

# 2014 & 2015: EVERY END IS A NEW BEGINNING

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Buffalo, NY



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# Every End is a New Beginning

## 2014 in Review

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# 2014: S&P 500 Rallies

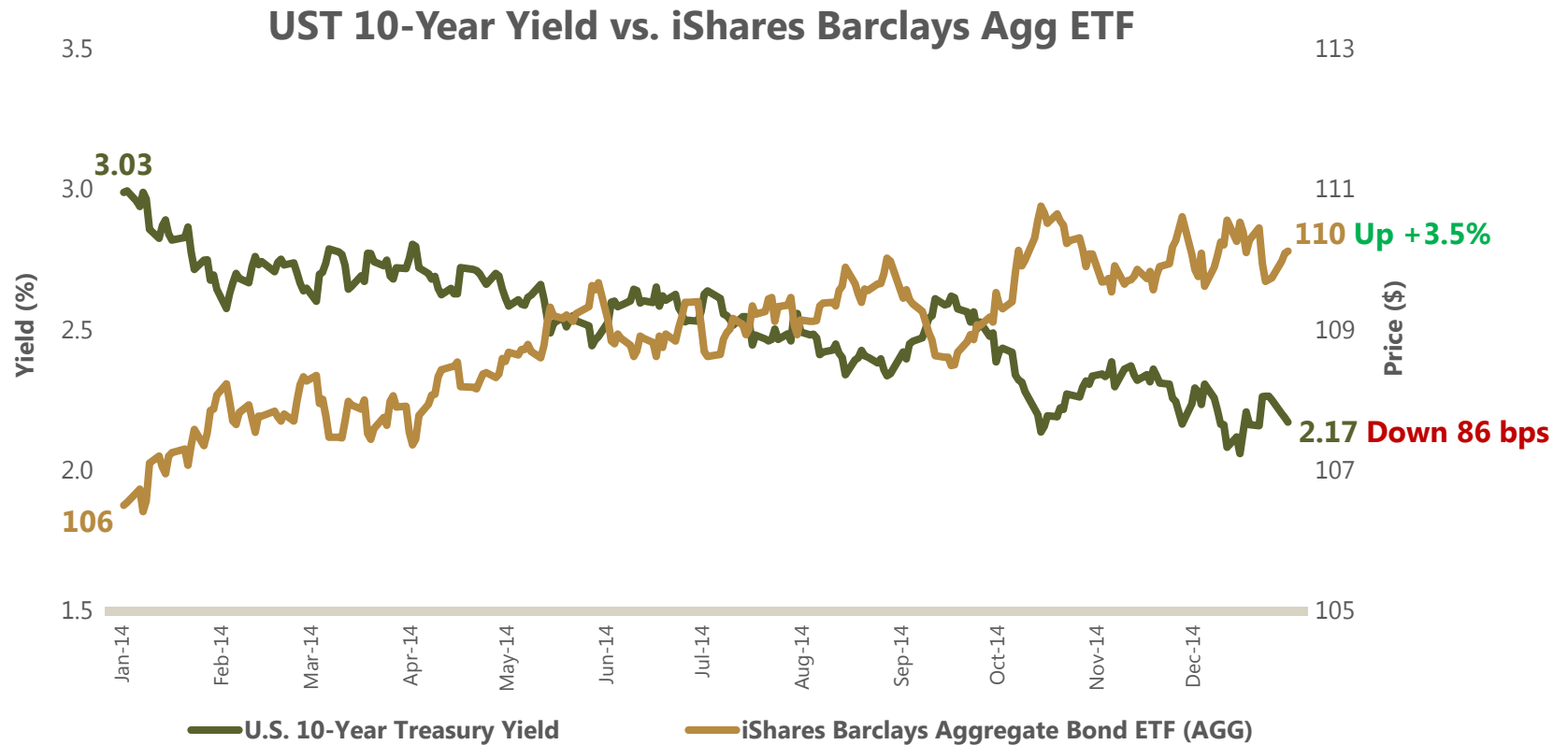
Even after 2013's +32% gain, the S&P 500 didn't take the "breather" most were expecting



