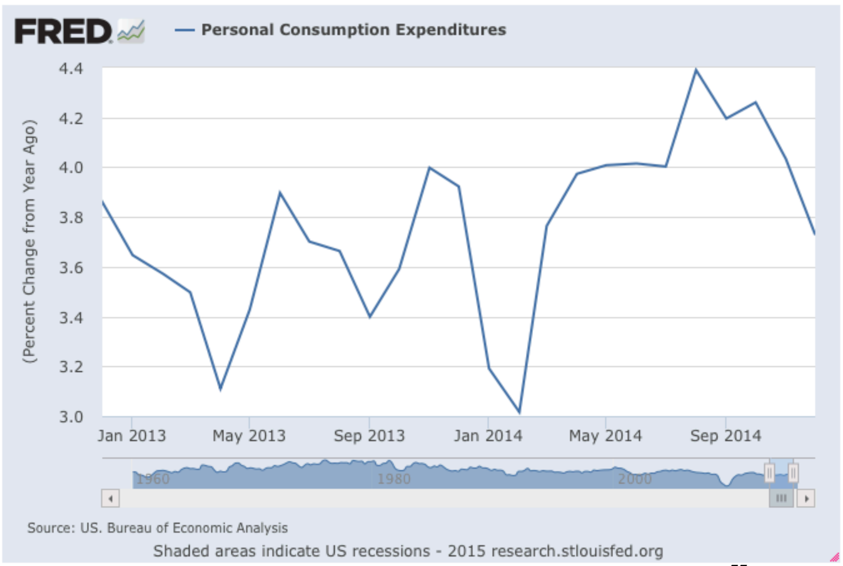


Figure 11: US Personal Consumption Expenditures Percent Change [77]

Investment

In 2014 investment experienced several fluctuations. The percentage change in real GDP in the first quarter was -1.13%, in second quarter was 2.87%, in the third quarter was 1.18% and in the fourth quarter was 0.84%. Through the year several factors affected investment in the US.

1) Interest rates were expected to rise earlier in 2014 due to the expectation that the Fed was going to end QE. In figure 12 and in a closer snapshot (figure 13), we can see that at the end of 2013 rates were rising until reaching a peak in January of 2014. This had implications on the housing recovery as it slowed down in the fourth quarter of 2013 (-0.28% change in GDP) and in the first quarter of 2014 (-0.17% change in GDP).

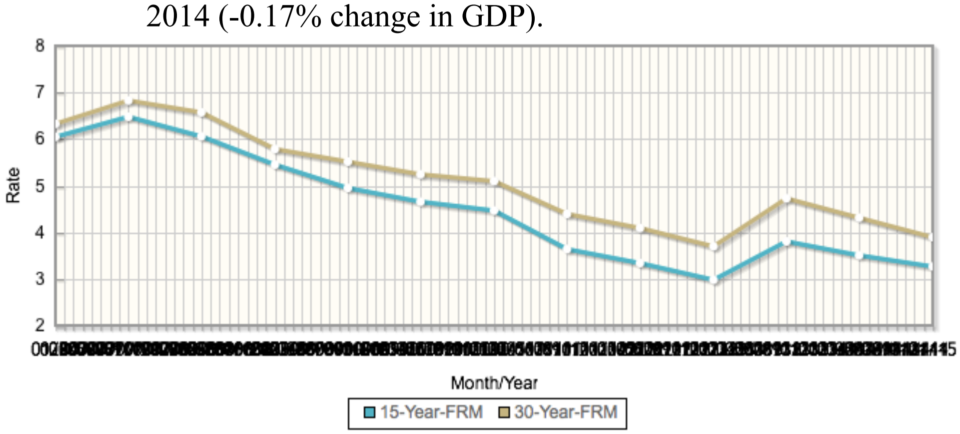


Figure 12: 15 Year Fixed Rate Mortgage vs. 30 Year Fixed Rate Mortgage for 01/2007 to 04/2015

[76] http://wdtinc.com/2014/05/29/extreme-winter-weather-blamed-q1-u-s-gdp-contraction/
[77] https://research.stlouisfed.org/fred2/series/PCE

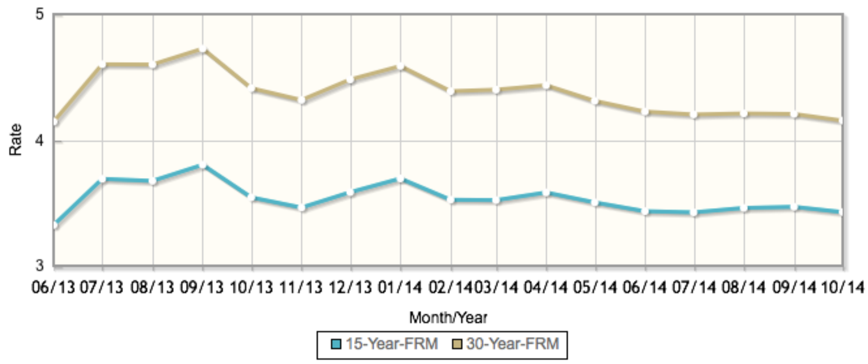


Figure 13: Snapshot of figure 12 from 06/2013 to 10/2014 [78]

2) Although the drop in oil prices benefited personal consumption, it also had a negative impact on investment from the oil sector companies.
3) Investor continued the deleveraging process and their assets appreciated. This increased household wealth. In the fourth quarter of 2014 wealth was more than 22% higher than in its pre-crisis levels.[79]
4) In October 29, the Fed announced the end of QE-3.[80] Surprisingly and in contrast to other QE's ending announcements, the market reacted positively. This was mainly because the end of QE was widely anticipated and the Fed clearly communicated its tactic. [81]

<u>Global Perspective</u>

The start of 2014 began with a drop in Real GDP Growth due to the extreme weather in the US and "due to fears that the global economy was again losing momentum—notably in Europe". It then began to pickup the pace as some sector of each nation started to improve. Global industrial production played an important role. The major economies, US, Japan and China, had a 3.5% growth in the third quarter. Nevertheless the Euro Area continued to lag.

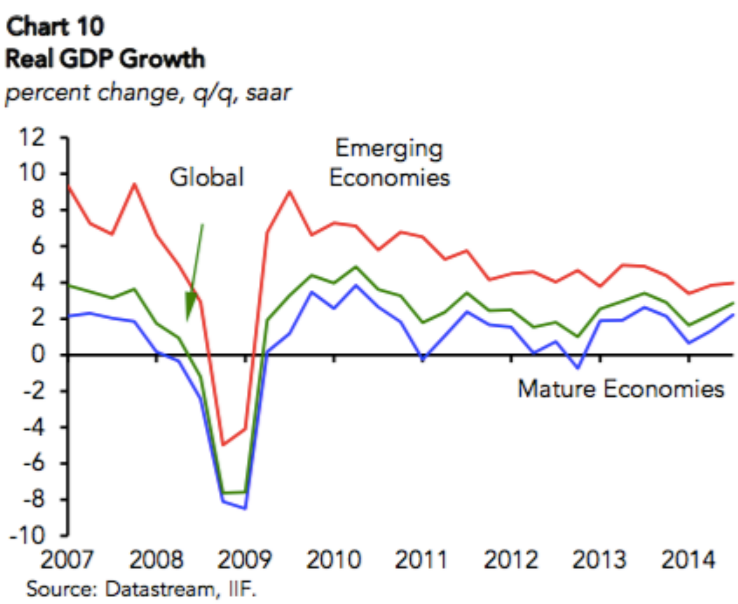


Figure 14: Real GDP Growth [82]

Another global advantage in 2014 was the drop in oil prices. As mentioned above, the drop in oil prices allowed individuals to obtain more disposable personal income (from both price drop and tax cuts). In terms of specific

[78] http://www.hsh.com/mortgage_rate_trends/
[79] https://www.whitehouse.gov/blog/2015/03/27/third-estimate-gdp-fourth-quarter-2014
[80] http://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html?abt=0002&abg=0
[81] http://www.ellenbecker.com/blog/january-5-2015-special-update-2014-in-review
[82] https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor

countries, China and the U.S had a greater advantage since they are oil-importing economies. [83] Additionally, the price drop helped developing countries as they saw the opportunity to decrease fuel subsidies. Conversely, oil exporters, like the countries part of the Organization of the Petroleum Exporting Countries (OPEC), were severely affected. Additionally, the decreased in oil prices have reduce global inflation. For example, a 30% decline in prices is assumed to lower inflation from 0.4 to 0.9 percentage points. Yet this effect varies by country.[84]

Highlights: [85]

- Euro Area: Characterized by weak bank lending and high unemployment. There is a full-scale QE that should help the economy and support growth. Disinflation was a concern as it could spoil actions to decrease debt burden and improve competitiveness in the financial market.
- Japan: Bank of Japan announced the continuation of the asset purchase plan. Unemployment is dropping thus improving consumption.
- China: Property sector weakness. Target policy easing. One-child law ceased. [86]

b) Net Exports

In 2014 the overall percentage change in Real GDP of the net exports was -0.23%. This represents a negative contribution to the US GDP. A country has negative net exports when imports are greater than exports. In terms of real value, there was a deficit increase on goods and services of $504.7 billion in 2014 in comparison to 2013 which was $476.4 billion.[87] On average (all quarters except in Q3) imports were higher than imports. More specifically, net exports percentage change were -1.66%, -0.34, 0.78, and -1.15 in the first quarter, second quarter, third quarter, and fourth quarter respectively.

In the first quarter, US exports fell 9.8% after having experienced a continue rise for the last three quarters of 2013. The exports in this quarter were highly affected by the extreme weather. The storms that came along the extreme weather caused significant negative impact on both air and ground transportation.[88] Thus hurting the movement of goods, which at a great number of times were even stopped.

Additionally, the year 2014 was characterized by a strong dollar. As the dollar was strengthening, net exports were directly affected. The dollar was gaining value because the increase of foreign investors in the US market. Foreign investors have to sell their home currency to get dollars. When the dollar is strong (more expensive), makes the US good more expensive, which caused exports to decrease. In contrast to goods from countries that have a weaker currency which are cheaper for the American consumers, thus causing imports to increase.

Figure 15: US Dollar Value vs. Other Global Currencies [89]

---

[83] https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor
[84] http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter4_report_oil.pdf
[85] https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor
[86] http://www.bloomberg.com/bw/articles/2014-08-01/with-end-of-chinas-one-child-policy-there-hasnt-been-a-baby-boom
[87] http://www.bea.gov/newsreleases/international/transactions/transnewsrelease.htm
[88] http://wdtinc.com/2014/05/29/extreme-winter-weather-blamed-q1-u-s-gdp-contraction/
[89] https://www.lordabbett.com/en/perspectives/fixedincomeinsights/should-investors-fear-or-cheer-a-stronger-us-dollar.html

One special sector that faced severe problems due to the strong dollar was the US manufacturing. This sector accounts for 12.5% of the GDP and has "the highest multiplier effect of any economic sector", so any influence on it directly affects net exports. The strong dollar incentives imports by making US good more expensive, thus making this sector less able to compete internationally.[90]

c) Government Spending and Regulations

The government continued their deceleration of expending and investment. In this period government expenditure and investment had a percentage change of -0.03%. The first and fourth quarters had a negative percentage change while the second and third quarter had a positive percentage change. The first quarter was mostly affected by a decrease in spending for national defense as well as a decrease in state and local spending. Yet, on the second quarter state and local spending had a positive turnaround and made the most contribution. In this quarter state and local spending had "the fastest quarterly rate in five years".[91] The third quarter was different; most of the contribution came from national defense. This quarter had a perfect change of 0.80% while national defense had a 0.66% or 82.5% total contribution. In this quarter The Pentagon spending increased by 16%, the highest percentage since the country involvement in both Afghanistan and Iraq wars.[92] The increased has been the result in extra spending on ammunition, jet fuel, weapons purchases, and personnel and installation support to combat ISIS.[93] Last, the fourth quarter government expenditures decreased by 7.5%. The decreased was mainly produced by a decrease in defense spending which dropped by 12.4% or by -0.58% change in Real GDP.[94]

ii. Monetary Policy

This year began with a low inflation rate and unemployment rate above desired levels. Inflation has been below the Fed 2% target (imposes the risk of getting into a deflation) mainly due to the drop in oil prices.[95] This was especially the case for oil-importing countries. In order to counteract such drop the "central banks could respond with additional monetary policy loosening, which, in turn, can support growth". By doing so, the action would also help employment.

Additionally, the dollar has been strengthening its value versus other global currencies affecting inflation rate and how the Fed policies counteract its decline.[96] Another factor of a strong dollar, as previously mentioned, is that it reduces support for domestic economic growth (as imports increase and exports decrease). This tights together both problems of low inflation and unemployment levels, creating a tougher environment for the Fed to create the right policy.

During the last quarters of 2014, the Fed has been implementing *policy normalization*, after the end of QE-3 in October. As mentioned in their Monetary Policy Report of July, the Fed in the short-term continued to focus in economic activity and labor market conditions. Their second target would be to bring inflation to its target levels of 2%. As the labor market continued improving, the Fed started to focus on interest rates and the tools it needs to raise them at the appropriate time. [97] The Fed still has much to do since the ongoing growth has not been enough to locate Real GDP in its pre-crisis trend.

[90] http://www.ibtimes.com/us-dollar-index-2014-three-reasons-why-strong-dollar-could-hurt-us-economy-1745553
[91] https://www.whitehouse.gov/blog/2014/08/28/second-estimate-gdp-second-quarter-2014
[92] http://www.bea.gov/newsreleases/national/gdp/2015/gdp4q14_2nd.htm
[93] http://rt.com/usa/200911-gdp-defense-spending-surge/
[94] http://www.bea.gov/newsreleases/national/gdp/2015/gdp4q14_2nd.htm
[95] http://www.federalreserve.gov/monetarypolicy/files/20140211_mprfullreport.pdf

[97] http://www.federalreserve.gov/monetarypolicy/files/20140715_mprfullreport.pdf

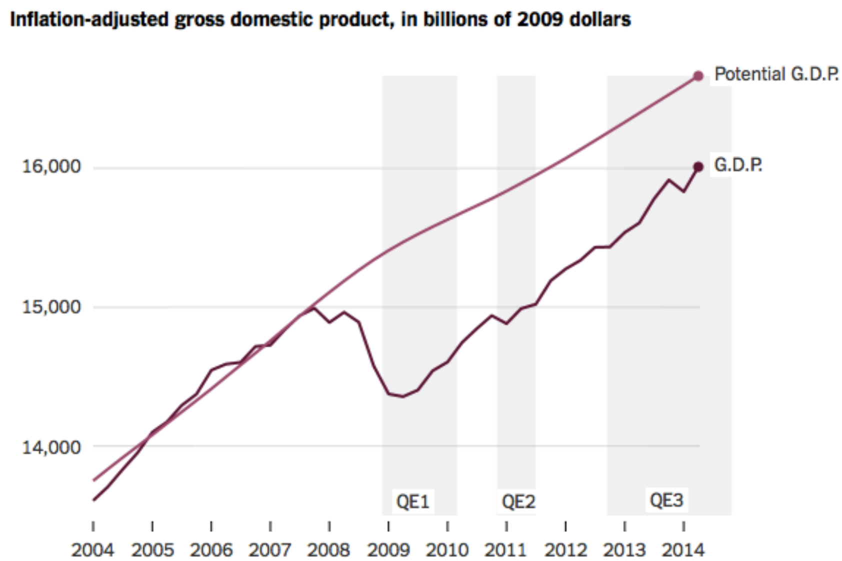


Figure 16: Inflation-Adjusted Gross Domestic Product [98]

iii. Financial Market

Equity markets have been reflecting the overall economy. In the beginning of 2014, they adjusted due to both the problems caused by the extreme weather in the US and the loss in confidence of the global market. The fear then passed and the markets stabilized, yet people were still cautious.[99] In general, equity markets maintained a constant growth. Nevertheless, growth was not parallel between small caps and large caps as in 2013. This year, small caps had approximately a growth of 5% while large caps more than double that amount. This was primarily due to changes in interest rates. After the Fed tapered its bond-purchasing program, long-term rates increased thus making borrowing more expensive. This affects any type of company, yet small caps are more sensitive to debt markets.[100]

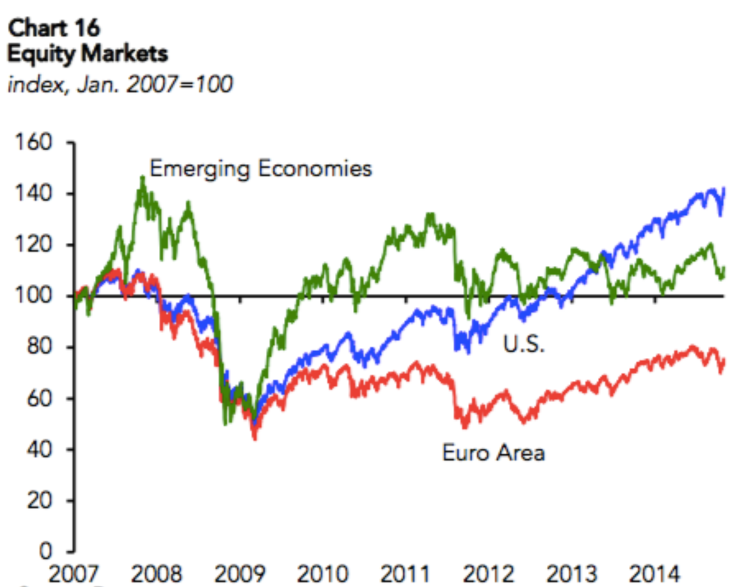


Figure 17: Equity Markets [101]

Another effect of low oil prices was its influence on the stock market. From figure 18 we can see how the drop in oil prices affected the stock market of oil-exporting countries. The drop created "substantial volatility in the financial markets". This happened because investors were worried about the potential that these countries had to

[98] http://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html?abt=0002&abg=0&_r=1
[99] https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor
[100] http://investorplace.com/2014/01/small-caps-stock-russell-2000/#.VWy9_2AXRXs
[101] https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor

continue growing and improving their economy. The main problem is that most oil-exporting countries only depend on that resource.[102] Therefore if they don't collect enough profits from oil, they have troubles balancing their budgets and making debt payments. [103]

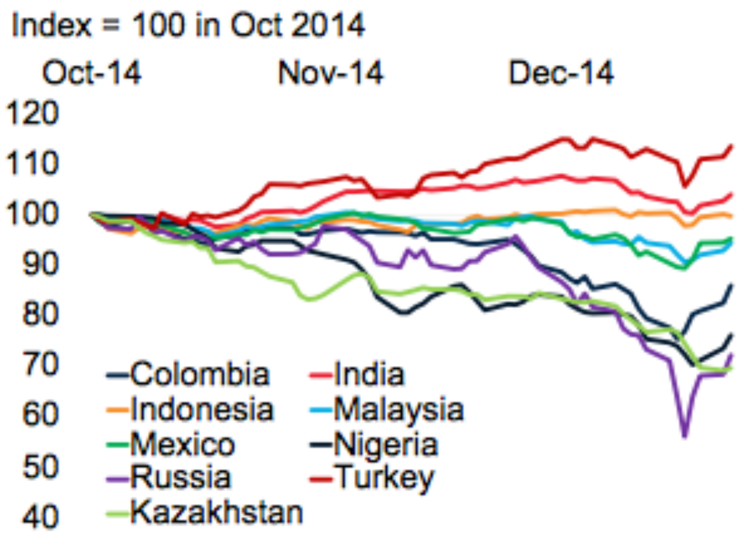


Figure 18: Stock Price Index [104]

In October 29, the Fed announced the end of QE-3.[105] Surprisingly and in contrast to other QE's ending, the market reacted positively. This was mainly because the end of QE was widely anticipated and the Fed clearly communicated its tactic. [106] Although people were prepared for the cease, QE was specially put in place to keep "interest rates low and push the value of common share higher". But now that QE has ended the financial markets do not have a clear future.[107]
In summary returns of the different indexes were:

DJIA	S&P 500	NASDAQ	Russell 2000	FTSE 100	Nikkei	Euro STOXX	China Shanghai	IPC Bolsa	Gold	Oil
7.52%	13.69%	14.75%	4.89%	0.74%	7.12%	7.20%	58.87%	1.99%	-1.5%	-45.9%

As seen from the yearly total return, we could point out several factors that affected some of the indexes.

- DJIA performance is only half of S&P 500. This index was mainly drag due to: IBM poor performer, energy sector is part of the index and did not performed well due to drop in oil prices, McDonald poor performance in 2014.
- NASDAQ: large tech boom (specially by new apps) → This gives a sign that the economy is having a segmented growth.
- The Russell 2000 which is formed by small-cap stocks had a 33.93% drop in total return. This was caused by the pull back of QE which made capital borrowing much harder. This gives a sign that 2014 was not a good year because in down markets small caps perform poorly than large caps. In contrast, when we are experiencing a bull market small cap companies tend to perform better than large caps since is easier for them to grow.

[102] http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter4_report_oil.pdf
[103] http://www.ellenbecker.com/blog/january-5-2015-special-update-2014-in-review
[104] http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter4_report_oil.pdf
[105] http://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html?abt=0002&abg=0
[106] http://www.ellenbecker.com/blog/january-5-2015-special-update-2014-in-review
[107] http://www.forbes.com/sites/robertlenzner/2014/06/20/the-fading-out-of-the-feds-qe-bond-buying-may-mean-the-end-of-a-5-year-bull-market/

2015 First Quarter

i. GDP components

Although for this quarter we do not have the official numbers of how the economy performed, we can evaluate its ongoing performance by other factors like labor market and retail earnings. Labor market conditions influences both consumption and investment. In the first three moths of 2015 the labor market had on average 197,000 jobs. This figure falls below previous year, especially of 2014 and 2013. Also, the last job report stating the jobs added in March revealed that the labor market added jobs was well below expected (previous estimates concluded that 245,000 jobs were going to be added). Also the jobs created on March were the lowest since December 2013. The following figure 19 displays the number of jobs added in each month.

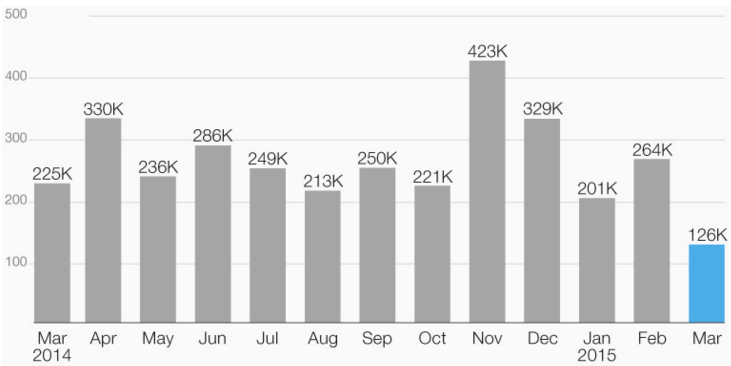


Figure 19: Jobs Created Per Month [108]

Additionally, it was announced that the average hourly earnings increased by 2.1%. Although this figure is considerable because the current inflation is below 2% giving the consumers a real increase, it was below expectation of 3.5%.[109] Therefore, individuals' disposable income increase was lower than expected, thus affecting consumption and investment.

Likewise retail sales is a direct measure of individual consumptions and investment. Retail sales include the following goods and services: "motor vehicle & parts dealers (20% of total), food & beverage stores (13%), general merchandise stores (12.5%), food services & drinking places (11%), Gasoline stations (10%), nonstore retailers (9.2%), building material & garden dealers (6%), health & personal care stores (6%), clothing & clothing accessories stores (5%), miscellaneous store retailers (2.3%)", among others. In January and February retail sales change month over month were -0.8% and -0.5% respectively. Nonetheless, in March it experienced a 0.9% change. [110] We can see from figure 20 that while retail sales increased in March the highest contribution came from automobile purchases.[111] By the type of goods (mostly a want and not a need) that consumers are buying we could assume that they still confidence of the economy improvement.

[108] http://money.cnn.com/2015/04/03/news/economy/march-jobs-126000-us-economy/
[109] http://money.cnn.com/2015/04/03/news/economy/march-jobs-126000-us-economy/
[110] http://www.tradingeconomics.com/united-states/retail-sales
[111] http://www.census.gov/retail/marts/www/marts_current.pdf

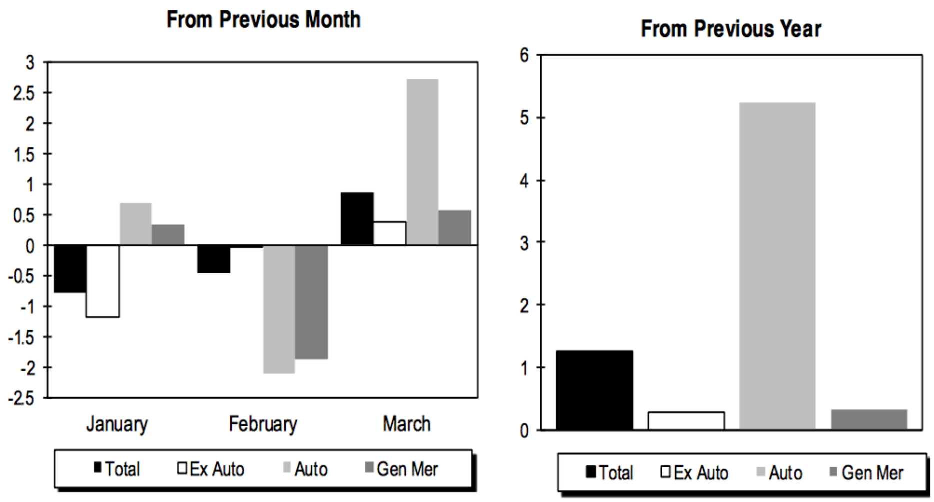


Figure 20: Percent Change in Retail and Food Services Sales

Along the poor labor market there are other factors that have affected consumption and investment. These include the extreme weather in northeast coast, the strike in west coast, and the continuation of low oil prices. Other factors like the strong dollar affect net exports (import higher and exports lower). In general they all affect the growth of the real GDP.

