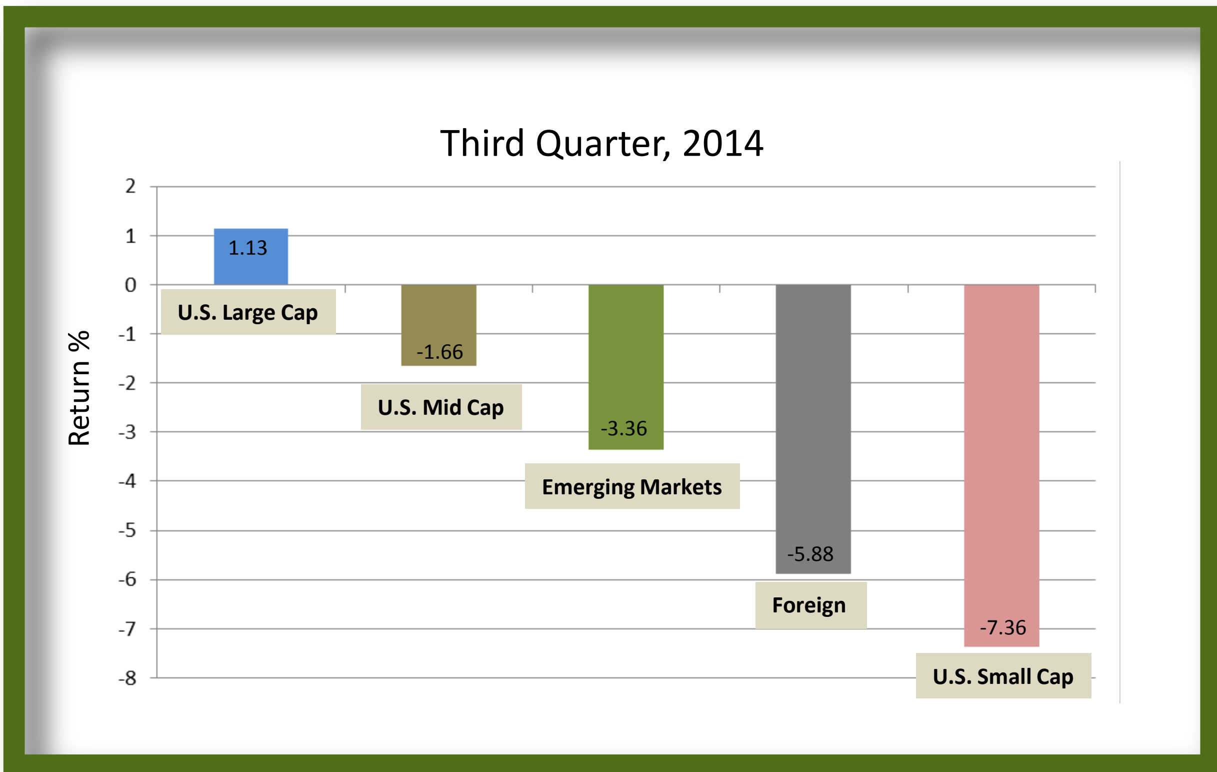
Third quarter was not pretty for most equity markets. U.S. large caps managed to hold onto slight gains, but nearly everything else – including U.S. small cap, U.S. mid cap, foreign, and emerging markets - finished the quarter in sharp decline.



What was notable about the pattern that developed during third quarter was a significant narrowing of the winners – during 2013 and much of 2014, it was sufficient simply to be broadly invested in U.S. stocks – during third quarter, only U.S. large caps were holding on to their gains.

Though this recent narrowing of the market is of real concern, there are sound reasons why the U.S. equity market in general continued to outperform into 2014:

- Europe has stalled and appears to be going into recession, if it is not already there. Worse, the daunting structural problems of the Eurozone have no apparent means of resolution, the sovereign debt load is overwhelming, and their banks remain dramatically overleveraged. That Europe has avoided an outright crisis is in the minds of many based more on a willingness to believe European Central Bank "promises" to "do whatever it takes" than any substantive action.

- Japan, after a period of optimism in 2013 following the most massive dose of quantitative easing ever seen, saw its economy contract at an annualized rate of 7% during second quarter 2014. The government has yet to attempt the structural reforms necessary to provide even a glimmer of longer term hope for an aging nation which is drowning in sovereign debt.

- China is an enigma. Seemingly boundless opportunity is tempered by concerns over a host of excesses, from credit to real estate to industrial overcapacity and more. Though the rate of economic growth is still strong relative to much of the world, China is, at best, slowing, and many investors have worried that a disruptive event there could throw its financial markets into a tailspin.

