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ECONOMIC EVALUATION & INTELLIGENT MARKET INSIGHTS

SCHMITZ CAPITAL PARTNERS

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Mike's Whiteboard Wisdom

THE FEAR OF SPRINGING FORWARD

2013 was one for the record books, but Q1 2014 gave many investors pause. As winter turned to spring, volatility returned while profit-taking and broad selling placed downward pressure on many financial markets. In the aftermath of the near 175% rally in the S&P 500 Index since the March 2009 trough, many investors are fearful that equity markets have been on an unsustainable trajectory. Market pundits and bears have shared several theories of overheating and accelerating too far too fast, and are further fueling those fires with tales of an overdue correction (-10% peak-to-trough decline) with a potential to slide even further into bear market territory (-20% peak-to-trough).

Although market corrections seem dire as they are happening, the harsh reality is that they happen with relative frequency, even during the "good years." Even during the recent strong-return years like 2010 and 2012, corrections sprinkled throughout the year have included some fairly significant intra-year declines. In fact, a historical perspective is telling. From 1980 to 2013, the S&P 500 Index has experienced a negative 5% intra-year price decline (or more) in almost every year (minus one). Notwithstanding, equities posted positive returns in 26 of those last 34 years, with average annualized total returns (that include dividends reinvested) over that period approaching 12%.

It's perfectly natural to exhibit some nervousness about markets correcting. No one wants to invest and then realize the full peak-to-trough decline. However, waiting it out and/or trying to time the market has often proved to be a fool's errand. Like many investment advisors who have managed client money through multiple cycles, I've been whipsawed, caught in the crosshairs, and (inject you own idiom) myself. It's extremely difficult to predict any movements with relative frequency, and individual investors have infamously failed to outperform not only the broad equity market, but also the rate of inflation. Investors who try to predict the highs are often caught sitting on the sidelines waiting for market corrections that never materialize (e.g. sequestration, Fiscal Cliff and the government shutdown). They also typically fail to invest again once the corrections subside (mostly due to the paralysis of fear).

Generally speaking, corrections leave their mark psychologically, which often leads to short-term mistakes. For those investors who are long-term focused, corrections should be of little investment consequence. Even long-term investors who invested precisely at the most inopportune times (e.g. 1987, 2000 and 2008), but managed to stayed disciplined and stay invested, essentially broke-even. In some cases, they may have enjoyed capital appreciation. Already this year the S&P 500 has experienced a peak to trough decline of nearly 6%, but the domestic markets have generally recovered and are now re-testing nominal highs. Therefore the questions continue to swirl. Have we reached the uppermost peak of a current bubble? Does this secular bull still have further room to inflate? Could another correction be coming down the pike? There is a case to be made for each argument, so the even more puzzling answer to all these questions is, "Absolutely."

Since people tend to be most concerned with the downside, due to an asymmetric view of risk, it's understandable that they don't want to take the full brunt of any decline. However, to reiterate my prior statement, the timing and severity of any correction is pretty much impossible to predict with consistent accuracy. So, given that fact, regardless of how the near-term actually materializes, we are maintaining the case for continued investment and deployment of capital. Entry point is important, and there is no doubt that sitting on the sidelines at times may be prudent, but waiting on the sidelines for months or years can be devastating. Equity valuations certainly appear frothy, but, from a historical perspective, they are actually more reasonable than one might expect. Additionally, the macroeconomic environment of low inflation, continued growth, improving employment and accommodative monetary policy looks likely to persist.

There will undoubtedly be plenty of "Walls of Worry" to climb, but if your are within your unique tolerance for risk, and can increase your psychological tolerance for short-term pain, don't be afraid of investing. In the current environment of lose monetary policy, *good* news may actually cause short-term selloffs in select markets. However, don't lose sight of that fact that we are still talking about *good* news. The next 3 quarters may prove to reward vigilance and patience, but one must always be careful not to become too complacent.

