FIRST QUARTER REVIEW

APRIL 29, 2015

Domestic stock markets fluctuated during the first quarter of 2015 as February's gains came between losses in January and March. Most segments posted positive returns and gold suffered minimal losses. The financial world has changed little this year. Here at home, the economy continues to improve and inflation remains in "not yet" mode as the Federal Reserve ponders the best time to raise interest rates. Fighting continues in the Middle East, Ukraine, and Africa. Presidential campaign activity is gearing up as candidates formalize their 2016 bids; whether a pending election impacts the economy or the economy impacts the election is a matter of debate.

Thoughts From Towneley

As April draws to a close, we are analyzing the market and current economic environment, a central feature of our service. We describe some of those developing issues here. By the way, since many of our clients have asked about oil prices and their significance, we provide a special commentary on oil prices and their economic impact at the end of this review.

Domestic:

- An extremely cold winter affected the Gross Domestic Product, which grew only 0.2% during the first quarter. Further revisions to the figure may yet suggest an even slower economy. However, the trend of U.S. growth outpacing that of most developed countries should continue in the near future.
- Although job growth estimates were lower than expected in March, the economy continues to create jobs and unemployment should continue to decline.
- Wage pressures will slowly increase as unemployment decreases.
- We expect inflation to remain subdued throughout 2015.
- The Fed will hold off interest rate hikes until later in the year. Once the Fed moves, rates will increase slowly.
- Corporate profits are mean reverting and have been declining since they peaked last year. We anticipate continued pressure on corporate profits in 2015.
- With earnings slowing, increases in stock prices will most likely have to be driven by even higher valuations.

International:

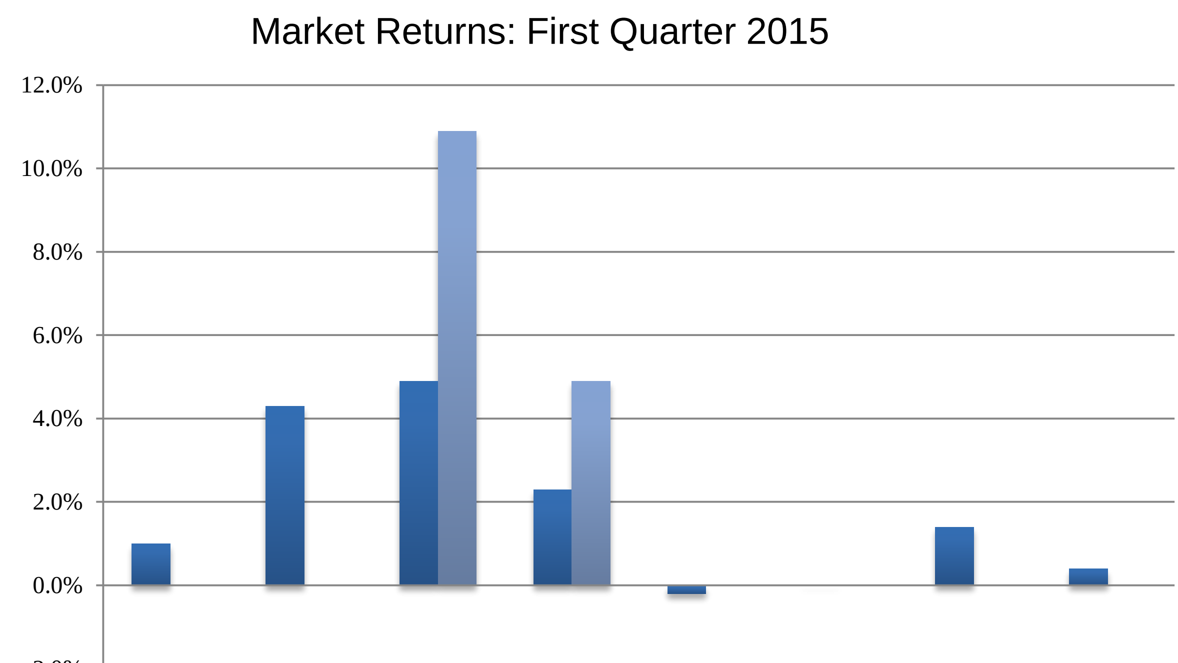
- The European Central Bank recently began quantitative easing (QE), as interest rates in Europe have declined for over a year and are at historic lows. Rates may remain low for an extended period, but they can't drop much lower.
- QE has led to a rapid rise in European stock prices; many European countries notched double-digit gains in local currencies.
- Lower interest rates, a weakening currency, and lower gas prices should help the European economy grow at a faster pace in 2015.
- The increase in the private consumption tax in Japan continues to hinder its economy, but an increase in Japan's wages may soon bolster household consumption.