All the above-mentioned factors put a lot of pressure on the economic potential growth. The Federal Reserve Bank of Atlanta forecasted that the economy would grow 0% in the first quarter compared to a year ago. [112]

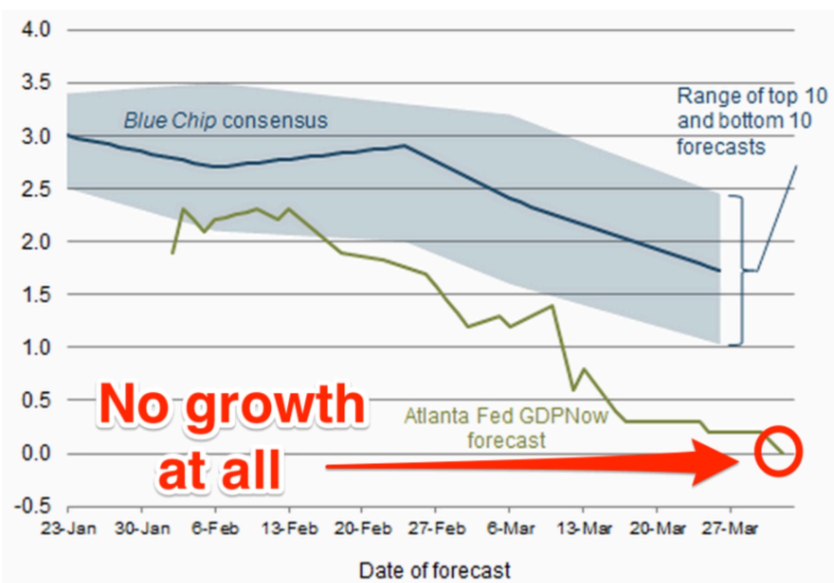


Figure 21: Evolution of the Atlanta Fed GDPNow Real GDP Forecast for Q1 [113]

All of these factors give us a reason to worry and to watch closely the economic condition and the market. We only have signs that the US economy is slowing.

The second estimate by the Commerce Department showed that the US economy contracted at a seasonally adjusted annual rate of 0.7% in the first quarter. [114] In the release, the Bureau of Economic Analysis said: “The downturn in the percent change in real GDP primarily reflected a deceleration in PCE and downturns in exports, in nonresidential fixed investment, and in state and local government spending that were partly offset by a

[112] http://www.businessinsider.com/the-atlanta-fed-forecasts-zero-growth-for-us-in-q1-2015-4
[113] http://www.businessinsider.com/the-atlanta-fed-forecasts-zero-growth-for-us-in-q1-2015-4
[114] http://www.ibtimes.com/economic-growth-2015-us-gdp-shrinks-07-q1-1943761

deceleration in imports and upturns in federal government spending and in private inventory investment".[115] The given negative growth is even lower than what the Atlanta Fed or what the Economic Forecasting Survey (-0.26% avg. GDP growth [116]) previously estimated. It is consistent with the experienced events in the quarter: Weather, Mixed Effects Of Cheaper Oil, West Coast Port Disputes, A Stronger Dollar, Slow Growth Overseas.[117]

ii. Monetary Policy

The Consumer Price Index (CPI) measures the average change in prices over time of goods and services. The Nominal CPI is an overall measure of the goods that we buy (average is 3% but average for last 20 years has been 2.7%). The Nominal CPI is based on food, clothing, shelter, fuels, transportation fares, charges for health services, among other goods and services required for day-to-day living. [118] In contrast to Core CPI which is the change in prices but excluding food and energy (removed because they are very volatile). Currently Core CPI is a more accurate measure because oil prices have drop a lot in the last couple months. The continuation of low inflation, measured by the CPI, incentives the Fed to keep interest rates where they are because if they are increase, the US could head into deflation.

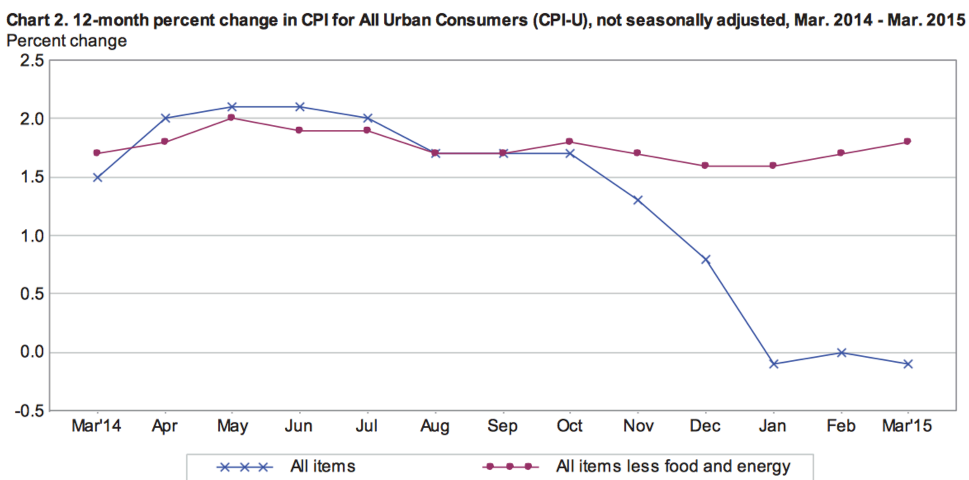


Figure 22: Month Percent Change in CPI for all Urban Consumers, not seasonally adjusted [119]

iii. Financial Market

The US financial market in 2015 has been surrounded by uncertainties. These include:

- Poor jobs increase in March 2015 which brings the question if economic recovery is now slowing down. If this trend continues in the second quarter investors might start to take action. [120]
- There has been sign that some investors have been pulling back even after the exaggerated returns achieved in 2013 and the above average returns in 2014. [121]
- We are unsure about the effects of the strong dollar in the coming months. For now we just know that the strengthen dollar increase the attractiveness of US assets to foreign investors. [122]
- What will be the consequences when the Fed decided to increase interest rates? Why they still have not done so?
- Would the economy achieve in the near future its potential GDP? Accelerating domestic GDP growth, which is driven by domestic consumption, would translates in corporate profit growth. When corporate profits grow, stock prices should increase.

[115] http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_2nd.htm
[116] http://projects.wsj.com/econforecast/#ind=gdp&r=20
[117] http://www.ibtimes.com/economic-growth-slows-sharply-q1-2015-5-factors-slowing-us-gdp-1901257
[118] http://www.bls.gov/news.release/pdf/cpi.pdf
[119] http://www.bls.gov/news.release/pdf/cpi.pdf
[120] http://www.cnbc.com/id/102562096
[121] http://www.ellenbecker.com/blog/january-5-2015-special-update-2014-in-review
[122] https://www.lordabbett.com/en/perspectives/fixedincomeinsights/should-investors-fear-or-cheer-a-stronger-us-dollar.html

Bond Market Analysis: Treasury and Corporate Bond Market

Performance of Treasurys as Compared to Stocks

Firstly we will start looking at the big picture on how stocks and bond performance correlate, and their movement through the years depending on the economic conditions and implemented global policies.

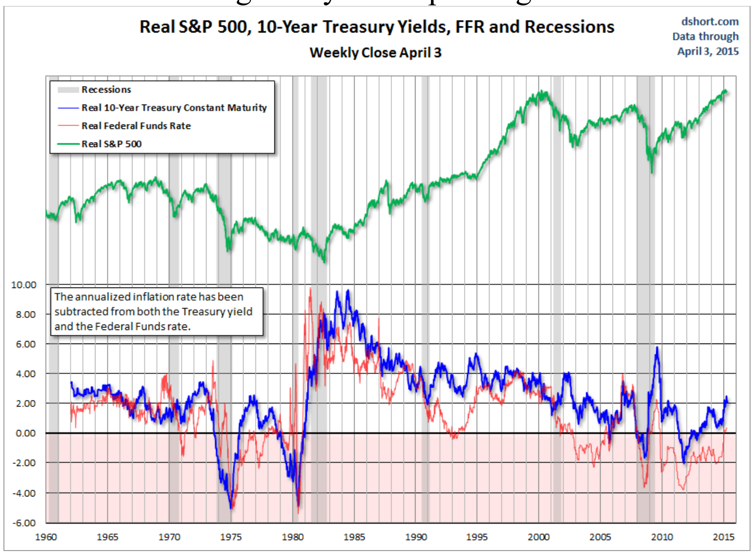


Figure 23: Real S&P 500, 10-Year Treasury Yields, and FFR after inflation.[123]

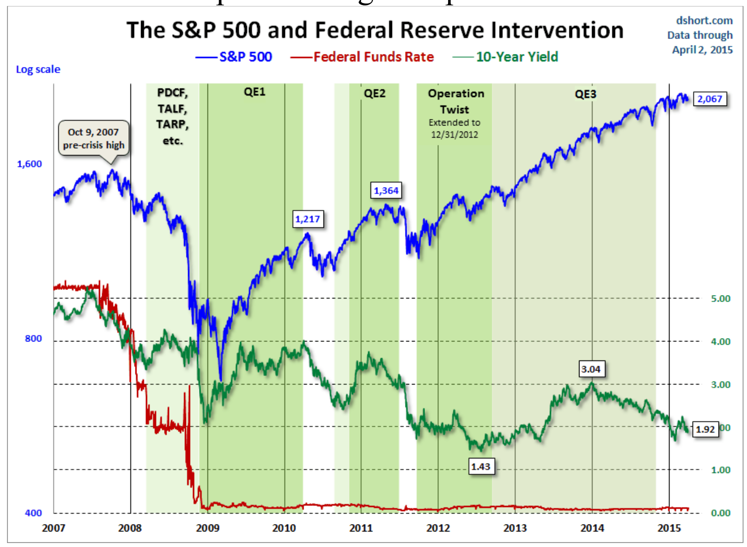


Figure 24: S&P 500, 10-Year Treasury Yields, and FFR Reaction to Fed Policies.[124]

From the above two figures, we can point some common characteristics:

- Which security type is a safer investment?

Rational investors move from the stock market into Treasurys to seek of a safer investment.[125] Likewise, investors do the opposite when they want more return at the expense of assuming more risk. Another factor that has made investors move into the stock market has been the negative yield received from Treasurys after subtracting inflation. Due to the prolonged period of the implemented monetary policies, interest rates have been artificially kept very low and flat in the attempt to improve the economy. This improves other areas, as mentioned in the economic assessment, but affects the bond market. Thus currently bond face a higher interest rate risk as they can only go higher (and as expected), making bonds less desirable. From figure 23, we can see the behavior of the S&P 500 and the 10-Year Treasury.

- Fed policies affecting Treasury interest rates and the stock market, more specifically quantitative easing 1, 2, and 3.

As mentioned in the economic assessment, QE and Operation twist were policies that had strong effect on the stock market. As seen from figure 10, when any policy was supposed to end the market experienced a drop. QE helped companies improved and increased their profits, which comes along with an improved confidence of investors. By having a superior confidence, investors will be more likely to invest in a riskier asset (i.e. stocks), which at the same time most likely it will result in a higher return.

By implementing different policies, the Fed has been able to highly influence the prices of Treasurys. Since QE focused on a purchasing program, as was explained in the asset allocation section, the Fed was able to "artificially hold down interest rates". This was also the aim of the Fed which by implanting QE they pushed "investors out of government debt and into investments like stocks, helping accelerate the recovery in household net worth".[126] This relationship also holds when the different QEs were stopped. From figure 24 it is also evident that after each QE ended Treasurys yield dropped.

[123] http://www.advisorperspectives.com/dshort/updates/Treasury-Yields-in-Perspective.php
[124] http://www.advisorperspectives.com/dshort/updates/Treasury-Yields-in-Perspective.php
[125] http://blogs.marketwatch.com/thetell/2013/05/13/this-stocks-vs-treasury-chart-shows-how-qe-throws-bond-prices-for-a-loop/
[126] http://blogs.marketwatch.com/thetell/2013/05/13/this-stocks-vs-treasury-chart-shows-how-qe-throws-bond-prices-for-a-loop/

In contrast to the years that QE1 and QE2 ended, in which Treasurys yield had a drastic rise due to the market correction, when QE3 was known to end and after it ceased, yields did not have the same drastic rise because the Fed did not announced any other program so rates slowly adjusted. This movement was in contrast to what experts thought. The market was expecting the Fed to raise interest rates on the next year (2015), which in turn decreases bond prices and in turn made this investment less attractive. Nonetheless, US bonds did not experience such drastic drop since the rest of world considered them as a safer investment. Other “economies, currencies, and bonds were tumbling further into problems”. Thus it increased the demand that the Fed was no longer taking as it slowed its bond-buying program.[127] As a result, it helped to keep more liquidity in the system.

Currently, in 2015, we should try to understand which financial instrument is at most risk. The stock market is facing an increasing volatility after the Fed reduced its monetary policy.[128] The price-to-earnings ratio is at a high point (19 on average), which presents a concern as this value compares to bubbles levels.[129] On the other hand, bonds are facing the risk of increasing interest rates. Since the bond prices move opposite to yields, if an investor buys a bond and rates increase, the investment will lose value.[130] Therefore, with the expectation that interest rates will rise, investors should take close consideration on which bonds to invest. Additionally, bonds face the risk of increasing inflation. Inflation impacts bonds because their cash flows to the investor are fixed. As the economy is expected to continue improving, meaning that consumer demand will improve, inflation is also assumed that will be gaining speed.

Performance of Corporate Bonds

First, we should understand the effect of bonds and the issuance company credit ratings. Ratings are given by three primary bond rating agencies: Standard and Poor's, Moody's and Fitch. This rating represents the ability of the company to repay its loan or the bond debt. A lower rating does not only give investors a piece of information about a given bond, but it also dictates (along with other factors like duration) the interest rate that would have to be paid to the investor. From figure 25 we can see the global default rates. It brakes down the two types of bond rating categories: investment grade and speculative (or non-investment) grade. Investment grade bonds are rated BBB-/ Baa3 or higher, while speculative grade bonds are rated lower. As we would assume from their rating, speculative bonds had a higher amount of default than investment bonds. This is more pronounced when the market is facing economic difficulties.

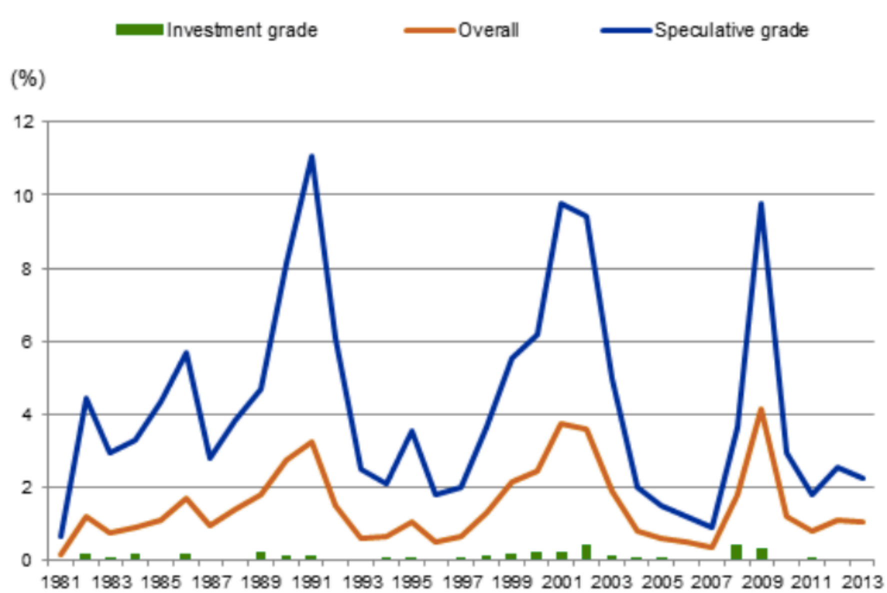


Figure 25: Global Default Rates: Investment Grade versus Speculative Grade[131]

[127] http://www.forbes.com/sites/sharding/2014/11/28/u-s-treasury-bonds-beating-sp-500-this-year/2/
[128] http://www.kiplinger.com/article/investing/T052-C008-S002-stock-market-outlook-for-2015.html
[129] http://money.cnn.com/2015/01/04/investing/stocks-bonds-lookahead-2015/
[130] http://www.forbes.com/sites/sharding/2014/11/28/u-s-treasury-bonds-beating-sp-500-this-year/2/
[131] http://www.maalot.co.il/publications/TS20140324161423.pdf

After the economic crisis, corporate bond issuance increased with different implemented policies by the Fed as a result of the lower cost of financing made available by the Fed. These policies had a significant stimulus on the economy (as mentioned in the economic assessment), which help decrease interest rates and increased confidence that default risk of corporations would fall (thus decreasing default risk premium)[132]. Since these two conditions made borrowing cheaper, corporate bond issuance has been increasing. Nevertheless, now is in question how much corporations will keep issuing bonds to support higher investment and to what extend they will be able to pay back. Since corporate liquidity, given by ratio of liquid asset to short-term liabilities, has been deteriorating, it also impacts the company ability to pay back. From figure 26 we can see how corporate liquidity has been decreasing. This trend is expected to keep decreasing since an increase in interest rates "would likely increase short-term liabilities" due to an increase in interest expense. [133] This is another risk that we should take into account when evaluating bonds as an investment tool.

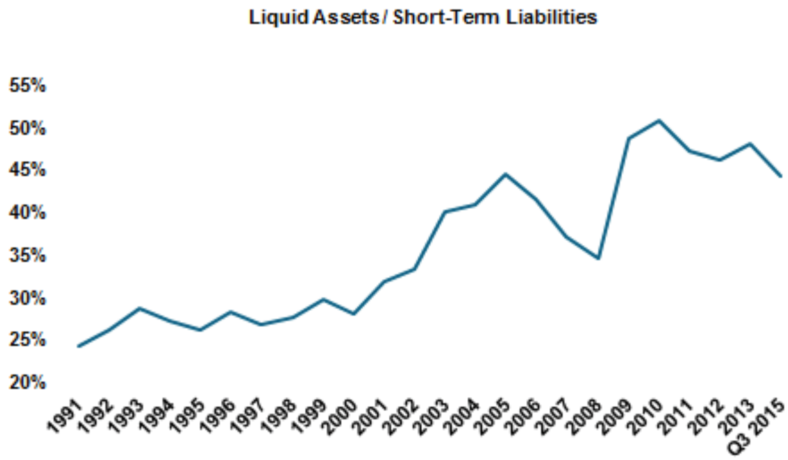


Figure 26: Corporations Quick Ratio [134]

From the below two figures we can compare the path of default of financial institutions (figure 27) and of nonfinancial institutions (figure 28). From these figures it is evident that although financial institutions might have a better rating, they also bear a greater risk. This means that although the financial institution has the capacity to pay back its debt, they are very dependent on the current market conditions as was the case in the 2009 economic crisis. Therefore investors should be more cautious when investing in a financial institution since a good rating is not enough to determine its default risk. In contrast, we can see that nonfinancial institutions that defaulted had already a rating of what is considered a speculative bond. These bonds are usually high-yield bond, meaning that they provide a higher return for the investors compensating them the higher risk.

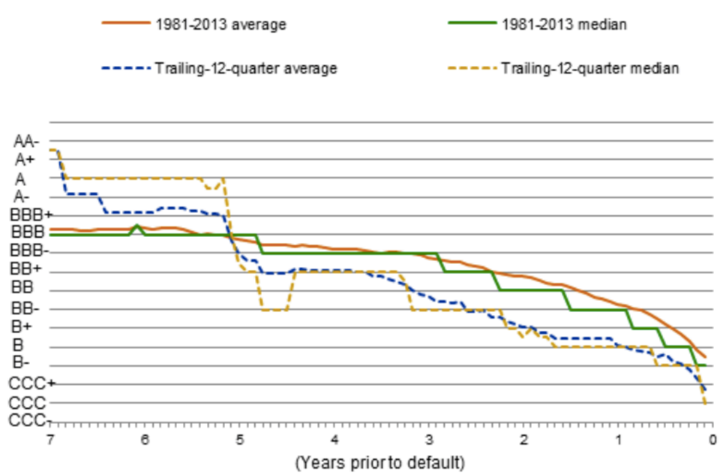


Figure 27: Path of Financial Defaulters [135]

Figure 28: Path of Nonfinancial Defaulters [136]

[132] http://www.advisorperspectives.com/dshort/updates/Treasury-Yields-in-Perspective.php
[133] http://www.schwab.com/public/schwab/nn/articles/Corporate-Bond-Outlook-2015
[134] http://www.schwab.com/public/schwab/nn/articles/Corporate-Bond-Outlook-2015

Additionally, looking at figure 29, another factor inherent in corporate bond is that that when the economy heads into a recession their spreads widen exponentially. The corporate bond spread is the summation of duration default risk premium and liquidity premium. In other words, the spread is the difference in the return from corporate bond minus the return from US Treasurys. This spread increases when the economy is not doing well since investors should be paid for taking additional risk.

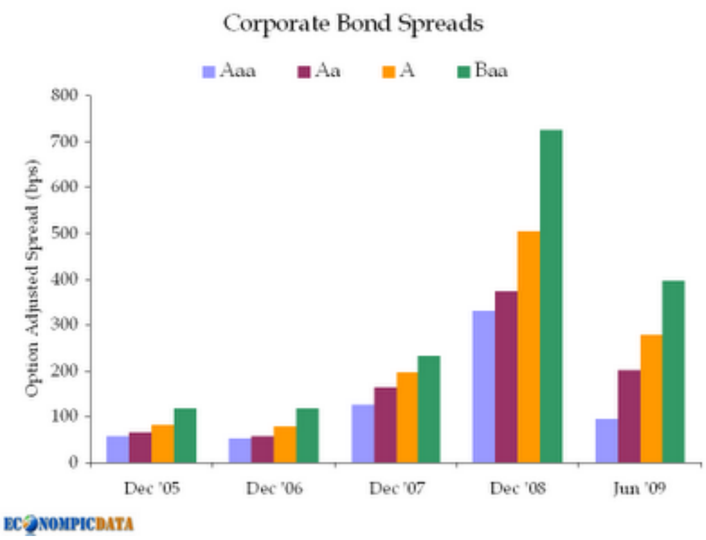


Figure 29: Annual Corporate Default by Number of Issuers

From Figure 30, we can see that credit spread continue to be tight (and getting tighter) since the last economic crisis. This means that the market is expecting the economy to keep improving since widening spreads are seen when the economy, or in other words credit conditions, start to deteriorate.[137] Yet, the current tight spread could also mean that investors are not been rewarded the proper yield for assuming duration default risk and liquidity risk. Currently the spread of the high yield bond is 4.80% (as of April 27). In contrast to the average option-adjusted spread of the Barclays U.S. Corporate High-Yield Bond Index (1995-2014), which is 5.3%, this means that the current spread does not reward for the risk inherently in high-yield bonds.[138] Yet, they still offer higher returns in comparison to other type of bonds (e.g. Investment Grade), therefore we should still consider this category as long as rates remain at these low levels.

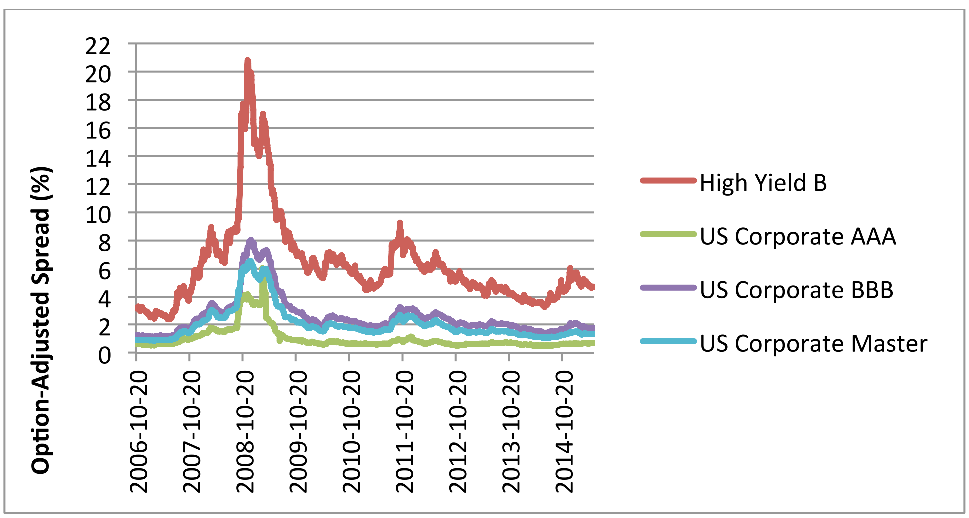


Figure 30: Annual Corporate Default by Number of Issuers

---

135 http://www.maalot.co.il/publications/TS20140324161423.pdf
136 http://www.maalot.co.il/publications/TS20140324161423.pdf
137 http://finance.yahoo.com/news/why-tight-credit-spreads-usually-222807568.html
138 http://www.schwab.com/public/schwab/nn/articles/Corporate-Bond-Outlook-2015

Asset Allocation

First, we should review the outstanding situation of the investors, as it will influence our investment strategy. Sam and Amy could be considered part of the younger work force. They do not want a lot exposure to risk, and instead prefer to have a modest return with lower risk. Their time horizon is in 10 yrs and 14 yrs when their two sons enter college and 25 years until retirement. This dictates a moderate to aggressive strategy due to the extended period and since they do not have significant liquidity needs until this time. Also, they can manage to take higher risk since they are from the younger work force and their time horizon could be considered to be long. On the other hand, they have some short-term needs as they have to pay for mortgage and would like to preserve their wealth in order to guarantee their sons education and retirement plan. From these conditions we could conclude that a moderate investment strategy will suit the needs of Sam and Amy. Such standard objective will allow the couple to meet their IRR and at the same time the associated risk will not put in threat their wealth.

