TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2015

Quarterly Insights

EXECUTIVE SUMMARY

For A Change, U.S. Large Cap Stocks Did Not Lead In Q1

In the First Quarter, the domestic S&P 500 Index rose 0.96%, but the rest of the world did a little better. The extremely strong U.S. Dollar had negative currency translation effects on the earnings of U.S. multinational companies. Only two out of 10 sectors out-performed the S&P 500 Index: Health Care (+3.81%) and Discretionary (+3.55%). The bond market was active as the Barclay's Aggregate Bond Index rose 1.66% in the First Quarter. We believe the strong U.S. Dollar could delay a rate hike from the Federal Reserve.

Return Volatility Falls Over Longer Time Frames

Investors tend to be very short-term focused in terms of what drives their market sentiment and investment decisions. There are pitfalls of moving too quickly to adjust your portfolio - transaction costs, capital gains, potential loss of step-up cost basis, and poor market timing. The stock market has averaged an annualized 10.11% return since 1926. On a year by year basis, the standard deviation from this average return is over 20%. However, the standard deviation drops dramatically the longer the time frame. Put another way, returns become more predictable over longer periods.

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First Quarter 2015

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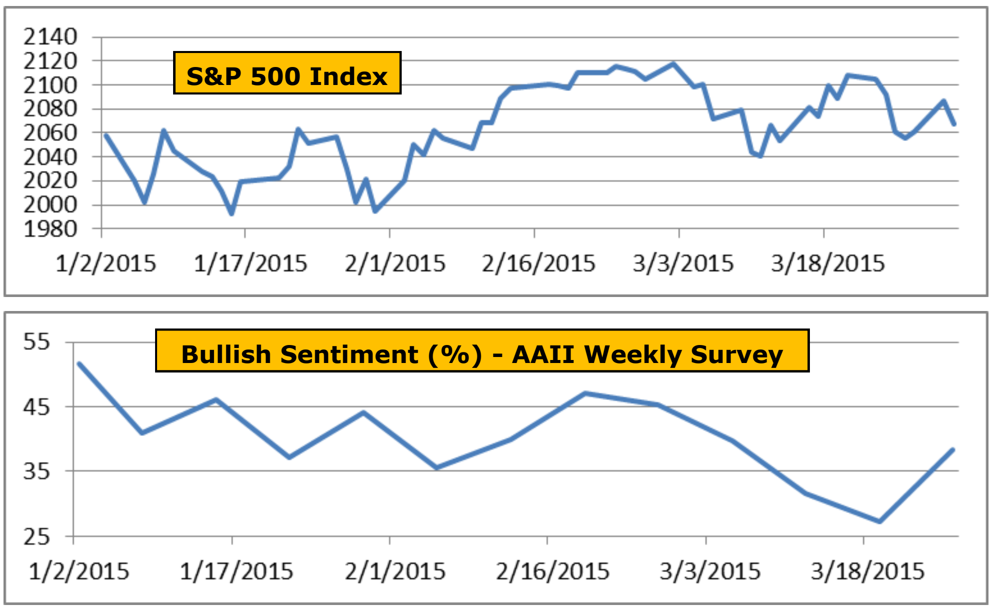
Return Volatility Falls Over Longer Time Frames

Both Investors And The Media Tend To Be Very Short-Term Focused

Investors tend to be very short-term focused in terms of what drives their market sentiment and investment decisions. Sentiment is highly influenced by what has happened over a matter of days or weeks versus months or years. Consequently we see a "herd mentality". Investors flock to what has done well most recently and flee what hasn't. If there is a market pause or decline, investors feel the urgency to exit with the intent to "re-enter when the time is right". The herd is usually wrong.

Consider the movement of the S&P 500 Index in the First Quarter and the corresponding investor sentiment. While the index was slightly up (+0.96%) for the quarter, it had considerable fluctuation. January was down 3%, February was up 6%, and March was down 2%. Investor sentiment mirrored market movement as evidenced by bullish sentiment measured by the American Association Of Individual Investors (AAII). The S&P 500 Index fell below 2000 three times in January. As investor sentiment correspondingly fell, how many people pulled out of the market? These investors missed a subsequent 4% index rise by quarter end.

