TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2016

Quarterly Insights

Fourth Quarter 2015

EXECUTIVE SUMMARY

How We Beat The S&P 500 Index In 2015

In 2015, the domestic S&P 500 Index was up 1.38% and led most global markets. Emerging Markets (down 14.91%) was the huge laggard. Energy (down 17.41%) was a sector disaster for the second year in a row. The key to managing well in 2015 was to underweight the Energy and Materials sectors, and to avoid Emerging Markets exposure. We did all of these. Bond performance was mediocre. The Barclay's bond index finished the year up 0.57%. Hidden in the index was how bad high yield bonds performed. We did not have high yield bond exposure.

Why We Will Continue To Raise Foreign Weighting In 2016

We believe the S&P 500 Index will rise 6% in 2016. The recent Fed rate hike signals US restrictive monetary policy. The rest of the world is accommodative. History favors stock out-performance under accommodative monetary policy.

We believe inflation is coming soon. Over the last 6 years, unemployment has declined to 5%, wages have risen an annual 4%, yet we haven't seen higher inflation. Expect it. History shows double the rate of inflation under restrictive monetary policy.

John Barber, CFA
Chief Investment Officer

Dan Laimon, MBA
Managing Member

Michael Harris, CFA
Vice President

In This Issue

www.trivant.com

1-866-4-TRIVANT

toll free

2015 - The Year In Review

How We Beat The S&P 500 Index In 2015

We reflect on 2015 as a year where most things went our way in terms of portfolio strategy but the S&P 500 Index significantly lagged our initial forecast. The S&P 500 Index rose 1.38% in 2015 (we anticipated a 14% to 18% rise in our Quarterly Insights January 2015 report). Having said that, it performed in line with other developed market indices and significantly out-performed emerging markets, which did not surprise us. The four factors we thought would drive up the US stock market in 2015 - a healthy US economy, an accommodative Fed, low energy prices, and reasonable stock valuations - all played out. We continued to emphasize large cap US stocks, a strategy we have maintained with high success for over four years (see Quarterly Insights July 2011, US Blue Chip Stocks: Unloved And Attractive). The key to managing well in 2015 was to underweight the Energy and Materials sectors, and to avoid Emerging Markets exposure. We did all of these.

1. Huge Regional Performance Disparity

US performance was in line with other developed markets in 2015. However, emerging markets performance lagged considerably. Rapidly falling energy prices was a major factor in the emerging markets descent. Regional emphasis largely determined portfolio success (or failure).

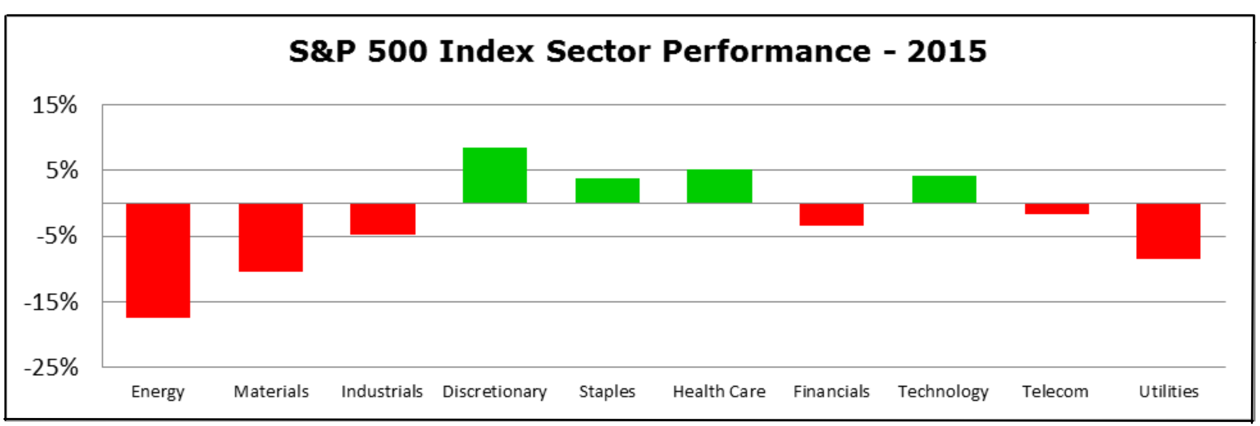
Equity Index Performance

Index	2015
S&P 500 (Domestic)	**1.38%**
MSCI EAFE (Foreign) *	**(0.82%)**
MSCI Emerging Markets	**(14.91%)**
MSCI EMU (European Monetary Union)	**(1.42%)**
MSCI Japan	**9.57%**

* Europe, Australia and the Far East

2. Wide Range Of Sector Performance

Only four out of 10 sectors out-performed the S&P 500 Index: Consumer Discretionary, Technology, Health Care, and Staples. Materials considerably lagged. Energy was a disaster for the second year in a row.