The asset allocation is breakdown as follows:

Large Cap	Mid Cap	Small Cap	US Treasury	Inv. Grade Corp	High Yield Corp	Municipal Bonds	Dev. Int. Mkt.	Emerging Int. Mkt.	Commodities	Real Estate	Risk-Free
15%	13%	10%	2%	10%	5%	5%	14%	11%	7%	8%	0%

Our reasoning behind this breakdown is the following:

- Cash: 0% invested in cash since they do not have significant short-term liabilities. Also, in the new plan they are in an advantageous position, as they will have a positive difference of the new mortgage versus what they were paying before refinancing. Also they can have an extra liquidity by investing in treasury bonds, which also offers a slightly higher return.
- Gold: It is used as a hedge against downturns in the economy. Since the current situation is unpredictable and the economic growth has started to decrease this tool will help us cushion our investment. Also we should consider gold as the Dollar is turning around from its all time high, which is expected to continue. Additionally, as the economy continues to improve so will do inflation. Since the price of gold rises during inflationary periods is another reason for us to consider this commodity.
- Real Estate: As the economy continues to improve and as it still has much left to recover and grow, real estate continues to improve. Signs of improvement are seen in the continue increase of housing and rent prices, deleverages and confidence of home owners along with current rates (which are not predicted to rise) which has increased mortgages and demand for houses. Additionally, this housing sector is undersupplied. Supply is at 61.76% of the current demand.139 Moreover, investing in REIT is considered safe as they have to payout 92% of received income to shareholders with the additional benefit that the income is tax exempt. These conditions suggest is time to invest in this sector. Due to the correlation between mortgage rates and interest rates, mortgage rates have been rising due to the expectation that the Fed will increase interest rates in the near future. This increase in mortgage rates has caused buyers to become hesitant to borrow to buy a home.[140] In the short term REITs are and will be affected by this the lack of housing consumption as seen in the Funds and ETFs average return for the past 1 month (-2.32, -2.63% respectively) and 3 months (-4.55, -7.07% respectively).[141] [142] Nevertheless, in the long term we still believe that they will continue to improve.
- Bonds: The market is waiting for a rise in interest rates. When this happened the current bondholder would be affected as the price of the bond with a lower rate decreases.[143] Although there was a price decrease in March of several bond funds (LQD by 2.2%, AGG by 1.3% and BND by 1.2%), rates are considered to stay low until there is a better improvement of the labor market.[144]

---

[139] Mark Zandi, Chief Economist, Moody's Analytics. Presentation, Wednesday, May 6, 2015
[140] http://www.dividend.com/news/2013/rising-interest-rates-and-the-effect-on-mortgage-reits-nly-agnc/
[141] http://www.etf.com/etfanalytics/etf-finder
[142] http://news.morningstar.com/fund-category-returns/real-estate/$FOCA$SR.aspx
[143] https://personal.vanguard.com/us/funds/snapshot?FundId=0039&FundIntExt=INT
[144] http://marketrealist.com/2015/03/pushed-corporate-bond-yields-higher/

- Investment Grade Bonds: This type of bond is only issued by entities (corporations) with higher credit rating. Although it offers a lower return in comparison to high yield bonds, it also offers lower risk. [145] This bond can be used when risk and volatility in financial markets increase. In 2015 issuance of high-grade corporate bonds has increased "as corporations are looking to raise debt until the interest rate environment remains favorable". Likewise their yields have risen and their default risks and prices have decreased. The biggest impact in both Treasury and corporate bond yields was from the increase in non-farm payrolls.[146]
- High Yield Bonds: This class of bonds offers a higher return since they present the risk of default. This type of security "helps diversify a fixed income portfolio".147 Also over the 5 yr and 3 yr period it had a higher sharpe ratio (1.41 and 1.62 respectively) in comparison to the other fixed income securities. Now that the economy is continuing to improve it has help the health of most financial statements to improve, thus lowering default risk. Therefore it is a good time to weight more heavily this type of security in comparison to years that the economic environment is not doing well. (Refer to bond market for further information)
- US Treasury Bonds: Since the last economic crisis, the Fed has implemented different policies in order to decrease interest rates and consequently to increase borrowing which helps boost economic growth. Due to such low interest rates, there have been moments where these types of securities did not offer a positive return. After taking into account inflation, the net return has been instead negative (refer to figure 23). Although recently interest rates have been rising, this is not an effective investment. Currently, as the economy continues to improve, we should focus on other securities with higher risk-reward ratio. We should only allocate a minimum percentage to this category to use as cash (in case of any emergency) due to their high liquidity and safety.

- International securities: Offer the opportunity to hedge against internal US economic conditions since the collected salary is from a domestic company. In other words by doing so we can diversify the investment. Also the exposure to both emerging and developed economies can bring higher growth opportunities than the US market. [148] Nevertheless, they could be more volatile and might face a great threat due to adverse issuer, political, regulatory, market, and economic or other developments.
- Stocks: As the stocks capitalization decreases, its volatility increases. From this idea small-cap stocks are riskier than big cap-stocks. Nevertheless, over the past 30 years small-caps had the highest return followed by mid-caps and then by large-caps.[149] In a closer snapshot of 15 years, small-caps average return was 7.4%, mid-caps had 8.9% and large-caps 4.2%.[150] Another finding was that over the time period 1976–2005 a hypothetical portfolio composed by 60% mix of small- and mid-caps and 40% of large stocks had the best return to risk (return: 14.4% risk: 16.2%) in contrast to other stock combinations.[151] The key to chose the best weight between these different stocks if were the market is in the economic cycle. Small-caps will outperform when coming out of a recession. On the other hand when "economic expansion matures and growth slows down, people favor large cap for their high dividends and stability".[152] Currently the individuals are not much excited about the market the pace of the economic recovery, which influence them to invest in large-caps. Nonetheless, the economy is still in its growth stage.[153] Yet, "the U.S. economy appears to have hit a temporary soft patch but with low probability of recession".[154] Recently the economy has been taking more speed as the dollar depreciates, the housing market continues to improve, and as energy remains low. Other supporting data that show that the current business is still in its growth phase are the level of Real GDP, Non-residential fixed investment, and of exports, which are still in the mid level before reaching the peak of previous economic cycles.[155] I think for a 6-12 month period Sam and Amy should weight more heavily small and mid-cap stocks.

---

[145] https://www.fidelity.com/mutual-funds/bond-funds/investment-grade
[146] http://marketrealist.com/2015/03/pushed-corporate-bond-yields-higher/
[147] https://www.fidelity.com/mutual-funds/bond-funds/high-yield-bond-funds
[148] https://www.fidelity.com/mutual-funds/international-global-stock-funds/overview
[149] http://www.morningstar.com/products/pdf/MGI_StockResearch.pdf
[150] Wells Fargo Investment Institute, Morningstar EnCorr.
[151] http://www.morningstar.com/products/pdf/MGI_StockResearch.pdf
[152] http://www.bankrate.com/finance/investing/small-cap-funds-versus-large-cap.aspx
[153] https://www.economy.com/dismal/tools/global-business-cycle-map
[154] http://www.russell.com/helping-advisors/EconomyMarkets/BusinessCycleIndex.aspx
[155] http://econsnapshot.com

From the chosen asset allocation we have successfully allocated the couple funds allowing this investment strategy to meet the couple IRR requirements. This allocation will guarantee the couple future obligations and retirement plan as it offers 1.155% higher than the IRR if the sons were going to private college and 1.69% if the sons were going to state college (in comparison to 20 yr period). At the same time, the allocation plan offers a total return including management fees below the 10% requirement. Furthermore, with this type of allocation we were able to diversify the investment. The portfolio 20 yr indexes correlation is 0.0108% and for the 5 yr period it is 0.0084%. This correlation means that the assets move independently (with the chance of sometimes moving together and other times moving in opposite directions). In the current economic conditions, the achieved correlation would help us maximize our returns while at the same time eliminating (as much as we can) firm-specific risk (from diversification). Yet, is worth mentioning that a negative correlation would be preferable when the economic environment and thus the financial market is at distress since it would provide a less risky investment.

	20 Year	**5 Year**	**IRR (Private College)**
Total Return	9.73%	10.65%	7.97%
Portfolio Risk	11.80%	10.22%	-
Sharpe Ratio	0.60	1.03	-

Implementation

Portfolio Analysis
Based on the stance of the economy and the type of investor (in this case moderate risk aversion), the investor should chose a credit rating and duration of the fixed income accordingly.

	Default Risk – Credit Rating	Interest Rate Risk - Duration
Strong Economy	B or better	Short Duration = 2.5 to 5 yrs
Moderate Economy	BBB/A	Moderate Duration = 5 – 5.5 yrs
Weak Economy	A/AA or better	Long Duration = 5.5 – 7.5

Since the end of Q1 2015, short-term interest rates have fallen while long rates have increased (current rates are displayed by the blue line and Q1 rates are displayed by red line). In contrast, this is not the same case of the interest rates of one year ago (May 29, 2014) (displayed by green line). Comparing May 2014 rates with the current ones, we can see that short-term rates were lower while long-term rates were higher. Long-term rates react according to expectations and to current supply and demand, while short-term rates are mainly influenced by the Fed actions. With this said, I expect that rates continue low in the short-term, until the Fed announces that they will start to increase. I believe this will not happen at least after Q3 of 2015, after the Fed makes sure that unemployment rate and economic growth has achieve a constant behavior. For the next 12 month I see interest rates increasing by 0.75%.

Figure 31: US Treasury Yield Curve: Current, Q1 2015, May 2014, and May 2010.[156]

Depending on the duration of a bond, prices will have a more sensitive reaction to interest rates fluctuations. In other words, duration is a measure of interest rate risk.[157] Additionally, we should consider convexity as it also

[156] Factset, Yield Curve
[157] http://www.vanguard.com/pdf/icrddc.pdf?2210045720

tells us how much a bond price will be affected by the change in yields. A higher convexity is more desirable as it implies that prices will increase by a larger amount if yields decrease and that prices will decrease by a smaller amount if yields increase. We should utilize these two metrics as they would give a better approximation of what we could expect from the investment if yields were to change (i.e. the economic conditions). [158]

From the previously mentioned conditions, we could take a higher default risk as of a moderate to strong economy since economic growth helps companies financials. Thus, their default risk will be lower even though they might have a lower rating. Likewise, since interest rates are expected to rise (as they would do in a strong economy), we should invest in bonds with short duration and with the highest possible convexity. This will minimize the interest rate risk of our fixed income.

The benchmark characteristics are as following:

	Duration	Convexity	Average Credit Quality
Barclays Aggregate	5.67	-6	AA

The portfolio characteristics are as following:

	Average Duration	Average Convexity	Average Credit Quality
Portfolio	4.44	36.70	BBB

The portfolio characteristics including the US Treasury investment are as following:

	Average Duration	Average Convexity	Average Credit Quality
Portfolio	5.60	51.01	A-

In terms of our bond investment strategy we should primarily concentrate in two types of bonds: callable and putable. These two bonds offer an advantage when interest rates are rising. Since callable bonds give the company the right to buy back the bond any time before maturity at a specific price, it would likely pay a higher interest to compensate for this exercise option. So, the investor will get a higher interest with a reduced risk that the bond will be called since rates will be increasing. In contrast, a putable bond gives the investor the right to sell the bond at par before maturity. This option is also a good investment when interest are rising since the price of a bond falls as interest rates increase, the investor could benefit from selling the low interest bond at a specific price when price has fallen and then invest in another high interest paying bond.

Fixed Income

Corporate Bond Analysis

Occidental Petroleum Corporation (OXY) forms part of the Independent Oil and Gas industry. It was founded in 1920 and is headquartered in Houston, Texas. The company divides into three segments: Oil and Gas (69%), Midstream and Marketing (7%), and Chemicals (24%). The Oil and Gas segment focus on exploration and production activities in the United States, the Middle East and Latin America Regions. Currently Occidental is the largest producer in West Texas and Southeast New Mexico (controls 13 out of 16% production), which are the largest oil basins in the United States. They also operate in Colorado, and North Dakota. They implement an Enhanced Oil Recovery technique to maximize production, giving the company a competitive advantage.[159] The Midstream and Marketing "segment gathers, processes, transports, stores, purchases and markets oil, condensate, natural gas liquids, natural gas, carbon dioxide and power".[160] Also, this segment controls Phibro, a subsidiary in charge of trading different commodities in several exchange markets. The marketing segment placed second in the 2014 Mastio Natural Gas Marketer Study (customer satisfaction study to help companies maximize business performance).[161] [162] Occidental third segment operates thought the

158 http://www.raymondjames.com/fixed_income_duration.htm
159 http://www.oxy.com/OurBusinesses/OilandGas/Technology/Pages/default.aspx
160 http://finance.yahoo.com/q/pr?s=OXY+Profile
161 http://www.oxy.com/OurBusinesses/midstreamMarketing/EnergyMarketing/Pages/default.aspx
162 http://www.mastio.com

Oxy Vinyls, LP and INDSPEC Chemical Corporation affiliates. Oxy Vinyls is the world's largest producer of both chloride monomer and caustic potash, and are the second-largest polyvinyl chloride supplier in the United States. Additionally, INDSPEC "is one of the world's largest producers, and North America's only producer, of resorcinol". These chemicals are essential for the production of other products that individuals need for their daily living (e.g. rubber, pharmaceuticals, agricultural chemicals, detergents, refrigerants, textiles, water treatment, etc).[163]

Although oil prices have not helped oil companies, by decreasing their cash flows, OXY has continued with its normal operations and investing support. Crude oil prices had a -6.67% return over the past 5 years and a -22.9% return over the past 3 years, which has not help oil companies cash flow. Currently the company is involved in a start-up of the Al Hosn project from which they own 40%. This project has helped them increase their production. In this area, they extract Sour gas, which is then divided into two components: natural gas and sulfur. Furthermore, the company plans to continue development in the Permian Basin using unconventional drilling techniques. This plus the plans to acquire more property for drilling purposes will result in an accelerated growth.[164] Nonetheless, these expansions are accompanied with the forced close of OXY operations in Yemen due to the ongoing political situation. [165]

Along with the current ongoing investment project, the company has high cash outflow for dividend payments. Dividends are currently $0.75 per share after having a raise of 4% on May of 2015. Nevertheless, the company did not raise it dividend by the same percentage as previous years due to oil-prices drop.[166] Although this shows sings of the company standing and the poor environment, this should help their cash flows. Additionally, OXY announced in October of 2014 that it would continue its share-repurchasing program, which was starter in Q3 of 2013. Going into 2015, they had 76 million shares authorized to continue the program, which they plan to purchase using cash from operations and gains from asset sales.[167] This repurchasing program could affect its cash flow on the short-term, yet it will benefit the company by creating value (or increasing EPS) and increasing their cash flows on the long-term. In other words, by repurchasing stocks the company creates value to bond holders since it reduces dividend payments to the stockholders. Thus, the company most likely will have extra cash to pay its debts.

In order to guarantee their ability to payout their expenses, investment, debt payouts, and dividend they have made several changes:

- On the end of 2014, OXY completed the spin-off of California Resources. The company received $6.2 billion in proceeds. From this amount the company must use $5 billion only for "share repurchase, debt retirement or dividends". [168] The company will continue to monetize its remaining holding in 2015 which were valued at $560.5 million as of May 14, 2015. [169]
- OXY was able to raise cash from its stake of Plains GP Holdings LP (NYSE:PAGP) after its IPO in 2013 (the biggest of the year).[170]
- Oil production is growing. Current growth has been of 9% in comparison to first quarter of 2014. [171]
- The company has benefited from cost savings which as of 2015 are $400 million and expect to reach its $500 million. Savings are in part due to the company capex budget cut by 33% in comparison to 2014. [172]
- The market expects oil-prices to rebound. This is seen as Goldman Sachs has recently reiterated the favorable situation along with the increase investment of hedge funds and PE firms in US energy sector.[173]

[163] http://www.oxy.com/OurBusinesses/Chemicals/Products/Pages/default.aspx
[164] http://seekingalpha.com/article/2786425-expect-occidental-petroleum-to-outperform-in-2015
[165] http://seekingalpha.com/article/3187376-occidental-petroleum-after-strategic-change-happy-with-current-game-plan
[166] http://online.barrons.com/articles/occidental-petroleum-lifts-dividend-as-broad-payout-pace-slows-1431136559
[167] http://seekingalpha.com/article/2786425-expect-occidental-petroleum-to-outperform-in-2015
[168] http://seekingalpha.com/article/2786425-expect-occidental-petroleum-to-outperform-in-2015
[169] http://seekingalpha.com/article/3187376-occidental-petroleum-after-strategic-change-happy-with-current-game-plan
[170] http://www.cnbc.com/id/101115114
[171] http://seekingalpha.com/article/3174466-occidental-petroleum-dividends-are-safe-production-is-strong
[172] http://seekingalpha.com/article/3187376-occidental-petroleum-after-strategic-change-happy-with-current-game-plan
[173] FACTSET, Too much money chasing too few deals in energy.

Along with the above mentioned “extra” sources of cash flows, their business model with geographical and product (from different business segment) diversification, and ongoing investments, the company would able to continue its growth while being able to pay back its debt.

By the end of 2014, Moody’s downgraded OXY’s rating from A1 to A2. This new rating matched the ratings from S&P (who upgraded in 2008) and from Fitch (who affirmed in 2014) of A. The downgrade can be attributed to the plunge of oil prices, which directly affects OXY revenue. The current ratio of the company has been maintained above 1.10 (from the seen data at least since December of 2012). As of Q1 2015, the current ratio was 1.51. This suggests that the company would be to pay off its obligations. OXY quick ratio, which tells the ability to meet the short-term obligations, is equal to 1.35 while the industry average is 0.23.[174] [175] Interest Coverage ratio of 45.78 is well above industry average of 4.13. This reaffirms that the company is able to satisfy its interest expenses. Although the OXY Earnings per Share have been affected due to the drop of oil prices, the company is expected to grow and improve its EPS. Since December of 2011 the company EPS has been decreasing. For a closer snapshot, in Q4 of 2014 EPS was 5.82 and in Q1 of 2015 it was 0.04. Due to the ongoing investment and lower revenue (as a result of lower oil prices), OXY net income had a -129.16 % change in comparison to Q4 of 2014. The company Total debt to EBITDA, Net Debt to EBITDA, and Long term debt to EBITDA which are equal to 0.85, 0.18 (increased from -0.09), and 0.77, respectively. These values are lower than the industry average, which are 1.85, 1.39, and 1.78, respectively. Likewise the previous mentioned ratios, this also suggests that OXY can repay its debt. As states in the company 2014 results, as of 2014, 42% (versus a 34% in 2013) of the company worldwide production came from the Middle East. 53% of production comes from US and is increasing. And 5% is from Latin America.176 Yet, since the end of 2013 they announce a restructuration of its assets, as they were considering selling part of its Middle East business in order to reduce political risk and to concentrate in North America.177 As mentioned before, OXY recently announce the close of its operation in Yemen, this gives the investor the confidence that the company acts quickly to protect their investments and therefore to minimize risk.

OXY’s bond (674599BE) matures in August 01, 2019. It has a semi-annual coupon rate of 9.25%, with duration of 3.53, which is below that of the BAG. Since interest rates are expected to rise in the next 6 month, we need a short duration bond. Additionally, this bond is ranked A/A/A2 which places the bond in very good position with its given coupon and duration. It offers the best of all four condition: short duration for a strong economy (when interest are expected to rise) which decreases price decrease risk, good rating which implies low expected default risk, high coupon, and gives putable option.

Investment Grade Corporate

BlackRock US Mortgage Portfolio Investor A Shares (BMPAX): This fund focuses on the Agency Pass-Through MBS sector (91.6%). Following our strategy, this fund has an average effective duration of 2.92 yrs. As mentioned before, this minimizes rising interest rate risk as the economy is expected to improve. A shorter-duration means that we get back the investment faster and also offers less sensitivity to rising rates. As of 2014, BMPAX had a 1.6% higher performance than the Barclays US Agg Bond TR USD. Apart from outperforming the benchmark, it has an average credit rating of A. This fund has an extra security as their investments are backed by another asset, mortgages. Furthermore, MBS have gained momentum as mortgage investors failed to materialize their mortgage refinancing.[178] This fund ranked #1 in 2014.[179]

High Yield Corporate

Morgan Stanley Inst High Yield L (MSYLX): This is a high yield corporate bond fund which invest 80% of its asset in these type of securities. The fund average duration is 3.28 yrs. This helps us diversify our portfolio

[174] FACTSET, OXY
[175] http://csimarket.com/Industry/industry_Financial_Strength_Ratios.php?ind=603
[176] http://www.oxypublications.com/annualreport/PDF/Financial_and_Operational_Results_2014.pdf
[177] http://www.ft.com/intl/cms/s/0/78a39922-37fc-11e3-8668-00144feab7de.html#axzz3b4QTwIwk
[178] http://individual.troweprice.com/public/Retail/Planning-&-Research/T.-Rowe-Price-Insights/Market-Analysis/Quarterly-Wrap-Ups
[179] http://www.morningstar.com/funds/XNAS/BMPAX/quote.html

duration (in comparison to VWETX) and also help us minimize interest rate risk. Although this is a high yield fund its average credit quality is B, which is in our desirable range due to the predicted and expected economic condition (explained above in the portfolio analysis section). This fund underweight BB-rated credits since they tend to be more highly correlated (in contrast to B and CCC) to interest rates.[180] Thus, reducing our interest rate risk. YTD, this fund has outperformed the benchmark (Barclays US Agg Bond TR USD) by 3.61%. Currently this fund is ranked #2 in the HY category.[181]

Municipal Bond

MainStay High Yield Municipal Bond A (MMHAX): This fund focus their investment in municipal bonds in which they allocate 80% of its assets. Their top states are: California (12.8%), Puerto Rico (11.4%), Texas (7.5%), Michigan (7.2), New York (6.2).[182] Although some of these states are currently facing financial distress, they have very good tax covenants. For example, Puerto Rico economy and financial position continues to deteriorate which due to its default risk needs to offer a higher yield, and at the same time its bond are exempt from federal, state and local income taxes. Additionally, this fund invests at least 65% of its net assets in medium- to low-quality bonds. Thus, this type of investment not only faces interest-rate risk (which is bonds primary value risk) but also it also has credit risk inherent from the bond ratings as well as risk due to legislative or political changes of the issuer. Although interest rates are expected to rise, which decreases the value of the bonds, I believe that the economy will continue to do well which decreases the risk of these high yield bonds while at the same time giving high returns. The fund has outperformed its benchmark (Barclays Municipal Bond Index). The fund 2014 performance was 17.49% while its benchmark performance was 9.05%. YTD the fund had a return 0.89% higher than the benchmark. The fund has a sharpe ratio (3 yr average) of 1.13 while that of the benchmark is 0.93.[183]

Domestic Equity Analysis

Stock Analysis

Boeing Company (BA) is categorized under the aerospace/ defense product and service industry. The company is considered the world largest aerospace company. It controls the design, development, manufacturing, selling, and service of its products. It was founded in 1916 and its headquarters are located in Chicago. The company is divided into two business units: Boeing Commercial Airplanes (66% of total) and Boeing Defense, Space & Security (15% of total). The Commercial Airplanes unit develops, produces, and gives service to commercial aircraft for passenger as well as for cargo. Boeing passenger fleet represents 48% of the total world market. While 90% "of the world's cargo is carried onboard Boeing planes".[184] On the other hand, Boeing Defense, Space & Security unit has a broad portfolio that includes satellites, helicopters, cyber security, electronic attack aircraft, aerial refueling aircraft, anti-submarine/anti-surface warfare aircraft, and the Phantom Eye unmanned aircraft. As of 2014, military aircraft had a 15%, space had 9% and services and support had 10% of the total share of revenue collected by this unit.[185] Additionally, Boing is composed of other three segments, which support the two primary units. These are: Boeing Capital Corporation, Shared Services Group, and Boeing Engineering, Operations & Technology. They provide financing solutions to facilitate the sale and delivery, services to Boeing worldwide especially on infrastructure, and "help develop, acquire, apply and protect innovative technologies and processes", respectively.[186] Boeing operates in Australia, France, Italy, South Korea, Brazil, Spain, India, Middle East, Turkey, China, Israel, Russia, and United Kingdom. Yet, it exports to 150 countries that are allied governments with the US. With this said, it is one of the largest US exporters.[187] [188]

180 http://quote.morningstar.com/fund-filing/Annual-Report/2014/9/30/t.aspx?t=MSYLX&ft=N-CSR&d=01e3a3dfc1853f63d3e0c065b6f66444
181 http://performance.morningstar.com/fund/performance-return.action?t=MSYLX&region=usa&culture=en-US
182 http://www.nylinvestments.com/polos/MSMHY05-041553864.pdf
183 http://performance.morningstar.com/fund/ratings-risk.action?t=MMHAX&region=usa&culture=en-US
184 http://myjetreview.com/html/boeing_company.html
185 http://www.statista.com/statistics/269000/percentage-of-company-revenue-in-boeings-defense-space-security-segment/
186 http://myjetreview.com/html/boeing_company.html
187 http://www.boeing.com/company/general-info/#/global
188 http://myjetreview.com/html/boeing_company.html

Boeing is a very good stock investment. At the same time that it has the highest market valuation among the Aerospace and Defense industry, the company has been experiencing constant growth. Boeing market value is $100.1 Billion, nearly $39 Billion higher than its closest competitor. Furthermore, Boeing has a sound performance. Its sales have been in a constant rise. In 2014, it had a growth of 4.8% in comparison to 2013. In Q1 of 2015 sales had an 8.2% growth (YoY%). Likewise, Boeing net income shows a constant growth. In 2014 they achieved an 18.8% growth (YoY%) and in Q1 of 2015 it was 38.4%. Industry net income growth averages (YoY%) were 15.80% in 2014 and 10.99% in Q1 of 2015. Boeing, EPS has outperformed the industry average. In 2014 boing EPS growth (YoY%) was 21.6% while in Q1 of 2015 it was 11.9%. Yet, the industry had an 18.70% growth in 2014. These values show the strong performance that Boeing had in comparison to the industry average. Reflecting its past performance, Boeing is expected keep doing better than industry average. It sales is expected to grow 4.3 % (YoY%) while industry average sales is only expected to grow 2.3% (YoY%). Similarly, Boeing stock price, sales growth, and EPS growth has outperform the S&P 500 (YTD gains 2.3%) (as seen in the past 10 years) except from June 2008 to January 2010. Also, Boeing (YTD gains 18%) has been the best dividend stock in the Dow Jones Industrial (YTD gains 1.6%).[189]

Boeing is exposed to vast number of regions. Nevertheless its main exposure is in the Americas, which accounts for 46% of the total revenue and only the US represents 41.7%. Refer to figure 32 for a detailed breakdown of Boeing's revenue exposure. The company international exposure helps it to diversify its risk and exposure to the US. While international exposure helps the firms to diversify, it also adds exchange rate risk. In 2013 and 2014 exchange rates took a hit, accounting for a loss of $29 million and $87 million respectively in each year.