Investor Bullish Sentiment Mirrors The Movement Of The S&P 500 Index



Source: Telemet, AAII

The media also tends to be very short-term focused. For example, on an "up day" in the market, you will find television shows and written literature trying to justify why the market went up that day ("a strong economy"). On a "down day", you will find these same sources trying to justify why the market went down that day ("concerns about the economy"). "Up" and "down" days often follow each other, and it doesn't make intuitive sense that the economy can go from "strong" to "not strong" in a matter of a day or two.

TriVant Is Long-Term Focused

At TriVant, we try to look forward much further in terms of our market expectations and corresponding strategy. The "shorter-term" blips in the market (daily, weekly, monthly, and even quarterly) and the corresponding editorials that try to explain/justify these blips often do not sway us. We try to "avoid the noise" and make our own judgments. We will never be right about everything, but if we are more right than wrong, we are confident our clients will do well.

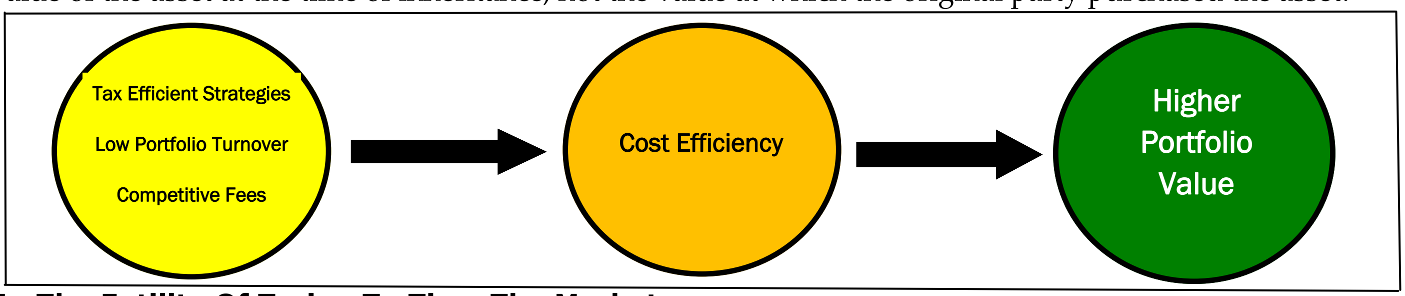
There Are Pitfalls Of Moving Too Quickly To Adjust Your Portfolio

More often than not, investors adjust their portfolio as a knee-jerk reaction to perceived market conditions rather than a deliberate longer-term game plan. They don't consider the following when taking action:

1. Transaction Costs
Portfolio turnover is the annualized measure of trading activity that takes place in your portfolio. When portfolio turnover is high, transaction costs are high. This results in a smaller portfolio value over time.

2. Capital Gains
In taxable accounts (versus tax-deferred accounts) there may be substantial unrealized gains, especially given the huge market run since 2009. If an investor sells securities with unrealized gains, there is a 100% chance of a tax bill and a far less chance that the portfolio move will prove successful.

3. Potential Loss Of Step-Up Cost Basis
In taxable accounts, a "step-up in cost basis" is the readjustment of the value of an appreciated asset for tax purposes upon inheritance. With a step-up basis, the value of the asset is determined to be the higher market value of the asset at the time of inheritance, not the value at which the original party purchased the asset.



4. The Futility Of Trying To Time The Market
The 2014 DALBAR QAIB study found that over the last 20 years, investors earned 4.20% less annually than the S&P 500 Index market return . Over half this gap was from market timing; the rest unnecessary costs.

Return Volatility Falls Over Longer Time Frames

In a perfect world, you would like to be in the market when it is good and out of the market when it is bad. We are not in a perfect world! There are numerous studies (including the one mentioned above) that show it is a low probability of success to try and time the market by jumping in and out. We are not saying that under certain conditions we would not make dramatic adjustments to your portfolio. We are saying that it is a highly risky proposition to be out of the market in cash. The best game plan is to be disciplined regarding your target asset allocation. Be there for the gains when they occur.

