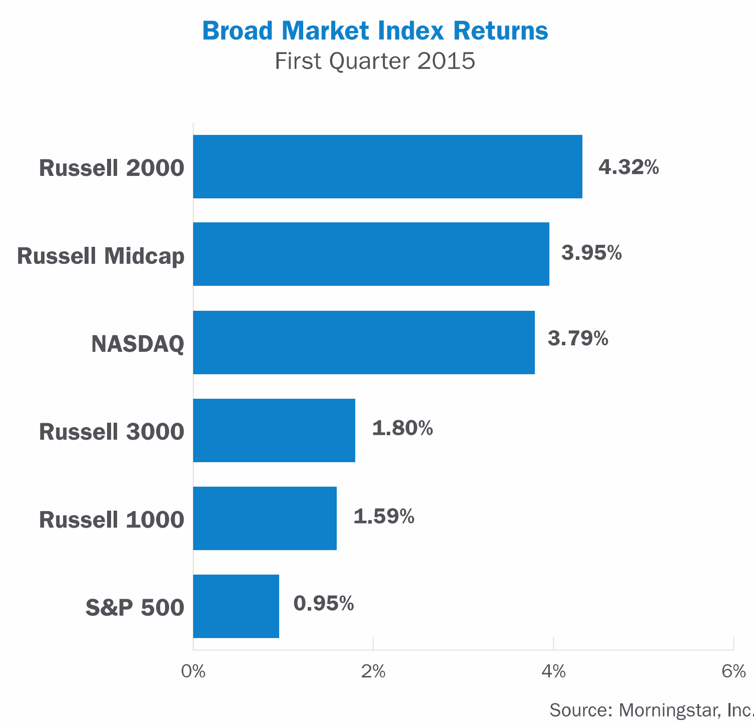
Market Commentary
Q1 2015

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

Market volatility continued in early 2015 as we saw the domestic market drop in January, only to rally strongly in February and finally end solidly in positive territory for the quarter. Most areas of the market with the exception of commodities were up and it was nice to see the international markets rally after a difficult 2014.

The Economy



Domestically, the economic landscape exhibited resiliency in the first quarter of 2015, delivering steady but unremarkable growth. The Bureau of Labor Statistics maintained its third estimate of fourth-quarter 2014 gross domestic product (GDP) at a lower-than-expected +2.2%. Although it experienced somewhat slower growth than in the third quarter of 2014, the consensus among economists is that the economy should grow at an annualized rate of 3% this year. Consumer spending was once again the primary driver, fueled by further improvements in job growth and lower oil prices. The employment situation remained very robust, with an average of about 288,000 jobs added each month during the quarter. The unemployment rate also declined to 5.5%, a post-recession low.

Globally, the economic backdrop is still fragile, but improving. The situation in Europe is beginning to show signs of recovery, thanks in part to the European Central Bank's (ECB's) announcement in January that it would initiate a U.S. Federal Reserve (Fed)-style asset purchase program of approximately €60 billion (roughly $69 billion) per month until September 2016.

Many economists believe that India is primed to take on a leadership role in driving growth outside the United States. India's economy grew nearly 7% in 2013 and 2014, better than many had expected, and could continue to see robust growth going forward as a result of a strong currency, a booming stock market, and the decline in oil prices. The Indian economic awakening is occurring as China's growth is moderating.