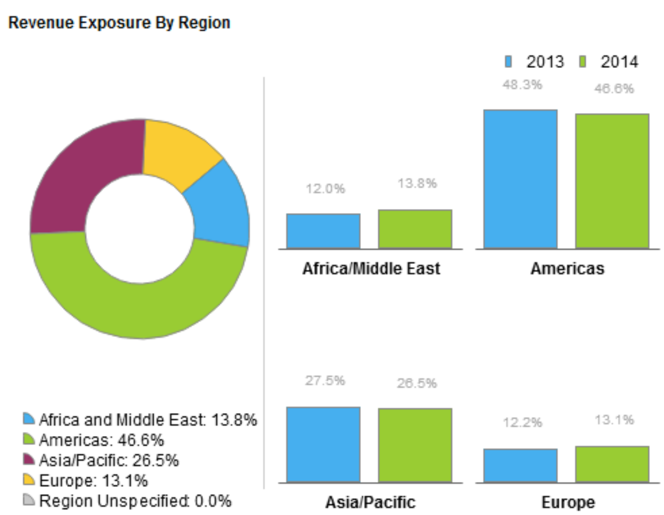


Figure 32: Revenue Exposure by Region

The main driving factor of the company growth during the past years has been Boeing Commercial Airplanes since Boeing Defense, Space & Security had a negative growth. As mentioned above, overall Boeing has had a positive growth, yet some sectors did not had the same positive performance. Boeing Military Aircraft had a -2.3% growth (YoY%) in 2013, -15.2% growth (YoY%) in 2014, and -20.6% growth (YoY%) in the current quarter. Mainly because of the heavy dependence on the US government (as mentioned above), this decrease correlates with the decrease in government spending. For example, the US government spending in national defense had a -0.33% change in 2013, -0.10% change in 2014, and -0.7% in Q1 of 2015. [190]

[189] http://etfdailynews.com/2015/04/20/boeing-co-ba-the-best-dow-dividend-stock-of-2015/
[190] http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_adv.htm

Boeing liquidity, coverage, and leverage ratios reflect the company health and its ability to payout its debt and to continue making dividend payments. As of the first quarter of 2015, their ratios are the following:

	Boeing	**Industry**
Current Ratio	1.20	
Total debt/total Assets	9.24	19.56
Interest Coverage (EBIT) Ratio	25.34	12.02
Total debt to EBITDA	0.94	1.57
Net Debt to EBITDA	-0.06	0.73
Long term Debt to EBITDA	0.93	1.48

The above table also shows the aerospace and defense industry averages, which proves that Boeing is financially stronger than most of its peers and is better suited to meet their daily as well as long-term obligations. From these ratios we can conclude that most of the firm unsystematic risk relays on their product (due to its high dependency on the government spending) as well as on the market but not so much on how the firm finances their assets and operations. Figure 33 displays the company capital structure. From 2006 to 2007 Boeing drastically changed its structure, in 2008 being composed mostly by LT debt. This was caused due to an "increased pension liability" which was subtracted from the company's equity. The increased pension liability resulted from the "loss in the pension portfolio" when the market crashed in 2008.[191] Currently something similar is happening. As seen from the chart, equity has dropped from 2013 to 2014. As stated by Moody's and one of the reasons why they graded Boeing as A2, the pension fund problem is again affecting the company. They explained that there has been a "growth in the pension funding shortfall to more than $17 billion in the just completed 2014 re-measurement period". This problem is affecting a lot of US companies since private employers' projected benefit obligations in 2014 increased by 15% in comparison to 2013. Yet the fund assets just grew by 3%. [192] This problem constrains the company's free cash flow generating ability.

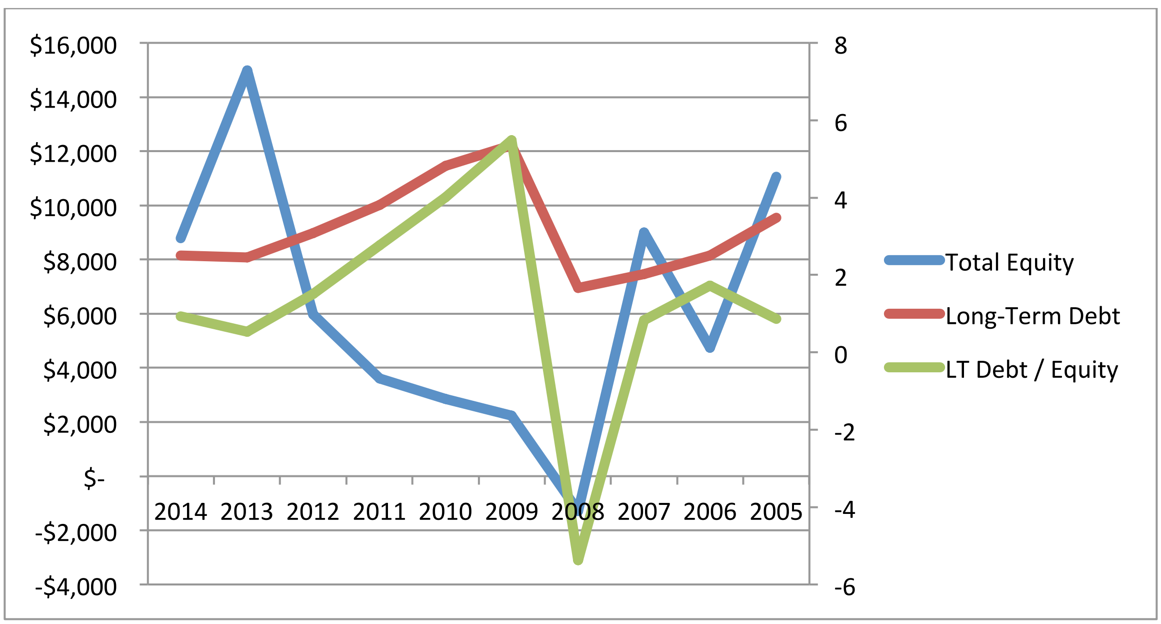


Figure 33: Boeing Capital Structure

Over the last couple of years the company has focused in dividends payments, and shares buybacks. The company "boosted its dividend by 25% and increased the share buyback plan to $12 billion".[193] Boeing dividend payout ratio was 39.57% in 2014 and expected to increase to 41.9% in 2015, while industry average was 33.29% and expected to be 32.43%. This increase makes suggests that Boeing is dividend growth stock,

[191] http://www.forbes.com/2009/06/17/boeing-book-value-markets-equities-accounting.html
[192] http://www.cnbc.com/id/102520322
[193] http://etfdailynews.com/2015/04/20/boeing-co-ba-the-best-dow-dividend-stock-of-2015/

making it a good stock investment as we can receive guaranteed cash flows (in an increasing rate) through dividend payments. Furthermore, through the end of 2014 and going forward, Boeing will continue to broaden its airline customer support center in Southern California, and its defense support in both Oklahoma City and St. Louis. [194] With this, Boeing plans to insource propulsion system design and production among other actions in order to improve business effectiveness and efficiency. Additionally, Boeing might be interest in expanding. Recently United Technologies Corp. announced that it has interest to sell or spinoff Sikorsky its helicopter unit. Sikorsky is valued at $8 Billion. Analysts predict that Boeing will be taking over Sikorsky as it "would complement its existing U.S. helicopter manufacturing business". Nevertheless, this transaction might not be possible since with the combined unit Boeing will control "more than 80% of the U.S. military helicopter", so most likely antitrust objections will prevent a possible deal.

Large Cap

Time Warner, Inc. (TWX): See the Current Holding section.

Time Warner Cable (TWC): Following what we previously assumed in our Current Holding section, TWC was finally acquired by Charter Communications. On the day that Charter confirmed the acquisition (on May 26, 2015), TWC adjusted close price jumped from $171.18 (on May 22) to $183.60. This gives a 7.255% gain in just the day of the announcement. If this merger is finally approved, the company will result in a bigger cable firm, and a stronger rival to Comcast and Altice (which recently acquired Suddenlink). [195] Thus we can expect TWC stocks to keep increasing; yet we should still watch closely for any new announcement and its movement.

Dollar Tree (DLTR): Although when the couple bought DLTR this company was a mid cap, currently this company is considered a large cap. Please see Current Holding report as of why this company will be a good investment. Nevertheless, we are selling part of the current shares to just hold 5%. This is with the objective to better diversify our portfolio.

Mid Cap

Eventide Gilead I (ETILX): The fund strategy consists primarily investing in mid-cap (50%) growth companies but not necessarily only on that category and not only based in the US (US stocks form 74%).[196] Additionally, the fund focuses in sectors of the economy that are not highly correlated with the market (e.g. healthcare). With this said, 31.6% is allocated to healthcare, followed by technology and consumer cyclical having 25% and 16.8% respectively.[197] The fund intends to provide long-term capital appreciation instead of paying dividends.[198] For this reason, we analyzed that they have consistently outperform their benchmark as well as the entire market giving us a certainty that we can maximize our future capital gains. The fund YTD returns (13.05%) exceed by 9.72% the S&P 500 returns (3.33%). Although the fund heavy weight on the biotechnology and pharmaceutical industry represents a lot of risk since the industry is "heavily dependent on clinical trials with uncertain outcomes and decisions made by the U.S. Food and Drug Administration". [199] I believe that this industry is a need and will always thrive to get new products and further growth.

Small Cap

Lord Abbett Developing Growth F (LADFX): The fund focuses on small cap companies demonstrating above-average, long-term growth potential. The fund actively manages its portfolio in order to both sticks to its investment strategy and to respond to the ongoing economic and market conditions. Depending on these factors, they overweight or underweight certain industries and sectors relative to its benchmark index.[200] Currently the two biggest industries that compose the fund are technology (35.6%) and healthcare (21.85%). Also, the majority of the allocation is based in the US stocks (95.12%).[201] I chose LADFX because of its active

---

194 The Boeing Company 2014 Annual Report
195 http://www.washingtonpost.com/business/economy/charter-expected-to-acquire-time-warner-cable-in-55-billion-deal/2015/05/25/b318ea0e-031a-11e5-bc72-f3e16bf50bb6_story.html
196 http://eventidefunds.com/wp-content/uploads/Eventide-Gilead-Fund-Fact-Sheet-03-31-2015.pdf
197 http://www.morningstar.com/funds/XNAS/ETILX/quote.html
198 https://fundresearch.fidelity.com/mutual-funds/summary/62827L658
199 http://eventidefunds.com/wp-content/uploads/Eventide-Gilead-Fund-Fact-Sheet-03-31-2015.pdf
200 https://www.lordabbett.com/content/dam/lordabbett/en/documents/legal-documents/mutual-fund/14/developing_growth_fund_summary_prospectus.pdf
201 http://www.morningstar.com/funds/XNAS/LADFX/quote.html

management style, allowing it to rapidly adapt the fund holding to the current environment. Its YTD return of 8.99% has outperformed the Russell 2000 index (4.39%), the Russell 2000 Growth Index (7.77%) and the S&P TR (3.23%).[202] I believe that in the next 12 months, small caps will continue to outperform the overall market, as their potential to growth is much higher even in the current slow pace economy.

Developing International Market

WisdomTree International Hdgd Div Gr ETF (IHDG): This ETF seeks to replicate the WisdomTree International Hedged Dividend Growth Index. The index focuses on growth stocks with constant dividend payments. The companies are located in developed countries, excluding the US and Canada. At the same time the Index "neutralizes exposure to fluctuations between the value of foreign currencies and the U.S. dollar". This minimizes our exposure to currency changes. The index has 75% allocated in Greater Europe and 24.8% allocated in Greater Asia. By country, United Kingdom, Switzerland and Germany have the highest weights (above 10% each). Although these regions are not in their best economic position, they are expected to improve (see economic assessment section). Also the index mostly invests in well-sustained companies greater than 80% are large caps; some examples are Anheuser-Busch InBev, Siemens AG, and Roche Holding AG. This guarantees the performance of the ETF and minimizes some of the current regional economic conditions. The ETF inception date was on 05/07/2014 so we don't have much data, yet its YTD return is 14.68%.[203] [204] [205] [206]

Emerging International Market

Global X China Financials ETF (CHIX): CHIX tracks a cap-weighted index of Chinese financials. The ETF is composed primarily by the following sectors: Banking Services (47.68%), Insurance (26.44%), and Real Estate Operations (21.71%). The ETF highest exposure is to the largest state-owned banks, forming approximately 1/3 of the portfolio. Additionally, more than 50% of the ETF holdings are value large-cap companies. YTD the ETF has had a return of 20.57%, outperforming the benchmark which had a return of 7.02%.[207] Additionally, ETF.com, considering efficiency, tradability, and fit, gave the fund an overall rating of 92/100. [208] I believe that China will continue to improve, now even more as the central bank has recently added more stimuli and cut the lending rate.

Real Estate

Baron Real Estate Retail (BREFX): This fund invests in real estate businesses. It targets growth potential in the long perspective. The fund largest holdings include: Hotels, Resorts, and Cruise Lines (18%), Health Care Facilities (10.9%), and Real Estate Services (8.3%).[209] The fund mainly targets US stocks holding 84.3%. Although the fund YTD return are lower than its benchmark (MSCI World NR USD) (2.97% versus 5.07% respectively), in 2014 their returns outperformed the benchmark by 11.67%. Similarly, $10,000 growth since 2010 would have been worth $27,700 today (invested in BREFX) while that of the benchmark would have been $17,100.[210] I believe that the fund current underperformance is due to the reaction of the increase of short-term mortgage rates (as explained in the asset allocation section). But, in the long term REITs will continue to improve.

Commodities

United States 12 Month Oil (USL): This fund tracks the movements of West Texas Intermediate. It used an average of 12 nearest-month crude oil futures contracts to track the light, sweet crude oil spot prices. "The fund takes a position in 12 different futures contracts, one for each upcoming month". [211] This adds the benefit of contango mitigation, less short-term volatility, and diversification by holding futures contracts of different

[202] http://www.russell.com/indexes/americas/indexes/daily-returns.page
[203] http://www.morningstar.com/etfs/ARCX/IHDG/quote.html
[204] http://www.wisdomtree.com/etfs/index-details.aspx?IndexID=137
[205] http://finance.yahoo.com/q/pr?s=IHDG+Profile
[206] http://www.wisdomtree.com/etfs/fund-details.aspx?etfid=102
[207] http://performance.morningstar.com/funds/etf/total-returns.action?t=CHIX&region=usa&culture=en-US
[208] http://www.etf.com/CHIX
[209] http://www.baronfunds.com/BaronFunds/media/Summary-Retail-Fact-Sheets/BREFX.pdf
[210] http://www.morningstar.com/funds/XNAS/BREFX/quote.html
[211] http://www.etf.com/USL

maturities.[212] YTD, the fund has a 0.97% return while the benchmark (Morningstar Long-Only Commodity TR) has a -0.98%. Although, oil prices drastically dropped and currently continue their sluggish increase, I believe that they will improve. Thus, it will be a good time to buy oil commodity fund, at a low point, and wait for it to grow in the long term.

AdvisorShares Gartman Gold/Yen ETF (GYEN): This fund invests in the gold market. It uses the Japanese Yen to buy the commodity. The fund holds "exchange-traded Japanese Yen futures, Japanese Yen forward contracts, swaps, and cash and cash equivalents and invests up to 25% of the fund's total assets in the Subsidiary" in order to achieve its investment objective. Currently the fund has had a better performance than the benchmark (Morningstar Long-Only Commodity TR). Its YTD return is 3.66% versus -0.98%.[213] Also, as of April 30th, GYEN had a one-year return of 5.67% outperforming Commodities Precious Metals return of -10.79%. [214] We are considering this security as a hedge against the volatility of currency. [215]

<u>**US Treasury**</u>

SPDR Barclays Long Term Treasury ETF (TLO): This ETF tracks the Barclays Long U.S. Treasury Index. The benchmark focuses on US Treasurys with a maturity of 10 years or more.[216] TLO holds 87% of bonds with maturity between 20 and 30 years, and 12% of bonds with maturity between 10 and 15 years. YTD, the fund has underperformed the benchmark (-1.75% versus 1.00%). Yet, its one-year return is 15.37%, exceeding that of the benckmark by 0.04%. Although interest rates are expected to rise, which affects the bond price, there are some advantages of holding Treasurys (e.g. liquidity, safety). Also, in a global market, US Tressurys (10 yr.) have a better return in comparison to other government issued debt from other developed countries like Germany, France, Sweden, Japan, among others.[217] I believe Treasurys will improve their performance as other foreigners keep buying these securities.

---

[212] http://commodityhq.com/2013/which-oil-etf-is-right-for-you-oil-vs-uso-vs-usl/
[213] http://performance.morningstar.com/funds/etf/total-returns.action?t=GYEN&region=usa&culture=en-US
[214] https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAA&url=http%3A%2F%2Fwww.advisorshares.com%2Fsystem%2Ffiles%2Ffunds%2Fpublic_docs%2FGYEN_FS_04302015.pdf&ei=d8tzVcqILIWLsAXk2IKgCA&usg=AFQjCNGRc_A9MzOIv5NyyZ5Xpi1hA-nQqw&sig2=dn7-MQ0H1rM-GllKUkiP3g&bvm=bv.95039771,d.b2w
[215] http://www.thestreet.com/story/13016625/1/investors-should-buy-gold-as-another-currency-dennis-gartman.html
[216] https://www.spdrs.com/library-content/public/ETF-TLO_20150331.pdf
[217] http://www.businessinsider.com/gary-shilling-11-reasons-to-favor-us-treasury-bonds-2015-1

Appendix

Cash Flows Statement

Private College

Results Summary:

Minimum ROR (after tax)	4.535%
Nominal ROR (before tax)	6.977%
Annual Mangement Fee	1.000%
Nominal min ROR (incl fees)	7.977%

Inflation	2.342%
Tuition cost % change	3.700%
Cost of Tuition Private College	$46,272
Current Salary	$300,000
Federal tax bracket	35.000%
Savings	10.000%

Your time period for the spring 2015 starts 4/1/15

Nominal portfolio return need to be less than 10%

Date	Client's Age	Period	Annual Savings	Retirement Income	Mortgage Debt Home	Mortgage Debt Vacation	Rent Income	College Child One	College Child Two	Total Cash Flow	Return on Cash Flow
Apr-15	39	0	1,474,400			-39,700				1,434,700	
Apr-16	40	1	19,957		5,553	-8,874	2,395			19,030	1,518,795
Apr-17	41	2	20,424		5,553	-8,874	2,451			19,554	1,607,227
Apr-18	42	3	20,903		5,553	-8,874	2,508			20,090	1,700,206
Apr-19	43	4	21,392		5,553	-8,874	2,567			20,638	1,797,949
Apr-20	44	5	21,893		5,553	-8,874	2,627			21,199	1,900,687
Apr-21	45	6	22,406		5,553	-8,874	2,689			21,773	2,008,658
Apr-22	46	7	22,931		5,553	-8,874	2,752			22,361	2,122,113
Apr-23	47	8	23,468		5,553	-8,874	2,816			22,963	2,241,315
Apr-24	48	9	24,018		5,553	-8,874	2,882			23,579	2,366,539
Apr-25	49	10	24,580		5,553	-8,874	2,950	-69,006		-44,797	2,429,066
Apr-26	50	11	25,156		5,553	-8,874	3,019	-71,559		-46,705	2,492,520
Apr-27	51	12	25,745		5,553	-8,874	3,089	-74,207		-48,693	2,556,865
Apr-28	52	13	26,348		5,553	-8,874	3,162	-76,952		-50,763	2,622,057
Apr-29	53	14	26,965		5,553	-8,874	3,236		-79,799	-52,919	2,688,050
Apr-30	54	15	27,597		5,553	-8,874	3,312		-82,752	-55,165	2,754,790
Apr-31	55	16	28,244		5,553	-8,874	3,389		-85,814	-57,502	2,822,219
Apr-32	56	17	28,905		5,553	-8,874	3,469		-88,989	-59,937	2,890,272
Apr-33	57	18	29,582		-2,332	-12,039	3,550			18,761	3,040,109
Apr-34	58	19	30,275		-2,332	-12,039	3,633			19,537	3,197,518
Apr-35	59	20	30,984		-2,332	-12,039	3,718			20,331	3,362,859
Apr-36	60	21	31,710		-2,332	-12,039	3,805			21,144	3,536,511
Apr-37	61	22	32,453		-2,332	-12,039	3,894			21,976	3,718,870
Apr-38	62	23	33,213		-2,332	-12,039	3,986			22,828	3,910,351
Apr-39	63	24	33,991		-2,332	-12,039	4,079			23,699	4,111,387
Apr-40	64	25	34,787		-2,332	-12,039	4,174			24,591	4,322,432
Apr-41	65	26	2,899	-20,768	-2,138	-11,035	4,272			-26,770	4,491,687
Apr-42	66	27		-255,050			4,372			-250,678	4,444,711
Apr-43	67	28		-261,024			4,475			-256,549	4,389,732
Apr-44	68	29		-267,138			4,580			-262,558	4,326,251
Apr-45	69	30		-273,395			4,687			-268,708	4,253,741
Apr-46	70	31		-279,799			4,797			-275,002	4,171,649
Apr-47	71	32		-286,353			4,909			-281,444	4,079,392
Apr-48	72	33		-293,060			5,024			-288,036	3,976,359
Apr-49	73	34		-299,924			5,142			-294,783	3,861,907
Apr-50	74	35		-306,950			5,262			-301,688	3,735,360
Apr-51	75	36		-314,139			5,385			-308,754	3,596,006
Apr-52	76	37		-321,498			5,511			-315,986	3,443,102
Apr-53	77	38		-329,028			5,640			-323,388	3,275,861
Apr-54	78	39		-336,735			5,773			-330,962	3,093,461
Apr-55	79	40		-344,622			5,908			-338,715	2,895,037
Apr-56	80	41		-226,732			6,046			-220,686	2,805,643
Apr-57	81	42		-232,043			6,188			-225,855	2,707,026
Apr-58	82	43		-237,478			6,333			-231,146	2,598,645
Apr-59	83	44		-243,041			6,481			-236,560	2,479,936
Apr-60	84	45		-248,734			6,633			-242,101	2,350,302
Apr-61	85	46		-254,560			6,788			-247,771	2,209,119
Apr-62	86	47		-260,522			6,947			-253,575	2,055,729
Apr-63	87	48		-266,625			7,110			-259,515	1,889,443
Apr-64	88	49		-272,870			7,277			-265,593	1,709,537
Apr-65	89	50		-279,261			7,447			-271,814	1,515,251
Apr-66	90	51		-285,803			7,621			-278,181	1,305,788
Apr-67	91	52		-292,497			7,800			-284,697	1,080,309
Apr-68	92	53		-299,348			7,983			-291,366	837,936
Apr-69	93	54		-306,360			8,170			-298,190	577,747
Apr-70	94	55		-313,536			8,361			-305,175	298,773
Apr-71	95	56		-320,880			8,557			-312,323	0

State College

Results Summary:

Minimum ROR (after tax)	4.188%
Nominal ROR (before tax)	6.442%
Annual Mangement Fee	1.000%
Nominal MIN ROR (incl fees)	7.442%

Inflation	2.342%
Tuition cost % change	2.900%
Cost of Tuition State College	$23,410
Current Salary	$300,000
Federal tax bracket	35.000%
Savings	10.000%

