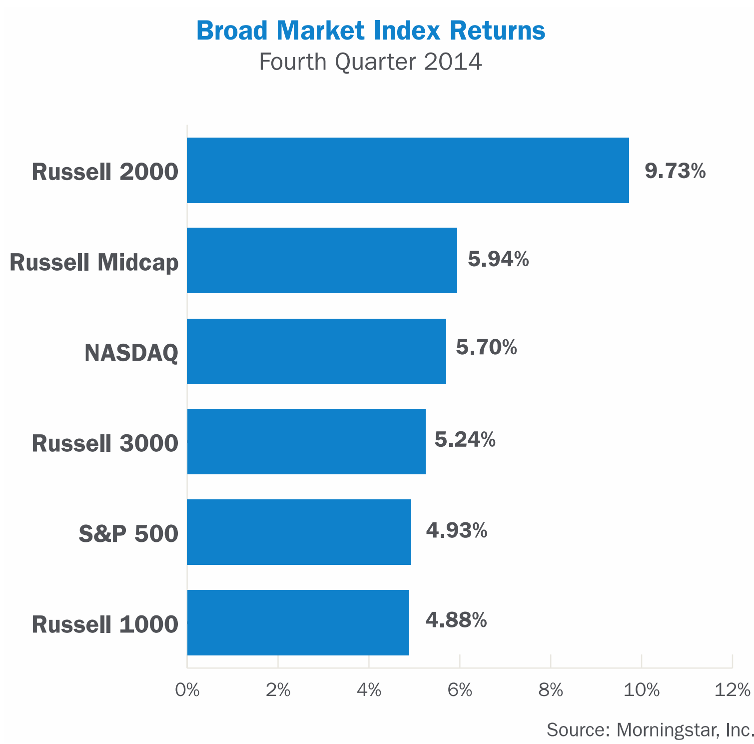
Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

THIS IS A SAMPLE QUARTERLY REPORT LETTER THAT WE SEND TO OUR CLIENTS.

Happy New Year! Following a rocky September, domestic stocks continued to slide in the first few weeks of October, but then recovered nicely the rest of the quarter. For the year we saw a bit of a mixed bag. Domestic stocks in general performed well, particularly in the large- and mid-cap areas. However, the same could not be said for international stocks and bonds, as performance outside the U.S.was generally poor. We saw continued strong performance in real estate, but with the drop in oil, commodities were hit hard. Finally, domestic bonds were up for the year.

The Economy

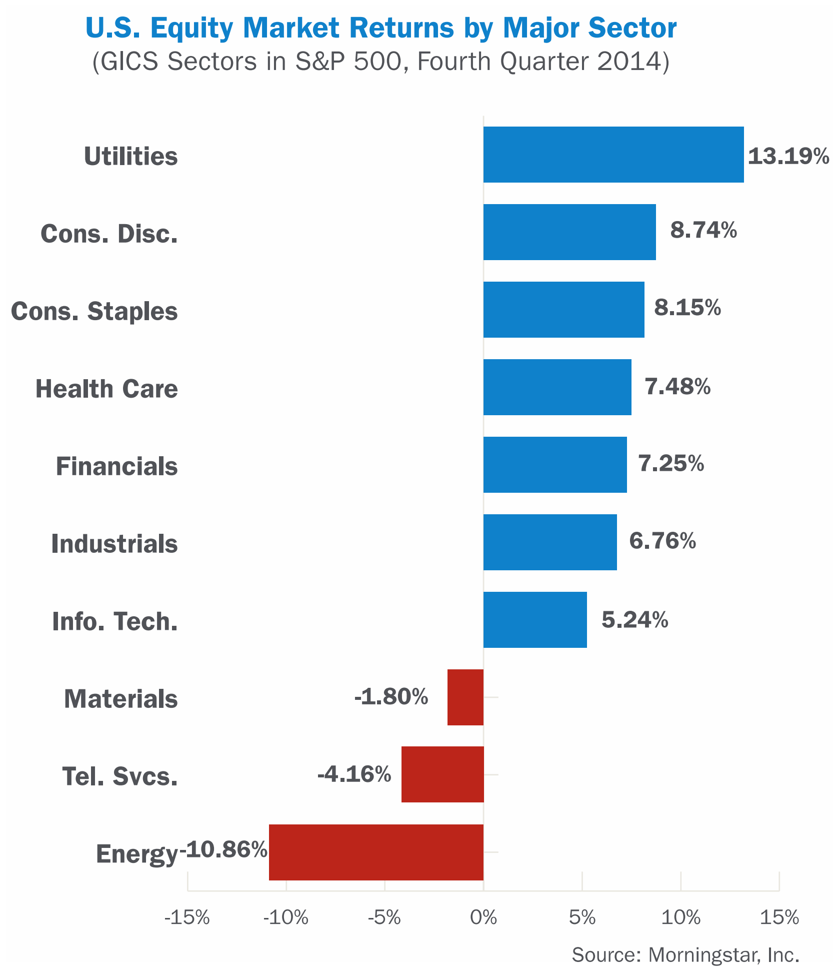
The domestic economic landscape continued to demonstrate solid improvement in the fourth quarter, building upon the gains of the prior three months. The Bureau of Labor Statistics raised its estimate of third-quarter gross domestic product (GDP) to a better-than-expected +5.0%. Combined with the second quarter's growth of +4.6%, it represented the first time since 2003 that GDP growth exceeded 4% in two straight quarters. As with the prior quarter, the gains in the third quarter were again led by an increase in consumer spending. The gain in spending was in turn powered by a strong employment situation, lower oil prices, and record stock prices. The employment situation delivered much better-than-expected results, with an average of about 278,000 jobs added each month during the quarter. The unemployment rate also declined to 5.8%, a new cycle low.