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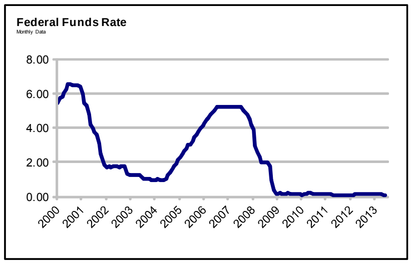
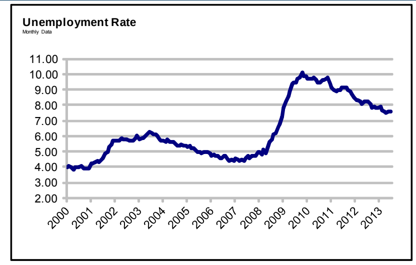
MARKET SNAPSHOT

Key Rates	Current Data	52 Wk Low
30 - Year Bond	3.93%	2.70%
10 - Year Note	3.00%	1.56%
2 - Year Note	0.41%	0.26%
Fed Funds Rate	0-0.25%	0-0.25%
Prime	3.25%	3.25%
LIBOR - 3 Month	0.22%	0.22%
Money Market (Annual Yield)	0.41%	0.40%
Five-Year CD (Annual Yield)	1.31%	1.15%
15 Year Mortgage- Fixed	3.44%	2.80%
30 Year Mortgage- Fixed	4.36%	3.56%
Jumbo Mortgages ($417,000+)	4.70%	3.97%
5/1 ARM (Adjustable Rate)	3.52%	2.80%
New Car Loan (48 Month)	2.89%	2.42%
Currencies	**End of Wk. 04/25/214**	**Year To Date**
Euro (€) vs. Dollar ($)	$1.38	0.7%
Pound (£) vs. Dollar ($)	$1.68	1.5%
Dollar ($) vs. Yuan (Y)	6.25	3.3%
Dollar ($) vs. Yen (¥)	102.16	(3.0%)
Indices / Benchmarks	**End of Wk. 1/3/2014**	**Year To Date**
Dow Jones	16,457	(0.7%)
S&P 500	1,872	1.3%
NASDAQ	4,198	0.5%
Russell 2000	1,173	0.8%
iShares MSCI Emerging Markets	41	(7.5%)
Inflation	**Current Data**	**Year To Date**
GDP Growth (Last reported Q)	2.6%	
Consumer Price Index (CPI)	1.5%	
Producer Price Index (PPI)	1.3%	
Oil Price ($/barrel)	$100.60	2.2%
Gold Price ($/troy oz.)	$1,303.20	8.1%
Gasoline ($/gallon)	$3.70	11.4%
Copper ($/MT)	$6,770.00	(8.1%)
Wheat ($/bu.)	$708.25	15.7%
Investor Sentiment	**Current Data**	**Prior Month**
Consumer Sentiment	84.1	80.0
Consumer Confidence	82.3	83.9
Total Put - to - Call	0.90	
Volatility Index (VIX)	13.97	



Source: Bureau of Labor Statistics



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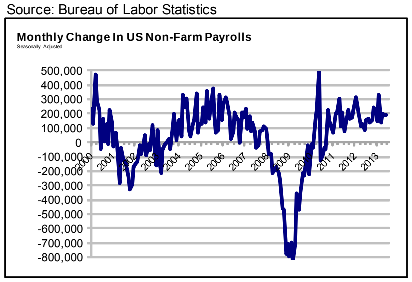
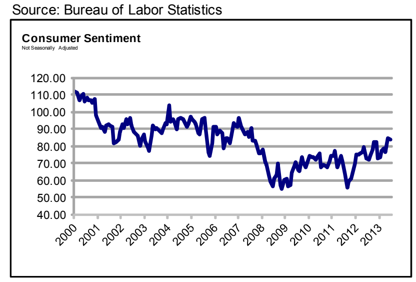
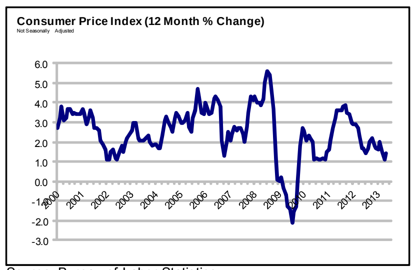


