ASCEND

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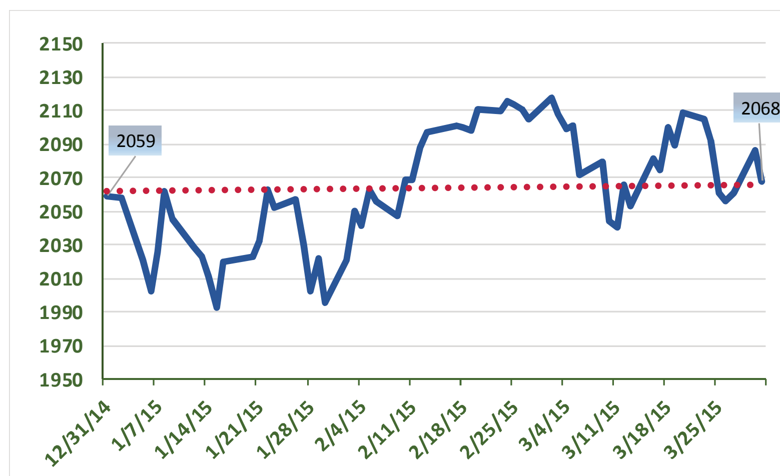
QUARTERLY INVESTMENT REPORT
March 31, 2015

Dear Investor:

At the end of 2014 we advised tighter seat belts moving into 2015. We expected volatility and we sure got it! In the past three months the S&P 500 had a price move greater than 1% a third of the time. Over the 61 trading days in the quarter, 21 of them moved up or down 1% or more. The 1%+ moves swung up 14 times and down 7 times. It was a bumpy first quarter ride with stock prices increasing a measly .44%.

It's a Volatile Market

The quarter ended just about where it began….up a measly .44%



We can attribute investor angst generally to several factors – strength in the dollar, free fall in oil, Mideast turmoil, and the coming increase in short-term interest rates. It's not the fear of movements in the dollar, oil, and interest rates per se, but the potential damage they can do to our already vulnerably slow (but steady) economic recovery. Such damage can cause corporate earnings to suffer. At the end of the day…it's corporate earnings growth – or expectations for corporate earnings growth - that drives stock market performance.

Whereas the troika of interest rates, dollar, and oil are all on investors' minds, a strong dollar and falling oil prices each have both clear positive and negative effects on the economy. On the other hand, for many investors, Federal Reserve actions and rising interest rates, presents only as a threat to stock prices. For this reason, we'll focus our discussion on the Fed and interest rates.

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The Federal Reserve will maintain its reliance on economic data points and promises to not be impatient with its decision to no longer be "patient" about raising interest rates. The Fed-speak lingo is amusing and we won't be surprised if the first small raise is in June, but odds are it won't be until September. The Fed has indicated that it won't tighten rates until it is "reasonably confident" inflation will return to its target of 2% and the employment market improves further. No matter when, they expect to raise rates in 2015. They suggest that the Fed Funds rate (rate at which banks lend to each other on an overnight basis) will be at .625% at year-end (current rate is .25%).

What does history show us about stock prices during Fed tightening periods?

Stock Performance During Previous Fed Tightening Periods

Date	Fed Funds Beginning Rate	Fed Funds Ending Rate	Fed Funds Rate Change	S&P 500 Return
6/29/04 -6/29/06	1.00%	5.25%	4.25%	7.81%
6/29/99 - 5/16/00	4.75%	6.50%	1.75%	9.65%
2/3/94 - 2/1/95	3.00%	6.00%	3.00%	0.67%
3/28/88- 2/24/89	6.50%	9.75%	3.25%	15.09%
12/15/86 - 9/4/87	5.88%	7.25%	1.37%	35.35%
Average				**13.71%**

This is not to say that we are out of the woods. Not only doesn't the future automatically mimic the past, but stock values are vulnerable to a sell-off since they are, while not absurdly high, not especially cheap either. If the economy and earnings stumble, it won't be due to these modest interest rate increases, but rather from import/export imbalances triggered by global events and a resulting manufacturing and employment slowdown.

It's comforting, though, to think about the differences between the Fed's current objectives versus previous objectives during tightening cycles. In past cycles, the Fed raised rates to temper economic excesses and contain or lower inflation. This time around the goal is to get interest rates back into a more normal range without wanting to manipulate economic growth.

In terms of asset allocation we find it useful to pay attention to a shift in monetary policy between the U.S. and Europe. Just as we are ending loose money policies, Europe is revving it up. And it shows in their respective stock performance.