Our investment committee evaluates these factors and many more when reviewing our clients' portfolios. Furthermore, markets are capricious. In our review of oil prices, for example, we discuss some of the many variables that influence how the oil surplus may affect the markets. With our unflinching focus on managing risk through worldwide diversification, we consider all the angles—and then some—as we construct portfolios and as we review them.

Monitoring the economy and markets is only part of the picture, though. We create custom portfolios based on the allocation most appropriate for your unique needs, goals, risk tolerance, and time horizon. So whenever your circumstances change, please contact your portfolio manager so we can review your allocation and determine if a change is warranted.

Global Markets

Domestic equities fared reasonably well this quarter, while international equities landed in the black both in their local currencies and in the strong U.S. dollar. Small-cap stocks led at home and developed overseas markets won big. Gold lost 0.2% in the first quarter. Given the dollar's continued rise and the typical negative gold-to-dollar correlation, this modest downturn seems reasonable. Bonds stayed in the black this quarter. Yields declined, leading to positive bond returns.



	S&P 500	Russell 2000	MSCI Developed EAFE	MSCI Emerging Markets	S&P GSCI Gold	90 Day Treasury Bill	Barclays Intrm Govt/Credit	Barclays Muni 3 Year
USD	1.0%	4.3%	4.9%	2.3%	-0.2%	0.0%	1.4%	0.4%
Local Currency			10.9%	4.9%				

News from Towneley

- For the fifth year in a row, Towneley has been named a Five Star Wealth Manager. The prized distinction recognizes wealth managers in the Orange County area that meet the high standards of the Five Star Professional organization. Wealth managers are assessed using ten objective eligibility and evaluation criteria such as client retention, assets under management, education and professional designations.
- Our portfolio accounting software provider, Black Diamond, is introducing enhanced client access via their website. This interface will provide you with streamlined access to information about your Towneley portfolios. Stay tuned.
- A copy of our Privacy Policy is enclosed for your review.
- Client Development Specialist Matthew Balaker and his wife, Ashley, welcomed Lincoln Victor to the family on February 19. Mom, baby Lincoln, and big brother Reid are all thriving.
- On April 9, Portfolio Manager Heidi Haynes celebrated 25 years with Towneley.

OIL: A COMMENTARY

In this report, we summarize the current state of the oil market and discuss its impacts.

Status Update:
While rig counts for new drilling for shale oil is down sharply, current U.S. production continues to rise and is not expected to slow until later this year. Shale oil wells give up approximately 70 to 80 percent of their oil in the first year; then, either additional fracking or more drilling is required to return the wells to productivity. A number of companies reportedly have capped their new wells, positioning themselves to quickly bring those wells online if oil prices rise. However, some states require completion within a certain time limit, a requirement that could foil oil companies' efforts to hold off production until prices firm up. In such circumstances, additional oil and gas would come to market despite soft prices.

Elsewhere in the world, various factors have kept oil out of the market. For example, turmoil in the Middle East, Africa and Venezuela has prevented a lot of oil from reaching the market. Resolution of these sociopolitical difficulties would bring additional barrels of oil to an already saturated market, further softening oil prices. If trade restrictions are lifted in Iran, additional weakness may result as Iran may resume production. Despite these constraints on oil production, worldwide production continues to exceed consumption. The surplus is going into storage, and available storage is rapidly filling up.

Why it Matters:
The successful combination of horizontal drilling and hydro-fracking in the U.S.'s abundant oil-bearing shale deposits has driven a structural change in America's oil and natural gas markets. The U.S. has become the "swing producer" in the worldwide oil market. But even as technology continues to drive down production costs, Saudi Arabia has vast reserves and could conceivably cause substantial damage to this industry if it chooses to keep oil prices sufficiently low. In fact, recent reports suggest that Saudi Arabians believe we will never again see oil prices above $100 per barrel.

If cheap oil becomes the new normal, we expect many widespread and long term effects: High cost producers will be priced out of business. Russia, Iran, Nigeria, Venezuela, ISIS, and other oil-rich entities will see significant drops in income. The potential social upheaval is beyond prediction. Meanwhile, technological advances to save fossil-based energy will be discouraged or delayed. Alternative energy sources such as solar and wind power may face technological setbacks. Research and development of more gas-efficient automobiles may also sputter.

While it might seem that one could easily spot short-term winners and losers in the oil market, the prospect of hedging fogs the crystal ball. For example, oil producers that sold their production in advance through forward contracts are protected in the short run. Conversely, airlines that had bought their fuel in the forward market will not benefit quickly. Unhedged chemical companies that use natural gas and oil as feed stocks will benefit. Consumers will enjoy lower heating and gasoline prices but may choose to use their savings to pay down debt or save instead of expanding their consumption. However, most likely a substantial portion of the savings ultimately will be spent, benefiting retail markets.