Source: Price Return, Bloomberg, Through 12/31/14

# 2014: Rates Drop, Bonds Rally

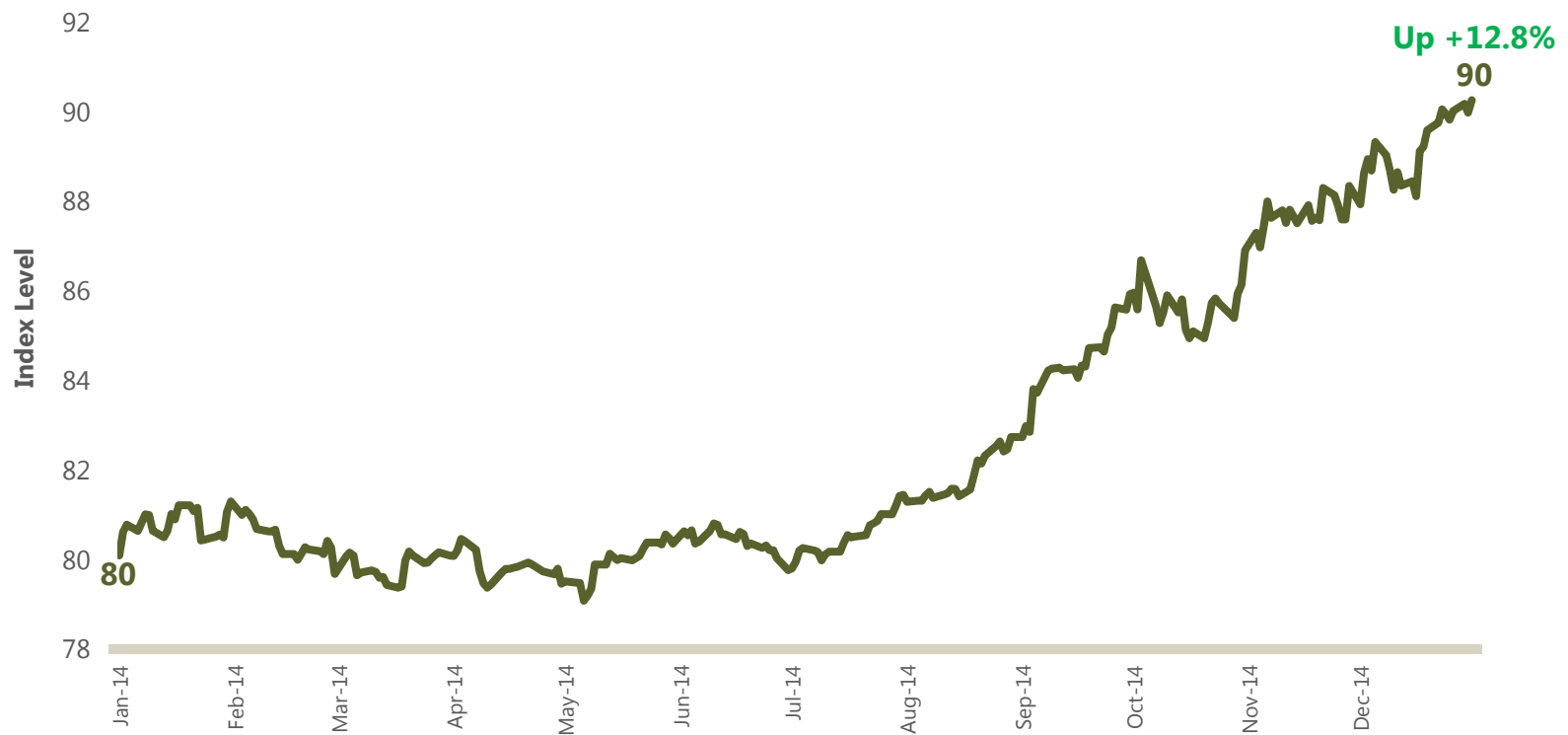
3.5% to 4.0% was expected on the 10-year, but rates dropped instead, extending the bond rally