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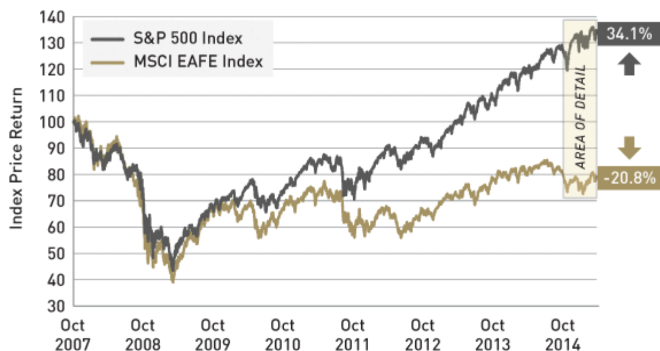
It's clear that U.S. stocks have benefitted from five years of supportive rate policy and three rounds of quantitative easing (QE). Take a look at the chart below which shows how the S&P 500 began rising in early 2009 – a few months after the Fed began its first round of QE – and it continued to rise over the next five years.

Domestic (S&P 500) and International (MSCI EAFE) Stocks

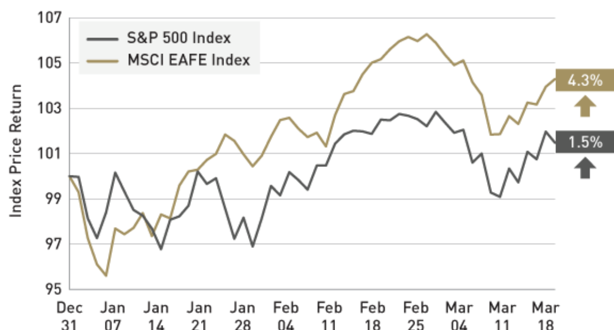
Price Returns through March 19, 2015



International stocks have lagged far behind domestic stocks ever since the recession and during accommodative Fed policy.

Source: Morningstar

Detail of chart above: YTD Comparison



In this detail of the upper chart, we see international stocks outrun domestic stocks in 2015. While the U.S. ended QE and is getting ready to raise short-term rates, the European Central Bank began a QE program in mid-March.

The bottom line is the market is at a crossroads. The Fed will only increase interest rates if it thinks the economy is strong enough to withstand it. Whether or not investors believe companies and their earnings will continue to grow is unpredictable. For this reason we expect market volatility to intensify. Our portfolio allocations to various investment categories plus our philosophy of conservatively holding and buying the strongest domestic stocks on volatile dips, will carry us through temporary rough patches.

Have a happy Easter and Passover!

Sincerely,

Ellen P. Le, CFA
President

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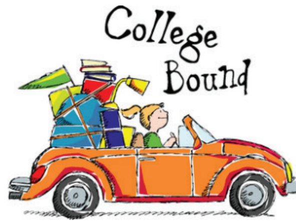

529 Plans

These education savings plans are named for section 529 of the Internal Revenue Code that created them in 1996. They have become more and more popular in recent years in response to the skyrocketing cost of a college education. Just imagine, in 1966 the average annual tuition of a public institution in Michigan – where 529 plans started - cost only $1,700!

Nuts and Bolts

Anyone can open and own a 529 account for someone else's benefit. Usually that means parents, grandparents, aunts and uncles.

The benefit of being **an owner means you maintain control of the 529** and how it's invested and ultimately spent.

Anyone can contribute to one's own plan or someone else's plan. The contribution isn't tax deductible but it does remove assets from the donor's taxable estate. Plans vary with regards to maximum total allowable contributions, with most plans capping total contributions between $350,000-$412,000.

There is no maximum amount per year beyond the particular plan's total maximum. Many donors, however, **think about keeping their contribution to less than $14,001 per year** per beneficiary in order to not have to file a gift tax return (and deplete their $5.43 million lifetime gift tax exclusion). But there is also a special 5 year contributory election allowed. That means that someone can contribute up to $70,000 to one beneficiary in one shot without having to file a gift tax return.

An owner **can change the beneficiary**, but they can change it only one time per year. If a designated beneficiary no longer wants or needs the balance in his or her plan, the amount can be given to an eligible family member. Eligible members are the beneficiary's spouse, child, grandchild, sibling, parent, niece, nephew, aunt, uncle, first cousin.

The **account grows tax-deferred!** That means no taxes are incurred on income or realized capital gains.

The account **withdrawals are tax-free if used for qualified higher education** expenses (tuition, limited room/board, fees, books, equipment). Withdrawals can be taken from the account for any use, but if it's for non-education uses (called nonqualified distributions), the earnings portion of the nonqualified distribution is taxed at the owners' ordinary income tax rate plus a 10% penalty rate. The 10% penalty is waived – but not the ordinary income tax – if the withdrawal is due to the beneficiary's death, disability, or receipt of a tax-free scholarship.

All 50 states and the District of Columbia sponsor at least one type of 529 plan. **You don't have to live in the state to contribute to its plan.** But some plans (34 states and DC to be exact) offer state tax deductions for plan particpants who live in their state. However, don't choose a plan based solely on state deductions. Compare plan investment choices and fees as well. Go to www.savingforcollege.com for detailed information about everything under the sun related to 529 plans.

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