Globally, the situation wasn't quite as rosy. The eurozone's economy continues to sputter, and has even had a renewed bout of sovereign debt issues in Greece. Economists expect that the region will continue to generate tepid growth in the first part of 2015.

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

Economists expect China to continue to be the key engine for growth in the Asia-Pacific region, but policymakers may need to enact additional stimulus in 2015 to prop up growth. The country is suffering from a cooling property market, as well as excess capacity in many industries. The region's economy should benefit from lower oil prices.



During the fourth quarter of 2014 the Federal Open Market Committee (FOMC) modified the language regarding how long it would keep the fed funds rate low. The committee replaced text stating that rates would remain near 0% for a "considerable time," with language saying it would be "patient" in determining the course of rates. Many economists continue to believe that the Fed will begin to raise rates sometime in the second half of 2015.

Highlights

GDP

The Bureau of Economic Analysis released the estimate of the third quarter 2014 real GDP, a seasonally adjusted annualized rate of +5.0%, up from the +4.6% annualized growth of the prior quarter, and an increase from the prior estimate of +3.9% growth. The third quarter's result was the best since 2003, and is particularly impressive since it followed strong growth from the second quarter. The growth was driven primarily by continued improvement in consumer spending, with trade, fixed investment, and federal government also contributing. Analysts attribute the acceleration in growth to the continued improvement in the employment situation and the slide in

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

oil prices. But the main reason for the growth was the reduction in the fiscal drag. Government spending, led by defense spending, made its largest contribution to growth since 2009. Corporate profits rose by +3.1% (not annualized), after having jumped +8.4% in the prior quarter. Consumer spending grew at the same rate as GDP over the past four quarters, gaining as a result of the improving job market. Inflation moderated during the quarter, with the personal consumption expenditures (PCE) index of prices gaining +1.2% during the quarter, down from the +2.3% rate of the prior quarter. Economists are generally encouraged with the economy's expansion, and believe the growth should continue. However, the U.S. economy is diverging from the rest of the world, and may not be immune to the issues impacting many other economies.

HOUSING

The housing segment's uptrend remained on course in the fourth quarter, primarily as a result of mortgage rates that remain below 4% and the lowest level of unemployment in six years. Existing-home sales for November (the latest monthly data available) advanced at an annualized rate of 4.9 million units, slightly down from the level 5.25-million unit rate reached in October, but up about +2.1% from November 2013. November sales were the slowest since May. The inventory of existing homes remained relatively tight, with 5.1 months of supply. Existing-home prices in November were down slightly from October, but remain up +5.6% from year-ago levels. In the new-home segment the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at a level of 57, down slightly from the previous quarter's reading of 59. Despite the modest decline, the index is hovering near the highest levels in nine years, signaling that the housing recovery remains on course. Economists, however, remain concerned that a likely move by the Federal Reserve to raise interest rates will dampen activity in 2015.