Source: Price Return, Bloomberg, Through 12/31/14

# 2014: King Dollar Reigns Supreme

Diverging central bank activity underpinned a rally in the greenback



Source: Price Return, Bloomberg, Through 12/31/14



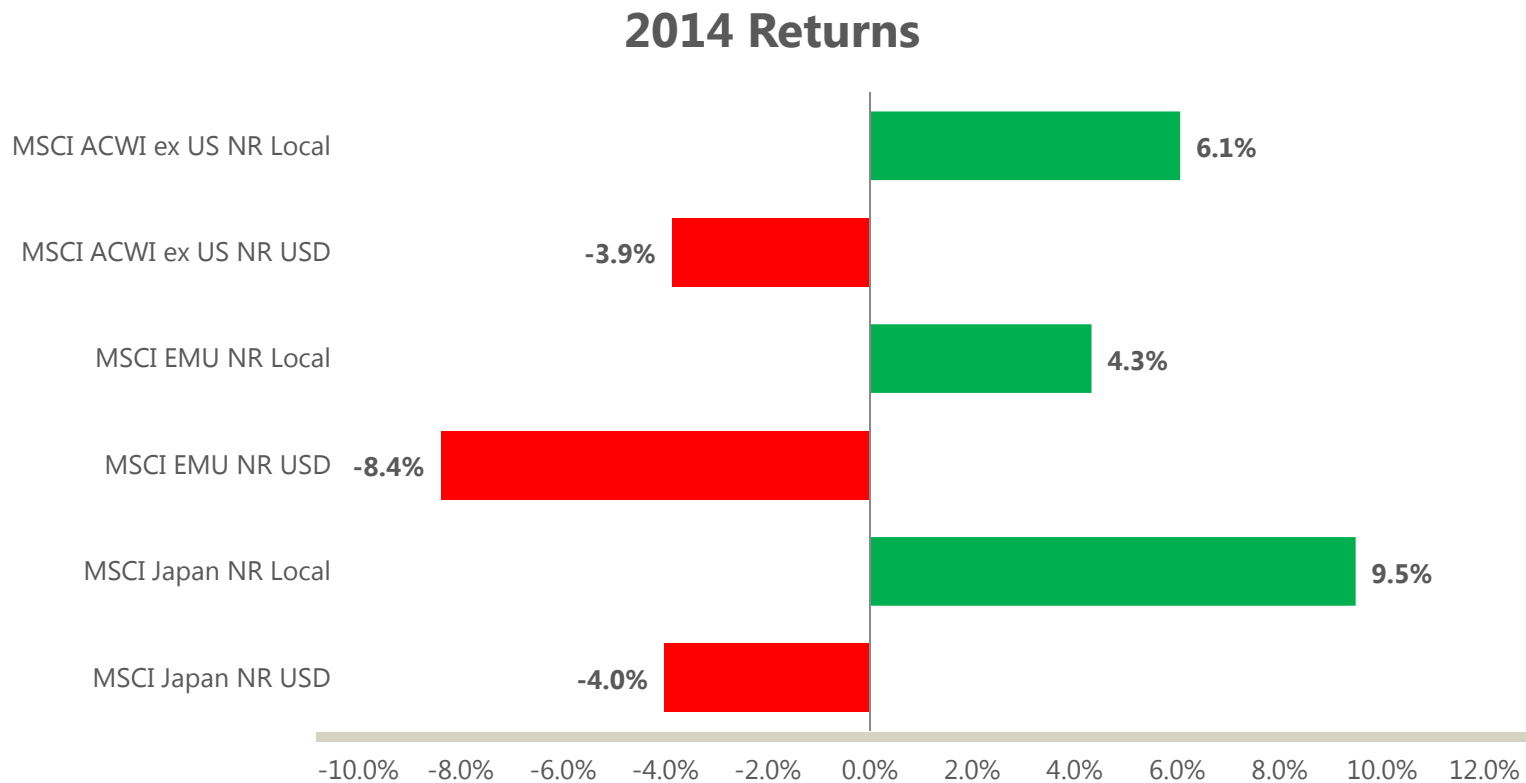
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# 2014: FX Drags Down International Equities