Your time period for the spring 2015 starts 4/1/15

Nominal portfolio return need to be less than 10%

			Annual	Retirement	Mortgage Debt			College		Total	Return on
Date	Client's Age	Period	Savings	Income	Home	Vacation	Rent Income	Child One	Child Two	Cash Flow	Cash Flow
Apr-15	39	0	1,474,400			-39,700				1,434,700	
Apr-16	40	1	19,957		5,553	-8,874	2,395			19,030	1,513,809
Apr-17	41	2	20,424		5,553	-8,874	2,451			19,554	1,596,755
Apr-18	42	3	20,903		5,553	-8,874	2,508			20,090	1,683,709
Apr-19	43	4	21,392		5,553	-8,874	2,567			20,638	1,774,854
Apr-20	44	5	21,893		5,553	-8,874	2,627			21,199	1,870,376
Apr-21	45	6	22,406		5,553	-8,874	2,689			21,773	1,970,472
Apr-22	46	7	22,931		5,553	-8,874	2,752			22,361	2,075,348
Apr-23	47	8	23,468		5,553	-8,874	2,816			22,963	2,185,218
Apr-24	48	9	24,018		5,553	-8,874	2,882			23,579	2,300,303
Apr-25	49	10	24,580		5,553	-8,874	2,950	-32,061		-7,852	2,388,778
Apr-26	50	11	25,156		5,553	-8,874	3,019	-32,990		-8,137	2,480,673
Apr-27	51	12	25,745		5,553	-8,874	3,089	-33,947		-8,434	2,576,119
Apr-28	52	13	26,348		5,553	-8,874	3,162	-34,931		-8,743	2,675,252
Apr-29	53	14	26,965		5,553	-8,874	3,236		-35,944	-9,064	2,778,216
Apr-30	54	15	27,597		5,553	-8,874	3,312		-36,987	-9,399	2,885,156
Apr-31	55	16	28,244		5,553	-8,874	3,389		-38,059	-9,748	2,996,225
Apr-32	56	17	28,905		5,553	-8,874	3,469		-39,163	-10,111	3,111,583
Apr-33	57	18	29,582		-2,332	-12,039	3,550			18,761	3,260,643
Apr-34	58	19	30,275		-2,332	-12,039	3,633			19,537	3,416,722
Apr-35	59	20	30,984		-2,332	-12,039	3,718			20,331	3,580,130
Apr-36	60	21	31,710		-2,332	-12,039	3,805			21,144	3,751,195
Apr-37	61	22	32,453		-2,332	-12,039	3,894			21,976	3,930,254
Apr-38	62	23	33,213		-2,332	-12,039	3,986			22,828	4,117,664
Apr-39	63	24	33,991		-2,332	-12,039	4,079			23,699	4,313,792
Apr-40	64	25	34,787		-2,332	-12,039	4,174			24,591	4,519,025
Apr-41	65	26	2,899	-20,768	-2,138	-11,035	4,272			-26,770	4,681,492
Apr-42	66	27		-255,050			4,372			-250,678	4,626,855
Apr-43	67	28		-261,024			4,475			-256,549	4,564,057
Apr-44	68	29		-267,138			4,580			-262,558	4,492,622
Apr-45	69	30		-273,395			4,687			-268,708	4,412,044
Apr-46	70	31		-279,799			4,797			-275,002	4,321,799
Apr-47	71	32		-286,353			4,909			-281,444	4,221,333
Apr-48	72	33		-293,060			5,024			-288,036	4,110,067
Apr-49	73	34		-299,924			5,142			-294,783	3,987,396
Apr-50	74	35		-306,950			5,262			-301,688	3,852,682
Apr-51	75	36		-314,139			5,385			-308,754	3,705,261
Apr-52	76	37		-321,498			5,511			-315,986	3,544,435
Apr-53	77	38		-329,028			5,640			-323,388	3,369,473
Apr-54	78	39		-336,735			5,773			-330,962	3,179,609
Apr-55	79	40		-344,622			5,908			-338,715	2,974,042
Apr-56	80	41		-226,732			6,046			-220,686	2,877,896
Apr-57	81	42		-232,043			6,188			-225,855	2,772,554
Apr-58	82	43		-237,478			6,333			-231,146	2,657,511
Apr-59	83	44		-243,041			6,481			-236,560	2,532,236
Apr-60	84	45		-248,734			6,633			-242,101	2,396,174
Apr-61	85	46		-254,560			6,788			-247,771	2,248,744
Apr-62	86	47		-260,522			6,947			-253,575	2,089,336
Apr-63	87	48		-266,625			7,110			-259,515	1,917,314
Apr-64	88	49		-272,870			7,277			-265,593	1,732,009
Apr-65	89	50		-279,261			7,447			-271,814	1,532,724
Apr-66	90	51		-285,803			7,621			-278,181	1,318,726
Apr-67	91	52		-292,497			7,800			-284,697	1,089,251
Apr-68	92	53		-299,348			7,983			-291,366	843,499
Apr-69	93	54		-306,360			8,170			-298,190	580,631
Apr-70	94	55		-313,536			8,361			-305,175	299,770
Apr-71	95	56		-320,880			8,557			-312,323	0

Asset Allocation and Indexes Past Performance

Sector	Benchmark	Average Return			Standard Deviation		Sharpe Ratio		Percentage	Beta to Russell		Alpha to Russell		Alpha to Barclays	
		20 year	5 year	5 year	20 year	5 year	20 year	5 year	Invested	5 year	3 year	5 year	3 year	5 year	3 year
Total Stock Market	Russell 3000	10.48%	15.69%		15.46%	13.54%	0.16	0.70		0.08	0.06				
Large Cap Equity	S&P 500 (^GSPC)	10.28%	15.36%		15.17%	13.04%	0.50	1.17	15.00%	0.96	0.98	0.09	0.09		
Mid Cap Equity	S&P 400	13.61%	17.00%		17.53%	15.53%	0.63	1.09	13.00%	1.11	1.04	0.10	0.09		
Small Cap Equity	Russell 2000	11.25%	16.57%		19.80%	17.87%	0.43	0.92	10.00%	1.24	1.20	0.09	1.20		
Total Bond Market	Barclays US Aggregate	5.94%	4.27%		3.54%	2.79%	0.93	1.51		-0.06	-0.05	0.05	0.03		
US Treasury	US Benchmark Bond - 30 yr	4.86%	3.44%		1.16%	0.61%	1.91	5.50	2.00%	0.01	0.03	0.03	0.03	0.0358	0.0350
Investment Grade Corporate	BofA Merrill Lynch U.S. Corporates - Master	6.77%	6.36%		5.36%	6.36%	0.77	1.54	10.00%	0.02	-0.02	0.06	0.05	0.0102	0.0121
High Yield Corporate	BofA High Yield	7.94%	8.94%		8.98%	6.31%	0.59	1.41	5.00%	0.36	0.29	0.07	0.05	0.0767	0.0547
Municipal Bonds (tax exception calculated in returns)	Barclays Municipal Bond	10.42%	9.79%		5.36%	4.09%	1.45	2.37	5.00%	0.02	-0.02	0.096	0.08	0.0445	0.0385
Developed International	MSCI EAFE (990300)	7.30%	11.17%		14.59%	11.98%	0.32	0.93	14.00%	0.75	0.75	0.06	0.10		
Emerging International	MSCI EM (Emerging Markets) (891800)	11.56%	7.58%		19.31%	12.14%	0.46	0.62	11.00%	0.70	0.56	0.03	0.02		
Specific Commodity	Gold	7.08%	2.81%		16.66%	18.57%	0.27	0.15	2.00%	0.15	0.21	0.15	-0.12		
Specific Commodity	Crude Oil	9.80%	-6.67%		31.81%	25.95%	0.22	-0.26	5.00%	1.12	0.95	-0.14	-0.30		
Real Estate	FTSE 100 (^FTSE)	8.45%	8.96%		13.84%	12.23%	0.42	0.73	8.00%	0.76	0.78	0.04	0.03		
Cash / Risk Free Asset	3-Month Treasury Bill	2.64%	0.07%	0.05%	2.26%	0.05%			0.00%	0.001	0.000				
									100.00%						

20 year	**Total Return =**	**9.731%**
	Portfolio Risk =	**11.80%**
	Portfolio Sharpe Ratio =	**0.60**
5 year	**Total Return =**	**10.649%**
	Portfolio Risk =	**10.22%**
	Portfolio Sharpe Ratio =	**1.03**
5 Year	**Portfolio Beta =**	**0.73**
	Portfolio Alpha Ratio =	**0.06**
3 year	**Portfolio Beta =**	**0.69**
	Portfolio Alpha Ratio =	**0.05**

Client Nominal Portfolio Require Return (inlcuding manager fee) **<10%**

Total Stock Market	38.00%
Total Bond Market	22.00%
Total International Market	25.00%
Total Commodity	7.00%
Real Estate	8.00%
Risk Free Asset	0.00%
Total	**100.00%**

Portfolio Distribution Table

Cash flow zero	**$ 1,474,400**
Settlement Date:	**5/29/15**

	% Allocated		% Allocated
Large Cap	15%	Developed	14%
Mid Cap	13%	Emerging	11%
Small Cap	10%	Real Estate	8%
Treasury	2%	Specific Comm	2%
Investment Grade	10%	Specific Comm	5%
HY bonds	5%		
Municipal Bonds	5%	Cash	0%
		Total Portfolio	100%

Equity Portfolio Format - inclusive of equity funds/ ETF

Security/ Fund	Closing Price	Number of shares	Amount Invested	% Invested	Dividend Yield	Income Generated		
Boeing Company (BA)	140.52	470	$ 66,044	4.48%	2.60%	$ 1,717		
Time Warner, Inc. (TWX)	84.48	380	$ 32,102	2.18%	1.70%	$ 546		
Time Warner Cable (TWC)	180.89	407	$ 73,622	4.99%	1.70%	$ 1,252		
Dollar Tree (DLTR)	74.99	658	$ 49,343	3.3%	0.00%	$ -		
Sum Large Cap Investments			$ 221,112	15.00%		$ 3,514		
Eventide Gilead I (ETILX)	30.18	6350	$ 191,643	13.0%	0.00%	$ -	Min Investment	100000
Sum Mid Cap Investments			$ 191,643	13.00%		$ -		
Lord Abbett Developing Growth F (LADFX)	24.86	5920	$ 147,171	9.98%	0.00%	$ -		
Sum Small Cap Investments			$ 147,171	9.98%		$ -		

Foreign Equity Portfolio - inclusive of ETF/ funds

Security/ Fund	Closing Price	Number of shares	Amount Invested	% Invested	Dividend Yield	Income Generated
WisdomTree International Hdgd Div Gr ETF (IHDG)	27.95	7380	$ 206,271	13.99%	0.80%	$ 1,650
Global X China Financials ETF (CHIX)	18.61	8710	$ 162,093	11.0%	0.84%	$ 1,362
TOTAL International Investments			$ 368,364	24.98%		$ 3,012

Real Estate and Commodities - inclusive of mutual funds

Security/ Fund	Closing Price	Number of shares	Amount Invested	% Invested	Dividend Yield	Income Generated		
Baron Real Estate Retail (BREFX)	26.69	4400	$ 117,436	7.97%	0.10%	$ 117.44	Min Investment	$ 2,000
United States 12 Month Oil (USL)	27.08	2720	$ 73,658	5.00%	0.00%	$ -		
AdvisorShares Gartman Gold/Yen ETF (GYEN)	13.6	2160	$ 29,376	2.0%	4.12%	$ 1,210.29		
TOTAL Alternative Investments			$ 220,470	14.95%		$ 1,327.73		

Fixed Income Portfolio Format - inclusive of mutual funds

Security	Quality	Coupon	Maturity	Closing Price	Par/ Shs Value	Amount Invested	Total Portfolio % of $ Invested	Bond Portfolio % of $ Invested	Yield to Maturity	Modified Duration	Bond Convexity		
Occidental Petroleum Corporation (OXY)	A/A/A2	9.25%	8/1/19	125.517	58750	$ 73,741	5.00%	22.76%	2.735%	3.500	15.703		
BlackRock US Mortgage Portfolio Investor A Shares (BMPAX)	A	3.51%	avg 5.89 years	10.500	7020	$ 73,710	5.00%	22.75%	2.030%	2.920	-36	Min Investment	$ 2,500
Morgan Stanley Inst High Yield L (MSYLX)	B	7.33%	avg 3.87 years	10.410	7070	$ 73,599	4.99%	22.72%	5.800%	3.280	47	Min Investment	$ 1,000
MainStay High Yield Municipal Bond A (MMHAX)	BB	4.96%	avg 17.7 years	12.020	6140	$ 73,803	5.01%	22.78%	3.900%	8.060	120	Min Investment	$ 25,000
SPDR Barclays Long Term Treasury ETF (TLO)	AAA	3.91%	avg 24.8 years	71.02	410	$ 29,118	1.975%	8.988%	2.49%	17.34	196		
TOTAL LT Fixed Income Portfolio						$ 323,971	21.97%		3.51%	5.60	51.01		

Cash Security	Quality	Yield	Maturity	Amount Invested	% of Portfolio
0	0 -		-		0.0%

TOTAL	**99.886822%**
TEST	**Not fully invested or overinvested**

Ratio Analysis – Corporate Bond

Occidental Petroleum Corporation (OXY)

Coupon	9.250%
Maturity	1/8/19
YTM	2.731%
Call Feature	Putable
Debt Type	Sr Unsecured
Credit Rating S&P	A
Credit Rating Moody's	A2
Credit Rating Fitch	A
Credit Spread (TRSY)	274.299

Industry: Exploration and Production
Mkt Share: 2.09% (Exxon Mobil Corp 5.99% - Industry median 3%)

Note: Although they opperate in more industries, their market share is very small in comparison to the entire market

Cusip	674599BE
Mod Duration	3.505
Convexity	0.154

Data as of May/28

Source : FactSet Fundamentals	COMP MRQ ConocoPhillips	5 Yr AVG	MRQ Mar '15	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10
Profitability								
Gross Margin (%)	17.45	45.76	35.71	42.17	46.17	47.46	53.07	49.98
SG&A to Sales (%)	1.60	7.33	8.69	7.75	7.36	6.63	6.36	7.20
Operating Margin (%)	12.12	35.65	24.26	31.58	35.74	38.02	44.18	40.11
Pretax Margin (%)	11.98	24.88	-7.92	6.31	37.96	30.57	43.69	38.64
Net Margin (%)	8.77	13.93	-10.62	-0.74	24.16	19.14	27.69	23.96
Return on Assets (%)	3.40	5.74	-2.84	-0.23	8.84	7.45	11.79	9.44
Return on Equity (%)	7.67	9.16	-4.52	-0.37	14.21	11.92	18.91	14.82
Return on Total Capital (%)	5.37	7.93	-3.84	-0.31	12.10	10.15	16.35	13.14
Return on Invested Capital (%)	5.44	7.96	-3.87	-0.31	12.17	10.22	16.35	13.18
Liquidity								
Current Ratio	1.13	1.49	1.51	1.68	1.34	1.3	1.45	1.67
Quick Ratio	1.00	1.35	1.35	1.56	1.2	1.12	1.32	1.54
Credit Analysis								
EBIT/Interest Expense (Int. Coverage)	3.31	52.62	45.78	23.83	74.07	70.69	35.49	65.84
EBITDA/Interest Expense	11.97	98.70	92	134.87	119.38	105.39	47.54	93.03
Fixed-charge Coverage Ratio	3.31	47.22	13.41	23.83	74.07	70.69	35.49	65.84
CFO/Interest Expense	10.51	94.14	102.7	143.74	109.55	87.02	41.21	80.59
FCF/Total Debt (x)	-0.19	0.50	0.09	0.31	0.56	0.14	0.81	1.06
CFO/Total Debt (x)	0.55	1.70	1.31	1.62	1.86	1.48	2.09	1.83
LT Debt/Total Assets	45.87	17.09	17.97	19.56	16.09	17.55	15.61	15.73
Total Debt/Total Assets	20.46	11.06	12.81	12.15	9.99	11.87	9.78	9.75
Net Debt/Total Equity	40.79	6.34	4.16	-2.77	8.22	15.07	5.56	7.8
Total Debt/Total Equity	46.27	17.68	20.02	19.56	16.09	19.05	15.61	15.73
Net Debt/Total Capital	27.89	5.41	3.47	-2.32	7.08	12.66	4.81	6.74
Total Debt/Total Capital	31.63	15.30	16.68	16.36	13.86	16 -		13.59

Additional Information from Factset	2015	2016	2017	2018	2019
Debt Due	0	1450	1250	500	116
FCF/ Sum of 5 years debt	9.58	[redacted]			

Credit Peer Analysis - LTM 2014	CNOOC Limited	EOG Resources, Inc.	Devon Energy Corporation (DVN)	Apache Corporation (APA)	E. I. du Pont de Nemours and Company (DD)
Interest Coverage (EBIT)	45.79	10.60	4.21	-18.24	10.48
Fixed Chg Coverage	45.79	10.60	4.21	-18.24	10.20
CFO/Int Exp	179.10	28.25	13.43	42.35	11.93
Total Debt/EBITDA	0.62	1.08	2.03	1.49	1.77
Net Debt/EBITDA	-0.19	0.85	1.42	1.46	1.13
LT Debt/EBITDA	0.37	1.05	1.78	1.17	1.49
Total Debt/Total Equity	38.61	40.92	65.28	57.86	81.11
Total Debt/Total Capital	27.52	28.71	39.50	36.65	44.79
Total Debt/Total Assets	16.68	20.24	25.91	25.23	22.49

Occidental Petroleum Corporation (OXY)

Segment Growth and Distribution

Sales	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09
Oil & Gas	13887.00	19,132.0	18,906.0	18,419.0	14,276.0	11,598.0
Chemical	4817.00	4,673.0	4,580.0	4,815.0	4,016.0	3,225.0
Midstream & Marketing	1373.00	1,538.0	1,399.0	1,447.0	1,471.0	1,016.0
Corporate & Eliminations	-765.00	-888.0	-713.0	-742.0	-718.0	-436.0
Historical Segments	--	--	--	--	--	--
Eliminations	--	--	--	--	--	--
Total	19312.00	24,455.0	24,172.0	23,939.0	19,045.0	15,403.0

Percent of Total (%)	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09
Oil & Gas	71.91	78.2	78.2	76.9	75.0	75.3
Chemical	24.94	19.1	18.9	20.1	21.1	20.9
Midstream & Marketing	7.11	6.3	5.8	6.0	7.7	6.6
Corporate & Eliminations	-3.96	-3.6	-2.9	-3.1	-3.8	-2.8
Historical Segments	--	--	--	--	--	--
Eliminations	--	--	--	--	--	--
Total	100.00	100.0	100.0	100.0	100.0	100.0

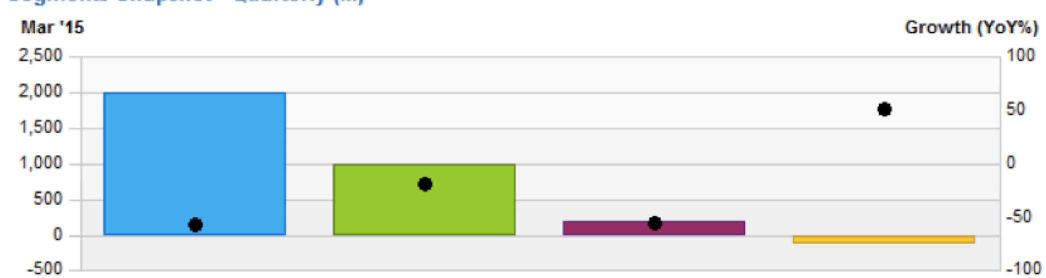
Growth (%)	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09
Oil & Gas	-27.4	1.2	2.6	29.0	23.1	-36.2
Chemical	3.1	2.0	-4.9	19.9	24.5	-36.9
Midstream & Marketing	-10.7	9.9	-3.3	-1.6	44.8	-36.4
Corporate & Eliminations	13.9	-24.5	3.9	-3.3	-64.7	35.9
Historical Segments	--	--	--	--	--	--
Eliminations	--	--	--	--	--	--
Total	-21.0	1.2	1.0	25.7	23.6	-36.4

Operating Income	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09
Oil & Gas	428.00	7,894.0	7,095.0	10,241.0	7,151.0	4,735.0
Chemical	420.00	743.0	720.0	861.0	438.0	389.0
Midstream & Marketing	2578.00	1,573.0	439.0	448.0	472.0	235.0
Corporate & Eliminations	-1871.00	-533.0	-501.0	--	-497.0	-514.0
Historical Segments	--	--	--	-709.0	--	--
Eliminations	--	--	--	-709.0	--	--
Total	1555.00	9,677.0	7,753.0	10,841.0	7,564.0	4,845.0

Percent of Total (%)	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09
Oil & Gas	27.52	81.6	91.5	94.5	94.5	97.7
Chemical	27.01	7.7	9.3	7.9	5.8	8.0
Midstream & Marketing	165.79	16.3	5.7	4.1	6.2	4.9
Corporate & Eliminations	-120.32	-5.5	-6.5	--	-6.6	-10.6
Historical Segments	--	--	--	-6.5	--	--
Eliminations	--	--	--	-6.5	--	--
Total	100.00	100.0	100.0	100.0	100.0	100.0

Growth (%)	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09
Oil & Gas	-94.6	11.3	-30.7	43.2	51.0	-55.5
Chemical	-43.5	3.2	-16.4	96.6	12.6	-41.9
Midstream & Marketing	63.9	258.3	-2.0	-5.1	100.9	-54.8
Corporate & Eliminations	-251.0	-6.4	--	--	3.3	-38.2
Historical Segments	--	--	--	--	--	--
Eliminations	--	--	--	--	--	--
Total	-83.9	24.8	-28.5	43.3	56.1	-57.8

Segments Snapshot - Quarterly (M)



	Mar '15	YoY %	% of Sales	Jun '15E	YoY %	3Y Trend
Sales	3,089	-49.3	100.0	3,703	-41.0	
Oil and Gas	2,009	-57.0	65.0	2,070	-56.9	
Chemical	1,000	-18.0	32.4	1,270	2.3	
Midstream, Marketing and Other	197	-54.7	6.4	150	-71.7	
Eliminations	-117	51.9	-3.8	-	-	

Duration and Convexity Table

674599BE Occidental Petroleum Corporation 9.25% 01-AUG-2019Corporate Bond/Note

Coupon	9.25%		If yield increases by	0.75%	put in your forecast for next 12 months --> us economy in compare to the world	
Maturity	8/1/19					
YTM (semi-annual)	2.735%			Dollars	% change	
Face Value	$ 100	28-May	Modified Dur predicts	-3.295	-2.62%	
Price	125.517	125.513	Convexity adjustment	0.000	0.00%	
Settlement	5/29/15	Factset	Predicted price change	-3.294	-2.62%	
Macauley	3.548		Actual new price	122.198		
Modified	3.500		Predicted new price	122.223		
Convexity	15.703		Estimation error	-0.025	-0.020%	
					as close to 0 as possible	

Time (semi-annual)	Period	Cash Flow	PV of Cash Flow	Duration	Convexity
0.344444444	0.17	4.625	4.60	0.793	2.07
1.344444444	0.67	4.625	4.54	3.053	13.93
2.344444444	1.17	4.625	4.48	5.252	34.19
3.344444444	1.67	4.625	4.42	7.391	62.49
4.344444444	2.17	4.625	4.36	9.471	98.52
5.344444444	2.67	4.625	4.30	11.494	141.93
6.344444444	3.17	4.625	4.24	13.460	192.42
7.344444444	3.67	4.63	4.19	15.372	249.66
8.344444444	4.17	104.63	93.41	389.746	7088.71
		Total	128.55	456.030	7883.93
		Accr Interest	3.0319444		
		Price	125.517		

Excel Calculation (Check)	
Macauley	3.548
Modified	3.500

Checks:

total (PV) should equal price of the bond

Modified Duration is less than Macauley D. because on a PV basis takes shorter to recover investment

