ALPHA CUBED
INVESTMENTS

2015 Annual Outlook

January 5, 2015

At the beginning of 2014, we forecast that volatility would increase across the markets. In fact, volatility as defined by the VIX Index, increased by over 29% in 2014. We believe this will continue to be the case into 2015. We also forecast that U.S. equities would be one of the best performing asset classes, which was the case. We believed interest rates would increase in 2014, which they did not. Interest rates for the 10 year Treasury are now near their historic lows again. We still believe that interest rates will likely move higher in the years ahead. The Federal Reserve also finished the "taper", concluding their latest bond buying program. There was concern that the end of the "taper" would lead to an end to the bull market. Although the market did experience some volatility, the taper concluded with a whimper and the markets in the U.S. remained strong, led by improving economic fundamentals.

We also discussed the potential for the Federal Reserve to start raising short term interest rates. Fed policy will likely be a significant contributor to an increase in volatility again in 2015. Lastly, we discussed the likelihood that geopolitics could impact markets across the globe. Several geopolitical issues did have an impact on global markets, with the most critical being the strengthening U.S. Dollar and the resulting drop in commodity prices from a strong dollar and weak underlying demand.

2015 is likely to experience more intra-year volatility for many of the same reasons. Several factors could act as a catalyst for increased volatility such as: the looming interest rate hike by the Federal Reserve, the strength of the U.S. Dollar, crashing oil and energy prices, sovereign debt crises and the potential for more geopolitical unrest. The increased volatility resulting from these factors will likely lead to great intra-year investment opportunities. We plan to use the volatility to opportunistically invest in great companies at great values. We exited most of our energy exposure across the firm before these stocks prices crashed. We are closely monitoring the oil and energy sector for attractive investment opportunities. We are not rushing into this sector as we still believe oil and energy stocks will likely face more downside pressure before they present a good investment opportunity.

Similarly, falling energy prices and a strong U.S. Dollar tend to put pressure on riskier assets, such as Emerging Market economies that tend to be more heavily dependent on commodities and energy. The pressure on energy prices will continue to put downside pressure on many emerging market economies at least in the first half of the year. Additionally, a looming interest rate hike by the Federal Reserve, more downside pressure on oil and the continued rotation into large, high quality equities should continue putting pressure on emerging markets. However, at some point, emerging markets will likely present a lucrative long term investment opportunity. Similar to energy stocks, we are closely monitoring the emerging markets for potential investment opportunities.

As U.S. economic fundamentals continue showing improvement and the economy further normalizes, a focus on the business cycle and sector selection will be the order of the day. We believe that being dynamic and flexible and investing in sectors that should outperform several years into this business cycle will lead to better overall returns. In 2014, prior to oil prices crashing, we significantly reduced our energy exposure across the firm. We also increased our exposure to the healthcare and technology sectors. We believe that certain sectors of the market such as financials, healthcare and technology are likely to continue leading the market higher.

After a significant intra-quarter correction, the U.S. equity markets finished off a strong fourth quarter of 2014, finishing the quarter up at all-time highs almost daily. The U.S. economic outlook, along with the labor market continued to show improvement. The U.S. posted robust GDP growth of 5% last quarter. Additionally, capacity utilization in U.S. has soared to over 80% to an 11-year high. This economic growth should continue, and equity markets should remain constructive but with some volatility. We believe the market moves higher by year end but will do so with increased intra-year volatility. We will continue to use the increase in volatility to further add to our holding of high quality stocks. We also see potential for multiple expansion and an increase in M&A activity. We believe equities will most likely be the best asset class again this year, despite some volatility and the probability of an intermediate term correction. We plan to use that volatility to opportunistically increase our exposure to growth securities in our tactical growth programs and higher income opportunities in our income program. We will continue to keep you posted as usual. Thank you.

Sincerely,

Todd & Steve

Todd & Steve

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