The rally in the dollar was a headwind for all non-dollar denominated assets

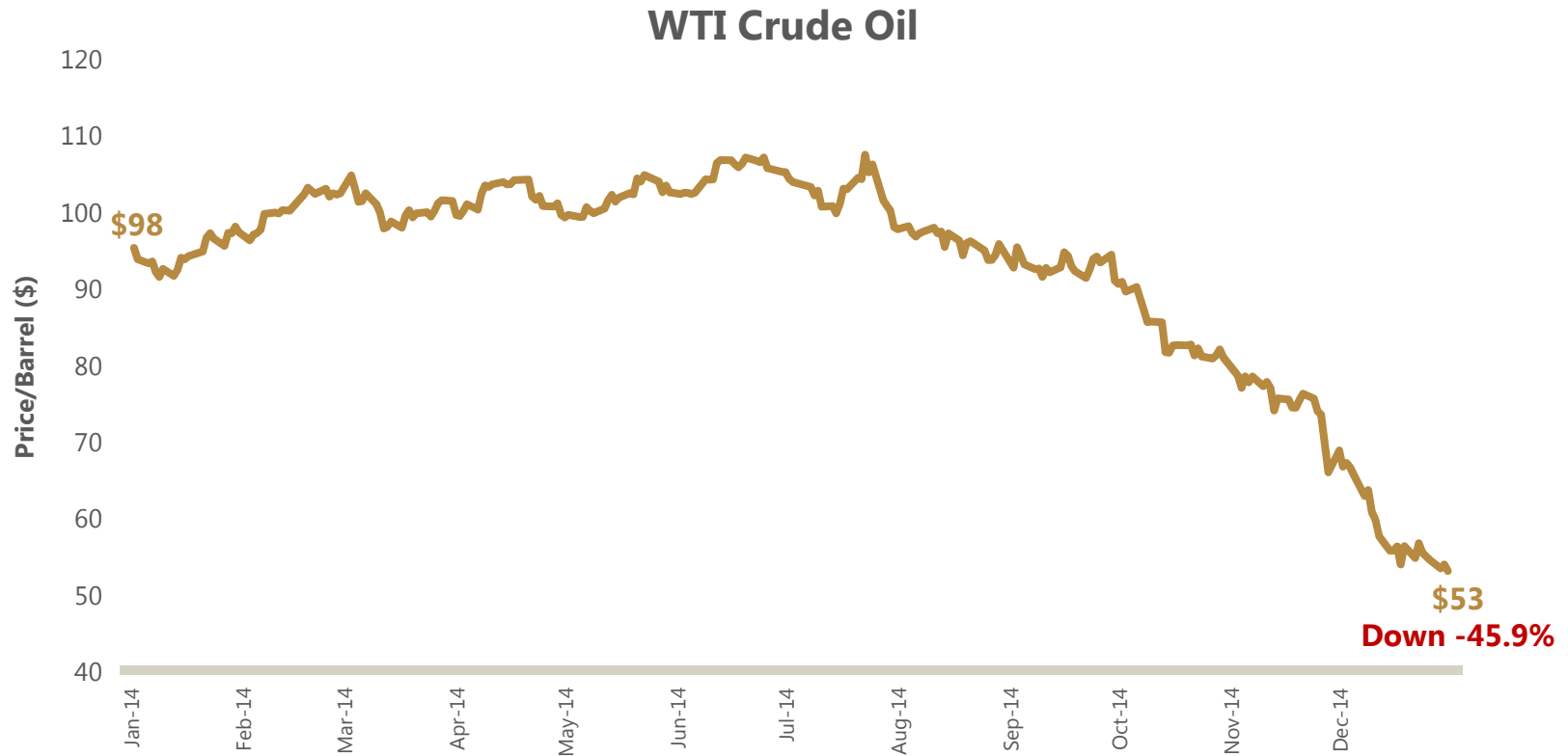


Source: Net Total Return, Bloomberg, Through 12/31/14



# 2014: Oil Plunges

Imbalance between supply and demand pushed oil lower



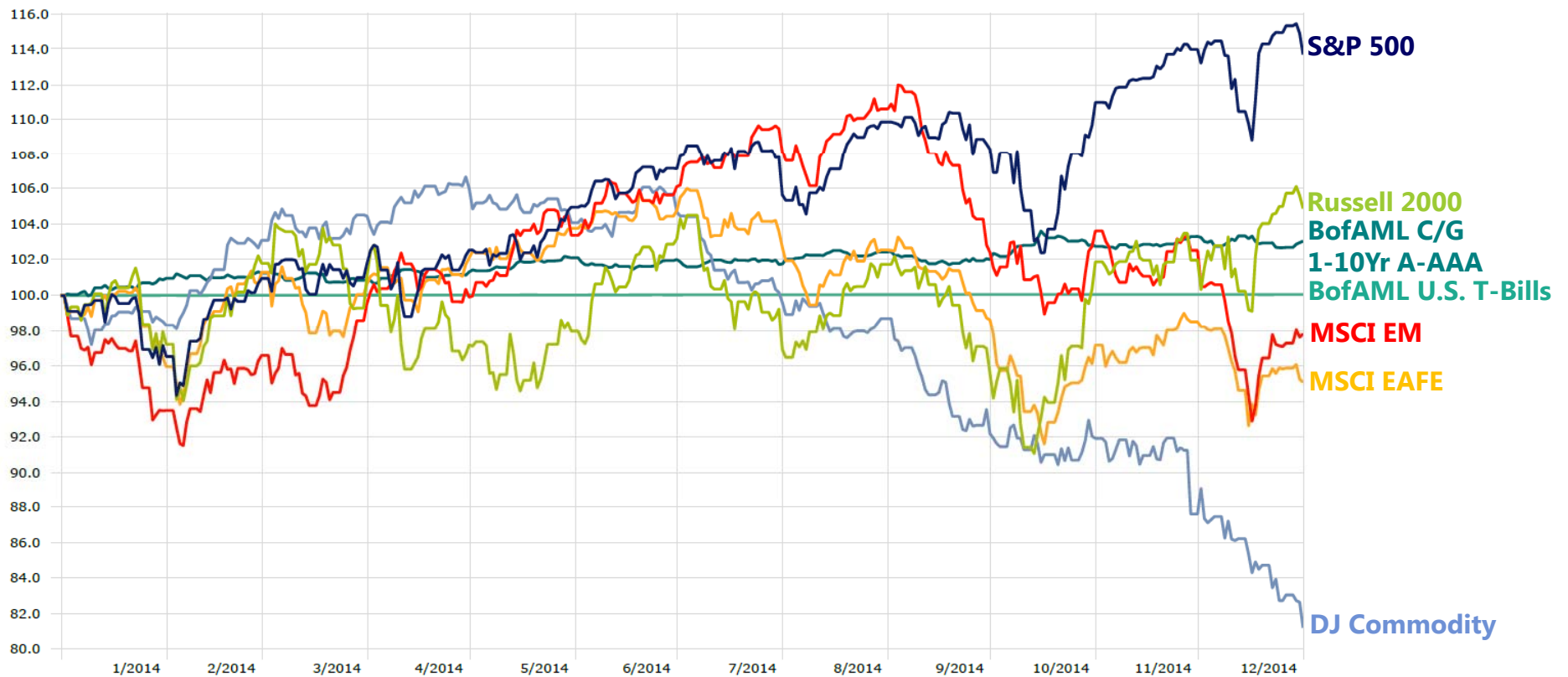
Source: Price Return, Bloomberg, Through 12/31/14

# 2014: Di-“worse”-ification?

For U.S. investors, holding anything other than large domestic stocks was less than thrilling

## Investment Growth

Time Period: 1/1/2014 to 12/31/2014



Source: Total Return, Morningstar Direct, Through 12/31/14



# 2015: Sticking With Diversification

Di-"worse"-ification can strike in any one year, while diversification holds over time

