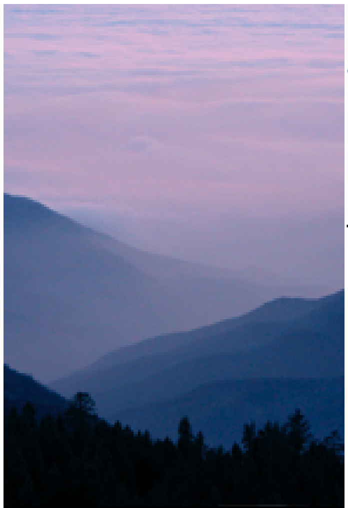


ASCEND Investment Management, Inc.

Quarterly Investment Report
March 31, 2016

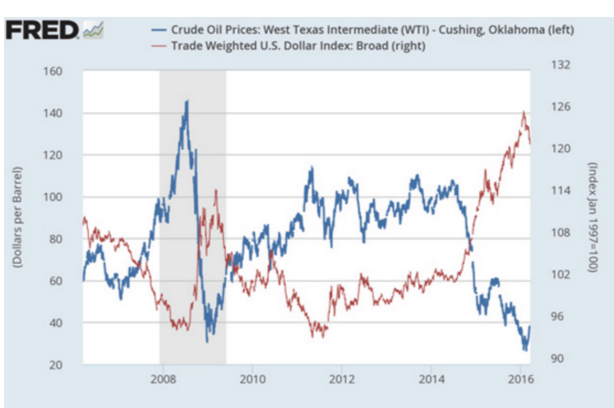
Dear Investor:

It's hard to believe that after the S&P 500 bottomed on February 11 and was down 10% for the year, that we would turn around and be up for the year by the end of March instead of down double digits. Thanks to March's rally, stocks closed out the quarter 1.35% higher; prices were up .77% and dividends added an additional .58% to the return.

In January and February all was doom and gloom over a slowing Chinese economy, plummeting oil prices, and a budding fear of a global recession. But then in the spirit of March Madness we saw a little bounce in manufacturing numbers, a rally in oil prices, inflation accelerated a little, and what appears to be the beginning of a possible end to the bull run for the U.S. dollar. All of this is supportive for stock prices, and likely to cause prices to increase irrationally before triggering our next price correction. We aren't rushing to get too defensive yet, because prices aren't yet overly stretched and the underlying breadth levels are pretty strong with 92% of S&P 500 stocks trading above their 50-day moving averages. A 50-day moving average is a number that many investors look at to determine how healthy the market is technically. It's simply the average price of the last 50 days. When so many stocks are trading higher than their 50 day average, it's a strong indication that the market is pretty healthy…at least until it's not. It's just one indicator and backward looking at that, so like everything else related to the stock market, it must be viewed with healthy grains of salt.

We mentioned above that the dollar is showing signs of weakness. The dollar index, a measure of the value of the U.S. dollar relative to the value of six major world currencies (the Euro, Japanese Yen, Canadian dollar, British pound, Swedish krona, and Swiss franc), is down almost 6% from its 2016 high and down 4% from the beginning of the year. This is a result of the Federal Reserve's more dovish tone of late, communicating that interest rate hikes are off the table until global economies stabilize.

Oil Prices are Inversely Correlated with the Dollar…
and the dollar has started to weaken



Check it out at the far right end of the chart - in March, the dollar declined (red line) and oil rallied (in blue)!

The price of oil has been on a tear, climbing 40% from a low of $27 per barrel in the middle of February to $38 per barrel by the end of the quarter. Oil's positive link with the direction of the stock market is a little unusual since lower energy costs serve to boost corporate earnings. More than likely the correlation is a temporary empathetic syncing with the fiscal health of the energy patch specifically.

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What is more logical to us is the relationship between the U.S. dollar and the price of oil as shown in the chart on the previous page. Since oil, like most commodities, trades globally in dollars, a weakening dollar helps oil prices to stabilize and find a price bottom. Of course, there are additional inputs that influence the price of oil, on both the demand and supply sides, but a weaker dollar at least helps on the demand side of the equation.

We bring this up because this is one more reason to feel hopeful that stocks can continue to rally for the time being. Multi-national U.S. companies are big beneficiaries of dollar weakness, their goods become cheaper to foreign buyers as fewer Euros, Yens, Pounds, etc. are necessary to buy them.

What's the Deal with Negative Interest Rates?

'My piggy bank's started charging me.'

It's worth spending a bit of ink on the recent financial policy phenomenon of negative interest rates. It's an odd concept whereby a depositor, instead of earning an interest rate, however paltry the rate, actually pays a bank to hold its money. Why would anyone do such a thing? The "anyone" in this case are banks that deposit funds with government central banks - specifically the European Central Bank (ECB), the Danish National Bank (DNB), the Swedish Riksbank, the Swiss National Bank (SNB), and the Bank of Japan. The DNB was the first central bank in Europe to set its deposit rate below zero in 2012, the ECB first pushed its rate below zero in June 2014 and the others followed at different times in 2014 through 2016. In each case, investors themselves aren't subject to negative rates directly (despite what the cartoon alludes to!), since it's confined only to bank reserve deposits.

