ASCEND

Investment Management, Inc.

Ascend to your financial potential

QUARTERLY INVESTMENT REPORT
December 31, 2014

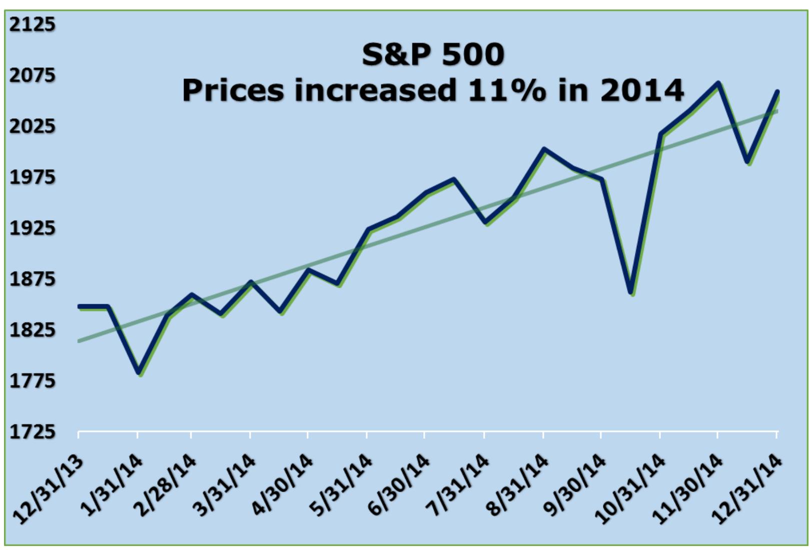
Dear Investor:

There are just a couple of things in life that bring us delight the more boring they are. Consistently good health is boring yet supremely joyful. Uneventful plane rides and smooth seas may be boring, but also a welcome pleasure. We want our art, theater and novels to bedazzle us with unpredictable colors, shapes, thoughts and movements, but stocks that chug incrementally higher week after week with minimal slips or falls, are indeed blissful. And that's what we enjoyed for much of 2014!

Stocks up 11% in 2014

To Record Annual Closing High

4th Quarter said goodbye to "Boring"



2014 Recap

The first three quarters were relatively unexciting with market moving news kept to a minimum. In January, the Federal Reserve announced plans to taper off its bond buying; February witnessed the beginning of Russia's Crimean invasion; and in March the U.S. authorized trade sanctions on Russia. Alibaba filed for its U.S. public offering in May; weakness in Eurozone economies surfaced in August; and in September Apple unveiled a barrage of new products – iWatch, bigger iPhones, and ApplePay.

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Also in September, the Euro was devalued and the first diagnosed Ebola case in the U.S. was confirmed in Dallas. Republicans triumphed over Democrats in the November mid-term elections and in December Congress and the President signed a $1 trillion spending bill to keep the government running through September 2015. Another bit of welcome news in December was the revised report showing that the U.S. economy expanded at a 5% annual rate in the third quarter, its fastest pace since third quarter 2003. The consumer was responsible for about two-thirds of that total upward revision.

And then in the fourth quarter, there was oil.

The recent free-fall in the price of oil began from a supply/demand imbalance that developed in 2014. We saw less demand from Europe and China alongside increased supply of oil and gas from the U.S. shale industry as well as increased productivity. This tipped the global balance in favor of supply.

Since Saudi Arabia can put the cheapest cost of suppply on the market, they can easily fix or create imbalances. In past supply surpluses the Saudi's would lower their production target to bring prices back in balance and support the price of oil.

This time, though, annoyed by the fact that the majority of growth in global production has come from the U.S. shale industry over the last five years, in late November, Saudi Arabia announced that they would not reduce production to support the price of oil. Global prices of benchmark Brent crude swiftly dropped almost 50% from its 2014 high of $112 to a year-end price of $57.6 a barrel (domestic WTI benchmark oil closed the year out at $53.7).

This global oversupply is only around 1 million barrels per day (bpd). To put this in perspective, the world uses around 92 million bpd globally; the oversupply represents only about 15 minutes worth of usage. Demand and supply fundamentals remain tight. But oil prices also run off emotion and the strength of the U.S. dollar. Since oil is priced in dollars, the dollar's strength has been a headwind for much of the year.

Energy related stocks took it on the chin in the final months of the year as profit margins are set to compress, capital expenditure plans are cut, and layoffs are anticipated. Saudi Arabia is succeeding in discouraging new global oil production projects with high fixed costs in order to help put a lid on global production growth.

The debate over whether cheaper oil benefits or stifles the economy is raging. Low oil and gasoline prices puts money in the pockets of consumers but it's already wreaking havoc on corporate spending and job creation in the energy sector.

