Polaris Educational Series

polaris Wealth Advisers, LLC

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First Quarter 2015 Review

The first three months of our new year were fairly benign. The S&P 500 began the year without much direction, finishing the quarter up a mere 0.44%. What little volatility we experienced seemed to be directly correlated to comments made by our Fed Chairwoman Janet Yellen.

The S&P 500 Traded in a Range Between 2,000 and 2,100 for Most of the Quarter

Here are Some of the Highlights from the Quarter:

- The euro fell 11.2% in Q1. This is the biggest quarterly decline since its inception in 1999. This drop was, in large part, due to the Eurozone's quantitative easing announced on January 22nd.
- The dollar surged 9.0%, as many foreign countries and regions continued their own stimulus programs. This was the third largest quarterly gain the dollar has experienced since 3rd quarter of 2008.
- Small/mid-cap stocks outperformed large-cap stocks.
- Growth companies outperformed value companies in all three size categories.
- The top performing S&P 500 sectors were Health Care and Consumer Discretionary, up 6.16% and 4.38% respectively.
- The worst performing S&P 500 sectors were Utilities and Energy, down 6.02% and 3.55% respectively.
- Developed international markets and emerging markets both outperformed the S&P 500 with a 4.9% and 2.2% return respectively.
- Bonds outperformed the S&P 500. The long-term U.S. Treasury total return was up 3.96% and the Barclay's Aggregate Bond Index was up 1.61% for the quarter.
- Commodities continued their downward spiral, falling 5.14% for the quarter.

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Many of the geopolitical issues that have been scaring the market settled down during the past few months.

There is peace (sort of) in Ukraine. Vladimir Putin seems to have stopped rattling his sabre, and the threat of a large scale war in Eastern Europe seems to have been quelled. While new threats have popped up in the Middle East (namely in Yemen), it appears that the spread of ISIS has been stopped and is now receding.

The U.S. economy continues to plod along with extraordinarily average data. According to the U.S. Bureau of Labor Statistics, the year-over-year change in the Consumer Price Index (which indicates rates of inflation) has dropped to -0.1%, in large part due to the drop in energy prices. This means that your cost of living has really not changed in the past year.

Unemployment continues to improve, with unemployment now at 5.47% (as of 3/31/15), and the percentage of the population actively looking for work (known as the participation rate) has seen slow improvement. Seasonally adjusted average hourly earnings of all workers improved 1.6% over this time last year (as of 3/31/15). Typically, as unemployment drops, wages grow much stronger than the level we are experiencing right now.

Where Do Things Go From Here?

Given the lack of evidence that there is any inflation to combat, I would be very surprised if the Federal Reserve were to raise rates until very late in the year, if not into next year. If the dollar continues to rise, which we anticipate due to the continuation of quantitative easing in Europe and Japan (and a possible stimulus package for China), we find it unlikely that the Federal Reserve would raise rates. This type of move would further strengthen the dollar, making U.S. products sold abroad even more expensive to export to these regions. The impact on corporate earnings would be great for companies who derive a large percentage of their earnings abroad. We've already seen an impact to corporate earnings in the first quarter.

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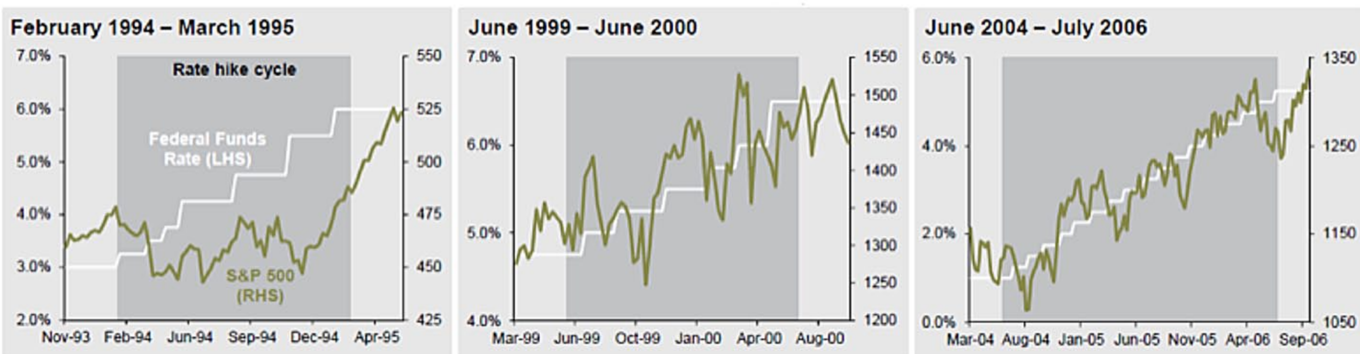
Just the threat of a rate hike has the market on edge. Historically, however, the S&P 500 is able to fight off the initial knee-jerk reaction of a rate hike to find its way higher

Past Three Rate Hikes and Related Market Performance



Given the weight of evidence available to us at this very moment, there is more pointing towards a positive market move than a negative one. As we've mentioned many times, we constantly assess the risk in the markets as well as each individual holding in your portfolio in an attempt to give you the best risk-adjusted performance possible within the guidelines you have set for us.

Our dynamic strategies lower your stock market exposure when we feel the risk outweighs possible future returns. Conversely, we increase your stock market exposure as risk subsides, weighting more of our allocation to areas of strength, and lowering or eliminating segments of the market experiencing negative pressure. We are happy to review how we make our clinical, tactical decision for you in your next portfolio review.

As always, I welcome your comments and questions.

Sincerely,

Jeffrey J. Powell
Managing Partner

The following are the sources for the widely-cited studies on illusory superiority: Svenson, O. (February 1981). "Are we all less risky and more skillful than our fellow drivers?" Acta Psychologica 47 (2): 143–148; Cross, P. (1977). "Not can but will college teachers be improved?" New Directions for Higher Education 17: 1–15; Zuckerman, Ezra W.; John T. Jost (2001). "What Makes You Think You're So Popular? Self Evaluation Maintenance and the Subjective Side of the "Friendship Paradox." Social Psychology Quarterly 64 (3): 207–223.