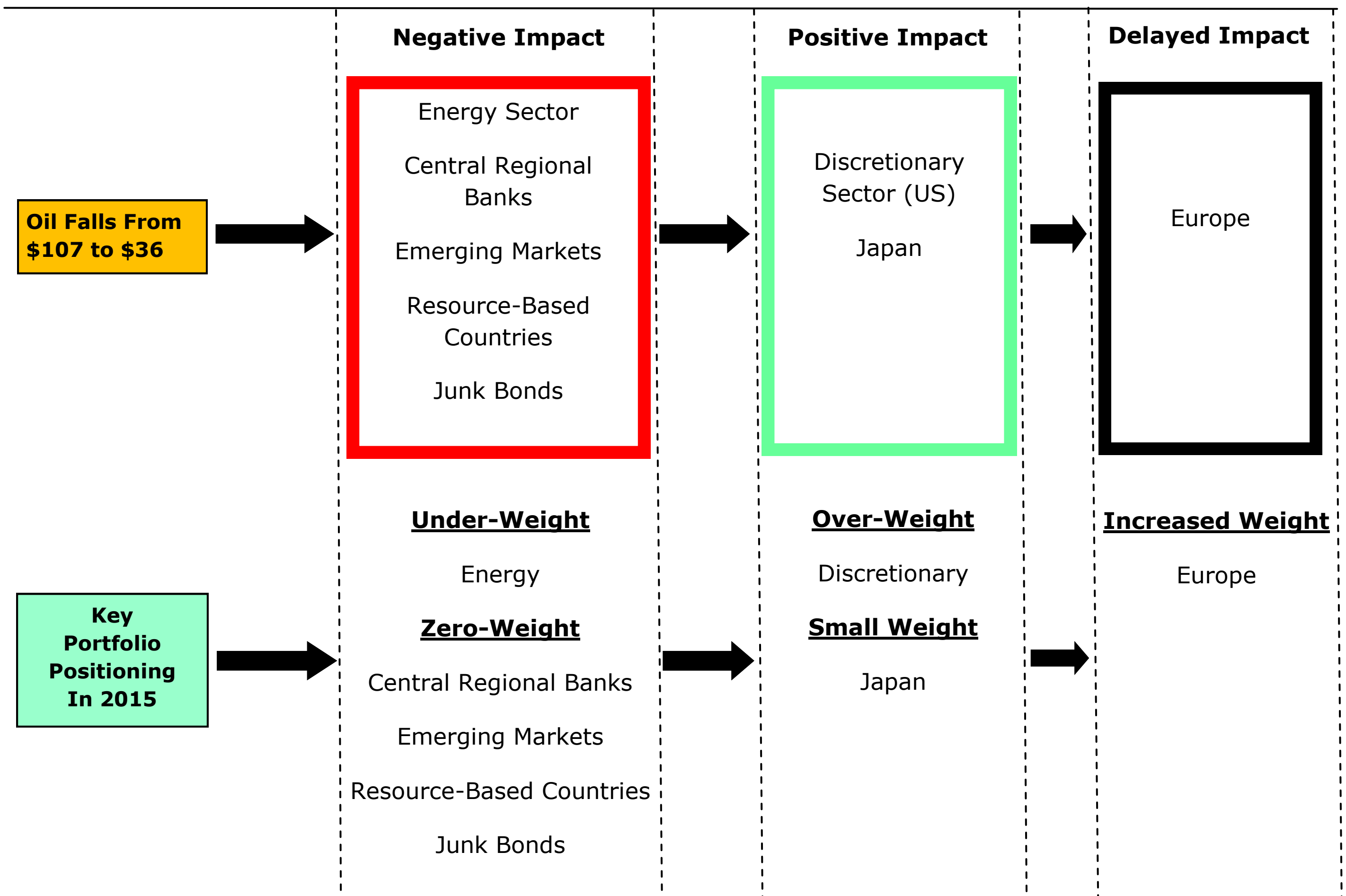


The Key To Our Stock Market Out-Performance In 2015 Was Our Energy Call

For the last two years, we believed that the price of oil would fall. While we were right, we did not anticipate the magnitude of the fall. Between July 2014 and now, the price of oil fell 65% (from $107/barrel to $36/barrel).