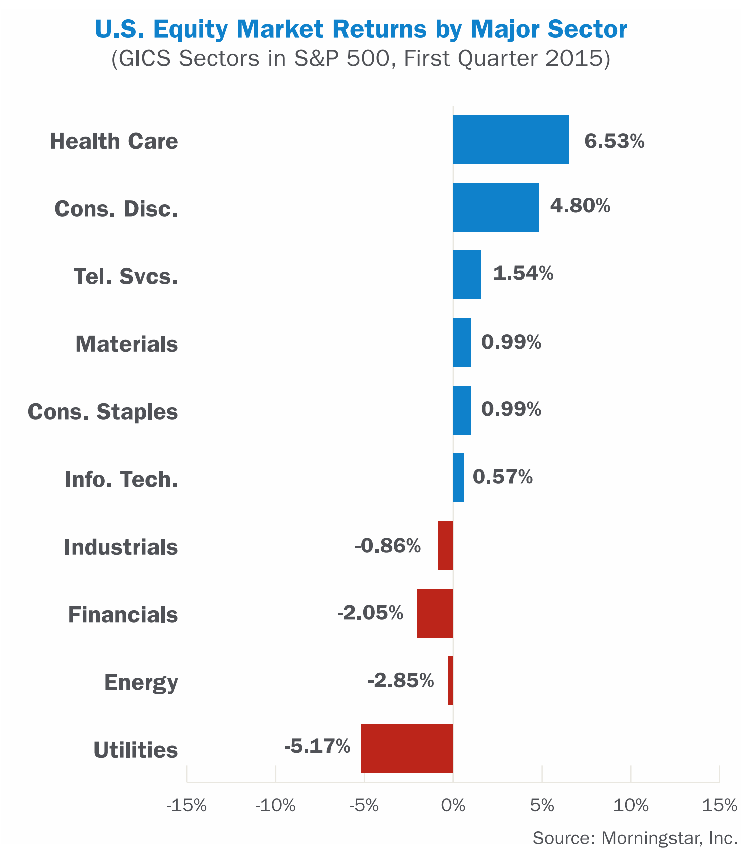
Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

During the first quarter the Federal Open Market Committee (FOMC) once again modified the language it used regarding how long it would keep the Fed funds rate at historically low levels. The committee removed text stating that it would be "patient" in determining the course of rates. Eliminating this language was a means for the FOMC to move away from calendar-based guidance and toward guidance based on current economic data and trends, particularly inflation. Fed watchers interpreted this shift as a sign that the FOMC could choose to begin to raise rates at any point going forward.

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the fourth quarter 2014 real GDP, a seasonally adjusted annualized rate of +2.2%, down from the +5.0% annualized growth of the prior quarter, and unchanged from the prior estimate of +2.2% growth. Despite the somewhat disappointing fourth-quarter results, the economy remains on a solid trajectory, expanding at about a 3% rate, which economists believe translates into approximately 3 million new jobs per year. As with the prior quarter, the growth was fueled primarily by contributions from consumer spending. Fixed investment was also a minor contributor.   Net exports were the primary detractor from growth, largely due to the rise in the dollar, which makes domestic goods more expensive in foreign markets.   Government spending, led by defense spending, was a slight detractor from growth after being a significant contributor in the third quarter. Corporate profits rose by 1.4% (not annualized), after having climbing +3.1% in the prior quarter. Deflation took hold during the quarter as a result of declining energy prices, and the personal consumption expenditures (PCE) index of prices fell -0.4 % during the quarter, after a +1.2%



rise in the prior quarter. Economists remain generally upbeat about the economy's outlook, and believe that wage growth acceleration should begin to take hold later this year. However, they caution that the significant rise in the dollar, while serving to aid consumer spending, may hamper exports, resulting in a modest net benefit for growth.

HOUSING

The housing segment remained fairly constrained during the quarter, despite an uptick in February's data, primarily based on lackluster demand. Existing home sales for February (the latest monthly data available) advanced at an annualized rate of 4.9 million units, modestly below the 4.8 million unit rate reached in January, but up about +4.7% from February 2014. The inventory of existing homes remained fairly tight, with only about 4.6 months of supply. Existing home prices in February were up slightly from January, and were nearly +8.2% higher than year-ago levels. The outlook for housing is less certain than in the past few quarters, as countervailing forces impact the market: Employment is improving, and mortgage rates remain low; yet waning consumer confidence, an uptick in gasoline prices, and anticipation of a looming increase in interest rates are potential hindrances to significant housing gains.

EMPLOYMENT

The employment situation, while not as robust as in the fourth quarter of 2014, remained in a solid uptrend in the first quarter of 2015. Employers added 295,000 jobs during February, far ahead of consensus expectations. The three-month moving average was 288,000, slightly below the average for the period ending in November, but still indicative of an improving environment. Service industries such as leisure/hospitality, education/healthcare, and professional/business services led the way, adding 66,000, 54,000, and 51,000 jobs, respectively, for the month. The unemployment rate in February declined from 5.7% to a new post-recession low of 5.5%. The decrease was due partly to a decline in the labor force as well as a lower labor force participation rate. Analysts expect wage growth to begin to catch up to the strong payroll gains, particularly as the unemployment rate declines to the assumed equilibrium full employment rate of about 5%.