It is interesting to note how consistent market returns have been from an historical standpoint (despite market corrections). The stock market has averaged an annualized 10.11% return since 1926. On a year by year basis, the market standard deviation from this average return is over 20%. However, the standard deviation drops dramatically the longer the investment time frame. Put another way, the stock returns become much more predictable the longer the investment time frame. Patience is key in successful investing.

Return Volatility Falls Over Longer Time Frames				
	1 Year			
Average Return	10.11%			
		Trailing 10 Year	Trailing 20 Year	Trailing 30 Year
Standard Deviation	20.07%	5.64%	3.38%	1.34%

Source: Telemet

Five Reasons Why Women Are Better Investors Than Men

Financial decision making can be challenging as we are influenced by biases, emotions and irrational behavior that we may not be aware of, and even if we are aware of them, we may not be able to easily control them. Financial self-control is a growing research area in behavioral finance, which combines the disciplines of psychology and finance. According to a 2011 Barclays Wealth Insights study of high net-worth investors, there are five reasons why women are better investors than men.

Barclays Wealth Insights Study: Five Reasons Why Women Are Better Investors Than Men

Excerpts From Barclays Wealth Insights 2011 Study

Women Trade Less Frequently

Since the proportion of losses we observe increases when we use shorter time periods, loss aversion means our willingness to accept risk is much lower when we focus on the short term than it should be. Most of the time the best advice is simply to do less than you are inclined to. Men trade more frequently, perhaps as a risk aversion strategy. Greater trading frequency leads to higher commissions and fees, which can erode returns and potentially undermine an investment strategy. Women are more likely to stay the course long-term.

Women Use Proven Strategies

When faced with tough financial decisions, it is tough for investors to do the right thing as prescribed by classical finance. "Failures of rationality" make it difficult to stick to proven financial strategies, resulting in missed opportunities, short-term financial decision horizons, buying high and selling low, and action bias (trading too frequently). Women are more likely to use proven financial strategies and avoid these mistakes.

Women Carefully Consider Risk

The study found that men are more likely to consider themselves financial risk takers and are more willing to choose high risk investments in order to achieve higher returns, even when sticking to financial principles would have achieved higher gains. Women pursue a steadier course and have more stable returns.

Women Exhibit Greater Discipline

Of the study participants, it was concluded that using tested investment strategies (such as a dedication towards target asset allocation) was linked to increased financial satisfaction and greater wealth. Women comprise a higher percentage of those individuals possessing a high degree of financial discipline.

Women Don't Try To Time The Market

Women more commonly use self-control strategies - a trait that makes them less likely to react in haste to market swings. Men try to time the market more often, exposing them to greater risk and return variability.

Source: Barclays Wealth Insights 2011

Principles In Action

By many measures, Q1 S&P 500 Index performance (+0.96%) was tame. Other developed regions did better. Only two of the 10 S&P sectors out-performed the index. Is it time to take drastic action? Did we already miss the boat? No! We closely stuck to a game plan (emphasis on U.S. large cap stocks) that has worked very well for four years (in fact, we had our best-ever quarterly benchmark out-performance). The Q1 time frame was too short to conclude any new and meaningful trends. There are potential pitfalls of moving too quickly and we want to emulate the good traits of the successful women investors! Since return volatility falls over longer time frames, returns become much more predictable with a disciplined approach to investing.

Stock Market Spotlight

For A Change, US Large Cap Stocks Did Not Lead The Way In Q1

In the First Quarter, the domestic S&P 500 Index slightly increased, but for the first time in a while did not keep pace with the foreign markets. The extremely strong US Dollar had negative currency translation effects on earnings of US multinational companies.