There have been severe repercussions of the oil price slide that extend way beyond the Energy sector itself. Alternatively, there have been beneficiaries of very low oil prices. Some effects are too early to determine. The key to our S&P 500 Index out-performance in 2015 was how we positioned the portfolio to these factors.

The Domino Effect Of Oil Falling From $107/Barrel (July 2014) To $36/Barrel (December 2015)



Factor	Comments
Energy Sector	Not only did we under-weight Energy, we had better-performing large companies.
Central Regional Banks	We avoided regional banks that had heavy lending exposure to oil companies.
Emerging Markets	We avoided emerging markets, including the many oil producers such as Russia.
Resource-Based Countries	Countries such as Australia and Canada faltered; we had no exposure.
Junk Bonds	High yield bonds with exposure to energy companies got decimated (see page 6).
Discretionary Sector (US)	Low oil prices gave consumers more disposable income, which helped the sector.
Japan	Japan imports all its oil; lower prices benefited its manufacturers and consumers.
Europe	We expect European stocks to benefit from oil prices, but it hasn't happened yet.

2016 - Looking Ahead

Stock Outlook: We Believe The S&P 500 Index Will Rise 6% In 2016

We believe the S&P 500 Index will rise 6% in 2016. The S&P 500 Index has been positive for seven consecutive years and our maintaining a very large (85%+) US portfolio weighting over the last five years has yielded significant performance benefits given the considerable US out-performance (see page 5, Equity Index Performance). While we continue to see attractive investment opportunities in the US, we also see improved potential in foreign markets given the recent US Fed Rate hike.

> **"We have two classes of forecasters: Those who don't know – and those who don't know they don't know."**
> **John Kenneth Galbraith**

Restrictive US Monetary Policy Historically Leads To Lower S&P 500 Index Returns

On December 16, 2008, the Fed lowered its target rate to 0% due to conditions caused by the financial crisis and the Great Recession. Exactly 7 years later to the day (December 16, 2015), the Fed raised its target rate to 0.25%. The dual Fed mandate of full employment and price stability is being met - the unemployment rate is 5% and the inflation rate is 0.5% (source: Bureau of Economic Analysis). With current GDP at 2.1% and 2016 estimates ranging from 2.5% to 3.0%, we view the economy in good health and anticipate future gradual Fed rate hikes. Restrictive monetary policy conditions (rate hikes) historically lead to lower S&P 500 returns.

US Stock Market Performance Under Different Monetary Conditions: January 1966 To December 2013

	All Monetary Conditions (576 Months)	Expansive Monetary Conditions (172 Months)	Indeterminate Monetary Conditions (209 Months)	Restrictive Monetary Conditions (195 Months)
S&P 500 Return (Annualized)	10.56%	15.18%	11.10%	5.89%

Source: "Invest With The Fed" (Maximizing Portfolio Performance By Following Federal Reserve Policy)

Accommodative Foreign Monetary Policy Favors Increased Foreign Exposure

Significant US out-performance over the last five years (see page 5, Equity Index Performance) has been driven by an accommodative Fed monetary policy. Now the Fed is shifting towards a restrictive policy.

The European Central Bank (ECB) has shifted from restrictive monetary policy (austerity) to accommodative. The ECB has a lone mandate to aim for an inflation rate of below but close to 2% over the medium term. Right now, inflation is 0.2% (source: The Economist). This allows monetary flexibility. There have been three recent instances of ECB 0.10% (10 basis point) rate reductions (June 5, 2014; September 9, 2014; December 3, 2015).

Japan has had loose monetary policy for many years. Several other global regions are implementing or considering accommodative monetary policy to bolster their economies.

The US "went against the grain" for 7 years with accommodative policy, and it is now shifting gears. The rest of the world is also shifting gears - but in the opposite direction to the US. History favors stock out-performance in accommodative monetary conditions. We believe this is a good time to continue raising our foreign exposure.

We Will Continue To Gradually Increase Our Foreign Exposure

In 2011, we did something in our portfolio that was both unpopular and seemingly contrary to market trends: we moved towards a very high concentration in US blue chip stocks. Here is an excerpt from our Quarterly Insights July 2011 (US Blue Chip Stocks: Unloved And Attractive, page 2):

Skyrocketing oil prices, higher emerging markets demand for oil, and a weak US Dollar stemming from the Fed's quantitative easing, has resulted in oil companies making more money than any industry in history. Gold has broken through the $1500 an ounce range. Emerging markets regions such as China and India boast higher GDP growth and are up 200% in market value over the past decade. In a delayed response, investors are hitching up to oil, materials, and emerging markets. Will they be late to the party again? We think so. Investors should look elsewhere. We think the time is right for US blue chip stocks.