EMPLOYMENT

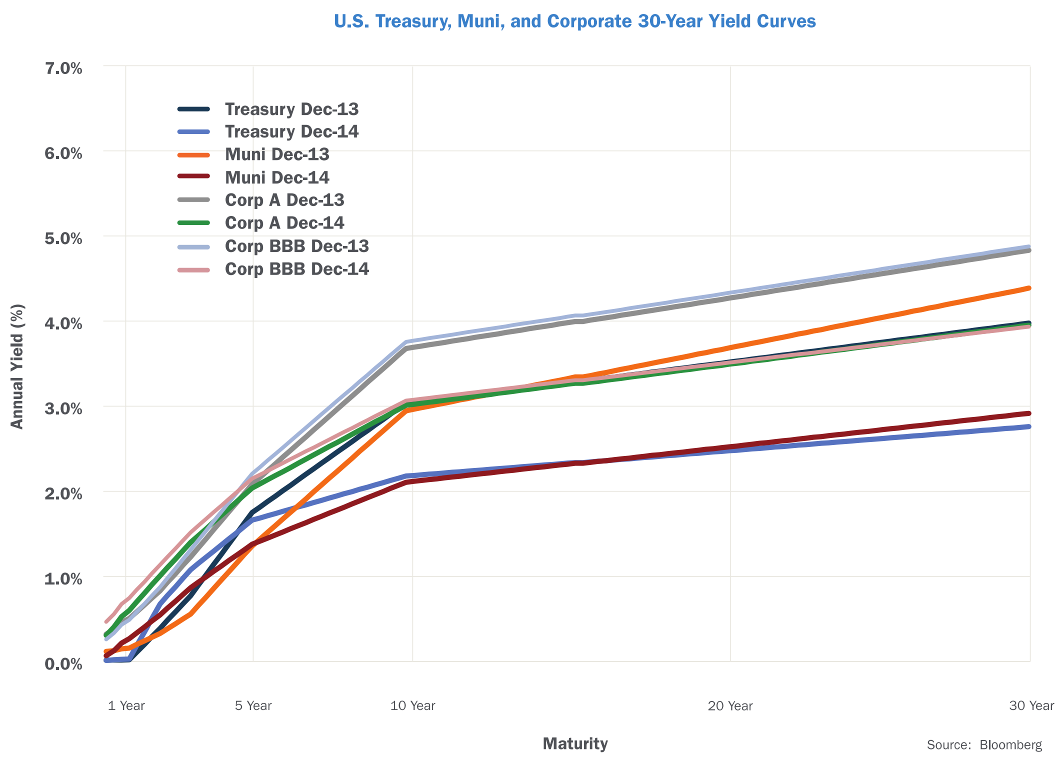
The employment situation improved dramatically in the fourth quarter of 2014. Employers added 321,000 jobs during November, a significant jump from the 203,000 jobs added in August. The three-month moving average was 278,000, a good indication of the solid improvement in the economy. Professional/business services and retail were the primary drivers of November's strong results, which respectively accounted for 86,000 and 50,000 new jobs for the month. The unemployment rate in November remained unchanged from the prior month at 5.8%, but was down from the 6.1% level of August. Analysts believe that steady payroll gains should continue, and that the unemployment rate should trend down toward 5% in 2015.

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

FED POLICY

The Federal Open Market Committee (FOMC), having completed its asset purchase program in October, began to subtly alter the language used in its post-meeting statement, removing the language stating that interest rates would remain low for a "considerable time." The FOMC replaced it with text saying it would be "patient" in determining the course for interest rates. Many economists consider this language to be somewhat dovish, enabling the FOMC to gauge the economic landscape over the next few quarters, but not necessarily altering the perception that rates will begin to rise in mid-2015. The FOMC likely wanted to allow itself some wiggle room to assess how the decline in inflation and the global slowdown impacts the domestic economy. Analysts expect that the FOMC will want to wait until the fed funds rate begins to rise before reducing the size of its balance sheet.

Interest Rates



In the fourth quarter, fixed-income securities generally posted solid gains, more than recovering the modest losses of the third quarter. Investors grappled with several issues during the quarter, including the long-awaited end of the Federal Reserve's asset purchase program, slowing global growth, and a slide in oil prices. U.S. Treasury securities continued to meet strong demand with investors seeking safety and higher yields amid global uncertainty. Treasury yields were little

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

changed in December after having declined in both October and November. Investors are now looking ahead to the prospect of higher yields as the Fed begins to normalize interest rates following a long period of accommodation.