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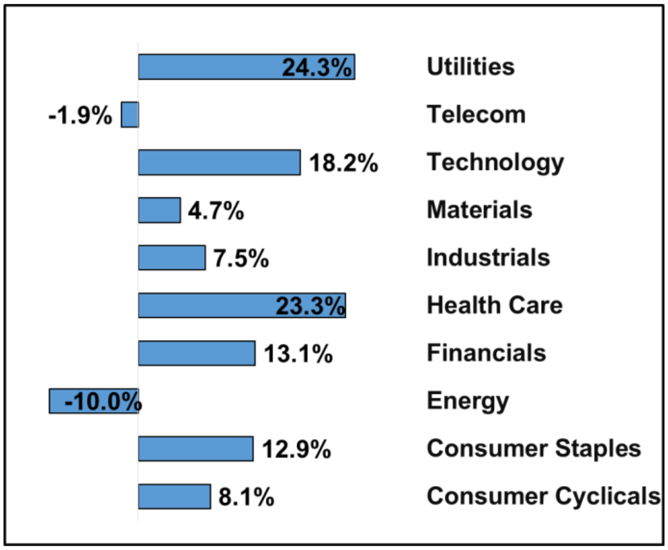
S&P 500 Sectors – 2014 Performance
Energy Stocks Declined 10%



We expect more pain in the energy sector in coming months as crude oil prices are already at levels below at which Russia, Iran, and Venezuela can balance their fiscal budgets. If prices stay at current levels, some production from those countries may be at risk in 2015. That could mean that the market can get close to a balance of supply and demand by the end of 2015, which would help put a floor on oil prices.

What's in Store for 2015?

As a rule, we're not easily lured onto an extended bull market band wagon, but given what's in front of us we are hard pressed to flee from good quality stocks. We consider geopolitics, the Federal Reserve, stock valuation, and the state of the U.S. economy in these decisions.

Our best safeguard against the many geopolitical risks are to remain aware of them, stay nimble, and adhere to an investment discipline of choosing highly liquid stocks supported by very strong balance sheets. Chairperson Yellen, as well as the various Fed presidents, have made it clear that they intend to move rates up gradually and cautiously. Yellen has also stressed the Fed's sensitivity to statistics and is determined to not begin raising rates until the economic recovery can withstand it. Stock values, though not as compelling as they were two or three years ago, still have the economic recovery – albeit substandard - to continue to support some earnings growth and a continued rally. The S&P 500 index has a price-to-earnings multiple about where it has averaged for the last 40 years. As far as the economy goes, the housing market continues to improve slowly, corporate balance sheets are in great shape, and households have improved their finances.

This rally should continue but we advise tighter seat belts, as the ride may prove to be anything but boring. Peace, good health and prosperity in 2015!

Sincerely,

Ellen P. Le, CFA
President

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In 2014…Did You Know?

- It was a banner year for Initial Public Offerings (IPOs) in 2014. Globally there were 375 IPOs, which is the highest number since 2010. The U.S. led in IPO market share, bolstered by Alibaba.
  Did you know that the pipeline for IPOs has doubled in size from 2013 levels?

- Janet Yellen, the first woman to hold the position of Chair of the Reserve Board of Governors, took office on February 3, 2014.
  Did you know that Yellen and her Nobel Prize-winning economist husband, George Akerlof, fell in love over discussions in the cafeteria of the Federal Reserve where they both worked in 1978?

- The Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was signed into law on July 2010. It provides for new or heightened regulation of a number of different areas of the financial services industry to promote the overall financial stability of the United States by addressing perceived regulatory deficiencies in the U.S. financial regulatory framework following the 2008 financial crisis.
  Did you know that a Dodd-Frank rule that had mandated that a small percentage of derivative securities be pushed out of banks into separate business units outside of the bank safety net was reversed as part of the 2014 Congressional spending bill?

- The Treasury Department cracked down on tax "inversions," targeting companies that try to avoid taxes by moving their headquarters overseas.
  Did you know that one rule, for example, would make it more difficult for a smaller foreign company to take over a larger U.S. company, strengthening a requirement that the American-owned company own less than 80% of the new, foreign company; and when the former American parent is more than 60% but less than 80% of the new company — as most recent inversion deals have been — the merger will be allowed but with significant tax consequences?

- As of 12/29/14 the average cost of a gallon of regular gasoline in the U.S. was $2.30. The last time the price was lower was back in early 2009 when it cost $1.79 a gallon (though it stayed under $2 for only the first three months of 2009).
  Did you know that for every gallon of regular gasoline on average across the states, we pay 62% for crude oil, 17% for distribution and marketing costs, 15% for taxes, and 6% for refining costs?

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