What a difference five years can make! Oil prices plunged amidst weakened demand from emerging markets and oil companies are hurting badly. Gold is close to $1000 an ounce. The Fed put the brakes on quantitative easing. The US Dollar appreciated considerably against major global currencies. Emerging markets stocks plummeted. US blue chip stocks were fortunately the place to be, aided by accommodative Fed policy while others (notably Europe) preached austerity. But nothing lasts forever - US market momentum ceased in 2015.

Equity Index Performance

Index	2011	2012	2013	2014	2015	5 Year Cumulative	5 Year Annualized
S&P 500 (Domestic)	**2.11%**	16.00%	32.39%	**13.69%**	1.38%	80.7%	12.50%
MSCI EAFE (Foreign)*	(11.12%)	17.91%	22.77%	(4.90%)	(0.82%)	21.3%	3.60%
MSCI Emerging Markets	(18.11%)	18.69%	(2.66%)	(2.19%)	(14.91%)	(30.6%)	(4.80%)
MSCI EMU (Europe)	(18.40)%	22.49%	28.94%	(8.39%)	(1.42%)	16.4%	3.05%
MSCI Japan	(16.21%)	8.36%	27.16%	(4.02%)	8.57%	21.4%	3.61%

* Europe, Australia and the Far East

Over the last five years, the US has more than quadrupled the returns of other developed regions and literally crushed the performance of emerging markets. The most dramatic US out-performance was in 2011 and 2014. During these years, the US was positive while everywhere else was negative. Will the US resume its five-year trend and out-perform in 2016? We don't know. However, the odds of US out-performance go down when taking monetary policy into consideration. In contrast to 2011-2015, the US is now restrictive and the foreign markets are now accommodative. This should favor the probability of foreign out-performance.

Bear in mind we are discussing probability, not certainty. We will always have considerably greater domestic versus foreign weight in stocks. It is just a matter to what degree. Since our inception, our foreign weighting (in a 100% stock portfolio) has ranged roughly 10% to 30% depending on market and risk considerations.

During our shift to heavy US stock emphasis in 2011, we maintained a 10% foreign weighting. In 2014, we increased our foreign portfolio weighting, albeit slightly. In 2015, we raised our European exposure. We view global opportunities as even more attractive now and will continue to increase our foreign exposure in 2016.

As was the case in 2011, our portfolio style rotation may feel uncomfortable to you. Please keep the faith!

Bond Market Spotlight

2015 Was A Mediocre Year In The Bond Market

The Barclay's Capital US Aggregate Bond Index, a broad-based representation of bond performance, fell 0.56% in the Fourth Quarter and finished the year up 0.57%. This is a stark contrast to 2014 when the index was up 6.04%. Bear in mind that 2014 performance was primarily driven by the more-interest-sensitive long duration bonds, which was not the case for 2015 performance.

Key US Interest Rates	Jan. 1, 2015	Dec. 31, 2015	Change
Federal Reserve Board Funds Target Rate	0-0.25%	0.25%	+ 25 basis points
5-Year Treasury (Constant Maturity)	1.66%	1.80%	+ 14 basis points
10-Year Treasury (Constant Maturity)	2.17%	2.31%	+ 14 basis points
30-Year Treasury (Constant Maturity)	2.75%	3.04%	+ 29 basis points

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

Investors Hurt Reaching For Yield In 2015

The government has had a policy of financial repression for the past several years. Repression is defined as a deliberate attempt to hold down interest rates to a level below inflation. This effectively acts as a tax on savers because bond returns are so small. Because interest rates have been so low for several years, bond investors have become desperate for some yield or return for owning bonds. This desperation led many investors (not us) to take higher-than-prudent risk in lower-quality (junk) high-yield bonds. The performance results of various high-yield income producing investments were horrible.

"The muscles that were pulled in that extraordinary reach for yield are starting to hurt real bad."

Tweeted By Ivan the K

Investment	2015 Return	Stated Yield
Barclay's Capital US Aggregate Bond Index	0.57%	
Vanguard Long Term Bonds (BLV)	(3.99%)	4.00%
iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	(6.77%)	7.75%
Credit Suisse S&P MLP ETN (MLPO)	(23.60%)	No longer available
Third Avenue Focused Credit Fund (TFCIX)	(26.80%)*	No redemptions
Utilities Sector	(8.39%)	3.70%

* According to Business Insider

Third Avenue Focused Credit Fund has been one of the largest high yield bond mutual funds for several years with over $2 billion in management as recently as last year. Due to its significant exposure to energy company debt and defaults amidst dramatically declining oil prices, the fund performance sagged and prompted numerous sell order requests from frustrated investors. Unable to meet the high level of redemption requests, the fund was shuttered. A "Liquidating Trust" was established. Investors will not be able to receive their funds back (whatever that final settlement amount may be) until the trust liquidation is completed. This is expected to take 18 months.