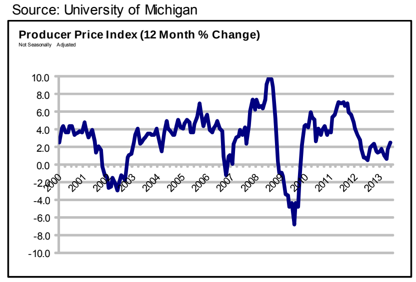
Source: Bureau of Labor Statistics



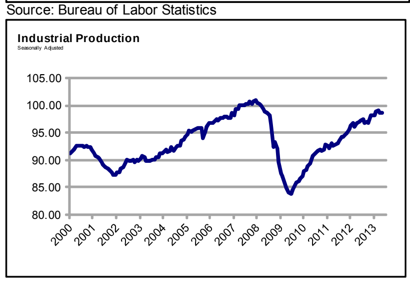
Source: University of Michigan



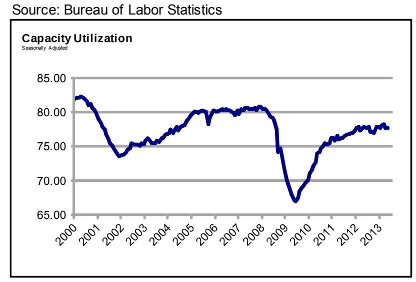
Source: Bureau of Labor Statistics



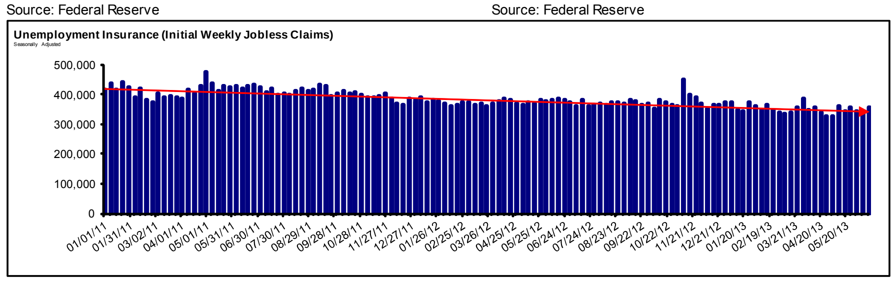
Source: Bureau of Labor Statistics



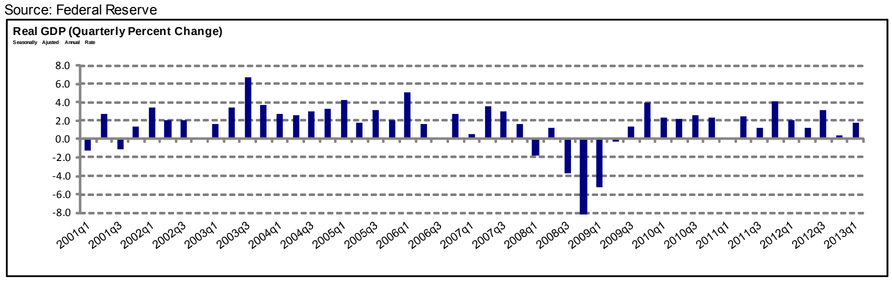
Source: Federal Reserve



Source: Federal Reserve



Source: Federal Reserve



Source: Bureau of Economic Analysis

Sources: amgdata.com, bloomberg.com, hoovers.com, onada.com, Bankrate.com, WSJ, Yahoo Finance, Federal Housing and Finance Board, Bureau of Labor Statistics and various online data retrieval websites

VIX values > 30 = more volatility as a result of investor fear or uncertainty,

VIX values < 20 = less stressful, even complacent, times in the markets

Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses. Past performance is not a guarantee of future results.

DISCOVER | DEFINE | DEVELOP | DESIGN | CONSTRUCT | MONITOR | EVALUATE

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SUMMARY

The table below is meant to be a quick illustration which confirms some of our thoughts on the broader economy and current outlook.