Ratio Analysis – Domestic Stock

Boeing Company

BA 097023105 2108601 NYSE Common stock

Ratios - Annual

Source : FactSet Fundamentals

	5 Yr AVG	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09	Dec '08	Dec '07	Dec '06	Dec '05
	--	365 Days	365 Days	366 Days	365 Days	365 Days	365 Days	366 Days	365 Days	365 Days	365 Days
Profitability (%)											
Gross Margin	17.08	15.44	15.50	16.09	18.72	19.63	17.45	17.70	20.00	18.60	16.40
SG&A to Sales	9.39	7.51	8.11	8.59	10.66	12.08	14.45	11.33	11.31	12.07	10.18
Operating Margin	7.69	7.93	7.39	7.50	8.06	7.55	3.00	6.37	8.69	6.53	4.67
Pretax Margin	7.43	7.86	7.19	7.23	7.85	7.01	2.54	6.48	9.02	5.19	5.14
Net Margin	5.41	5.99	5.29	4.77	5.84	5.15	1.96	4.36	6.11	3.59	4.67
Return on Assets	5.16	5.67	5.04	4.61	5.40	5.07	2.31	4.71	7.33	3.94	4.49
Return on Equity	87.29	46.22	44.15	83.03	127.72	135.31	320.14	68.85	59.06	27.93	22.93
Return on Common Equity	87.29	46.22	44.15	83.03	127.72	135.31	320.14	68.85	59.06	27.93	22.93
Return on Total Capital	24.00	25.69	22.39	24.22	25.82	21.90	12.55	22.65	25.77	12.23	11.32
Return on Invested Capital	26.22	27.37	24.24	27.46	28.89	23.17	13.35	24.00	27.65	13.17	11.98
Cash Flow Return on Invested Capital	38.08	44.57	43.29	52.92	28.97	20.65	56.02	-3.63	65.30	44.78	32.74
Valuation (x)											
Price/Sales	0.91	1.06	1.21	0.70	0.80	0.76	0.57	0.51	1.02	1.14	1.03
Price/Earnings	16.73	17.61	22.88	14.73	13.77	14.67	28.93	11.72	16.64	31.28	22.02
Price/Book Value	12.01	10.60	6.86	9.71	15.54	17.35	19.23	--	7.46	14.79	5.08
Price/Tangible Book Value		135.69	15.05	--	--	--	--	--	17.54	--	6.80
Price/Cash Flow	12.29	10.81	12.81	7.64	13.73	16.45	6.89	--	7.05	9.33	8.06
Price/Free Cash Flow	18.41	14.46	17.23	9.89	23.91	26.59	8.74	--	8.60	12.03	10.34
Dividend Yield (%)	2.17	2.25	1.42	2.34	2.29	2.57	3.10	3.75	1.60	1.35	1.42
Enterprise Value/EBIT	11.29	12.22	15.09	8.80	10.07	10.29	20.88	9.09	11.45	18.22	23.79
Enterprise Value/EBITDA	8.70	9.66	11.72	6.79	7.75	7.59	11.51	6.56	9.11	13.16	14.99
Enterprise Value/Sales	0.87	0.97	1.12	0.66	0.81	0.78	0.63	0.58	1.00	1.19	1.11
Total Debt/Enterprise Value	0.17	0.10	0.10	0.19	0.22	0.25	0.30	0.21	0.12	0.13	0.18
Per Share											
Sales per Share	104.20	123.20	112.85	107.29	91.27	86.40	95.71	83.55	85.94	78.12	68.31
EBIT (Operating Income) per Share	8.01	9.77	8.34	8.05	7.36	6.53	2.87	5.32	7.47	5.10	3.19
EPS (recurring)	5.75	7.54	5.99	5.16	5.41	4.64	1.98	3.63	5.30	3.34	3.19
EPS (diluted)	5.65	7.38	5.97	5.11	5.33	4.45	1.87	3.64	5.26	2.84	3.19
Dividends per Share	2.00	2.92	1.94	1.76	1.68	1.68	1.68	1.60	1.40	1.20	1.00
Dividend Payout Ratio (%)	35.16	39.57	32.52	34.41	31.54	37.77	89.78	43.95	26.64	42.25	31.35
Book Value per Share	9.68	12.26	19.90	7.76	4.72	3.76	2.82	-1.78	11.72	6.01	13.82
Tangible Book Value per Share	-1.20	0.96	9.07	-3.02	-6.01	-7.00	-6.70	-10.50	4.99	-0.01	10.32
Cash Flow per Share	8.37	12.02	10.66	9.86	5.34	3.97	7.85	-0.55	12.41	9.52	8.72
Free Cash Flow per Share	6.01	8.99	7.92	7.62	3.07	2.45	6.19	-2.85	10.17	7.39	6.79
Diluted Shares Outstanding	752.64	736.70	767.60	761.50	753.10	744.30	713.40	729.00	772.50	787.60	802.90
Total Shares Outstanding	737.94	706.73	747.38	755.63	744.70	735.26	755.85	726.60	768.04	788.74	800.17
Liquidity											
Current Ratio	1.22	1.20	1.26	1.27	1.21	1.15	1.07	0.84	0.86	0.77	0.78
Quick Ratio	0.42	0.37	0.43	0.43	0.43	0.46	0.56	0.33	0.56	0.50	0.50
Cash Ratio	0.28	0.23	0.30	0.30	0.27	0.30	0.34	0.11	0.30	0.22	0.21
Cash & ST Inv/Current Assets (%)	22.99	19.31	23.45	23.66	22.63	25.92	31.82	12.63	34.12	27.79	27.16
CFO/Current Liabilities (%)	13.26	15.62	15.89	16.69	9.75	8.34	17.04	-1.30	30.39	25.25	24.83
Coverage (x)											
Net Debt/EBITDA	-0.21	-0.44	-0.67	-0.40	0.15	0.29	0.46	0.79	-0.15	0.57	1.17
Net Debt/(EBITDA-Capex)	-0.29	-0.59	-0.92	-0.51	0.20	0.35	0.67	1.20	-0.20	0.81	1.89
Total Debt/EBITDA	1.42	1.00	1.18	1.31	1.72	1.89	3.48	1.40	1.13	1.71	2.64
EBIT/Interest Expense (Int. Coverage)	10.95	16.54	11.68	9.80	9.99	6.71	3.39	7.28	9.49	5.72	3.48
EBITDA/Interest Expense	16.77	27.33	17.89	14.41	14.46	9.74	7.22	12.37	14.78	9.38	6.23
Fixed-charge Coverage Ratio	10.95	16.54	11.68	9.80	9.99	6.71	3.39	7.28	9.49	5.72	3.48
CFO/Interest Expense	14.08	26.60	17.74	13.63	8.08	4.37	10.90	-0.92	19.52	12.65	10.72
Cash Dividend Coverage Ratio	4.67	3.76	4.84	5.01	4.95	4.78	3.03	3.78	6.30	5.56	7.17
LT Debt/EBITDA	1.23	0.89	0.98	1.13	1.39	1.74	3.29	1.29	1.03	1.47	2.35
Net Debt/FFO	-0.25	-0.51	-0.78	-0.48	0.18	0.32	0.46	0.94	-0.16	0.59	0.81
LT Debt/FFO	1.41	1.02	1.14	1.35	1.63	1.92	3.31	1.54	1.08	1.54	1.62
FCF/Total Debt	0.45	0.73	0.62	0.56	0.19	0.15	0.34	-0.28	0.96	0.61	0.51
CFO/Total Debt	0.62	0.98	0.84	0.72	0.33	0.24	0.43	-0.05	1.17	0.79	0.65
Leverage (%)											
LT Debt/Total Equity	200.19	93.95	54.27	152.94	285.01	414.79	574.11	--	82.80	172.12	86.25
LT Debt/Total Capital	54.49	45.90	32.79	55.13	63.06	75.54	81.17	111.80	43.29	57.13	43.78
LT Debt/Total Assets	11.25	8.21	8.71	10.09	12.52	16.73	19.69	12.93	12.64	15.75	15.88
Total Debt/Total Assets	12.99	9.14	10.51	11.71	15.47	18.12	20.83	13.97	13.93	18.42	17.86
Net Debt/Total Equity	-7.41	-46.42	-37.08	-53.67	31.27	68.84	79.93	--	-12.12	66.51	43.05
Total Debt/Equity	229.72	104.67	65.50	177.42	351.95	449.06	607.33	--	91.26	201.27	97.00
Net Debt/Total Capital	-8.99	-22.68	-22.40	-19.35	6.92	12.54	11.30	68.08	-6.34	22.08	21.85
Total Debt/Total Capital	62.87	51.14	39.58	63.95	77.87	81.79	85.86	120.81	47.71	66.81	49.24

Boeing Company

BA 097023105 2108601 NYSE Common stock

Sales

--		Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09	Dec '08	Dec '07
	--	365 Days	366 Days	365 Days	365 Days	365 Days	366 Days	365 Days	365 Days
Commercial Airplanes		59990	52981	49127	36171	31834	34051	28263	33386
Boeing Military Aircraft		13511	15936	16384	14947	14238	14057	13492	13685
Global Services & Support		9367	8749	8639	8356	8250	8727	7217	6699
Network & Space Systems		8003	8512	7584	8673	9455	10877	11338	11696
Boeing Capital		416	408	441	532	639	660	703	815
Unallocated Items, Eliminations & Other		-525	--	--	--	--	--	--	--
Historical Segments		--	37	-477	56	-110	-91	-104	106
Unallocated Items & Eliminations		--	-65	-610	-82	-248	-256	-671	-174
Other Segment		--	102	133	138	138	165	567	280
Aircraft & Weapon Systems		--	--	--	--	--	--	--	--
Launch & Orbital Systems		--	--	--	--	--	--	--	--
Total		90762	86623	81698	68735	64306	68281	60909	66387

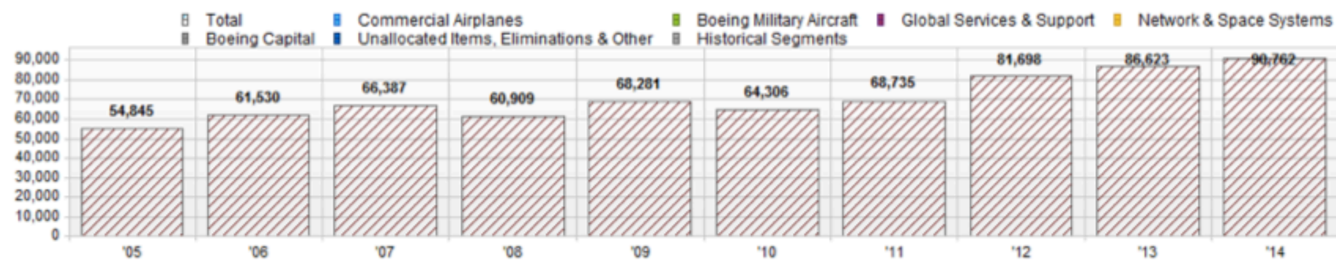
Percent of Total (%)

	--	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09	Dec '08	Dec '07
Commercial Airplanes		66.1	61.2	60.1	52.6	49.5	49.9	46.4	50.3
Boeing Military Aircraft		14.9	18.4	20.1	21.7	22.1	20.6	22.2	20.6
Global Services & Support		10.3	10.1	10.6	12.2	12.8	12.8	11.8	10.1
Network & Space Systems		8.8	9.8	9.3	12.6	14.7	15.9	18.6	17.6
Boeing Capital		0.5	0.5	0.5	0.8	1.0	1.0	1.2	1.2
Unallocated Items, Eliminations & Other		-0.6	--	--	--	--	--	--	--
Historical Segments		--	0.0	-0.6	0.1	-0.2	-0.1	-0.2	0.2
Unallocated Items & Eliminations		--	-0.1	-0.7	-0.1	-0.4	-0.4	-1.1	-0.3
Other Segment		--	0.1	0.2	0.2	0.2	0.2	0.9	0.4
Aircraft & Weapon Systems		--	--	--	--	--	--	--	--
Launch & Orbital Systems		--	--	--	--	--	--	--	--
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

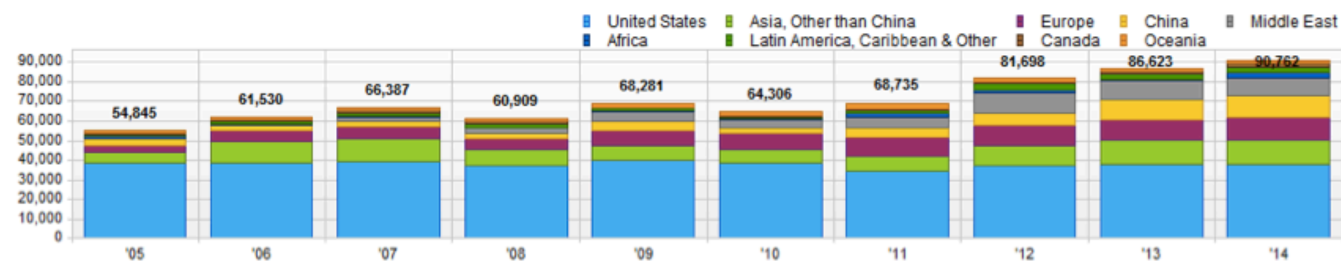
Growth (%)

	--	Dec '14	Dec '13	Dec '12	Dec '11	Dec '10	Dec '09	Dec '08	Dec '07
Commercial Airplanes		13.2	7.8	35.8	13.6	-6.5	20.5	-15.3	17.3
Boeing Military Aircraft		-15.2	-2.7	9.6	5.0	1.3	4.2	-1.4	-4.6
Global Services & Support		7.1	1.3	3.4	1.3	-5.5	20.9	7.7	9.7
Network & Space Systems		-6.0	12.2	-12.6	-8.3	-13.1	-4.1	-3.1	-2.4
Boeing Capital		2.0	-7.5	-17.1	-16.7	-3.2	-6.1	-13.7	-20.5
Unallocated Items, Eliminations & Other		--	--	--	--	--	--	--	--
Historical Segments		--	--	-951.8	--	-20.9	12.5	-198.1	--
Unallocated Items & Eliminations		--	89.3	-643.9	66.9	3.1	61.8	-285.6	75.1
Other Segment		--	-23.3	-3.6	0.0	-16.4	-70.9	102.5	-6.4
Aircraft & Weapon Systems		--	--	--	--	--	--	--	--
Launch & Orbital Systems		--	--	--	--	--	--	--	--
Total		4.8	6.0	18.9	6.9	-5.8	12.1	-8.3	7.9

Business Segments



Geographic Segments



Mutual Funds / ETFs

Bond Mutual Funds

BlackRock US Mortgage Portfolio Investor A Shares (BMPAX)				
	2012	2013	2014	YTD 2015
Total Return	7.91	-0.79	7.57	1.31
Benchmark Return (Barclays US Agg Bond TR USD)	4.21	-2.02	5.97	1.24
Category Return	3.67	0.45	1.07	0.93
Expense Ratio				0.93%
Dividend Yield				2.03%
Tracking Error (ETF)				
Bid/Ask Spread (ETF)				

	3 year	5 year	
Total Return	3.84	5.5	
Standard Deviation	2.74	2.54	
Sharpe Ratio	1.37	2.1	
Alpha	1.69	2.44	Barclays US Agg Bond TR USD
Alpha (best fit)	1.19	-	Barclays US MBS TR USD

http://performance.morningstar.com/fund/ratings-risk.action?t=BMPAX&region=usa&culture=en-US
https://fundresearch.fidelity.com/mutual-funds/performance-and-risk/561656505

Morgan Stanley Inst High Yield L (MSYLX)				
	2012	2013	2014	YTD 2015
Total Return	-	12.56	0.61	4.85
Benchmark Return (Barclays US Agg Bond TR USD)	4.21	-2.02	5.97	1.24
Category Return	-	6.90	1.11	3.44
Expense Ratio				1.35
Dividend Yield				5.60%
Tracking Error (ETF)				
Bid/Ask Spread (ETF)				

	3 year	5 year	
Total Return	9.82	-	
Standard Deviation	4.63	-	
Sharpe Ratio	2.04	-	
Alpha	8.86	-	Barclays US Agg Bond TR USD
Alpha (best fit)	2.24	-	BofAML US HY Master II TR USD

http://www.morningstar.com/funds/XNAS/MSYLX/quote.html
Factset - Morgan Stanley Inst Fd Tr High Yield Ptf Cl L (MSYLX) - Corporate Actions

MainStay High Yield Municipal Bond A (MMHAX)				
	2012	2013	2014	YTD 2015
Total Return	16.85	–5.87	17.50	1.75
Benchmark Return (Barclays Municipal Bond Index)	6.78	–2.55	9.05	0.48
Category Return	3.02	0.12	3.65	1.14
Expense Ratio				0.9
Dividend Yield				4.23%
Tracking Error (ETF)				
Bid/Ask Spread (ETF)				

	3 year	5 year
Total Return	6.85	8.68
Standard Deviation	6.01	5.8
Sharpe Ratio	1.13	1.46
Alpha	1.5	2.1

http://www.nylinvestments.com/polos/MSMHY05-041553864.pdf
http://performance.morningstar.com/fund/ratings-risk.action?t=MMHAX&region=usa&culture=en-US
http://money.usnews.com/funds/mutual-funds/high-yield-muni/mainstay-high-yield-municipal-bond-fund/mmhax
http://quicken.intuit.com/investing/mutual-funds/MMHAX/MainStay-High-Yield-Municipal-Bond-Fund-Class-A

Equity Mutual Funds/ ETFs

iShares S&P Mid-Cap 400 Growth (IJK)	2012	2013	2014	YTD 2015
Total Return	18.31	53.25	18.08	13.05
Benchmark Return (S&P 500 TR)	16.00	32.39	13.69	3.23
Category Return	14.07	34.93	7.00	6.38
Expense Ratio				1.30%
Dividend Yield				0.00%
Tracking Error (ETF)				
Bid/Ask Spread (ETF)				

	3 year	5 year	
Total Return	31.96	24.07	
Standard Deviation	11.91	17.64	
Sharpe Ratio	2.41	1.32	
Alpha	13.26	3.29	S&P 500 TR
Alpha (best fit)	13.22	-	Russell 2000 Growth TR USD

http://performance.morningstar.com/fund/ratings-risk.action?t=ETILX&region=usa&culture=en-US

Lord Abbett Developing Growth F (LADFX)	2012	2013	2014	YTD 2015
Total Return	10.63	57.59	3.45	8.99
Benchmark Return (S&P 500 TR)	16.00	32.39	13.69	3.23
Category Return	13.15	40.91	2.44	5.98
Expense Ratio				0.83%
Dividend Yield				0.00%
Tracking Error (ETF)				
Bid/Ask Spread (ETF)				

	3 year	5 year	
Total Return	23.89	20.39	
Standard Deviation	15.1	17.85	
Sharpe Ratio	1.5	1.13	
Alpha	2.68	1.22	S&P 500 TR
Alpha (best fit)	1.52	-	Morningstar Small Growth TR USD

http://performance.morningstar.com/fund/ratings-risk.action?t=LADFX&region=usa&culture=en-US

WisdomTree International Hdgd Div Gr ETF (IHDG)	2012	2013	Since Inception	YTD 2015
Total Return	-	-	14.79%	13.31%
Benchmark Return (WisdomTree International Hedg	-	-	15.52%	13.51%
Category Return				
Expense Ratio				0.58%
Dividend Yield				0.80%
Tracking Error (ETF)			-0.73	-0.20
Bid/Ask/ Spread (ETF)				0.11%

	3 year	5 year
Total Return	-	-
Standard Deviation	-	-
Sharpe Ratio	-	-
Alpha	-	-

http://www.morningstar.com/etfs/ARCX/IHDG/quote.html
http://www.wisdomtree.com/resource-library/pdf/materials/IHDG/WisdomTree-IHDG-1748.pdf
http://www.wisdomtree.com/etfs/fund-details.aspx?etfid=102

Global X China Financials ETF (CHIX)				
	2012	2013	2014	YTD 2015
Total Return	32.55%	-0.33%	18.81%	20.57%
Benchmark Return (MSCI ACWI Ex USA NR USD)	16.83%	15%	-3.87%	7.02%
Category Return				
Expense Ratio				0.65%
Dividend Yield				0.84%
Tracking Error (ETF)				1.47
Bid/Ask/ Spread (ETF)				0.22%

	3 year	5 year
Total Return	22.33	9.29
Standard Deviation	22.15	28.22
Sharpe Ratio	1.02	0.45
Alpha	10.95	2.2

https://screener.fidelity.com/ftgw/etf/goto/snapshot/keyStatistics.jhtml?symbols=CHIX
http://www.morningstar.com/etfs/ARCX/CHIX/quote.html
http://www.globalxfunds.com/CHIX

Real Estate Mutual Fund

Baron Real Estate Retail (BREFX)				
	2012	2013	2014	YTD 2015
Total Return	42.60	27.12	16.61	2.97
Benchmark Return (S&P 500 TR)	15.83	26.68	4.94	5.07
Category Return	17.60	1.55	28.03	-1.19
Expense Ratio				1.32%
Dividend Yield				0.10%
Tracking Error (ETF)				
Bid/Ask Spread (ETF)				

	3 year	5 year	
Total Return	24.5	21.05	
Standard Deviation	11.27	16	
Sharpe Ratio	2.01	1.28	
Alpha	8.52	8.33	MSCI ACWI NR USD
Alpha (best fit)	1.19	-	Morningstar Mid Core TR USD

http://performance.morningstar.com/fund/ratings-risk.action?t=BREFX&region=usa&culture=en-US

Commodities ETFs

United States 12 Month Oil (USL)

	2012	2013	2014	YTD 2015
Total Return	-8.76	8.09	-37.45	0.97
Benchmark Return (Morningstar Long-Only Commodity TR)	-7.91	3.85	-35.04	-2.97
Category Return				
Expense Ratio				0.92%
Dividend Yield				0.00%
Tracking Error (ETF)				-0.13%
Bid/Ask Spread (ETF)				0.14%

	3 year	5 year	
Total Return	-10.73	23.6	
Standard Deviation	22.4	-6.02	
Sharpe Ratio	-0.4	-0.15	
Alpha	-1.14	-3.96	Morningstar Long-Only Commodity TR
Alpha (best fit)	-0.87	-	Morningstar Energy Commodity TR

http://www.etf.com/USL
http://www.morningstar.com/etfs/ARCX/USL/quote.html

AdvisorShares Gartman Gold/Yen ETF (GYEN)

	2012	2013	2014	YTD 2015
Total Return	-	-	-	3.66
Benchmark Return (Morningstar Long-Only Commodity TR)	3.66	-3.75	-24.39	-0.98
Category Return				
Expense Ratio				0.80%
Dividend Yield				4.12%
Tracking Error (ETF)				14.64
Bid/Ask Spread (ETF)				0.14%

	3 year	5 year
Total Return	-	-
Standard Deviation	-	-
Sharpe Ratio	-	-
Alpha	-	-
Alpha (best fit)	-	-

http://www.etf.com/GYEN
http://performance.morningstar.com/funds/etf/total-returns.action?t=GYEN&region=usa&culture=en-US

As of Date: 4/30/2015

	1 Month	3 Month	6 Month	1 Year	Since Inception
AdvisorShares Gartman Gold/Yen ETF (NAV)	-0.54	-6.42	6.67	5.67	4.65
AdvisorShares Gartman Gold/Yen ETF (Market)	-0.54	-6.72	7.23	6.05	4.69
Gold London PM Fixing PR USD	-0.57	-6.35	1.37	-8.40	-6.59
S&P GSCI Gold Spot	-0.07	-7.57	0.92	-8.76	-6.92
Commodities Precious Metals	-0.26	-8.19	-0.46	-10.79	-8.81

US Treasury ETF

SPDR Barclays Long Term Treasury ETF (TLO)

	2012	2013	2014	YTD 2015
Total Return	2.86	-12.26	25.31	-1.75
Benchmark Return (Barclays US Agg Bond TR USD)	4.21	-2.02	5.97	1.00
Category Return				
Expense Ratio				0.10%
Dividend Yield				2.49%
Tracking Error (ETF)				0.04%
Bid/Ask Spread (ETF)				0.14%

	3 year	5 year	
Total Return	1.89	7.91	
Standard Deviation	10.46	12.18	
Sharpe Ratio	0.22	0.68	
Alpha	-4.87	-5.16	Barclays US Agg Bond TR USD
Alpha (best fit)	-0.13	-	Barclays US Treasury Long TR USD

http://www.morningstar.com/etfs/ARCX/TLO/quote.html
http://www.etf.com/TLO
https://www.spdrs.com/product/fund.seam?ticker=tlo

Mutual Funds / ETFs Additional Information

BlackRock US Mortgage Portfolio Investor A Shares (BMPAX):

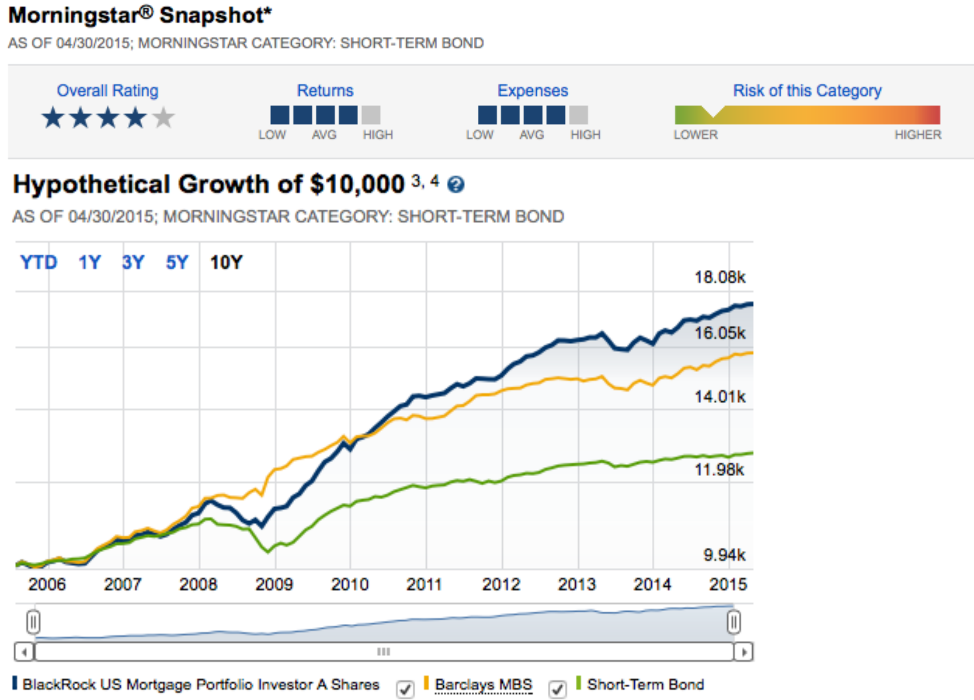


Figure 34: BMPAX $10,000 Growth since 2006 [218]

Morgan Stanley Inst High Yield L (MSYLX):

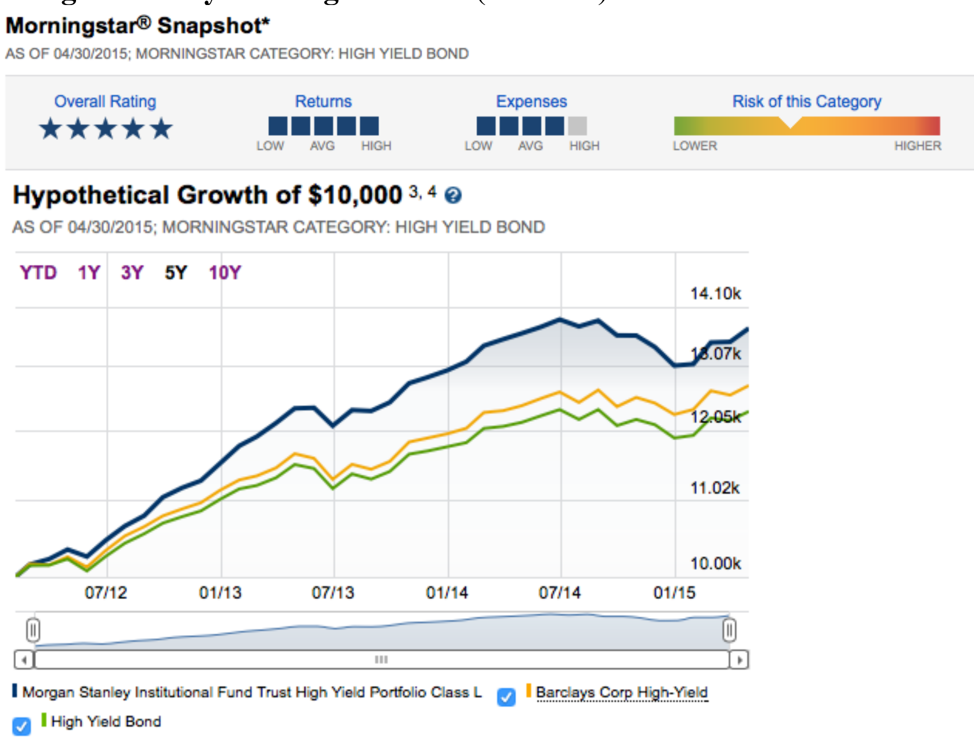


Figure 35: MSYLX $10,000 Growth since 2012 [219]