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Int'l EM Stocks 34.0%	Int'l EM Stocks 32.1%	Int'l EM Stocks 39.4%	Core Bond 5.2%	Int'l EM Stocks 78.5%	Small U.S. Stocks 26.6%	Core Bond 7.8%	Int'l EM Stocks 18.2%	Small U.S. Stocks 38.6%	Real Estate 27.2%
Commodities 17.5%	Real Estate 28.3%	Int'l Dev. Stocks 11.2%	Cash 2.4%	Int'l Dev. Stocks 31.8%	Real Estate 21.8%	Real Estate 2.4%	Int'l Dev. Stocks 17.3%	Large U.S. Stocks 32.0%	Large U.S. Stocks 13.7%
Int'l Dev. Stocks 13.5%	Int'l Dev. Stocks 26.3%	Commodities 11.1%	<b>Diversified Port.</b> -27.1%	Small U.S. Stocks 26.7%	Int'l EM Stocks 18.9%	Large U.S. Stocks 2.1%	Small U.S. Stocks 16.3%	Int'l Dev. Stocks 22.8%	Core Bond 6.0%
<b>Diversified Port.</b> 7.9%	Small U.S. Stocks 18.2%	<b>Diversified Port.</b> 7.7%	Small U.S. Stocks -33.6%	Large U.S. Stocks 25.9%	Commodities 16.7%	Cash 0.1%	Large U.S. Stocks 15.9%	<b>Diversified Port.</b> 17.1%	<b>Diversified Port.</b> 5.3%
Large U.S. Stocks 4.8%	<b>Diversified Port.</b> 15.7%	Core Bond 7.0%	Large U.S. Stocks -36.6%	<b>Diversified Port.</b> 24.2%	Large U.S. Stocks 14.8%	<b>Diversified Port.</b> -1.7%	Real Estate 15.0%	Cash 0.1%	Small U.S. Stocks 4.9%
Small U.S. Stocks 4.4%	Large U.S. Stocks 15.6%	Large U.S. Stocks 5.6%	Commodities -36.6%	Real Estate 19.9%	<b>Diversified Port.</b> 12.6%	Small U.S. Stocks -4.2%	<b>Diversified Port.</b> 12.4%	Real Estate -1.2%	Cash 0.1%
Cash 3.1%	Cash 4.8%	Cash 5.0%	Real Estate -41.0%	Commodities 18.7%	Int'l Dev. Stocks 7.8%	Int'l Dev. Stocks -12.1%	Core Bond 4.2%	Core Bond -2.0%	Int'l EM Stocks -2.2%
Real Estate 2.5%	Core Bond 4.3%	Small U.S. Stocks -1.5%	Int'l Dev. Stocks -43.4%	Core Bond 5.9%	Core Bond 6.5%	Commodities -13.4%	Cash 0.1%	Int'l EM Stocks -2.6%	Int'l Dev. Stocks -4.9%
Core Bond 2.4%	Commodities -2.7%	Real Estate -21.4%	Int'l EM Stocks -53.3%	Cash 0.3%	Cash 0.2%	Int'l EM Stocks -18.4%	Commodities -1.1%	Commodities -9.6%	Commodities -17.0%

Through 12/03/14, Total Return, Large U.S. Stocks = S&P 500, Small U.S. Stocks = Russell 2000, Int'l Developed Stocks = MSCI EAFE, Int'l EM Stocks = MSCI EM, Core Bond = Barclays Aggregate Bond, Cash = BofAML U.S. Treasury Bills, Real Estate = FTSE NAREIT All-REITs, Commodities = Bloomberg Commodity, Diversified Port. = 30% Large U.S. Stocks, 10% Small U.S. Stocks, 20% Int'l Dev. Stocks, 6% Int'l Emerging Stocks, 25% Core Bond, 3% Cash, 3% Commodities, and 3% Real Estate

Source: Total Return, Bloomberg, Through 12/31/14

# 2015: Some Upside in S&P 500, But Limited

With valuations not "cheap," 2015 returns likely to be driven by earnings

		P/E Ratio						
		14	15	16	17	18	19	20
S&P 500 Earnings	\$140.0	1960	2100	2240	2380	2520	2660	2800
	\$137.5	1925	2063	2200	2338	2475	2613	2750
	\$135.0	1890	2025	2160	2295	2430	2565	2700
	\$132.5	1855	1988	2120	2253	2385	2518	2650
	\$130.0	1820	1950	2080	2210	2340	2470	2600
	\$128.5	1799	1928	2056	2185	2313	2442	2570
	\$125.0	1750	1875	2000	2125	2250	2375	2500
	\$122.5	1715	1838	1960	2083	2205	2328	2450
	\$120.0	1680	1800	1920	2040	2160	2280	2400