- Many emerging markets remain a source of longer term optimism and a potential opportunity for outsized growth. However, most still have significant dependencies on the developed world both for capital and for trade. The slowing pace of economic growth in Europe, China, and Japan, and the recent effect of a rapidly strengthening dollar, have presented formidable challenges.

- Individual commodities respond to a host of different factors, but commodities broadly are struggling against the headwinds of low inflation, weak worldwide economic growth, and, more recently, the strengthening dollar.

Meanwhile, in the U.S., corporate profits have remained strong, and, despite universal frustration with the pace of growth, the overall economy has continued to slowly improve. The concerns we expressed in our commentary last fall have not, to date, materialized. Earnings have continued to climb, meeting optimistic expectations, and after a lull, corporate buybacks surged again as interest rates once again declined – in sum, allowing the market to move higher without driving valuations into the stratosphere.

In such a narrow environment, diversified strategies such as our Tactical All Asset (formerly Core) have looked ineffective relative to the U.S. equity market. Tactical's diversification and risk management have provided notable advantages during dips in the U.S. market, but market dips during most of 2013 and 2014 have been short and shallow.

However, as we write during early fourth quarter, volatility has surged and the market as a whole has moved down sharply. The U.S. economic engine is suddenly looking rather alone in the world, and the world in general seems like a scarier place than it appeared only a couple of months ago. Even in purely economic terms, it is hard to imagine that the U.S. market remains unaffected if the rest of the world's major economies continue to falter in the face of their very significant challenges.

Nonetheless, so long as the Federal Reserve and other central banks succeed in holding interest rates so extremely low and the economy continues making progress, it is also possible that the combination of circumstances which have produced growing U.S. equity prices may persist longer than many of us might have expected.

In either case, we are not standing still. Over the past few months, we have added valuable expertise to our overall investment management team, and we have reorganized our team to better focus and streamline our decision making process.

In addition, we have over the past 18 months been expanding our lineup of investment strategies, drawing upon both internal and external talent. Combining two or more strategies which vary in management style can bring a new and potentially powerful added dimension to the portfolio construction process. It adds a valuable new layer to portfolio diversification and can expand opportunities for growth.

Internally, we have had considerable success with a variety of strategies and have recently added Opportunistic Income, a new category launched in July under the management of the latest addition to our investment management team, Brad Corbett, who comes to us with an exceptional background in institutional account management.

In addition, we began last year to introduce a carefully selected and gradually expanding list of externally managed strategies to complement our own.

As a consequence of these initiatives, we feel we have strengthened our positioning for the path forward. We recognize that many clients value the diversity and historical effectiveness provided by Tactical All Asset in weathering market conditions of all kinds and will continue to use it on a stand-alone basis. We also know there are others who prefer to use its unique characteristics in combination with one or more complementary strategies. In either case, we believe the continuing evolution of our process and our platform brings enhanced opportunity with a continuing ability to actively manage risk.

Perhaps our greatest concern at present is that the narrowing of the market could be luring investors – or in some ways almost **forcing** investors -to take more concentrated risks in their search for returns, drawing many of them more and more deeply into a smaller and smaller subset of the investment universe. When the pattern shifts – and it always does – we want our clients positioned to weather the ensuing events without regret.

Illustrated returns come from the following indices:

U.S. Large Cap Stock - S&P 500 Index, Composed of 500 large company U.S. stocks, often used as a proxy for the domestic stock market.
Foreign Stock - MSCI EAFE Index, Designed to represent the stocks of developed foreign countries in Europe, Australia, and the Far East.
Emerging Markets Stock - MSCI Emerging Markets Index, Designed to represent the stocks of developing countries worldwide.
U.S. Small Cap - Russell 2000 Index, Composed of 2000 small company stocks.
U.S. Mid Cap, Composed of the 800 smallest companies in the Russell 1000. Designed to represent U.S. mid cap stocks.

One cannot invest directly in an index. Index returns do not reflect any management fees, transaction costs, or expenses.

This material contains forward looking statements; there is no guarantee these outcomes will be achieved. All investing involves risk of loss, and there is no guarantee that strategies which may have been successful in the past will be similarly successful in the future. Certain asset classes, including emerging markets, commodities, and gold, carry greater risk and are more volatile than broad domestic bond and equity indices. Because they do not closely correlate with certain other asset classes, their inclusion in combination with other asset classes may actually reduce overall portfolio volatility, but there is no guarantee this will always be achieved.

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