Reasons for negative policy interest rates are varied but they have a common element. Commercial banks normally hold deposits at their central bank as settlement balances for clearing payments, or to meet legal minimum reserve requirements. And central banks normally pay interest on excess reserves, i.e., above a specified minimum reserve level. During normal times, banks usually minimize their holdings in excess reserves because their deposit rates are below typical money market rates. But with the ongoing uncertainty since the global financial crisis and with money market rates so very low, some banks have chosen to hold higher balances at central banks and accept having to pay to do so. This high level risk aversion on the part of banks is supported further by the lack of profitable lending opportunities in a still sluggish economic environment.

With this policy central banks are trying to induce banks to stop sitting on cash, and lend more and buy riskier assets with the hope that it creates a general easing of credit conditions and stimulates the economy.

It's all experimental and the results as yet unknown, but there do seem to be risks to the policy. Negative interest rate policy erodes banks net interest margins (the spread between what they earn from their loans and the interest they pay their own depositors). It gets eroded because they can't easily pass on their lower reserve earnings from negative interest rate policy onto their depositors without losing their depositor base (again - the cartoon is just for laughs!).

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Ascend To Your Financial Potential

Banks have been under so much regulatory pressure since the financial crisis that too much added stress on their profitability could hurt their ability to lend normally. That, in turn, could have a seriously detrimental affect on an already fragile and illiquid global bond market.

On the other hand, negative rates could encourage banks to react by taking on excessive risk with their lending activities which could contribute to the formation of asset bubbles. But so far we haven't seen a whiff of excessive lending brewing.

Janet Yellen, chairwoman of our Federal Reserve bank, has stated that they are looking at negative interest rate policy and it's not off the table, but she stressed that the Fed would only consider it if our economy got much weaker. We don't think we are close to that scenario, especially given the most recently announced jobs report that showed a continuation of reasonably strong jobs growth.

As I indicated at the beginning of this newsletter, our economy is chugging along with no real reason to fear recession. Manufacturing is stronger and the oil patch is stabilizing a little bit - giving inflation numbers a small boost in the process. And our dollar is weakening which supports both oil prices and corporate profits. Add to these positives that interest rates are still low, consumer spending continues to increase in keeping with better wage growth, and corporate balance sheets remain quite strong.

But, having said all that, we get more and more cautious as stock prices climb. Just as the sun rises and sets every single day, stocks will periodically undershoot and overshoot their appropriate underlying value. We're not quite there yet, but at some point we'll see stock prices bubble up to untenable levels. How soon may depend on the quality of corporate earnings over the next couple of quarters. When that happens we will adjust out asset allocations somewhat but not try to time the market and exit all stock positions, as that would be ill advised for the long-term health of portfolios.

Sincerely,

Ellen P. Le, CFA
President

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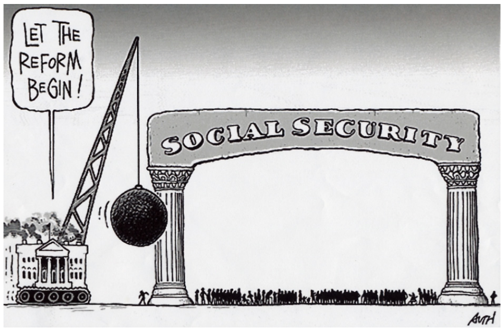
Ascend To Your Financial Potential

CHANGES TO SOCIAL SECURITY



As part of the Bipartisan Budget Act of 2015, in October 2015, changes were made to two popular Social Security strategies. While these changes will reduce benefits to many people, it will be beneficial to the Social Security system and therefore benefit everyone by virtue of helping the program to stay fiscally strong. The last Social Security Report had warned that Social Security would run out of money by 2033 and only be able to meet roughly 77% of its future obligations at that point. While more is still needed to fix the system, the recent move is a step in the right direction to ensure the long-term success of the program.

The first change is the removal of the **File and Suspend** strategy for married couples. File and Suspend allows a higher earner - spouse A - once reaching full retirement age to file for a benefit and then immediately suspend it so that the lower earning spouse - spouse B - can collect half of spouse A's benefit. This allows both spouses to delay their benefit and earn an additional 8% of delayed credit for each year of delay. And meanwhile, the lower earning spouse B collects a spousal benefit.

People who are already receiving benefits under this strategy can continue to do so. For others, only those who will be age 66 or older by April 29, 2016 can still employ this File and Suspend strategy.

The second change is the removal of the **Spousal Application** strategy for married couples. Spousal Application filing allows a higher earner - spouse A - once reaching full retirement age, to collect half of the lower earner - spouse B's - benefit. Spouse A must reach full retirement age to do this because Social Security automatically gives the highest benefit amount that spouse A is eligible for if the application occurs before spouse A reaches full retirement age. It's only after reaching full retirement age that spouse A could choose to restrict an application to spousal benefits only. That means that the higher earner spouse A can collect the spousal benefit while allowing his own benefit to accrue delayed credits.

The new law ends this option and when someone applies for a benefit at any age, Social Security will automatically pay the beneficiary the highest benefit. The higher earning spouse would be giving up his ability to delay his own higher benefit to earn delayed credits.

People who are already receiving benefits under this strategy can continue to do so. For others, anyone that is age 62 or older by 12/31/2015 (born in 1953 or earlier) will be able to - at full retirement age - restrict their application to spousal benefits only (and delay their own benefit to receive a higher benefit).