Equity Index Performance

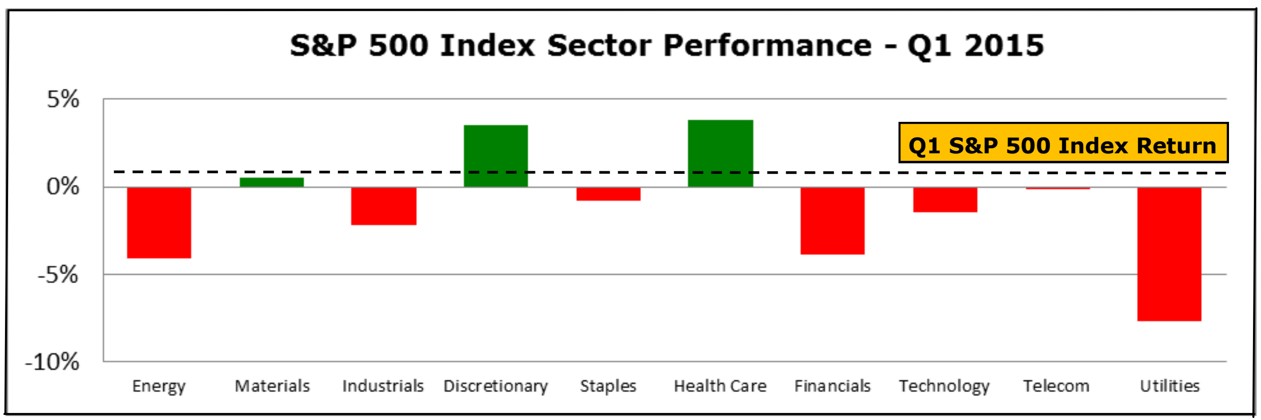
Index	Q1 2015	2014
S&P 500 (Domestic)	0.96%	13.69%
The US Dollar Index*	8.95%	12.55%
MSCI EAFE (Foreign)**	4.88%	(4.90%)
MSCI Emerging Markets	2.24%	(2.19%)
MSCI EMU (European Monetary Union)	5.33%	(8.39%)
MSCI Japan	10.21%	(4.02%)

* Source: Telemet

** Europe, Australia and the Far East

The 2014 Trend Of Wide-Ranging Sector Performance Continued In Q1

Only two out of 10 sectors out-performed the S&P 500 Index: Health Care (+3.81%) and Discretionary (+3.55%). One sector lagged but was positive: Materials (+0.48%). The 7 remaining sectors were negative. Energy continued to fall (it was the only sector in the red in 2014, down 10.6%) as oil prices fell 10.12% in Q1.



We Beat Our Benchmark In Q1

We comfortably beat our S&P 500 Index benchmark in Q1. Reasons why we prospered included:

- A further increase in European exposure
- Maintaining a sector over-weight position to Health Care and Discretionary
- Maintaining a sector under-weight position to Energy and Utilities
- Favorable stock selection

We anticipate further increasing European exposure as the European Central Bank (ECB) continues its quantitative easing. It was inevitable that foreign markets would bounce back a little after lagging so much for several years - we just didn't know when. We do not believe it is the time to make drastic adjustments.

Bond Market Spotlight

Bond Returns Rise In The First Quarter

The Barclay's Aggregate Bond Index, a broad-based representation of fixed income performance, rose 1.66% in the First Quarter to follow up a solid +6.04% for 2014. Q1 performance was equally driven by short duration bonds and the more-interest sensitive long duration bonds.

Key U.S. Interest Rates	December 31, 2014	March 31, 2015	Change
Federal Reserve Board Funds Target Rate	0-0.25%	0-0.25%	No change
5-Year Treasury (Constant Maturity)	1.66%	1.41%	-25 basis points
10-Year Treasury (Constant Maturity)	2.17%	1.84%	-33 basis points
30-Year Treasury (Constant Maturity)	2.75%	2.54%	-21 basis points

Note: 100 basis points (bp) = 1.00% Source: Telemet

The U.S. Dollar Continues To Surge

The U.S. Dollar has surged over 20% in the last 9 months. The common explanation is that the U.S. economy is in better shape than the rest of the world, attracting investment and thereby raising demand for dollars. However, the rapid devaluation of other currencies against the dollar is also being abetted by foreign governments and their central banks. A nation that deliberately lets its currency sink in value "puts itself up for sale". This can help revive growth by slashing prices of the country's exports and by making its stocks, real estate and other assets bargains for foreign investors. Will this trend continue?