FED POLICY

The Federal Open Market Committee (FOMC), having recently changed its forward guidance—by replacing language stating that interest rates would remain low for a "considerable time" with other language saying that the FOMC would be "patient" in determining when rates would begin to rise—changed it again by removing the term "patient" from its latest statement. The change in guidance

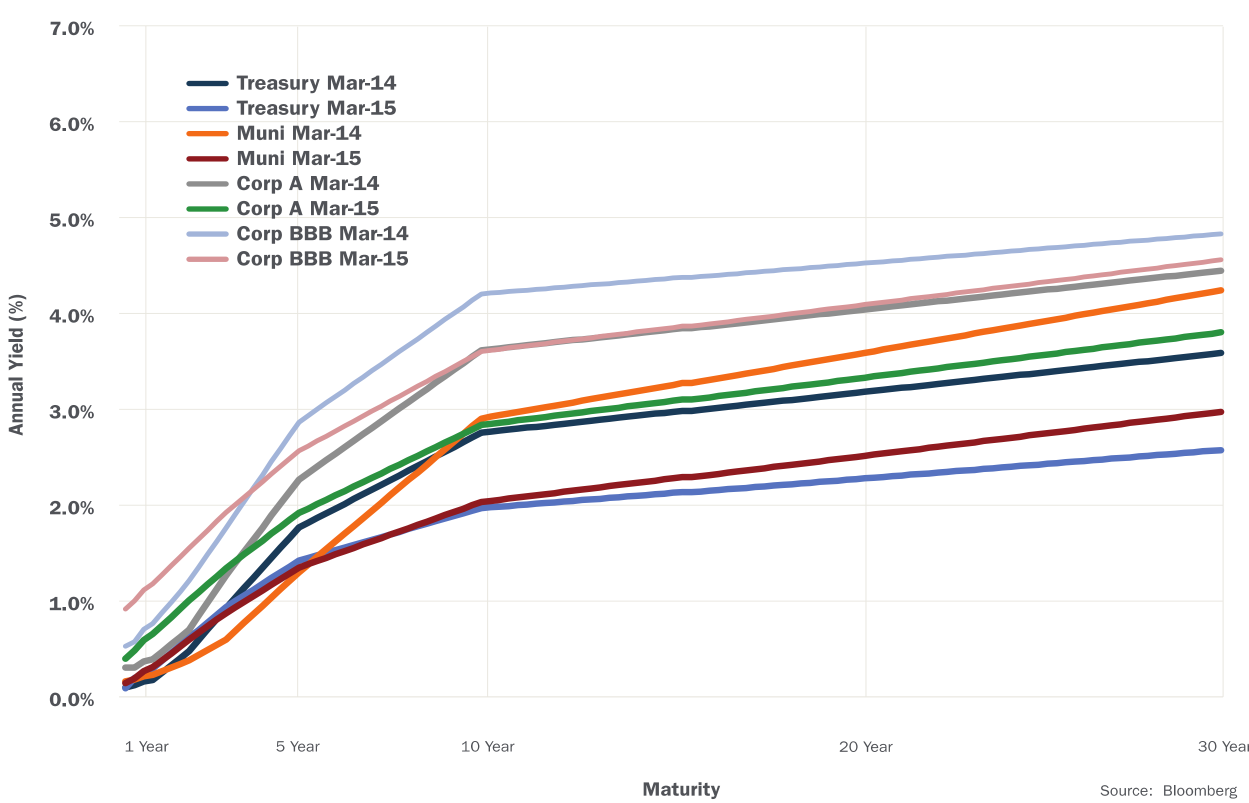
Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

was widely expected and signals the next step in the progression of normalizing interest rates. It also indicates that an interest rate increase may now begin anytime following the FOMC's meeting in April. In moving away from calendar-based guidance, the FOMC indicated that it would need to be confident that inflation would move toward 2% before any rate increase would begin, which gave the market a sense that a rate increase is not imminent. Analysts believe that wage growth needs to begin to take hold before the inflation condition will be met.

Interest Rates

In the first quarter, fixed-income securities delivered mixed, but generally positive, results, accompanied by very volatile trading. Investors digested several important events during the quarter, some of which had positive effects, and others which had negative implications for fixed-income. On the positive side, fixed-income securities benefited from the European Central Bank's (ECB's) decision to undertake a U.S. Federal Reserve style asset purchase program. While the ECB won't be purchasing U.S. obligations, the decision had a ripple effect in domestic fixed-income markets. In addition, Treasury obligations gained ground as markets viewed lack of inflation as a sign that interest rates would remain low longer than many expected. On the negative side, investors are realizing that the Fed will need to begin to normalize interest rates

U.S. Treasury, Muni, and Corporate 30-Year Yield Curves



Source: Bloomberg

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

sooner rather than later, a concept reinforced by the FOMC's removal of calendar-based guidance from its latest policy statement.