Bond Outlook: We Believe That Inflation Is Near

The Phillips Curve shows the close relationship between unemployment and inflation. Simply put, when unemployment is high there is little pressure on wages because employers can find many job applicants. As unemployment rates fall, prices tend to rise as pressure on wages can cause inflation.

Unemployment has steadily declined since the recession to a very healthy 5.0% today. Wages have been rising at a strong rate, but we have not yet had a spike in inflation rates.

Post Recession Data: Core Inflation, Unemployment, and Wages

End Of Year	CPI*	Unemployment	Rise In Wages
2015	0.44%	5.0%	4.36%**
2014	0.72%	5.6%	4.85%
2013	1.51%	6.7%	(0.69%)
2012	1.76%	7.9%	10.65%
2011	3.02%	8.5%	3.23%
2010	1.42%	9.4%	2.64%

Source: Telemet

* Consumer Price Index: includes energy and food
** As at November 15, 2015

We believe that the dramatic decline in energy prices has masked the inflationary pressures in the economy (which we believe are increasing). The current inflation expectation using 5 Year Treasurys is about 2%. We believe inflation will be higher than that. The Fed's recent shift towards restrictive monetary policy shows their concern about future inflation. Historically, inflation has been nearly twice as high (5.13% versus 2.86%) with restrictive versus accommodative policy (source: Invest With The Fed). We will likely add to Treasury Inflation Protected Securities (TIPS) as a protection against rising inflation.

Portfolio Strategy

Many high yield bonds were created in the last couple of years to fund the expansion of oil production with new technologies such as fracking. Our view on falling oil prices helped us avoid the temptation of reaching for yield in risky areas. There is a time to own higher yielding bonds but we do not believe the time is now. We will continue to avoid high yield bonds.

For further reference regarding our rationale to avoid high yield bonds, in our Quarterly Insights July 2015 (see page 6) we wrote a section entitled "Chasing Yield In A Low Interest Rate Environment Is Risky". In our Quarterly Insights October 2015 (see page 5), we wrote a section entitled "Style Rotation Shown Through Our Buys And Sells Of High Yield Corporate Bonds". We stated that "regarding style rotation strategy for bonds, the general rule is to buy "low quality" (high yield) bonds early in the market cycle and then rotate to higher quality bonds as the market cycle matures". The market cycle is mature. Notice that the High Yield Corporate Bond ETF (symbol: HYG) was down 6.77% in 2015 (see page 6).

For now, we will remain conservative in our bond holdings: short duration high quality corporates, Treasury Inflation Protected Securities (TIPs), certificates of deposit (CDs), and cash. The rationale for our positioning is an effort to eke out a small bond return in what we believe will remain a challenging time for fixed income investors.

Your Portfolio

While our initial 2015 stock market prediction proved overly optimistic, we performed well ahead of a positive S&P 500 Index that led most global regions. In that regard, we view your 2015 stock performance as a huge success. The vast majority of managers lagged the S&P 500 Index in 2015 due to heavy weighting in emerging markets, the Energy and Materials sectors, and any companies/regions/investments tied to oil prices. We side-stepped these areas. Our considerable (85% to 90%) stock emphasis on large cap high quality US stocks was key. We did not deviate from our strategy during the latter part of the year - the last communication we sent you regarding a portfolio update of note was on August 19. More often than not, sector and stock decisions went in our favor. We are thrilled that you did so well. Thank you for your trust.

With seven consecutive years of positive S&P 500 Index performance (2009 - 2015), our longer-term clients have huge unrealized gains in their taxable accounts with little (if any) opportunity to realize losses. When we inevitably make portfolio adjustments, we will try to be as sensitive to taxes (realized gains) as possible. Regarding taxes in general, please let us know if you require any reports to prepare your April tax returns.

We had small gains in 2015 with the relatively conservative bond component of your portfolio. This complemented the gains in your stock component. We will maintain our conservative bond stance for now.

Over the next few months, we anticipate further adjustments to both the stock and bond components of your portfolio. Stay tuned for updates.

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,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

John Barber, CFA	Dan Laimon, MBA	Michael C. Harris, CFA
Chief Investment Officer	Managing Member	Vice President