March 2015

Investment Outlook Report

The 2015 1st Quarter Outlook:

Investment allocation decisions and the way investors make them are interesting fields of study. They blend cold, hard rationality based on accounting, statistics and history with emotional and psychological elements. What makes sense to do rationally doesn't always "feel right". Conversely, what feels right in portfolios is sometimes the most irrational thing to do! The push and pull of rationality versus emotionality is part of what makes the markets go through boom and bust cycles.

We expect markets to keep going through boom and bust cycles for the simple reason that markets are made up of people, and people often rely on mental short cuts and social cues to make decisions. One strong force in our psyches is herding, where we are often driven to emulate the behavior of other people, for better or for worse. This trait helped us in the past – if one of us was running fast in a direction 5,000 years ago, it might have made a lot of sense to follow him. He might have been running from a predator! In the modern age, and especially in investment management, herding is not very beneficial. Herding in investments can lead to boom and bust cycles and wreak havoc on an emotional investor's portfolio.

One of the biggest stories of 2014 was the strength of the dollar, which appreciated against our major trading partners. Its value rose by more than 10% against both the Euro and the Yen, for example (Source: Bloomberg). There are some potential benefits and some drawbacks to a strong currency. For U.S. consumers, a strong dollar means we have much more spending power when shopping abroad – imported goods become cheaper and more accessible. For U.S. businesses, though, the story can be more complicated. On the one hand the strong dollar reflects the strength of the U.S. economy. On the other hand, foreign competitors have just been handed a big advantage – a cheap currency!

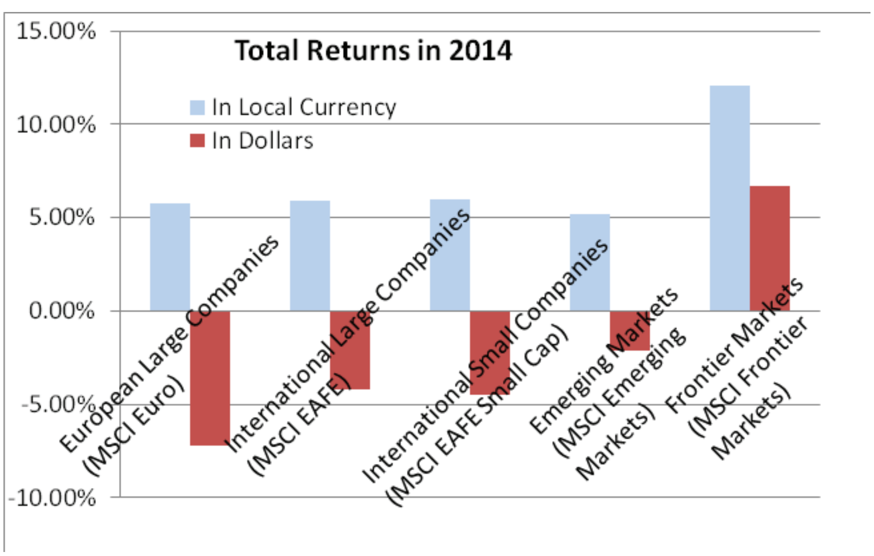

Chart Source: Bloomberg

Due to the currency fluctuations, U.S. investors in foreign stocks had a materially different experience last year as compared to foreign investors. A European investor looking at her Euro-denominated statement would have seen a modest positive return, but when those same returns were converted back into dollars they swung into negative territory. The strong dollar created a similar environment last year for a range of foreign asset classes, where positive returns swung to losses due to currency fluctuations. Returns in dollars are an important metric for U.S. investors – we spend dollars in retirement, after all! We should not lose sight of the bigger picture though – foreign markets are holding up well.

Currencies will fluctuate. They respond to a host of factors from macroeconomic trends to short term investor preferences for risk or safety. Their movements are not predictable, but the impact they may have on earnings can be very substantial. Last year's currency moves are likely to put wind into the sails of foreign companies.

Also one of the big stories of 2014, oil prices. In hindsight it is easy to explain how oil fell 50% from its peaks – better fuel efficiency standards, better technology for getting oil out of the ground in the U.S. and Canada, and a reluctance on the part of OPEC to cut production. The ease of explaining the drop, though, hides the difficulty of forecasting. How is it that one of the most important commodities in the world can lose half of its value without a material change in fundamentals?