		P/E Ratio						
		14	15	16	17	18	19	20
S&P 500 Earnings	\$140.0	-5%	2%	9%	16%	22%	29%	36%
	\$137.5	-7%	0%	7%	14%	20%	27%	34%
	\$135.0	-8%	-2%	5%	11%	18%	25%	31%
	\$132.5	-10%	-3%	3%	9%	16%	22%	29%
	\$130.0	-12%	-5%	1%	7%	14%	20%	26%
	\$128.5	-13%	-6%	0%	6%	12%	19%	25%
	\$125.0	-15%	-9%	-3%	3%	9%	15%	21%
	\$122.5	-17%	-11%	-5%	1%	7%	13%	19%
	\$120.0	-18%	-13%	-7%	-1%	5%	11%	17%

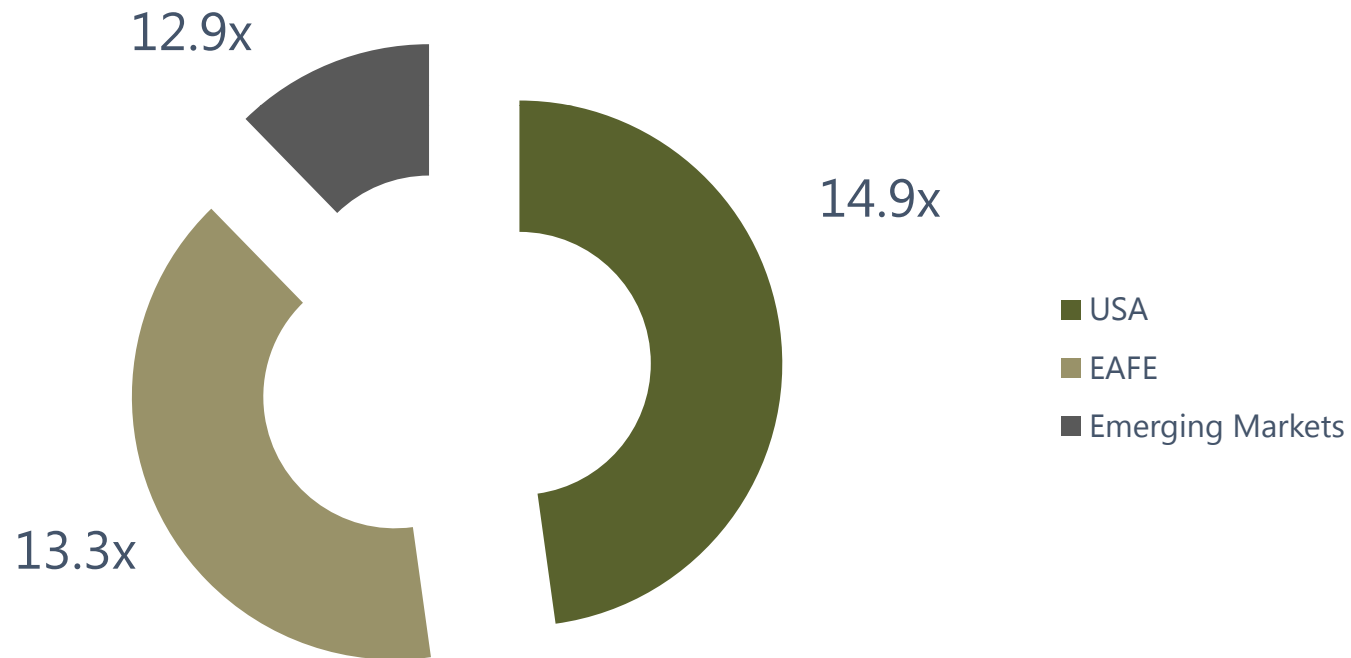
Current SPX = 2059  
 Current P/E = 17 (~Average)  
 Current Earnings Est. = \$130

Limited Upside

# 2015: Better “Value” Outside the U.S.

CY 2015 Forward P/E's look more attractive amongst emerging and developed foreign markets