Positive	U.S. Inflation	Inflation remained subdued at both the consumer and wholesale level and have hovered in the neighborhood of 1% since October, giving the Federal Reserve plenty of breathing room to keep interest rates low.
	Consumer / Retail	Consumer confidence rose to 82.3, retail sales gained +1.1%, and consumer sentiment remained basically flat at 80.0 in March. Motor vehicle sales surged to 16.4 million units (+1MM units). Consumer credit also continues to surge led by non-revolving credit (student loans and vehicle purchases).
	Europe	After an 18-month recession, consumer confidence is at a 7 year high and the ECB now sees the Eurozone growing at 1.2% for 2014.
	Interest Rates	Borrowing costs remained at very low levels. Despite improving economic conditions the FMOC said any interest rate decision will be based on a variety of economic data, and will likely come "a considerable time" after the end of its bond purchases (likely not until 2015).
	U.S. Corporate Earnings	Cash balances are at historic levels ($2.2 trillion-plus) and balance sheets remain healthy. The corporate sector is as strong as it has been in over 10 years, but earnings have moderated and top-line sales growth remains key.
Neutral	Manufacturing	Manufacturing data remains in growth mode and although the data was mixed it was generally positive for March. Manufacturers in the Fed's New York and Philadelphia regions reported positive, accelerating headline levels. Contrastingly, the Chicago PMI growth slowed to it's lowest reading since August 2013 and although the ISM edged upward, it missed expectations.
	Labor Market	The labor market has been puzzling, but gradually improving. Unemployment benefits claims declined to 300K (it's largest drop in a decade) and ADP private payroll healthily beat estimates at 238K. However, despite a 6.7% unemployment rate, nonfarm payrolls missed estimates at 192,000.
	Global Growth	Despite the recovery in the Eurozone, the IFM slightly cut its 2014 global economic growth forecast to 3.6% in 2014, primarily due to the impact of the Ukraine crisis and slower growth in emerging countries (7.4% in China).
	Emerging Markets	Many EM's are still working through growth deceleration and challenging cyclical credit dynamics. However, EM countries now account for more than half of global GDP, they are more structurally sound, and they appear attractively priced relative to developed markets over the long-term.
	U.S. Economic Growth	U.S. growth accelerated throughout 2013, but slowed in Q1 2014. GDP growth declined to 2.6%, but was still far better than the 1.1% expansion during Q1 2013. Generally, growth prospects seem favorable.
Negative	Housing	Housing has been slowing in advance of spring. Prices may be unsustainably high (median prices for existing and new homes). Housing starts rose, but permits dipped (-2.4%) and new home sales plunged (-14.5%). Existing home sales also dipped 0.4% (6th contraction in 7 months) and construction spending, a hot sector Y/Y, was basically flat at +0.1% in February.
	Commodities	After a dismal 2013, commodities generally performed well during Q1, specifically gold (+7.5% YTD). Lowered inventories and increased domestic production put upward pressure on WTI Crude, finishing Q1 over $101/barrel.
	U.S. Political Landscape	Even as the debt ceiling has been lifted until 2015, political dysfunction and polarization remains a constant threat as continuing budget resolutions are being hotly contested.

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Q1 2014 IN REVIEW

The Markets:

Market/Index	2013 Close	As of 3/31	Monthly Change	Quarterly Change	YTD Change
DJIA	16,576.66	16,457.66	0.83%	-0.72%	-0.72%
Nasdaq	4,176.59	4,198.99	-2.53%	0.54%	0.54%
S&P 500	1,848.36	1,872.34	0.69%	1.30%	1.30%
Russell 2000	1,163.64	1,173.04	-0.84%	0.81%	0.81%
Global Dow	2,484.1	2,502.78	0.73%	0.75%	0.75%
Fed. Funds	0.25%	0.25%	0.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.73%	7%	-31 bps	-31 bps

Equities data reflect price changes, not total return. Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments

- U.S. economic growth slowed in the fourth quarter of 2013, according to the Bureau of Economic Analysis. The 2.6% annualized increase in Q4 gross domestic product was lower than Q3's 4.1% gain. That helped cut inflation-adjusted GDP for all of 2013 to 1.9%, compared to 2012's 2.8%. Meanwhile, after-tax corporate profits were up 2% for the quarter--slightly less than in Q3--and a 3.7% drop in corporate taxes last year left corporate after-tax profits up 6.9% for all of 2013.
- Unemployment barely budged during Q1, remaining not far above the 6.5% unemployment rate that the Fed had targeted as a potential threshold for raising short-term interest rates. However, at its March meeting--the first under new chair Janet Yellen--the Fed's monetary policy committee said any interest rate decision will be based on a variety of economic data, and will likely come "a considerable time" after the end of its bond purchases, now down to $55 billion a month after three rounds of tapering. Most committee members expect the Fed's near-zero target rate to end 2015 at 1%.
- In the wake of Russia's Crimean takeover, European Union countries and the United States agreed to prepare tough economic sanctions that could be imposed if Russia makes further moves to destabilize Ukraine. Also, the G8 nations canceled the summit that had been scheduled to be held in Sochi in June and ejected Russia from the group.
- European leaders declined to take stronger action to counteract an inflation rate so low that it raised concerns about the possibility of deflation. However, central banks in some emerging-market countries, including Brazil, India, Turkey, and South Africa, raised rates sharply to try to stem capital outflows from their currencies and/or fight inflation.
- Now you see it, now you don't: Mt. Gox, at one time the largest Bitcoin exchange, filed for bankruptcy after 850,000 bitcoins--nearly half a billion dollars' worth of the virtual currency--disappeared faster than Ukrainian flags over Crimean government buildings. However, Mt. Gox subsequently said it had located 200,000 bitcoins in digital wallets used before June 2011.
- Housing suffered from frigid weather throughout much of the country as housing starts and sales of both new and existing homes saw strong declines during the quarter. However, building permits issued in February--an indicator of future activity--offered shoots of hope, rising 7.7% during the month.
- U.S. manufacturing also appeared to be affected by winter weather, though by the end of the quarter, two key Fed manufacturing surveys as well as that of the Institute for Supply Management® had shown signs of rebounding. Manufacturing data from China raised bigger concerns. Indications that the country's breakneck growth could be slowing across the board raised concerns about the potential global impact if reduced demand there affects emerging markets whose economies rely on exporting commodities to China.
- Overall inflation remained tame at both the consumer and wholesale levels. Both annual inflation rates have hovered in the neighborhood of 1% since October, giving the Federal Reserve plenty of breathing room to keep interest rates low.
- The Senate Banking Committee's bipartisan leadership announced plans to replace Fannie Mae and Freddie Mac with a system of government-backed mortgage insurance that would be administered by a new Federal Mortgage Insurance Corp. If adopted, the legislation would require a minimum down payment for FMIC loans, create a mechanism for standardizing mortgage-backed securities based on them, and require private lenders to suffer a 10% loss before insurance payments would be triggered.

Sources: All information, including the actual text, on this page, was provided by Broadridge Investor Communication Solutions, Inc. and is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.

BITCOIN: FAD OR FUTURE?

What if someone told you about an investment that has made some people millionaires overnight and has both a number of high-profile supporters and a global reach? Would you be tempted to invest? Now what if someone told you that the same investment also could lose most or all of its value almost overnight, and that you might not have access to your money when you need it? How does it sound now?

You've just confronted the debate surrounding the five-year-old digital phenomenon known as Bitcoin. An alternative currency that exists strictly as digital code, Bitcoin has received a lot of attention, especially in the last year. In part that's because speculation in Bitcoin has resulted in wild gyrations in its value.

Is Bitcoin an investment? A scam? A network of computers? The future of currency? If you're unclear on what all the fuss is about, here's a brief introduction to just what it is, how it works, and what's been happening in the Bitcoin world lately, as well as some of the potential pitfalls it presents.

Bitcoin as currency: Bitcoin isn't a single company but a virtual currency supported by a peer-to-peer computer-based electronic cash system first outlined in 2009 by an anonymous person or group using the name Satoshi Nakamoto. To understand how the currency works, you have to understand where it comes from. Unlike printed currency or coins that are minted, Bitcoin is created by "mining"--using complex software to solve complicated mathematical computations (or contracting with a mining company to do it for you). Solving a problem creates a so-called "block," and the computer that solved it is rewarded with a set number of digital bitcoins, each of which is simply a set of one public and one private cryptographic key. (The units are generally "bitcoins," while the general system is "Bitcoin.") The number of solutions that can be discovered globally per hour (and thus the number of "blocks" created and bitcoins mined) is limited by the system's software code. The total number of bitcoins available to be mined eventually is said to be limited to 21 million, with roughly 12.5 million already in circulation.* However, most users acquire them by either buying them with physical currencies such as dollars or accepting them as payment for goods and services.

Advocates argue that the advantages of the system are: (1) it's not controlled by any government's central bank, (2) a global virtual currency facilitates global commercial transactions, (3) every block and Bitcoin transaction is recorded, and (4) though transactions are recorded, the payer and payee are anonymous, much like a cash transaction. (However, that anonymity has attracted charges that its chief use so far has been for illegal activities such as money laundering; last October the FBI shut down the Silk Road Bitcoin exchange and seized its assets.)

How are bitcoins used to pay for something?: Just as a physical wallet holds paper money and change, a digital wallet stores the private software keys that are bitcoins. It makes or receives payments by communicating with the network of other Bitcoin wallets. Some merchants and services, especially those that focus on online or international sales, are starting to explore Bitcoin transactions. Physical bitcoins, which have a software key embedded in them, have begun to be minted. However, acceptance of bitcoins as payment is entirely at a seller's discretion; there is no guarantee you'll be able to spend them where you want to or get the value you expect. Also, as outlined below, problems at some exchanges have sometimes impeded access to Bitcoin funds.