There Are Six Currencies <u>In The Index</u>

Euro

British Pound

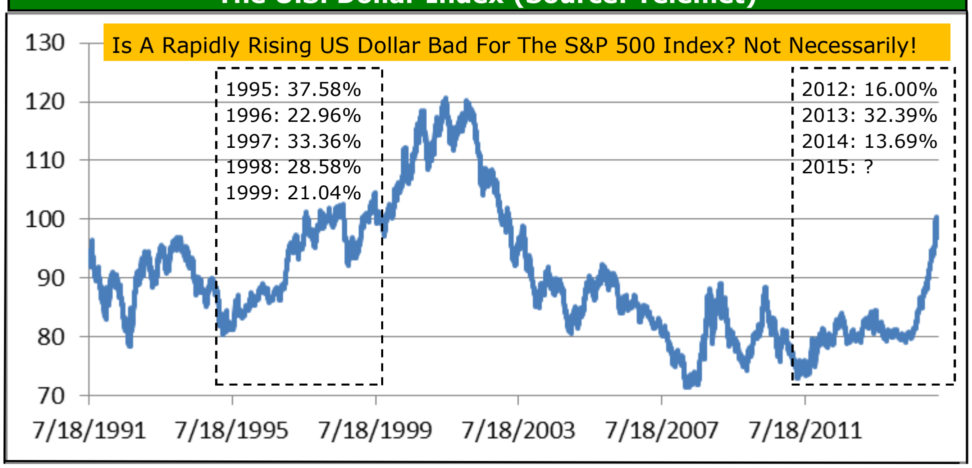
Japanese Yen

Swiss Franc

Canadian $

Swedish Krona

The U.S. Dollar Index (Source: Telemet)



A Strong U.S. Dollar Complicates The Fed's Rate Policy

Historically the Fed hasn't paid much attention to U.S. Dollar swings, instead concentrating on its dual mandate of stable prices and full employment. Right now, inflation is stable (1.70%) and unemployment is 5.5% ("full employment"). The Fed should be ready to hike rates. However, the U.S. Dollar's steep ascent against world currencies could delay the first Fed rate hike since 2006. Fed Chairwoman Janet Yellin has made it clear that the U.S. Dollar is on policymakers' minds as they contemplate what to do with rates. Higher rates would lead to further currency appreciation, likely hurt U.S. exports, and result in job layoffs at companies with foreign sales. We anticipate a delayed initial rate hike (this fall at the earliest) and slow future hikes over the next couple of years. Given our outlook, we maintain our bond strategy at this time.

Your Portfolio

This quarter was interesting in that foreign stocks led, but the main reason was the strength of the U.S. Dollar partially perpetrated by foreign governments and their central banks. We maintain confidence in the U.S. economy and U.S. companies. Adding foreign exposure will be a gradual process.

During the quarter, we bought McCormick (symbol: MKC), which is the undisputed market leader in spices and seasonings. We also bought Adecco (symbol: AHEXF), a Swiss staffing company that provides human resource solutions globally but with a strong position in Europe (65% of revenues). Finally, we added to the Exxon (symbol: XOM) and Chevron (symbol: CVX) positions.

We sold Total (symbol: TOT), a French oil giant. Our reasons for selling TOT included the significant amount of funds they have tied up in development as oil prices have plummeted, its relatively higher cost of production versus its competitors, and its exposure to Russia in the midst of sanctions. We also sold T. Rowe Price (symbol: TROW). Since they concentrate in mutual funds, TROW has no exposure to the growing ETF (exchange-traded-funds) industry. Finally, we trimmed Apple (symbol: AAPL) and Celgene (symbol: CELG) for risk control. These companies have done very well, but by doing so, their relative portfolio weightings became too high.

Many topics we discuss in our Quarterly Insights reports are driven by your questions. We appreciate your feedback and concerns. It helps give us an idea of what discussion topics are of most interest to you.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

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