Within this environment, as with recent prior quarters, the shape of the yield curve continued to flatten, with short-term rates rising relative to intermediate- and long-term rates.

In terms of total returns, fixed-income securities on balance delivered gains in the quarter, with governments, credits, and municipals posting positive results. The Barclays Treasury 5–7 Year Index advanced +2.13%, and the Barclays U.S. Corporate 5–10 Year Index rose +2.71% during the quarter. High-yield securities were a relatively strong performer, advancing +2.52% following a decline in the prior quarter. One of the top-performing indexes for the quarter was the Barclays U.S. Corp. 5–10 Year Index, which rose +2.71%, in part due to a narrowing in credit spreads. The Barclays U.S. Aggregate Bond Index gained +1.61% for the quarter. The Barclays Municipal Bond Index also delivered gains in the quarter, advancing +1.01%. Non-U.S. fixed-income did not fare as well, as the Barclays Global Aggregate ex-U.S. Index declined -4.63% for the quarter.

Equity Markets

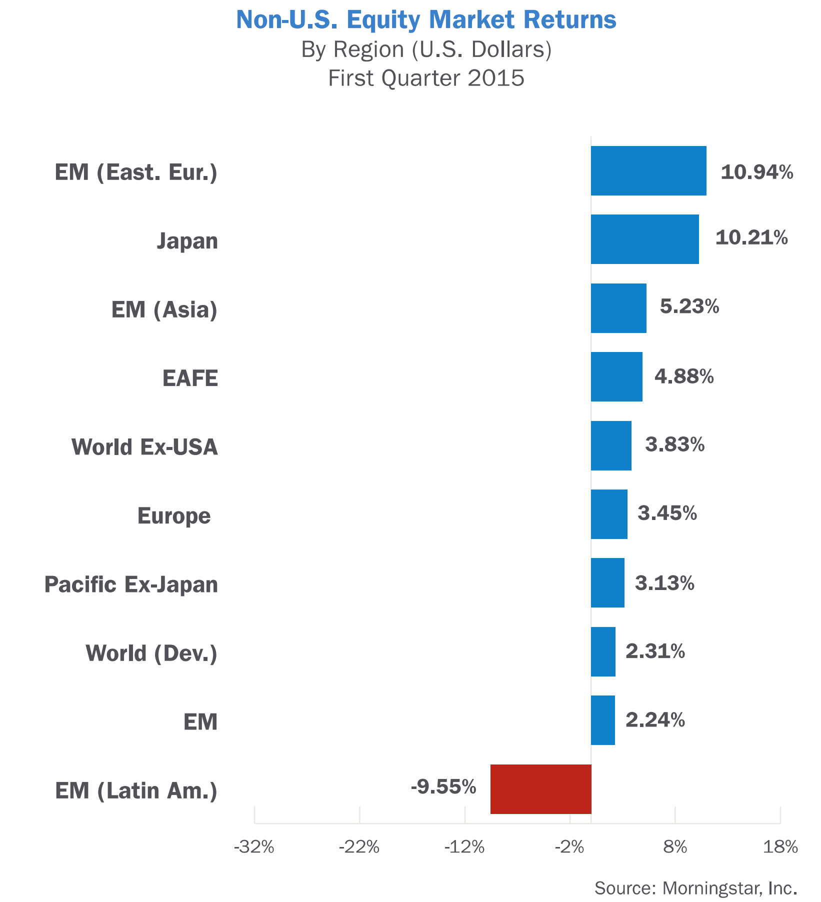
The first quarter of 2015 began much like the first quarter of 2014: with a steep decline. While last year's January drop was attributed to the effects of tapering off the Fed's asset purchase program would have on global growth, particularly in emerging markets, this year's decline in U.S. equities was in part a result of concerns about whether that slowing global growth would impact the U.S. economy negatively. In addition, the steep plunge in commodities prices created concern that target levels of inflation would be difficult to attain in the near term. Juxtaposed against these concerns was economic data that remained resilient. The end result was a very volatile quarter, with the S&P 500 sinking -3.0% in January before staging a powerful +5.8% rebound in February. The index finished the quarter with a +0.95% gain. Also in March, U.S. equities celebrated the six-year anniversary from the 2009 cycle bottom. Over the six-year period from March 9, 2009 the S&P 500 Index gained more than 245%, and is currently in its seventh consecutive year of positive performance.

