



ALPHA CUBED
INVESTMENTS

Q2 2015 Market Update

April 2, 2015

The first quarter of 2015 again proved that volatility continues across most asset classes. The anticipation of the Federal Reserve's first rate hike since June 2004 is creating uncertainty around asset prices and how an interest rate hike will impact valuations. This pending rate hike, along with the renewed strength of the US economy has helped support the continued strength in the US Dollar. The strong US Dollar is also contributing to increased volatility across currency markets, which is also contributing to more uncertainty than in years prior. Additionally, with this dollar strength, oil and commodity prices in general continue to weaken and the impact of this weakness is still reverberating through the economy and the markets, with the impact on earnings and profitability still not totally clear. Lastly, the United States continues to negotiate with Iran regarding their nuclear program, which is also increasing geopolitical tensions across several areas of the globe. In our opinion, these three factors are contributing a great deal to the continued increase in stock market volatility.

Despite volatile intra-quarter moves, the first quarter of 2015 was essentially flat for the S&P 500, which finished the quarter up 0.4%. The healthcare sector, which is one of our largest sector weightings was the best performing sector for the quarter, ending up +6.5%. Utilities and energy were the worst performing sectors, down -5.2% and -2.9%, respectively. Internationally, the best performing equity market was in Germany, which is a direct beneficiary of the new QE program underway in Europe. The UK, Spain and Japan all had strong quarters in their equity markets. With QE underway and set to continue in Europe and Japan, these markets are likely to remain strong. Commodities, led by oil were the worst performers for the quarter.

The Federal Reserve is preparing the market and world for a hike in short term rates. This will mark the first time in more than a decade that the Fed has raised rates. The fact the Fed can now even consider raising rates suggests the economy has improved sufficiently enough and growth is robust enough to absorb this Federal Funds rate increase. We believe the Fed will ultimately move to raise rates, but the timing is very hard to identify. Based on current implied probabilities of an increase in interest rates, there is a 34.8% chance that interest rates will rise from 0.25% to 0.50% by The December 16, 2015 FOMC decision. This means that the probability the Fed does NOT raise interest rates by December 16,

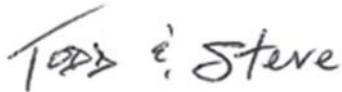
2015 is 65.2% (source: Bloomberg). Additionally, the bond market has been relatively calm prior to this interest rate hike. The real question will be the reaction of the bond market to the first rate hike, which is likely to increase bond market volatility again. In 2013, when the Fed reduced QE in favor of the “taper”, the bond market threw a “taper tantrum” when the interest rate for the 10 year Treasury went from 1.6% to 3% in a matter of months.

For the past few years the stock market has done very well, so we believe the market is consolidating the gains from previous years. The S&P 500 was range bound for the quarter, moving between 1980-2120. Similarly, the interest rate for the 10 year Treasury is also consolidating in the 1.6%-2.2% range for 2015. Typically, this consolidation will break one way or the other and we still believe the direction for both the stock market and for interest rates to generally be upward with volatility.

We continue to monitor the oil and energy sector for potential 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, long term 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. Similar to energy stocks, we are closely monitoring the emerging markets for potential investment opportunities perhaps later this year.

U.S. economic fundamentals continue showing improvement with GDP projected to grow 2.4-2.7% for 2015 (Source: Bloomberg). 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. We will continue to use the increase in volatility to further add to our holding of high quality stocks. We continue to believe that equities will most likely be the best asset class again this year, despite the increase in volatility. We will continue to keep you posted as usual. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Todd & Steve". The signature is written in a cursive, slightly slanted style.

Todd & Steve

Disclaimer: *Alpha Cubed Investments, LLC (ACI) is a Registered Investment Adviser. This newsletter is solely for informational purposes. Advisory services are only offered to clients or prospective clients where ACI and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by ACI unless a client service agreement is in place.*