[218] https://fundresearch.fidelity.com/mutual-funds/summary/561656505?type=o-NavBar
[219] https://fundresearch.fidelity.com/mutual-funds/summary/617440227?type=o-NavBar

MainStay High Yield Municipal Bond A (MMHAX):

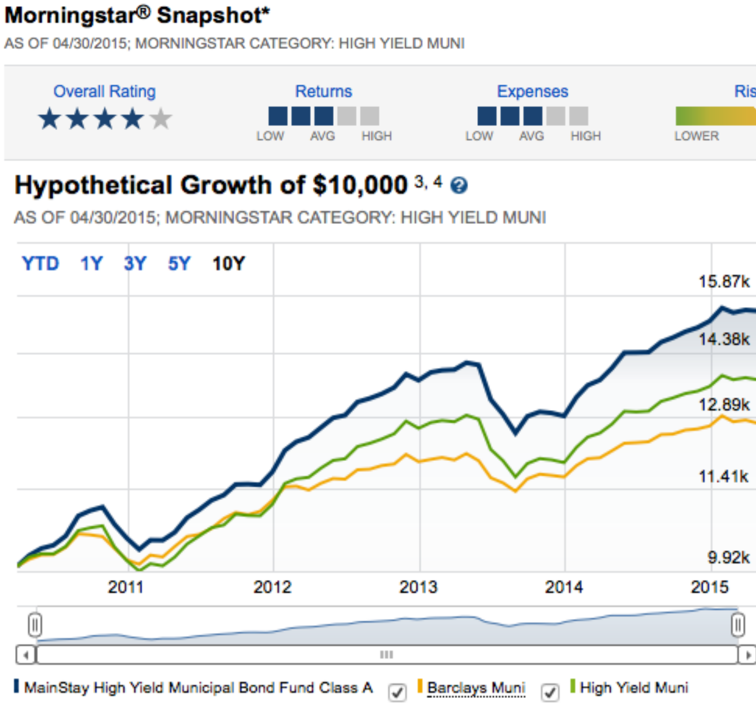


Figure 36: MMHAX $10,000 Growth since 2011 [220]

Eventide Gilead Class I (ETILX):

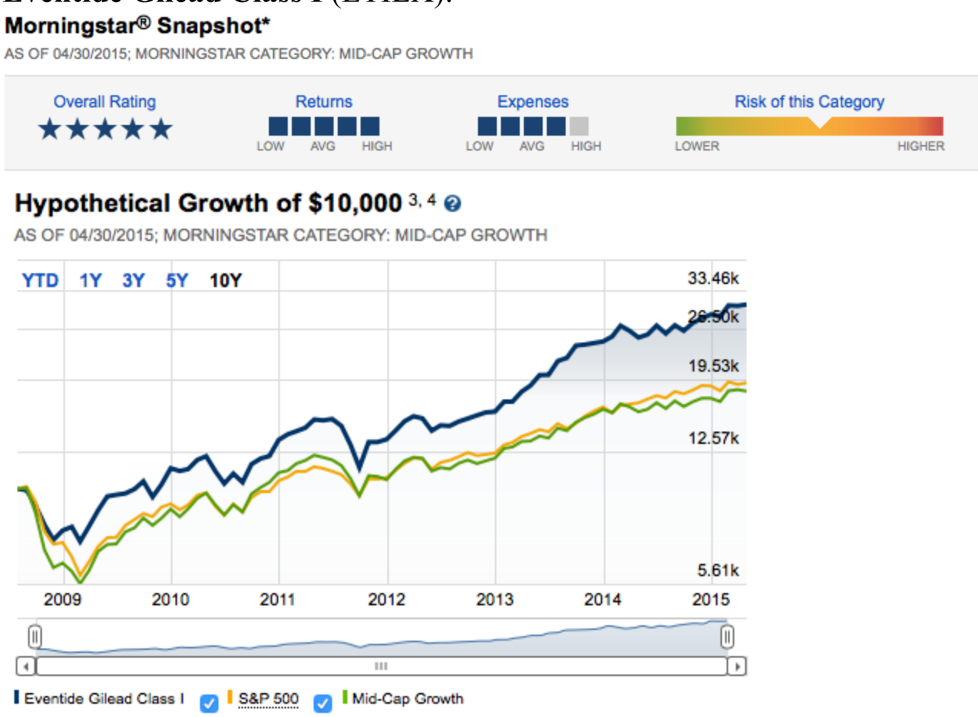


Figure 37: MMHAX $10,000 Growth since 2009 [221]

[220] https://fundresearch.fidelity.com/mutual-funds/summary/56063U547?type=o-NavBar
[221] https://fundresearch.fidelity.com/mutual-funds/summary/62827L658

Lord Abbett Developing Growth F (LADFX):

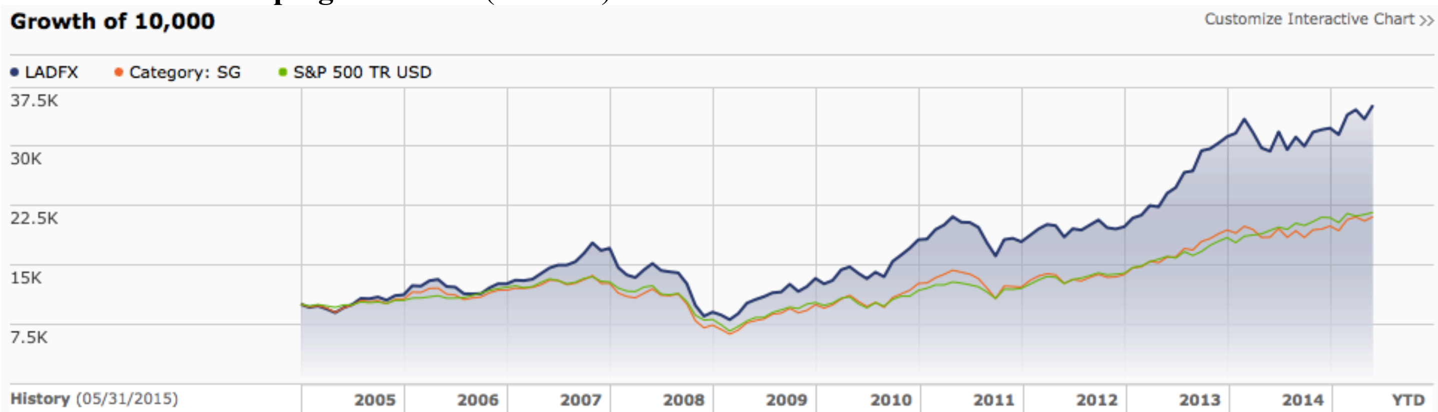


Figure 38: LADFX $10,000 Growth since 2005 [222]

WisdomTree International Hdgd Div Gr ETF (IHDG):

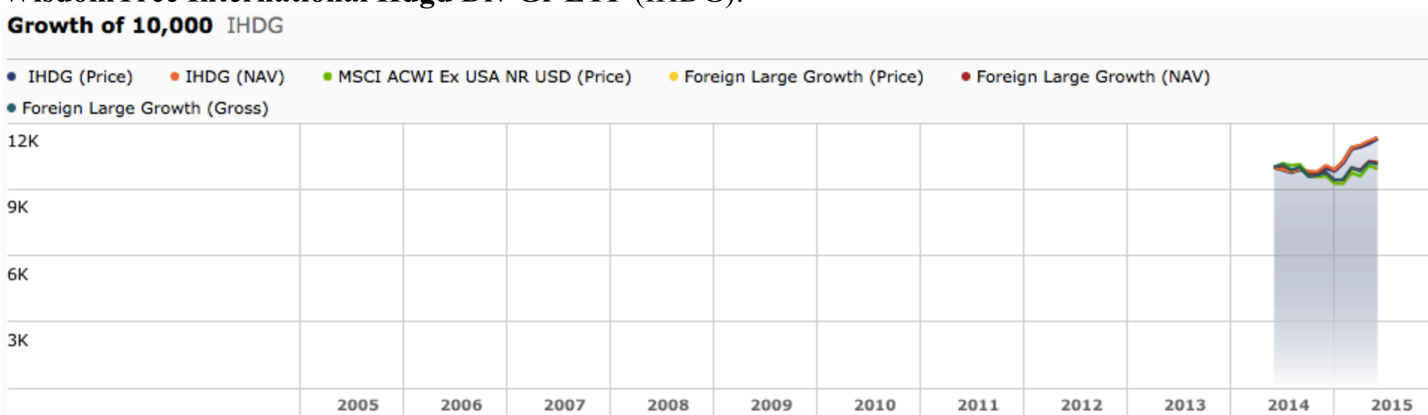


Figure 39: IHDG Growth [223]

Global X China Financials ETF (CHIX):

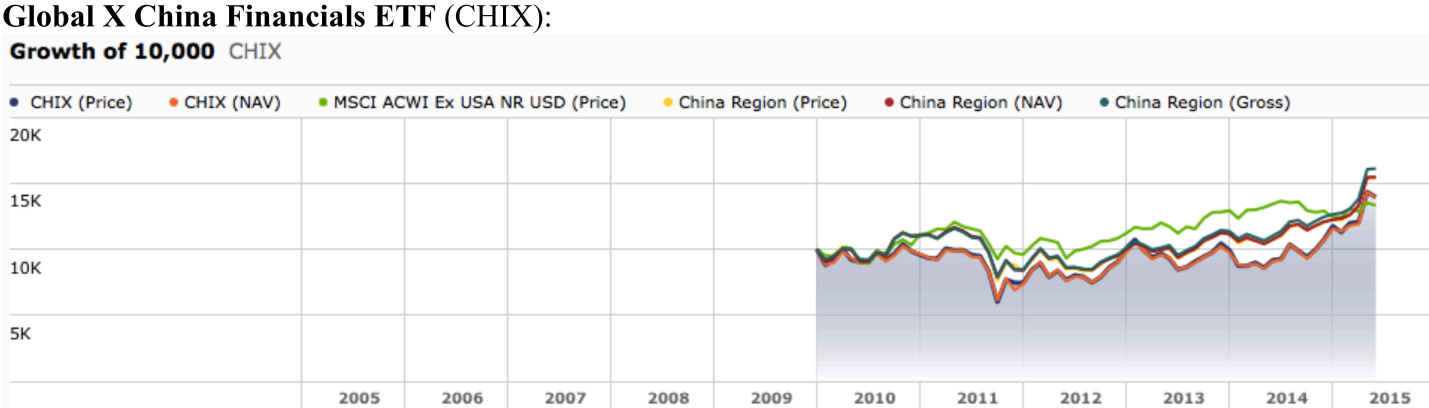


Figure 40: CHIX Growth [224]

[222] http://performance.morningstar.com/fund/performance-return.action?t=LADFX&region=usa&culture=en_US
[223] http://performance.morningstar.com/funds/etf/total-returns.action?t=IHDG
[224] http://performance.morningstar.com/funds/etf/total-returns.action?t=CHIX&region=USA&culture=en_US

Baron Real Estate Retail (BREFX):

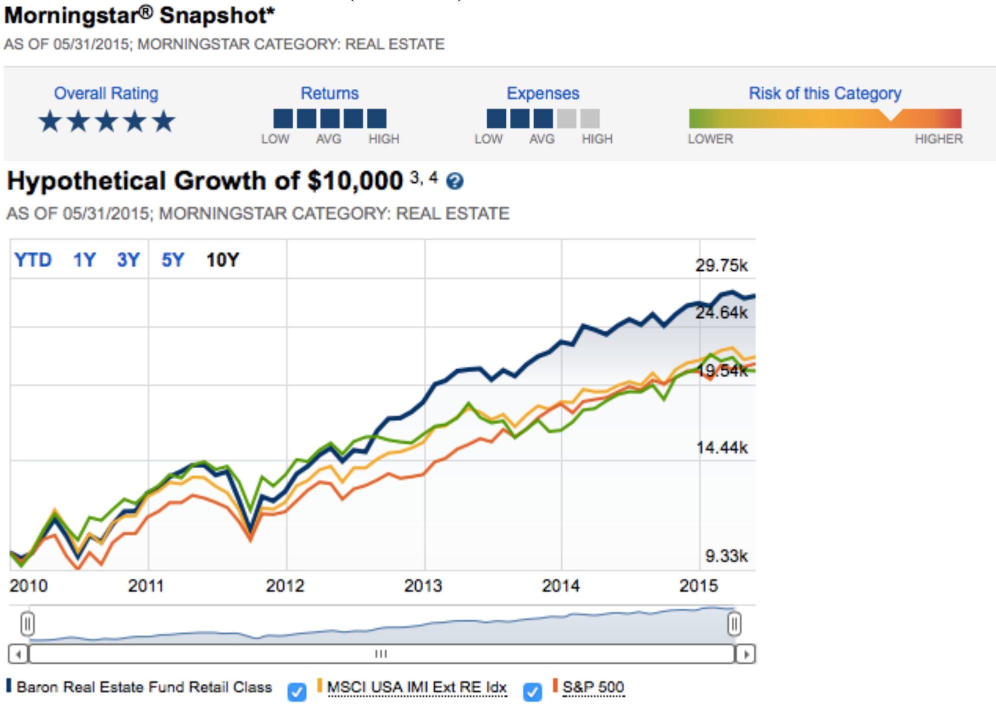


Figure 41: CHIX Growth since 2010 [225]

United States 12 Month Oil ETF (USL):

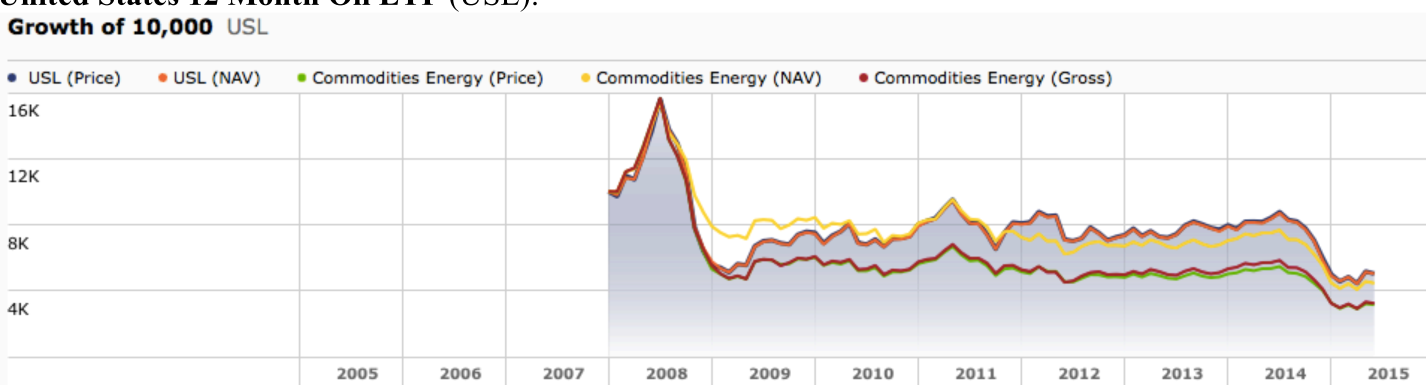


Figure 42: USL Growth since 2008 [226]

AdvisorShares Gartman Gold/Yen ETF (GYEN):

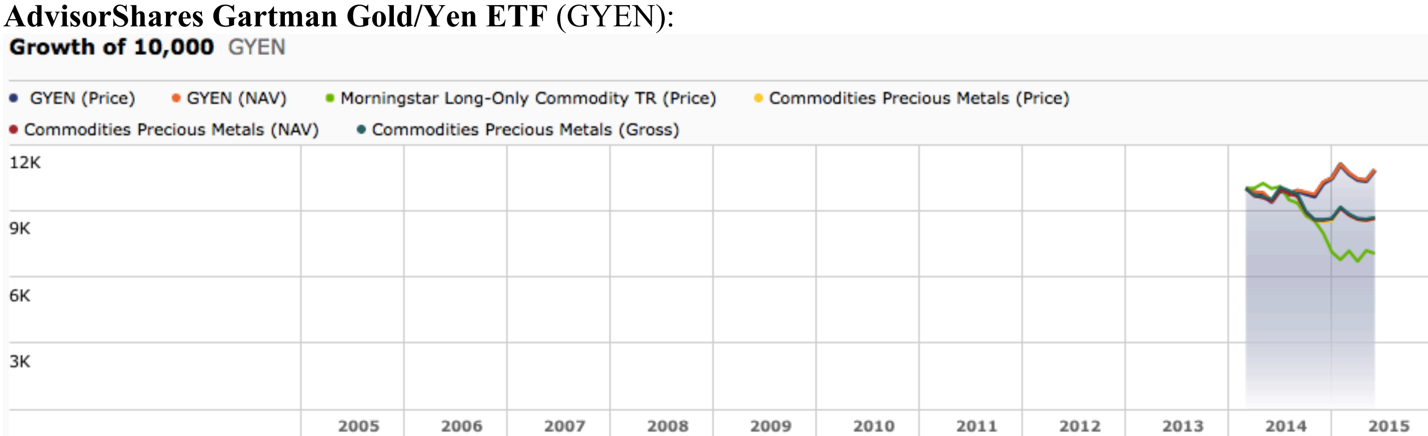


Figure 43: GYEN Growth [227]

[225] https://fundresearch.fidelity.com/mutual-funds/summary/06828M702?type=o-NavBar
[226] http://performance.morningstar.com/funds/etf/total-returns.action?t=USL
[227] http://performance.morningstar.com/funds/etf/total-returns.action?t=GYEN

SPDR Barclays Long Term Treasury ETF (TLO):

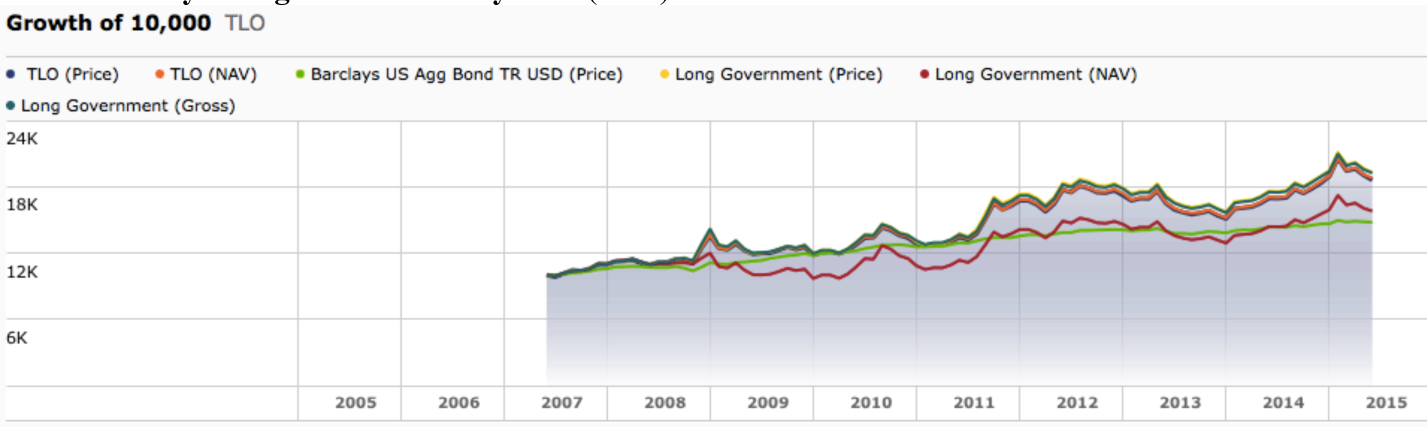


Figure 43: TLO Growth [228]

[228] http://performance.morningstar.com/funds/etf/total-returns.action?t=TLO&region=USA&culture=en_US

Bibliography

Trading Economics, “United States GDP Growth Rate” http://www.tradingeconomics.com/united-states/gdp-growth

International Labor Organization, “Recent US Labor Market Data”, June 2013http://www.ilo.org/washington/ilo-and-the-united-states/spot-light-on-the-us-labor-market/recent-us-labor-market-data/lang--en/index.htm

Trading Economics, “U.S. Retail Sales”, http://www.tradingeconomics.com/united-states/retail-sales

Trading Economics, “United States GDP Growth Rate”, http://www.tradingeconomics.com/united-states/gdp-growth

U.S. Department of the Treasury, Financial Stability Oversight Council, “2013 Annual Report”, http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2013-Annual-Report.aspx

U.S. Department of the Treasury, Financial Stability Oversight Council, “2014 Annual Report”, http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2014-Annual-Report.aspx

Bureau of Labor Statics, http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth

FRED, “Consumption Expenditures”, https://research.stlouisfed.org/fred2/tags/series/?t=consumption+expenditures%3Bquarterly

Institute of International Finance, “November 2013 Global Economic Monitor”, https://www.iif.com/publication/gem/november-2013-global-economic-monitor

Institute of International Finance, “November 2014 Global Economic Monitor: Emerging Pickup Remains Fragile”, https://www.iif.com/publication/global-economic-monitor/november-2014-global-economic-monitor

US Chamber of Commerce, “2013: The Year in Trade”, https://www.uschamber.com/blog/2013-year-trade

Council of Foreign Relations, “U.S. Debt Ceiling: Costs and Consequences”, http://www.cfr.org/budget-debt-and-deficits/us-debt-ceiling-costs-consequences/p24751

Nate Silver, “On the Claim that Republicans Want a Debt Default”, http://fivethirtyeight.blogs.nytimes.com/2011/06/24/on-the-claim-that-republicans-want-a-debt-default/

Think Progress, “Senate Republicans Unanimously Vote For Debt Default (Updated)”, http://thinkprogress.org/economy/2013/10/30/2858621/senate-republicans-vote-debt-default/

U.S. Bureau of Labor Statistics,“Current Employment Statistics Highlights”, April 3, 2015, http://www.bls.gov/web/empsit/ceshighlights.pdf

Alan J. Auerbach and William G. Gale, “Deficit: What caused it, why it matters”, December 10, 2009, http://money.cnn.com/2009/07/30/news/economy/federal_budget_deficit/

FRED, “Federal Surplus or Deficit [-] as Percent of Gross Domestic Product”, February 27, 2015, http://research.stlouisfed.org/fred2/series/FYFSGDA188S

By Kathy Ruffing and Joel Friedman, “Economic Downturn and Legacy of Bush Policies Continue to Drive Large Deficits”, February 28, 2013, http://www.cbpp.org/cms/?fa=view&id=3849

International Monetary Fund, “World Economic Outlook”, October 2013, http://www.imf.org/external/pubs/ft/weo/2013/02/pdf/text.pdf

Norbert J. Michel, “Quantitative Easing, The Fed’s Balance Sheet, and Central Bank Insolvency”, http://www.heritage.org/research/reports/2014/08/quantitative-easing-the-feds-balance-sheet-and-central-bank-insolvency

Greg Robb, “Bernanke: ‘Step down’ in QE could come soon”, May 22, 2013, http://www.marketwatch.com/story/bernanke-premature-tightening-could-end-growth-2013-05-22

Market Watch, “A short history of QE and the market”, http://projects.marketwatch.com/short-history-of-qe-and-the-market-timeline/#6

Federal Reserve System, “What is the Federal Reserve's maturity extension program (referred to by some as "operation twist") and what is its purpose?”, http://www.federalreserve.gov/faqs/money_15070.htm

Barry Rithz, “Reviewing QE(s) and Operation Twist”, September 11th, 2012, http://www.ritholtz.com/blog/2012/09/reviewing-qes-and-operation-twist/

Jennifer Carinci, “Fed Finale: The End of Operation Twist, or the Start of QE4?”, December 7, 2012, http://finance.yahoo.com/blogs/breakout/fed-finale-end-operation-twist-start-qe4-183055950.html

Bill McBride, “A QE Timeline”, http://www.calculatedriskblog.com/2012/06/qe-timeline.html

Jeff Kearns and Joshua Zumbrun, “Fed Expands Operation Twist by $267 Billion Through 2012”, June 20, 2012http://www.bloomberg.com/news/articles/2012-06-20/fed-expands-operation-twist-by-267-billion-through-year-end

StockTwits , “One Of The Best Charts You’ll See About Quantitative Easing And The S&P 500”, November 27, 2013, http://finance.yahoo.com/news/one-best-charts-ll-see-140325490.html

Ben Rooney, “Stocks: Stellar year ends on a high note”, http://money.cnn.com/2013/12/31/investing/stocks-markets/

Ben Rooney, “Best year ever for stock funds”, http://money.cnn.com/2013/12/26/investing/stock-inflows/?iid=EL

Bureau of Economic Analysis, “PERSONAL INCOME AND OUTLAYS, FEBRUARY 2015”, http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm

Tami Luhby and Patrick Gillespie, “U.S. has added 2.3 million jobs this year”, http://money.cnn.com/2014/11/07/news/economy/october-jobs-report-unemployment-fall/

“Us Inflation Rate”, http://usinflation.org/us-inflation-rate/

FOX Business, “Fed Decides Not to Begin Tapering QE3”, September 18, 2013, http://www.foxbusiness.com/government/2013/09/18/fed-decides-not-to-begin-tapering-qe3/

Lance Maxwell, “Extreme Winter Weather Blamed for Q1 U.S. GDP Contraction”, May 29, 2014, http://wdtinc.com/2014/05/29/extreme-winter-weather-blamed-q1-u-s-gdp-contraction/