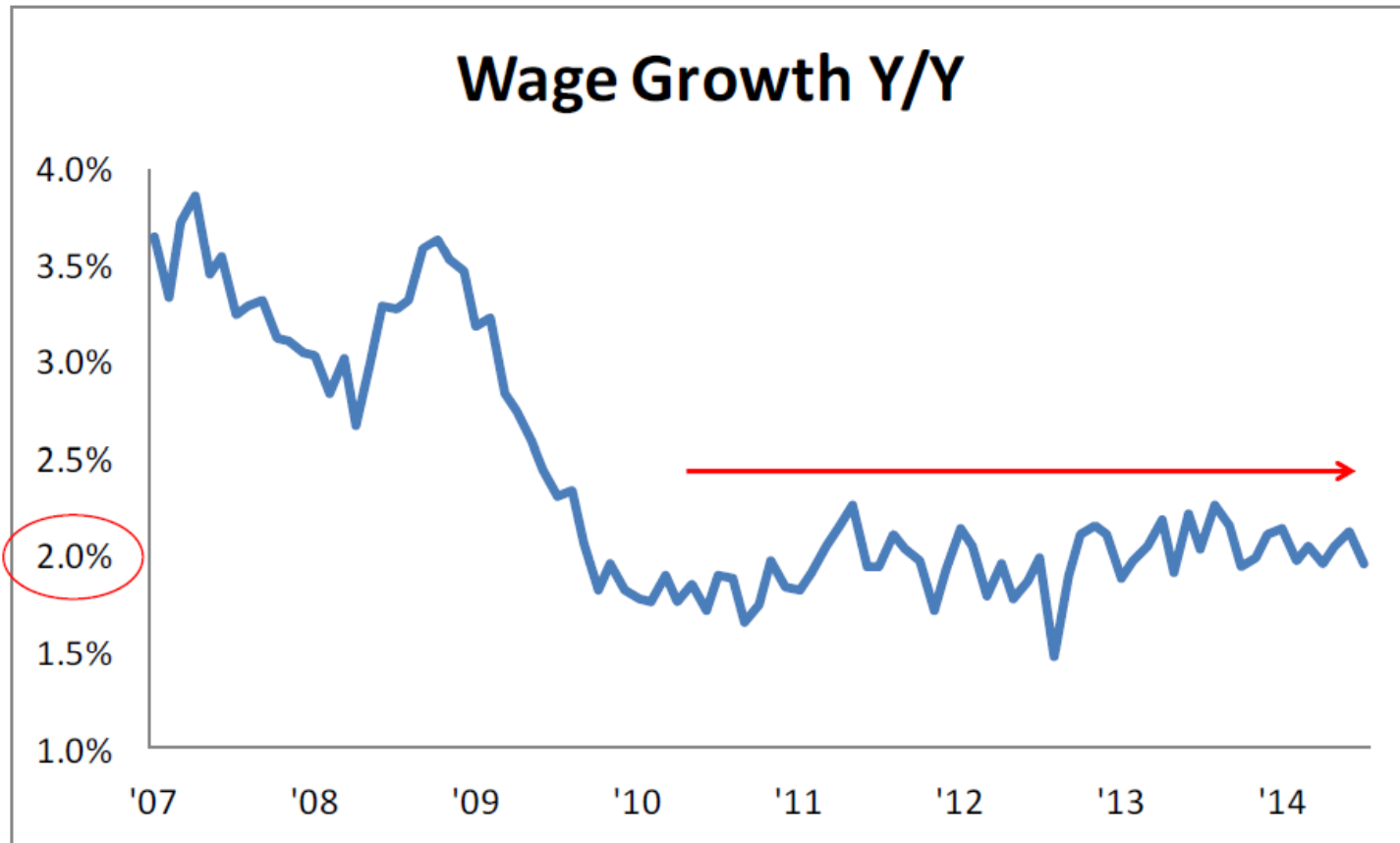
## MSCI All-Country World Index



Source: Bloomberg

# 2015: Base Case on Rates: Lower for Longer...

Weak wage growth signals labor market slack and it should keep the lid on inflation



Source: Nottingham Advisors Q3 2014 Chart Book



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