Performance dispersion among the ten primary economic sectors was once again varied, meaning that active managers could benefit from sector and security selection. The healthcare sector was the best performer in the first quarter, posting a gain of +6.53%. Consumer discretionary also

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

fared well, with a gain of +4.80%. The utilities and energy sectors were the poorest performing during the quarter, declining -5.17% and -2.85%, respectively.

For the quarter, the Russell 1000 Index of large capitalization stocks generated a +1.59% total return. Within the large-cap segment, growth stocks materially outperformed value stocks. Small capitalization stocks, as represented by the Russell 2000 Index, continued to fare well relative to large caps, ending with a total return of +4.32%. Until the fourth quarter of 2014, small caps had an extended period of underperformance. Growth also handily outperformed value within the small-cap universe. The Nasdaq Composite, dominated by information technology stocks, posted another quarter of impressive gains, advancing +3.79% during the quarter. The Dow Jones Industrial Average (DJIA) of 30 large industrial companies gained +0.33% during the quarter.



Real Estate Investment Trusts (REITs) continued on a torrid pace, jumping sharply in the first quarter. The DJ US Select REIT Index gained +4.71% during the quarter, with the index now up +25.26% over the past 12 months. Commodities once again could not find any footing during the first quarter, as energy prices continued to hover near multi-year lows. Commodities sank for the fourth consecutive quarter, with the Bloomberg Commodity Index giving up -5.94% for the quarter ended March 31. The index has fallen -27.04% over the past 12 months.

International stocks performed in line with U.S. equities in the first quarter, after having lagged for several quarters previously. One of the key drivers was the ECB's announcement that it would

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

institute its own asset purchase program, and buy up to €60 billion (about $69 billion) per month of public and private securities. The program is slated to continue until September 2016. Several of the European stock indices rallied on the news, and performed well for the quarter. In general, performance outside the U.S. was positive in the first quarter, with a notable exception being Latin America. The MSCI ACWI ex USA Index, which measures performance of world markets outside the U.S., advanced +3.59% in the first quarter, with both developed and emerging markets gaining ground. The MSCI EAFE Index of developed markets stocks rose by +5.00% during the same period. Regional performance was quite good, with the aforementioned exception of Latin America. Japan and Eastern Europe were the strongest relative performers, with the MSCI Japan and MSCI EM Eastern Europe indices posting returns of +10.34% and +10.94 %, respectively. Emerging markets performance was muted for the quarter, as lower commodities prices continued to weigh on those economies. The MSCI Emerging Markets Index posted a gain of +2.28% for the three months.

Looking Forward

The U.S. economy is in the sixth year of expansion, longer than the average expansion since World War II. Economists are, on balance, very optimistic about the prospects for continued growth, particularly since the more recent data shows ongoing improvement. Real GDP growth, while somewhat soft in the fourth quarter of 2014, is expected to approximate 3% this year, and economists anticipate that employment growth should exceed, on average, 275,000 jobs per month. Inflation does not appear as though it will be an issue in the foreseeable future, as there is little evidence of wage pressure at this point. Households remain deleveraged, and businesses are arguably in their most profitable position in history. Globally, economic trends remain fragile but are firming. Weaker currencies and lower inflation are expected to boost foreign economies, and declining oil prices could prove to be a powerful catalyst for global growth. Latin America continues to struggle, in part due to large exposure to commodity prices. Asia, while still experiencing slowing growth, should benefit from weakening currencies and stronger internal demand.

Overall we had a nice quarter and, as mentioned earlier, the S&P 500 is in its seventh consecutive year of positive performance. While much continues to go well, we also want to continue to temper expectations. The market is volatile and can turn quickly, which can be easy to forget when we are in a sustained up market. Many analysts feel the current bull market still has room to grow, which

Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

we hope is the case, but we also want to be aware of the downside, which is why we advocate diversified portfolios.

As we experience the paradigm of winter to spring, here to the unthinkable becoming the norm.

At each shift of the paradigm, the impossible presents its impeccable credentials…
and the unthinkable becomes the norm.

-Rabbi Michael Berg