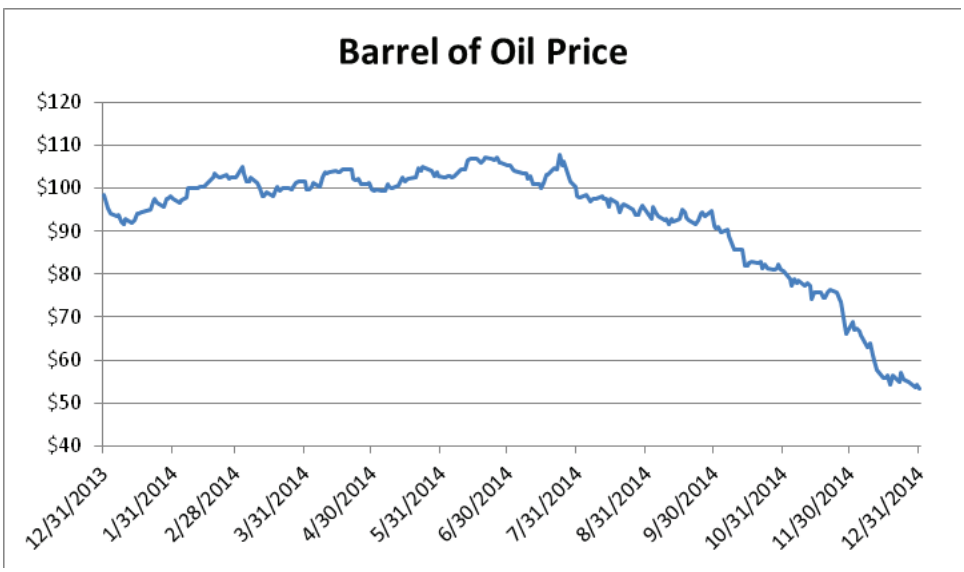

Chart Source: Bloomberg

Potentially, this is a good example of herding. Commodities as a whole have been on a wild ride over the past 10 years. Commodities became a very popular investment after an uncharacteristic increase in the price of many commodities. People at cocktail parties in 2011 might have discussed the merits of investing in gold after it had surged to a record high, or the risk that the world would run out of oil. This might have triggered our human herding trait, leading us to pursue these investments. There was no worse time to invest in commodities – gold gave up 40% of its value since its 2011 peak through the end of 2014, and the decline in oil price has been even more severe.

Commodities are an example of the boom and bust cycle in action and how our tendency to herd contributes to it. Patient investors who can resist this tendency, and better yet act against it and look different will see many opportunities to take advantage of it. Commodities may be one space where there will be an opportunity to go against the herd, especially if prices continue to fall.

As we consider what 2015 may bring, we watch the boom and bust cycles of the market and look for opportunities to look different from the herd. We know that our fundamental human traits will lead markets into periods of euphoria and turbulence over time, and that these periods can create opportunities for investors with a cool head on their shoulders.

RegentAtlantic

1200 Mount Kemble Avenue - Morristown, NJ 07960-6797

973-425-8420 - Fax 973-425-8434

www.regentatlantic.com

Important Disclosure Information

Please remember that different types of investments involve varying degrees of risk, including the loss of money invested. Past performance may not be indicative of future results. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, including the investments or investment strategies recommended or undertaken by RegentAtlantic Capital, LLC ("RegentAtlantic") will be profitable. Please remember to contact RegentAtlantic if there are any changes in your personal or financial situation or investment objectives for the purpose of reviewing our previous recommendations and services, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement discussing our advisory services and fees is available for your review upon request. This article is not a substitute for personalized advice from RegentAtlantic. This information is current only as of the date on which it was sent. The statements and opinions expressed are, however, subject to change without notice based on market and other conditions and may differ from opinions expressed in other businesses and activities of RegentAtlantic. Descriptions of RegentAtlantic's process and strategies are based on general practice and we may make exceptions in specific cases. The index returns shown above show the total return for various investment indices and include the impact of the reinvestment of dividends. A comparison to indices may not be a meaningful comparison. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the performance of a client's portfolio. The investments in a client's portfolio may differ substantially from the securities that comprise each index and are not intended to track the returns of any index. One cannot invest directly in an index, nor is any index representative of any client's portfolio. Actual client accounts will hold different securities than the ones included in each index. The index returns are gross of applicable account transaction, custodial, and investment management fees. The actual investment results would be reduced by such fees and any other expenses incurred as an investor. Please below for definitions of the indexes used. MSCI Euro -The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. The index consists of stocks in the following developed market countries: Austria, Belgium, Findland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Spain. The index contains almost 300 stocks and represents about 85% of the market capitalization of these countries. MSCI EAFE -The MSCI Europe, Australia and Far East (EAFE) Index is a free float-adjusted market capitalization weighted that is designed to measure equity market performance in foreign developed markets. The index represents about 85% of the market capitalization of developed markets outside of North America. MSCI EAFE Small Cap Index -The MSCI EAFE Small Cap Index Fund targets 40% of the eligible small cap universe in each industry group of each country represented by the MSCI EAFE Index. MSCI defines the small cap universe as all listed securities that have a market capitalization in the range of $200 - $1500 million USD. In addition to this capitalization range, MSCI uses a specialized framework of foreign inclusion factors to adjust the market capitalization of securities for free float available to foreign investors. MSCI Emerging Markets Index -The MSCI Emerging Markets Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of the following emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. MSCI Frontier Markets Index - The MSCI Frontier Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of frontier markets. The MSCI Frontier Markets Index consists of the following frontier market country indices: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine, and Vietnam.