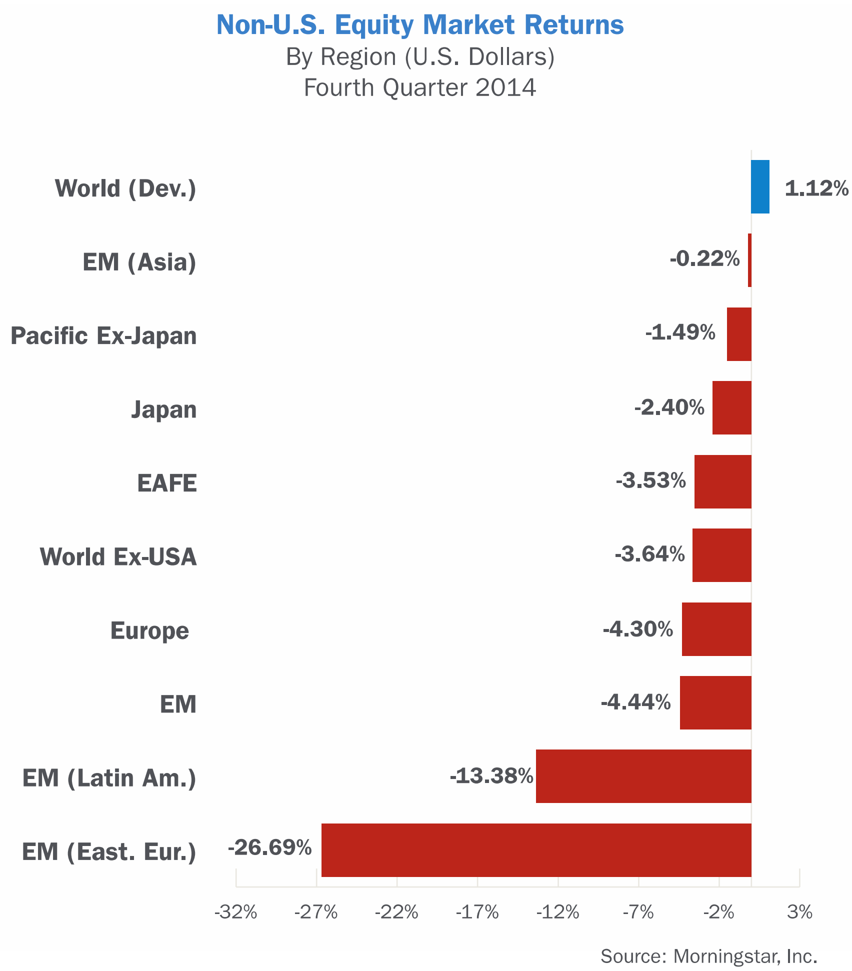
Within this environment, the shape of the yield curve continued to flatten, with short-term rates rising relative to intermediate- and long-term rates. By the end of the quarter, the yield on the benchmark 10-year U.S. Treasury ended up much lower than where it began, dropping to 2.17% from 2.49% on September 30. Yields declined precipitously for the first two months of the quarter, in part due to the divergence in economic growth between the U.S. and much of the rest of the world. Yields stabilized throughout December, with investors pivoting to anticipate a rise in short-term interest rates.

In terms of total returns, fixed-income securities generally produced positive results in the quarter, with U.S. Treasury, municipal, and certain aggregate indices generating gains. The Barclays U.S. Treasury 5–7 Year Index gained +1.83%, and the Barclays U.S. Corporate 5–10 Year Index advanced +1.48% during the quarter. High-yield securities were the weakest in the domestic fixed-income space, declining -1.00%.

Equity Markets

The fourth quarter began inauspiciously, with most major indices declining more than 5% in the first two weeks of October. Concerns about the global growth outlook and the end of the Fed's asset purchase program were the primary culprits. However, continued improvement in economic data in the U.S., the ongoing decline in oil prices, and positive seasonal trends all contributed to an explosive rebound that commenced in mid-October. The S&P 500 rocketed +8.4% in the final two weeks of the month, closing out October with a +2.4% gain. The rally continued through November, partly as a result of investor encouragement with the results of the mid-term elections, as well as with the better-than-expected employment report. In December, a -4.5% decline in the S&P 500 during the first two weeks of the month put the string of six consecutive December monthly gains in such jeopardy that even a powerful rally in the back half of the month couldn't overcome it. As a result, the S&P 500 fell by -0.25%, its first December decline since 2007. Nevertheless, the index advanced +4.9% for the quarter, and was up +13.7% for the year, its sixth consecutive calendar year of gains.

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



Probably more so than in other recent quarters, performance dispersion among the ten primary economic sectors was extremely varied, placing a premium on sector and security selection. The utilities sector was by far the best performer in the fourth quarter, posting a gain of +13.2%. In a rare occurrence, the sector was also the best performer on a year-to-date basis, advancing +29.0%. Consumer discretionary also delivered strong results, with a gain of +8.7%. The energy sector was once again the poorest performing during the quarter, declining -10.7% as a result of the severe slide in crude oil prices. Energy was also the worst performing sector for the year, declining -7.8%. Telecommunication services also fared poorly on a relative basis with a loss of -4.2%.

