ALPHA CUBED
INVESTMENTS

Q3 2015 Market Update

July 6, 2015

Much like the first quarter of 2015 volatility continues across most asset classes. The quarter was dominated by headlines out of Greece revolving around a Greek exit from the Eurozone. The country continues to fail to reach an agreement with creditors, resulting in a referendum on whether to accept further austerity measures in exchange for more European funding. As of this writing, this issue is still unresolved and is a large contributor to uncertainty and volatility in asset prices. Greece also defaulted on a loan payment to the IMF. The S&P 500 and the NASDAQ both hit all-time highs again this quarter, but the persistent headline risk around Greece stopped the upward move in it tracks. For the first time in 9 quarters, the S&P 500 finished negative, down -0.23% for Q2 2015. The Dow Jones Industrial Average finished the quarter down -0.88%, while the NASDAQ was up +1.75%. Additionally, the anticipation of the Federal Reserve's first rate hike since June 2004 is continuing to create uncertainty around asset prices and how an interest rate hike will impact valuations.

As we discussed in our last letter, the Federal Reserve is preparing the market and world for a hike in short term rates. This will mark the first time in almost a decade 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 28.9% chance that interest rates will rise from 0.25% to 0.50% by The December 16, 2015 FOMC decision. This is down from last quarter's probability of 34.8% by the December 16, 2015 decision (source: Bloomberg). The probability of an interest rate increase in 2015 is becoming less likely. This uncertainty in the bond markets has increased volatility across the yield curve. To illustrate this volatility, the yield for the 10 year treasury started Q2 2015 below 1.9% and finished the quarter close to 2.4%.

Q2 2015 was dominated by headlines out of Greece, which is significant, yet other market and economic factors were also prevalent during the quarter. On the negative side, we saw weaker than expected GDP for Q1, which was revised down from +0.2% to -0.7%. Additionally, the trade deficit surged as the appreciating US Dollar caused exports to slump while imports rose following the resolution of the labor dispute at West Coast ports. Consumer spending continues to pick up pace, growing at about 3.6% year over year (source: Bloomberg). Oil and commodity prices continue to weaken with a strong USD and strong supplies. Additionally, oil is likely to remain weak in the face of a deal with Iran over their nuclear program. Any deal with Iran is likely to lead to sanctions relief, especially as it relates to Iran being able selling oil again. The day they make a deal, we are likely to see oil prices fall further, perhaps significantly. We continue to be underweight energy and are anticipating good investment opportunities in this sector within the coming quarters. 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.

Despite volatile intra-quarter moves, the second quarter of 2015 was essentially flat for the S&P 500. The healthcare sector, which is one of our largest sector weightings was the best performing sector for the quarter, ending up +2.8%, followed by consumer discretionary ending up +1.9% and financials ending up +1.7%, respectively . Utilities and industrials were the worst performing sectors, down -5.8% and -2.2%, respectively. Internationally, the best performing equity market for developed economies was led by Japan. Most markets in the EU underperformed for the quarter as they grapple with slow economic activity, large structural debts and what to do with Greece.

For the past few years the stock market has done very well and we believe the market is consolidating the gains from previous years. Unemployment continues to improve with only 5.3% currently unemployed. Labor participation rates have also declined, but the trend to normalized employment levels are encouraging. Based on consensus, the forward 12 month earnings for the S&P 500 are projected to grow by 9.45% (source: Bloomberg). U.S. economic fundamentals continue showing improvement with GDP projected to grow 2.9% 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,
Steve & Todd

Headquarters | 3333 Michelson Drive, Suite 620 | Irvine, CA 92612 | Main: 800.701.2457 | Fax: 877.722.4249 | www.AlphaCubedInvestments.com

Irvine | **San Jose** | **San Diego** | **Scottsdale**