Speculating in Bitcoin: Bitcoin's usage as a currency is a ripple compared to the tidal waves of investment speculation it has fueled. "Investing" in bitcoins simply means acquiring them through one of the methods outlined above. However, to say that Bitcoin as an investment is volatile is an understatement. Over its five-year history, its value has fluctuated wildly as both speculation and confidence in it as a currency have ebbed and surged. In April 2013, after rising from $90 to $260 over two weeks, a bitcoin's value plummeted to $130 in just six hours.** Since mid-2010, it has gone from a low of $2 USD to as high as $1,200 last November, with multiple double-digit crashes in between.*** After China cracked down on virtual currency transactions by financial institutions and halted deposits of yuan at exchanges there, Bitcoin's worth in dollars was cut by more than half.

That volatility has led to problems for people trying to make payments in bitcoins. It's hard to use a currency when you're not sure from day to day whether the amount in your virtual wallet is worth enough to buy a Range Rover or a tank of gas. Complicating the issue is the fact that the value can vary on different Bitcoin exchanges.

However, volatility is only one of the problems that has created havoc in the Bitcoin universe. Earlier this year, one exchange announced that a hacker had made off with some of the funds stored there, and cyberattacks halted trading briefly on two major exchanges in February. Days later, Mt. Gox, at one point said to be the world's largest Bitcoin exchange, shuttered its website, leaving customers with their money in limbo for days before declaring that the company was bankrupt and nearly half a billion dollars' worth of bitcoins had vanished (though some were subsequently located). Worse than not knowing how much your bitcoins will buy is not knowing whether they're available to buy anything at all.

Hackers and bankruptcy aren't the only reasons Bitcoin holders could lose the ability to spend or exchange their funds. Because of the accusations of money laundering via Bitcoin, scrutiny of digital transactions is increasing. If a law enforcement agency seized the assets of a digital platform or exchange, as they did with Silk Road, access to digital wallets there could be restricted.

The Wild West rides again: So far, regulatory oversight of Bitcoin has been spotty; the closest thing to a regulatory body is the Bitcoin Foundation, a private organization that "standardizes, protects, and promotes" Bitcoin usage. The currency is not backed by either a government or any physical asset such as gold. Major exchanges are located around the world, and the decentralized nature of the system makes it more challenging for governmental regulators to get a handle on it. So far there has been little oversight by any U.S. regulatory body; in fact, testimony before a U.S. Senate committee that no new regulations were necessary for virtual currencies helped send Bitcoin to its peak last November. Unlike accounts at FDIC-insured banks, there is no protection for possible loss from a digital wallet. Also, unlike credit card charges, Bitcoin transactions are irreversible.

The Internal Revenue Service provided a little additional regulatory clarity in March when it announced it will treat Bitcoin holdings as property rather than as a currency for tax purposes. That means that the sale or exchange of bitcoins that have gained in value since they were acquired could potentially trigger a tax liability. Also, payments made in bitcoins are subject to the same information reporting requirements as any other payments made in property. And wages paid in Bitcoin must be reported on a W-2 form and are taxable as income, just as any other wages would be.

Speculation hasn't been limited to the currency itself. Much as the Internet did in its early days, Bitcoin also has spawned an entire ecosystem of startup companies and venture capitalists who want to be part of building out the technology and networks involved in creating and transferring it. In addition to multiple exchanges, companies have begun providing data on the virtual currency's price and status and creating Bitcoin-based products, including the first ATM in the United States. And as with early Internet companies, such ventures are likely to involve a high degree of uncertainty and risk.

Obviously, virtual currency still faces a lot of challenges. If you're considering exploring it, either for transactions or as a speculative investment, you should become far more familiar with it than simply relying on this discussion. And because of the issues outlined above, you should be prepared for dramatic price swings and only use money that you aren't relying on for something else.

*Source: www.coindesk.com, March 26, 2014.
**Source: "Bitcoin panic selling halves its value," April 11, 2013, BBC News (www.bbc.co.uk).
***Source: www.bitcoincharts.com, March 26, 2014.