For the quarter, the Russell 1000 Index of large-cap stocks generated a +4.9% total return. Within the large-cap segment, value stocks slightly outper-formed growth stocks. Small capitalization stocks, as represented by the Russell 2000 Index, finally showed signs of life relative to large caps, ending with a total return of +9.7%. For the year, small caps underperformed large caps by more than 8%. Growth outperformed value within the small-cap universe. The Nasdaq Composite, dominated by information technology stocks, generated a return of +5.7% during the quarter. The Dow Jones Industrial Average of 30 large industrial companies gained +5.2% during the quarter, and was up +10.0% for the full year.

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

Real Estate Investment Trusts (REITs) rallied sharply in the fourth quarter, primarily a result of moderating interest rates. The DJ US Select REIT Index gained +15.1% during the quarter, bringing its full-year gain to +32.0%. Commodities plunged during the fourth quarter, with energy prices at multi-year lows. As a result, commodities posted a third consecutive quarter of poor performance, with the Bloomberg Commodity Index dropping -12.1% for the quarter ended December 31. The index declined -17.0% for the full year.

International stocks again underperformed U.S. equities in the fourth quarter. Europe continues to be mired in a slow growth environment, with renewed concerns emerging about countries such as Greece. Performance outside the U.S. was generally negative in the fourth quarter, with China being the only primary market generating gains. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the U.S., declined -3.8% in the fourth quarter, as both developed and emerging markets declined. The MSCI EAFE Index of developed markets stocks declined by -3.5% during the same period. Regional performance was generally negative across the board. China and Asia were the strongest relative performers, with the MSCI China and MSCI EM Asia indices posting returns of +7.1% and -0.2%, respectively. Emerging-markets performance was again negative on an absolute basis for the quarter, and also underperformed developed-markets indices. The MSCI Emerging Markets Index posted a loss of -4.4% for the quarter, bringing its full-year return to -1.8%.

Looking Forward

Domestically, recent economic trends would indicate that the economy is beginning to generate the kind of growth many analysts had expected this far along in the recovery. Third-quarter GDP growth came in at its highest rate since 2003, powered by consumer spending and business investment. The consensus among economists is that the upturn in the U.S. economy should be sustained into 2015, fueled by lower unemployment and stronger wage growth. Higher income should generate increased spending, construction and investment, and enable real GDP growth to exceed 3% in 2015 and 2016, even while the Federal Reserve raises interest rates and reduces its balance sheet. Globally, economies outside of the U.S. underperformed the U.S., but economists believe they are poised to recover beginning in the second quarter of 2015. China and other Asian economies are expected to lead the way. As always, there are certain risks to what is generally a positive outlook, including investor fear that the Federal Reserve will tighten too quickly, a resurrection of the eurozone’s sovereign debt issues, and policy missteps by China’s policymakers.

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

2014 was a year in which having a diversified portfolio, particularly with international exposure, negatively impacted performance. As explained earlier, the domestic stock markets did well, but non-U.S. markets in general did poorly. Understandably, this can lead us to want to move out of poorly performing areas and into areas that have done well recently. However, we are not inclined to chase returns. In our experience, often the sector, area of the market, or mutual fund that performed well in a given year does not lead the market in a subsequent year. Moving forward we continue to believe that international exposure is important to a diversified portfolio. Additionally, many fund managers look three to five years ahead when constructing their portfolios and therefore are not focused on short-term performance. For instance, some managers see opportunity in sectors that performed poorly in 2014. While such investments have not borne out in 2014, they may over the next few years. In fact, in the past we have seen a number of situations where a fund or investment that performed poorly in one year subsequently had strong performance in the following year. From a risk standpoint we continue to advocate diversified portfolios. We do not feel that anyone can consistently predict the market.

As always, please be sure to call us if you have any concerns about your portfolio or if you think your asset allocation is no longer appropriate for your situation. Additionally, please be sure to let us know if you have any upcoming cash needs from your portfolio that we are not currently aware of.

We want to wish everyone a very happy and healthy 2015 and to end with a quote that seems fitting for the New Year.

Go confidently in the direction of your dreams. Live the life you have imagined.
—Henry David Thoreau

Henry David Thoreau lived these words; he started his life as a son of a pencil maker and died a writer, poet, teacher, and philosopher. Because Henry David Thoreau was confident enough to follow his dreams he inspired others to do so as well. In fact, Gandhi and Martin Luther King, Jr. credit Henry David Thoreau with turning the life they were living into the life they had imagined! May we all be inspired to do the same.