YCharts, http://ycharts.com/indicators/personal_consumption_gdp

“Mortgage Rate Trends and Analysis”, http://www.hsh.com/mortgage_rate_trends/

The White House, “Third Estimate of GDP for the Fourth Quarter of 2014”, https://www.whitehouse.gov/blog/2015/03/27/third-estimate-gdp-fourth-quarter-2014

David Leonhardt, “Quantitative Easing Is Ending. Here’s What It Did, in Charts”, October 29, 2014, http://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html?abt=0002&abg=0

“Special Update: 2014 in Review”, January 05, 2015, http://www.ellenbecker.com/blog/january-5-2015-special-update-2014-in-review

Global Economic Prospects, “Understanding the Plunge in Oil Prices: Sources and Implications”, January 2015, http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter4_report_oil.pdf

Christina Larson “Why China's Second-Baby Boom Might Not Happen”, August 01, 2014, http://www.bloomberg.com/bw/articles/2014-08-01/with-end-of-chinas-one-child-policy-there-hasnt-been-a-baby-boom

Bureau of Economic Analysis, “U.S. International Transactions: Fourth Quarter and Year 2014”, March 19, 2015 http://www.bea.gov/newsreleases/international/transactions/transnewsrelease.htm

Zane E. Brown, “Should Investors Fear, or Cheer, a Stronger U.S. Dollar?”, November 6, 2014, https://www.lordabbett.com/en/perspectives/fixedincomeinsights/should-investors-fear-or-cheer-a-stronger-us-dollar.html

Jessica Menton, “US Dollar Index 2014: Three Reasons Why A Strong Dollar Could Hurt US Economy”, December 09 2014, http://www.ibtimes.com/us-dollar-index-2014-three-reasons-why-strong-dollar-could-hurt-us-economy-1745553

Jason Furman, “Second Estimate of GDP for the Second Quarter of 2014”, August 28, 2014, https://www.whitehouse.gov/blog/2014/08/28/second-estimate-gdp-second-quarter-2014

Bureau of Economic Analysis, “National Income and Product Accounts Gross Domestic Product: Fourth Quarter and Annual 2014 (Second Estimate)”, February 27, 2015, http://www.bea.gov/newsreleases/national/gdp/2015/gdp4q14_2nd.htm

“Pentagon spending hits five-year high amid anti-ISIS campaign”, October 30, 2014, http://rt.com/usa/200911-gdp-defense-spending-surge/

Board of Governors of the Federal Reserve System, “Monetary Policy Report”, February 11, 2014, http://www.federalreserve.gov/monetarypolicy/files/20140211_mprfullreport.pdf

Robert Lenzer, “The Bull Market Will be Over When QE Ends”, June 20, 2014, http://www.forbes.com/sites/robertlenzner/2014/06/20/the-fading-out-of-the-feds-qe-bond-buying-may-mean-the-end-of-a-5-year-bull-market/

Patrick Gillespie, “Warning sign: U.S. economy only adds 126,000 jobs”, http://money.cnn.com/2015/04/03/news/economy/march-jobs-126000-us-economy/

Us Department of Commerce, “Advance Monthly Sales For Retail And Food Services March 2015”, APRIL 14, 2015, http://www.census.gov/retail/marts/www/marts_current.pdf

Mike Bird, “The Atlanta Fed just wiped out its US growth forecast for the first quarter”, April 2, 2015, http://www.businessinsider.com/the-atlanta-fed-forecasts-zero-growth-for-us-in-q1-2015-4

Bureau of Labor Statics, “Consumer Price Index – March 2015”, April 17, 2015”, http://www.bls.gov/news.release/pdf/cpi.pdf

http://www.cnbc.com/id/102562096

World Bank Publications, “Global Economic Prospects, January 2015: Having Fiscal Space and Using It”, https://books.google.com/books?id=vI1uBgAAQBAJ&pg=PA163&lpg=PA163&dq=%22central+banks+could+respond+with+additional+monetary+policy+loosening,+which,+in+turn,+can+support+growth%22&source=bl&ots=5J5uL8QEbP&sig=v7Xorj5rQwUfpirLXY4h9CY5a5E&hl=en&sa=X&ei=ib01VcfDK5K2yAT2sYGYBA&ved=0CB8Q6AEwAA#v=onepage&q=%22central%20banks%20could%20respond%20with%20additional%20monetary%20policy%20loosening%2C%20which%2C%20in%20turn%2C%20can%20support%20growth%22&f=false

Bureau of Economic Analysis, “GDP Growth Slows in Fourth Quarter”, January 30, 2014, https://www.bea.gov/newsreleases/national/gdp/2014/pdf/gdp4q13_adv_fax.pdf

Jeanna Smialek and Ian Katz “Shutdown Would Shave U.S. Growth as Much as 1.4 Points”, September 27, 2013, http://www.bloomberg.com/news/articles/2013-09-27/shutdown-would-shave-fourth-quarter-u-s-growth-as-much-as-1-4-

“Personal Income and Outlays for December 2014”, http://www.thirdlevelthinking.com/?p=63

Dan Burrows, “Small Caps to Lag Large Caps in 2014?”, Jan 7, 2014, http://investorplace.com/2014/01/small-caps-stock-russell-2000/#.VWy9_2AXRXs

FRED® Economic Data, “Personal Consumption Expenditures”, https://research.stlouisfed.org/fred2/series/PCE

Jessica Menton, “Economic Growth 2015: US GDP Shrinks 0.7% In Q1”, May 29 2015, http://www.ibtimes.com/economic-growth-2015-us-gdp-shrinks-07-q1-1943761

Bureau of Economic Analysis, “National Income and Product Accounts / Gross Domestic Product: First Quarter 2015 (Second Estimate) / Corporate Profits: First Quarter 2015 (Preliminary Estimate)” http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_2nd.htm

The Wall Street Journal, “Economic Forecasting Survey”, http://projects.wsj.com/econforecast/#ind=gdp&r=20

Jessica Menton, “Economic Growth Slows Sharply In Q1 2015: 5 Factors Slowing US GDP”, April 29 2015, http://www.ibtimes.com/economic-growth-slows-sharply-q1-2015-5-factors-slowing-us-gdp-1901257

Economist’s View, “Real GDP increased at 0.2% Annualized Rate in Q1”, Wednesday, April 29, 2015, http://economistsview.typepad.com/economistsview/2015/04/real-gdp-increased-at-02-annualized-rate-in-q1.html

“Time Warner Tops Estimates as Cable, HBO Fees Offset Ad Drop”, February 11, 2015, http://www.bloomberg.com/news/articles/2015-02-11/time-warner-beats-estimates-as-cable-hbo-fees-offset-ad-decline

David Lieberman, “‘American Sniper’ And Basketball Help Time Warner Beat Q1 Earnings Forecasts”, April 29, 2015, http://deadline.com/2015/04/time-warner-q1-earnings-jeff-bewkes-1201417870/

Anthony Mirhaydari, “Dollar weakness is giving stocks new strength”, April 24, 2015, http://www.cbsnews.com/news/dollar-weakness-sends-stocks-towards-new-records/

“TIME WARNER INC. REAFFIRMS 2015 FULL-YEAR BUSINESS OUTLOOK”, April 29, 2015, http://ir.timewarner.com/phoenix.zhtml?c=70972&p=quarterlyearnings

Gerry Smith, “Time Warner CEO Teases Idea of Eventual CBS, Viacom Deals”, December 11, 2014, http://www.bloomberg.com/news/articles/2014-12-11/time-warner-ceo-teases-idea-of-cbs-viacom-deals-down-the-road

Zacks Equity Research, “Time Warner Cable (TWC) Misses on Q1 Earnings, Revenue
April 30, 2015” April 30, 2015, http://www.zacks.com/stock/news/172998/time-warner-cable-twc-misses-on-q1-earnings-revenue

Gerry Smith, “Time Warner Cable Earnings Fall Short as Comcast Deal Ends” April 30, 2015, http://www.bloomberg.com/news/articles/2015-04-30/time-warner-cable-s-earnings-fall-short-after-comcast-deal-ends

Vanna Le, “Global 2000: The World's Largest Media Companies Of 2014”, 5/07/2014, http://www.forbes.com/sites/vannale/2014/05/07/global-2000-the-worlds-largest-media-companies-of-2014/

Jon Brodkin, “Comcast spent $336 million on failed attempt to buy Time Warner Cable”, May 4, 2015, http://arstechnica.com/business/2015/05/04/comcast-spent-336-million-on-failed-attempt-to-buy-time-warner-cable/

Alison Griswold, “The Most Hated Merger in America” http://www.slate.com/articles/business/moneybox/2015/04/comcast_time_warner_cable_merger_why_it_fell_apart.html

Zacks Equity, “Time Warner Cable (TWC) Lags on Q1 Earnings, Revenues”, April 30, 2015, http://www.zacks.com/stock/news/173098/time-warner-cable-twc-lags-on-q1-earnings-revenues

Bob Moffitt, “Dollar Tree Inc Pays Millions To Settle Environmental Lawsuit”, April 24, 2015, http://www.capradio.org/articles/2015/04/24/dollar-tree-inc-pays-millions-to-settle-environmental-lawsuit/

Daniel Jennings, “Dollar Stores Have A Serious Problem”, Apr. 24, 2015, http://seekingalpha.com/article/3101386-dollar-stores-have-a-serious-problem

Amanda Schiavo, “Will Dollar Tree (DLTR) Stock be Impacted Today by FTC Store Sale Requirement?”, 04/08/15, http://www.thestreet.com/story/13105175/1/will-dollar-tree-dltr-stock-be-impacted-today-by-ftc-store-sale-requirement.html

Raymon Pickle, “Stocks generating high income on investments: Dollar Tree, Inc. (NASDAQ:DLTR), Visa Inc (NYSE:V), Ultra Petroleum Corp. (NYSE:UPL)”, MAY 5, 2015, http://www.wsobserver.com/stocks-generating-high-income-on-investments-dollar-tree-inc-nasdaqdltr-visa-inc-nysev-ultra-petroleum-corp-nyseupl/7212993/

“Industry Summary”, 10-Apr-2015, http://biz.yahoo.com/p/industries.html

“Dollar Tree, Inc. (DLTR)”, http://finance.yahoo.com/q?uhb=uh3_finance_vert&fr=&type=2button&s=dltr

Scott Olson, “Trade-Ideas: Dollar Tree Stores (DLTR) Is Today's Post-Market Leader Stock”, 04/21/15, http://www.thestreet.com/story/13120972/1/trade-ideas-dollar-tree-stores-dltr-is-todays-post-market-leader-stock.html?puc=TSMKTWATCH&cm_ven=TSMKTWATCH

Dollar Tree, Inc. (DLTR), Analyst Opinion, http://finance.yahoo.com/q/ao?s=DLTR+Analyst+Opinion

Mark Zandi, Chief Economist, Moody's Analytics. Presentation, Wednesday, May 6, 2015

Fidelity, “Bond Funds: Investment Grade”, https://www.fidelity.com/mutual-funds/bond-funds/investment-grade

David Ashworth, Market Realist, Investment-grade bonds, Mar 12, 2015, http://marketrealist.com/2015/03/pushed-corporate-bond-yields-higher/

“Vanguard Short-Term Investment-Grade Fund Investor Shares”, https://personal.vanguard.com/us/funds/snapshot?FundId=0039&FundIntExt=INT

David Ashworth, “What pushed corporate bond yields higher?”, Mar 12, 2015, http://marketrealist.com/2015/03/pushed-corporate-bond-yields-higher/

“International & Global Stock Funds” https://www.fidelity.com/mutual-funds/international-global-stock-funds/overview

Wells Fargo Investment Institute, Morningstar EnCorr.

Morningstar Stock Research, “The Perfect Mix of Large-, Mid-, and Small-Cap Stocks”, http://www.morningstar.com/products/pdf/MGI_StockResearch.pdf

Dan Weil, “Small-cap funds versus large-cap funds”, March 4, 2014, http://www.bankrate.com/finance/investing/small-cap-funds-versus-large-cap.aspx

Moody’s Analytics, “Global Business Cycle Map”, https://www.economy.com/dismal/tools/global-business-cycle-map

Russell Investments, “Business Cycle Index”, April 23, 2015, http://www.russell.com/helping-advisors/EconomyMarkets/BusinessCycleIndex.aspx

Zach Bethune, Thomas Cooley and Peter Rupert, “1st Quarter GDP Disappoints…Again”, April 29, 2015, http://econsnapshot.com

Arvind Krishnamurthy and Annette Vissing-Jorgensen, “The Effects of Quantitative Easing on Interest Rates”, May 2011. http://www.advisorperspectives.com/dshort/updates/Treasury-Yields-in-Perspective.php

“This stocks vs. Treasury chart shows how QE throws bond prices for a loop”, May 13, 2013, http://blogs.marketwatch.com/thetell/2013/05/13/this-stocks-vs-treasury-chart-shows-how-qe-throws-bond-prices-for-a-loop/

Sy Harding, “U.S. Treasury Bonds Beating S&P 500 This Year”, November 28, 2014, http://www.forbes.com/sites/sharding/2014/11/28/u-s-treasury-bonds-beating-sp-500-this-year/2/

Anne Kates Smith, “Stock Market Outlook for 2015” January 2015, http://www.kiplinger.com/article/investing/T052-C008-S002-stock-market-outlook-for-2015.html

Heather Long, “Worried about stocks? Bonds look worse”, January 4, 2015, http://money.cnn.com/2015/01/04/investing/stocks-bonds-lookahead-2015/

Standard and Poor’s Ratings Services, “2013 Annual Global Corporate Default Study And Rating Transitions”, March 19, 2014, http://www.maalot.co.il/publications/TS20140324161423.pdf

Collin Martin, “Corporate Bond Outlook 2015”, January 7, 2015, http://www.schwab.com/public/schwab/nn/articles/Corporate-Bond-Outlook-2015

Russ Koesterich, “Why tight credit spreads usually mean a period of global expansion”, September 12, 2014, http://finance.yahoo.com/news/why-tight-credit-spreads-usually-222807568.html

Occidental Petroleum Corporation, http://www.oxy.com/OurBusinesses/OilandGas/Technology/Pages/default.aspx

Occidental Petroleum Corporation (OXY), Profile, http://finance.yahoo.com/q/pr?s=OXY+Profile

Occidental Petroleum Corporation, http://www.oxy.com/OurBusinesses/midstreamMarketing/EnergyMarketing/Pages/default.aspx

Mastio & Company, http://www.mastio.com

Occidental Petroleum Corporation, http://www.oxy.com/OurBusinesses/Chemicals/Products/Pages/default.aspx

"Expect Occidental Petroleum To Outperform In 2015", December 29, 2014, http://seekingalpha.com/article/2786425-expect-occidental-petroleum-to-outperform-in-2015

"Occidental Petroleum - After Strategic Change, Happy With Current Game Plan", May 15, 2015, http://seekingalpha.com/article/3187376-occidental-petroleum-after-strategic-change-happy-with-current-game-plan

Michael Vallo, "Occidental Petroleum Lifts as Broad Payout Pace Slows", May 9, 2015, http://online.barrons.com/articles/occidental-petroleum-lifts-dividend-as-broad-payout-pace-slows-1431136559

Jackie DeAngelis, "Biggest IPO of the year: Plains GP prices at $22", Tuesday, 15 Oct 2013, http://www.cnbc.com/id/101115114

"Occidental Petroleum - Dividends Are Safe, Production Is Strong", May 12, 2015, http://seekingalpha.com/article/3174466-occidental-petroleum-dividends-are-safe-production-is-strong

FACTSET, Too much money chasing too few deals in energy.

FACTSET, OXY

CSI Market, "Oil & Gas Operations Industry", http://csimarket.com/Industry/industry_Financial_Strength_Ratios.php?ind=603

Occidental Petroleum Corporation, "2014 Financial & Operational Results" http://www.oxypublications.com/annualreport/PDF/Financial_and_Operational_Results_2014.pdf

http://www.ft.com/intl/cms/s/0/78a39922-37fc-11e3-8668-00144feab7de.html#axzz3b4QTwIwk

"The Boeing Company", http://myjetreview.com/html/boeing_company.html

"Boeing: percentage of company revenue in the Defense, Space & Security segment from 2004 to 2014", http://www.statista.com/statistics/269000/percentage-of-company-revenue-in-boeings-defense-space-security-segment/

Boeing, "Boeing in Brief", http://www.boeing.com/company/general-info/#/global

Ian Wyatt, "Boeing Co (BA): The Best Dow Dividend Stock of 2015", April 20th, 2015, http://etfdailynews.com/2015/04/20/boeing-co-ba-the-best-dow-dividend-stock-of-2015/

BEA, "National Income and Product Accounts Gross Domestic Product: First Quarter 2015 (Advance Estimate)", APRIL 29, 2015, http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_adv.htm

Peter C. Beller, "Is Boeing Less Than Zero", June 17, 2009, http://www.forbes.com/2009/06/17/boeing-book-value-markets-equities-accounting.html

John W. Schoen,"Funding shortfalls put pensions in peril", Mar 24, 2015, http://www.cnbc.com/id/102520322

Boeing, "The Boeing Company 2014 Annual Report", http://boeing.mediaroom.com/2015-01-28-Boeing-Reports-Record-2014-Revenue-Core-EPS-and-Backlog-and-Provides-2015-Guidance

T. Rowe Price, "First Quarter 2015 Market Wrap-Up", http://individual.troweprice.com/public/Retail/Planning-&-Research/T.-Rowe-Price-Insights/Market-Analysis/Quarterly-Wrap-Ups

Vanguard, "Distinguishing duration from convexity", May 2010, http://www.vanguard.com/pdf/icrddc.pdf?2210045720

Raymond James, "Duration and Convexity: The Price/Yield Relationship", http://www.raymondjames.com/fixed_income_duration.htm

Morningstar, "MSYLX Morgan Stanley Inst High Yield L Annual Report", http://quote.morningstar.com/fund-filing/Annual-Report/2014/9/30/t.aspx?t=MSYLX&ft=N-CSR&d=01e3a3dfc1853f63d3e0c065b6f66444

Morningstar, “Morgan Stanley Inst High Yield L MSYLX”, http://performance.morningstar.com/fund/performance-return.action?t=MSYLX&region=usa&culture=en-US

MainSaty Investments, “MainSaty High Yield Municipal Bond Fund”, http://www.nylinvestments.com/polos/MSMHY05-041553864.pdf

Morningstar, “MainStay High Yield Municipal Bond A MMHAX” http://performance.morningstar.com/fund/ratings-risk.action?t=MMHAX&region=usa&culture=en-US

Morningstar, “BlackRock US Mortgage Portfolio A BMPAX”, http://www.morningstar.com/funds/XNAS/BMPAX/quote.html

My Jet Review, “The Boeing Company”, http://myjetreview.com/html/boeing_company.html

Statista, “Boeing: percentage of company revenue in the Defense, Space & Security segment from 2004 to 2014”, http://www.statista.com/statistics/269000/percentage-of-company-revenue-in-boeings-defense-space-security-segment/

Boeing, “Boeing in Brief”, http://www.boeing.com/company/general-info/#/global

ETF Daily News, “Boeing Co (BA): The Best Dow Dividend Stock of 2015”, April 20th, 2015, http://etfdailynews.com/2015/04/20/boeing-co-ba-the-best-dow-dividend-stock-of-2015/

Bureau of Economic Analysis, “National Income and Product Accounts, Gross Domestic Product: First Quarter 2015 (Advance Estimate)” http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_adv.htm

Peter C. Beller , “Is Boeing Less Than Zero?”, June 17, 2009, http://www.forbes.com/2009/06/17/boeing-book-value-markets-equities-accounting.html

John W. Schoen, “Funding shortfalls put pensions in peril”, March 24, 2015, http://www.cnbc.com/id/102520322

Boeing, “The Boeing Company 2014 Annual Report”

Cecilia Kang, “Charter confirms acquisition of Time Warner Cable in $55 billion deal”, May 26, 2015, http://www.washingtonpost.com/business/economy/charter-expected-to-acquire-time-warner-cable-in-55-billion-deal/2015/05/25/b318ea0e-031a-11e5-bc72-f3e16bf50bb6_story.html

Eventide, “GILEAD Fund”, March 31, 2015, http://eventidefunds.com/wp-content/uploads/Eventide-Gilead-Fund-Fact-Sheet-03-31-2015.pdf

Morningstar, “Eventide Gilead I ETILX”, http://www.morningstar.com/funds/XNAS/ETILX/quote.html

Fidelity, “Eventide Gilead Class I”, https://fundresearch.fidelity.com/mutual-funds/summary/62827L658

Lord Abbett Developing Growth Fund, “Summary Prospectus”, January 21, 2015, https://www.lordabbett.com/content/dam/lordabbett/en/documents/legal-documents/mutual-fund/14/developing_growth_fund_summary_prospectus.pdf

Russell Indexes, http://www.russell.com/indexes/americas/indexes/daily-returns.page

Morningstar, “WisdomTree International Hdgd Div Gr ETF (IHDG)” http://www.morningstar.com/etfs/ARCX/IHDG/quote.html

WisdomTree, “WisdomTree International Hedged Dividend Growth Index”, http://www.wisdomtree.com/etfs/index-details.aspx?IndexID=137

Yahoo Finance, “WisdomTree International Hdgd Div Gr ETF (IHDG)”, http://finance.yahoo.com/q/pr?s=IHDG+Profile

WisdomTree, “WisdomTree International Hedged Dividend Growth Fund”, http://www.wisdomtree.com/etfs/fund-details.aspx?etfid=102

Morningstar, “Global X China Financials ETF CHIX”, http://performance.morningstar.com/funds/etf/total-returns.action?t=CHIX&region=usa&culture=en-US

ETF.com, “Global X China Financials”http://www.etf.com/CHIX

Baron Real Estate Fund, “Retail Shares (BREFX) and Institutional Shares (BREIX)”, March 31, 2015, http://www.baronfunds.com/BaronFunds/media/Summary-Retail-Fact-Sheets/BREFX.pdf

Morningstar, “Baron Real Estate Retail BREFX” http://www.morningstar.com/funds/XNAS/BREFX/quote.html

ETF.com, “United States 12 Month Oil”, http://www.etf.com/USL

Daniela Pylypczak, “Which Oil ETF Is Right For You? OIL vs. USO vs. USL”, January 10, 2013, http://commodityhq.com/2013/which-oil-etf-is-right-for-you-oil-vs-uso-vs-usl/

Morningstar, “AdvisorShares Gartman Gold/Yen ETF GYEN”, http://performance.morningstar.com/funds/etf/total-returns.action?t=GYEN&region=usa&culture=en-US

Advisors Shares Actively Managed ETFs, “GYE”, April 30, 2015, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAA&url=http%3A%2F%2Fwww.advisorshares.com%2Fsystem%2Ffiles%2Ffunds%2Fpublic_docs%2FGYEN_FS_04302015.pdf&ei=d8tzVcqILIWLsAXk2IKgCA&usg=AFQjCNGRc_A9MzOIv5NyyZ5Xpi1hA-nQqw&sig2=dn7-MQ0H1rM-GllKUkiP3g&bvm=bv.95039771,d.b2w
1 http://www.thestreet.com/story/13016625/1/investors-should-buy-gold-as-another-currency-dennis-gartman.html
State Street Global Advisors SPDR, “SPDR Barclays Long Term Treasury ETF” May 31, 2015, https://www.spdrs.com/library-content/public/ETF-TLO_20150331.pdf

John Mauldin, “GARY SHILLING: Here Are 11 Reasons Why I Still Like US Treasury Bonds”, January 29, 2015, http://www.businessinsider.com/gary-shilling-11-reasons-to-favor-us-treasury-bonds-2015-1

Jessica Menton, “Economic Growth 2015: US GDP Shrinks 0.7% In Q1”, May 29 2015, http://www.ibtimes.com/economic-growth-2015-us-gdp-shrinks-07-q1-1943761

Bureau of Economic Analysis, “National Income and Product Accounts
Gross Domestic Product: First Quarter 2015 (Second Estimate)
Corporate Profits: First Quarter 2015 (Preliminary Estimate)” http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_2nd.htm

The Wall Street Journal, “Economic Forecasting Survey”, June 7, 2015, http://projects.wsj.com/econforecast/#ind=gdp&r=20

Jessica Menton, “Economic Growth Slows Sharply In Q1 2015: 5 Factors Slowing US GDP”, April 29 2015, http://www.ibtimes.com/economic-growth-slows-sharply-q1-2015-5-factors-slowing-us-gdp-1901257

Michael Flannelly, “Rising Interest Rates and the Effect on Mortgage REITs (NLY, AGNC)”, January 4, 2013, http://www.dividend.com/news/2013/rising-interest-rates-and-the-effect-on-mortgage-reits-nly-agnc/

ETF.com, “Real Estate”, http://www.etf.com/etfanalytics/etf-finder

Morningstar, “Real Estate: Total Returns”, http://news.morningstar.com/fund-category-returns/real-estate/$FOCA$SR.aspx

Fidelity, “BlackRock US Mortgage Portfolio Investor A Shares”, https://fundresearch.fidelity.com/mutual-funds/summary/561656505?type=o-NavBar

Fidelity, “Morgan Stanley Institutional Fund Trust High Yield Portfolio Class L”, https://fundresearch.fidelity.com/mutual-funds/summary/617440227?type=o-NavBar

Fidelity, “MainStay High Yield Municipal Bond Fund Class A”, https://fundresearch.fidelity.com/mutual-funds/summary/56063U547?type=o-NavBar

Fidelity, “Eventide Gilead Class I”, https://fundresearch.fidelity.com/mutual-funds/summary/62827L658

Fidelity, “Baron Real Estate Fund Retail Class”
https://fundresearch.fidelity.com/mutual-funds/summary/06828M702?type=o-NavBar

Cover Page Image: Blackrock, Dealing With Divergence, 2015 INVESTMENT OUTLOOK, December 201