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CONCLUSION

Profit-taking from 2013's strong run as well as currency and credit problems in several emerging markets threatened to derail the domestic stock markets during Q1 2014. Those factors, combined with the prospect of less support from the Federal Reserve, a slowing Chinese economy, and renewed Cold War tensions, led to a volatile quarter for equities. After a dismal January, equities regained some strength once Congress avoided a fight over raising the debt ceiling limit. By early March the S&P 500 had hit a new all-time closing high; on the bull market's fifth anniversary, the S&P was only a couple of hundred points away from having tripled since its March 2009 low. At that point the NASDAQ was up more than 4% for 2014, well ahead of the S&P 500 for the year and more than 5 percentage points ahead of the Dow industrials, which spent much of the quarter in negative territory.

However, the rest of March was a great equalizer, narrowing the gaps between the various indices. A slump in tech and biotech stocks handed the NASDAQ its worst month since October 2012 and cut its year-to-date gain to half a percent. The small caps of the Russell 2000 also suffered in late March. However, the S&P 500 proved more resilient, managing to hang on to its 2014 gains.

The international uncertainty lured back money that had been invested overseas in recent years and helped counterbalance some of the fear about Fed monetary policy. Money that had been pulled from bond mutual funds during 2013's second half began to flow back in during the first quarter of 2014,* helping to cut the benchmark 10-year Treasury yield almost a third of a percent as prices rose. After last fall's slide, gold rallied from nearly $1,200 an ounce to almost $1,380 before the late-March swoon took it down to just under $1,300. The price of oil gained a couple of dollars a barrel in Q1, ending at just over $100 a barrel, while the dollar remained little changed.

As a relentless winter finally begins to release its grip on much of the country, investors may get a clearer sense of whether sluggish Q1 economic data was primarily the result of bad weather or something more troubling. Speculation about the timing of a Fed rate hike will likely continue, along with Fed tapering. Overseas, the state of China's economy will continue to be a focus, and the potential for tougher economic sanctions against Russia, which could affect global oil supplies, is also worth watching[1].

As always, we are watching the markets and economy intensely on an ongoing, daily basis.

We believe that the key to successful investing is predicated upon a thorough investment process, a carefully crafted investment plan that includes an understanding of the true nature of investment risk and continual monitoring and evaluation of that plan as the highly dynamic economic climate changes. We believe that in order to achieve investment objectives, investors must:

- Accept that bear markets are recurring and inevitable. Accordingly, they must be built into the overall long-term investment plan.
- Have a carefully constructed investment plan and stick to that investment plan when market pundits, the media, and word-of-mouth chatter is filling the general public's head with speculative mania or tales of approaching Armageddon.
- Understand that "sticking to your plan" does not have to mean "buy and hold". It includes active management and having an exit strategy based upon "black swan" or unanticipated market events like those experienced in 2008. It includes constant evaluation and sector reallocations to help take advantage of prevailing market conditions and future outlook. It can also mean searching for tax-loss harvesting opportunities and alternative investment vehicles that can help hedge or take advantage of deteriorating market conditions
- Understand the relationship and tradeoffs between risk and return and, most importantly, your own ability, willingness and need to accept market risk, and avoid taking on more or less than makes sense for you.

HOW CAN WE HELP YOU? | (415) 381-9076 | mike@schmitzcapital.com

(1) Sources: All information, including the actual text, on this page, was provided by Broadridge Investor Communication Solutions, Inc. and is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice.

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SCHMITZ CAPITAL PARTNERS

FIRM OVERVIEW

At Schmitz Capital Partners our focus is on the client. We strive to simplify and enhance the quality of our clients' lives through active portfolio management and highly customized financial advice tailored to each individual's unique needs. We are deeply committed to providing exceptional service and to forging genuine relationships established through mutual respect, compassion, trust and understanding. As a premier provider of comprehensive financial advice for over 22 years, our firm's objective is to build lasting, long-term relationships based on expert counsel, trust and quality service that exceeds expectations and helps our clients achieve their life goals.

PHILOSOPHY

Our investment philosophy is simple: to provide conflict-free, unbiased, trusted investment advice in order to help our clients achieve their financial milestones. Our investment philosophy is rooted in a long-term approach to growing client assets through active management, broad asset allocation, diversification, and risk management while helping to build both confidence and financial independence. At SCP, we look to provide reasonable long-term investment results by building globally diversified portfolios and proactively managing asset allocation decisions.

SCP's investment philosophy is based on the following:

- Trust
- Consistent Participation
- Global Thinking
- Broad Asset Allocation and Diversification
- Active Management
- Performance
- Risk Management and Education
- Professional Management

WHY SCP?

