INVESTMENT COMMENTARY

As we closed out the year of 2014 we were reminded that all is not well with the global economy. In the fourth quarter we witnessed continued strength in the US dollar, and a spectacular collapse in oil prices. Greece held elections in January, resulting in Euro uncertainty as well as a decline in emerging market debt prices. The resulting increase in global risk did not produce a commensurate increase in equity risk premiums, as the S&P500 added an additional 13.7% in 2014, following a 32% return in 2013. We believe this exuberance in the equity markets can be traced to a statement made on December 17, where the Federal Open Market Commitee (FOMC) stated that with the recent market volatility they will be patient on their timing of their first rate increase. In just 5 trading days the S&P500 was up 5.5%, producing double-digit equity returns for 2014, while the strike price of the Yellen Put moved much higher.

To reiterate a statement from our last commentary, we believe that while the Fed might do a token rate increase sometime during the second half of 2015, they will likely monitor the impact of any such rate move on the economy for a considerable period before any subsequent rate increases.

In our last commentary we were also perplexed by the Euro trading in the 1.25 range to the dollar. Sure enough, it closed the year close to 1.21, which is still a perplexing premium. Greece is set for a legislative election on January 25, 2015. The leftist party of Syriza, which has made Greece's debt renegotiation a cornerstone of its campaign is maintaining a modest lead in the polls. European Currency Unit (ECU) officials are calmly proclaiming that a Greek exit from the euro is not the issue that it used to be; apparently believing that all it will take would be for Mario Draghi to say again "we will do whatever it takes". However, this leaves us wondering about the foundations of such a currency and its role as a dollar contender.

With all the central banks having morphed into a group of bond traders buying assets left and right, and their mandates apparently having changed to issuing equity market puts in the name of maximizing employment, one has to wonder when and how all this is going to end. The how we believe will not be good. The when is anybody's guess.

For the first quarter of 2015:

The duration of our portfolio is expected to remain close to the benchmark, BOA Merrill Lynch 1 Yr. Treasury Note, and our yield curve positioning to have a more barbelled structure. Despite another year of doomsday bond market predictions, we believe that the global uncertainties will provide support to the long end of the yield curve and the "expert forecasters" will be wrong once again.

Very selective credit overweight continues to be the primary theme of adding value during the 1st quarter. We maintain our significant overweight in industrial bonds, which can provide our portfolios with additional yield, and we also have a neutral allocation to financials, as we believe that the spreads offered by the sector barely compensate for the sector volatility. Despite the fourth quarter widening in some of our energy related holdings, we maintain our allocations to the sector. Our emphasis on companies that can not only withstand years of reduced oil prices, but have also shown the commitment to maintain their ratings or to reduce leverage makes us comfortable holding them, as we believe that they will add value to our portfolios going forward.

In the Mortgage-Backed Security (MBS) sector, we maintain a neutral allocation in agency MBS, as the overall MBS valuations still do not offer sufficient compensation, given their extension risk, and negative convexity impact on portfolios, and we believe that industrial bonds have a better risk-adjusted yield profile.

Evangelos Karagiannis
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Mutual Fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities that the ETF or mutual fund holds. It will also bear additional expenses, including operating expenses, brokerage costs and the potential duplication of management fees. These risks are fully disclosed in the Prospectus.

Yellen Put - The idea the Federal Reserve will protect investor from market downturns.

Strike Price - TThe price at which a specific derivative contract can be exercised.

Equity risk premiums - The excess return that an individual stock or the overall stock market provides over a risk-free rate.

Barbell - An investment strategy primarily applicable to fixed-income investing, in which half the portfolio is made up of long-term bonds and the other half comprises very short-term bonds.

Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. You can not invest directly in an index.

BofA Merrill Lynch 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. You can not invest directly in an index.

Past performance is not a guarantee of future results.

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