We are truly different. Our investment philosophy, proactive portfolio management techniques and client service approach sets us apart. We are convinced that building globally diversified portfolios and proactively managing asset allocation decisions are prerequisites for achieving long-term financial objectives. We believe our firm's distinctive characteristics - our independence, experienced multi-generational team, client-centric focus, collaborative culture, highly flexible and customized advice, stability, commitment to full transparency and ethical values - provide us with a competitive edge in guiding investors through bull and bear markets.

The "SCP difference" is characterized by the following:

- Independence
- Experience
- Client Service
- Senior-Level Attention
- Flexibility
- Customization
- Transparency & Stability
- Guiding Firm Principles
- Ethical Values

SCP SERVICES

SCP strives to provide our clients with unbiased advice within a broad spectrum of financial advisory services including:

- Investment Advisory Services (Portfolio Management)
  - Retirement Planning
  - Retirement Income Planning
  - Pension & Profit Sharing Design
  - Non-Qualified Deferred Compensation
- Estate Planning
  - Trust Services
- Education Planning
- Financial Planning
- Income Tax Planning
- Insurance Services

SCP FAST FACTS

Custodian	Pershing LLC
Broker-Dealer	Royal Alliance Associates, Inc.
Approximate AUM	$109MM
Years In Business	25 Years (Founded in November 1988)
Portfolio Management Style	Active/Tactical
Advisory Clients	194
Brokerage /Non-Brokerage Clients	327
Advisory Fee Structure	Based on Assets Under Management. Please see SCP's website or Form ADV Part 2A for a more detailed breakdown.
Account Minimum	None (case by case basis)

INVESTMENT MANAGEMENT TEAM

STEVEN J. SCHMITZ
Portfolio Manager

- Founder, President & Chief Investment Officer
  39 years of experience
- Education:
  B.S., Cum Laude, Mechanical Engineering, Santa Clara University
  M.B.A., with Honors, Anderson School of Management, UCLA
  Post-Graduate Studies, Accounting & Taxation, Golden Gate University
- Securities Registrations: Series 7, 24, 63
- Insurance Licenses: California Life, Health, Disability and Annuities Agent

MICHAEL J. SCHMITZ
Portfolio Manager

- Vice President - Investments & Chief Operating Officer
  15 years of experience
- Education:
  B.S., Finance, Leavey School of Business, Santa Clara University
  Post-Graduate Studies, Professional Certificate in Financial Planning, New York University
- Securities Registrations: Series 7, 63, 65
- Insurance Licenses: California & Arizona Life, Health, Disability and Annuities Agent
- Professional Designations:
- CMFC® (Chartered Mutual Fund Counselor℠)
- RFC® (Registered Financial Consultant)
- CES™ (Certified Estate and Trust Specialist™)

DISCOVER | DEFINE | DEVELOP | DESIGN | CONSTRUCT | MONITOR | EVALUATE

SCHMITZ CAPITAL PARTNERS

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Investing involves risk including the potential loss of principal. No investment strategy such as diversification or asset allocation can guarantee against a profit or protect against loss in periods of declining values. Global investing involves special risks including greater economic and political instability, as well as currency fluctuation risks, which may be even greater in emerging markets.

Please note that rebalancing investments may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events will be created that may increase your tax liability. Rebalancing a portfolio cannot assure a profit or protect against a loss in any given market environment.

Technical Analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the near future. It logically follows that historical precedent does not guarantee future results. Conclusions expressed in the TA section are personal opinions; and may not be construed as recommendations to buy or sell anything.

Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses.

The price of commodities is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility.

In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements. You should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements.

While a stop or stop-limit order is designed to have control over when an order is filled, this strategy cannot guarantee a profit or protect against loss in any market condition.

IMPORTANT CONSUMER INFORMATION

A broker/dealer, investment adviser, BD agent, or IA rep may only transact business in a state if first registered, or is excluded or exempt from state broker/dealer, investment adviser, BD agent, or IA registration requirements as appropriate. Follow-up, individualized responses to persons in a state by such a firm or individual that involve either effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, will not be made without first complying with appropriate registration requirements, or an applicable exemption or exclusion. For information concerning the licensing status or disciplinary history of a broker/dealer, investment, adviser, BD agent, or IA rep, a consumer should contact his or her state securities law administrator.

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