MANAGED ASSET PORTFOLIOS

MAP Views
Second Quarter 2015

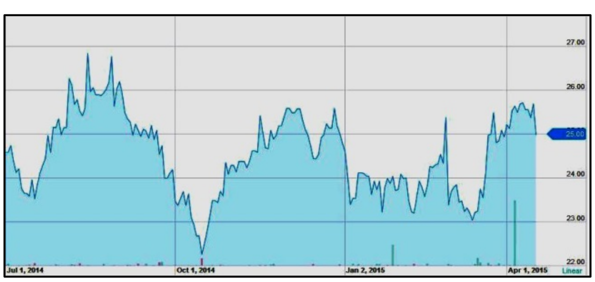
Stock prices experienced quite a bit of volatility during the first quarter of 2015, but ended the quarter fairly close to where they began the year. Declining oil prices, a soaring U.S. dollar, fears of when the Fed would raise interest rates, and a still lackluster economy around much of the world weighed on the minds of investors. The price of crude extended its decline that started in the second half of 2014, with West Texas Intermediate crude falling nearly 60% from its mid-2014 peak, as supply outweighed demand. The dollar was strong versus most other currencies, notably rising over 13% against the euro. The European Central Bank (ECB) kicked off its own version of Quantitative Easing (QE), committing to buy $1.1 trillion of bonds between now and the second half of next year.

Index	Total Returns: First Quarter 2015
S&P 500	0.95%
Nasdaq Composite	3.48%
S&P Midcap 400	5.31%
Russell 2000	4.32%
MSCI ACWI	2.45%

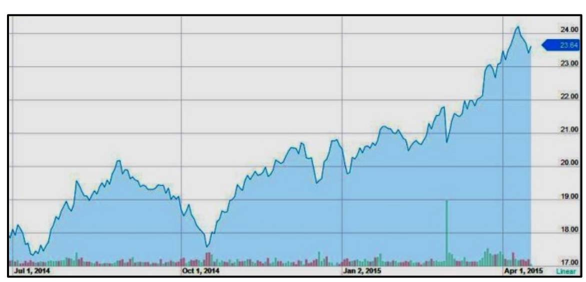
As the table above shows, small and mid-cap stocks performed better than larger cap issues domestically, primarily because the smaller companies generate a smaller portion of their sales abroad; hence they have less exposure to foreign currency movements. Many large cap companies including Blue Chip names like Coca Cola, Caterpillar, John Deere, IBM, Hewlett Packard, and Johnson and Johnson have cited the strong U.S. dollar as a headwind for their current and near-term operating performance.

Foreign stock markets did particularly well when compared against their U.S. counterparts. Unfortunately, unfavorable currency movements negated much of the advance in equity prices. The charts below illustrate this point.

VIVEF YTD Return: $0.19/0.77%



VIV.FP YTD Return: €2.96/14.28%



Both charts show the stock price for Vivendi, the French based media company, for the first three months of the year. The chart on the left shows the stock performance in U.S Dollars (up 0.77%), while the stock on the right indicates performance in Euros (up 14.28%). The difference represents the 13.51% decline in the euro against the dollar during this time frame.

As mentioned above, during the quarter, Europe kicked off its own round of QE. Recall the U.S. finished up their third round of QE in December. The ECB plans on buying $1.1 trillion of bonds between now and the third quarter of 2016. By doing so, they hope to depress interest rates (and their currency) to aid their ailing economy. As a result, interest rates have fallen to historically low levels, with many nations actually experiencing negative yields. This low interest rate environment has created what some market pundits have called the T.I.N.A. market - “There Is No Alternative”. As a case in point, a few weeks ago, Nestle became the first company to have negative yields on some of their debt, while their common stock sports nearly a 3% dividend yield. Not a difficult choice to make, in our opinion. The Swiss government recently sold 10-year Treasury bonds with a negative yield. Traditionally, bonds have been a buy and hold investment. Today, it is highly unlikely that anyone buying an intermediate to long-term bond will make money holding it to maturity. Buyers of longer dated bonds today, in our opinion, are playing the greater fool theory. As indicated by the negative interest rates, record low rates have fostered a risk taking environment for investors. The table below speaks a thousand words.

Index	**Above Median P/E**		**Below Median P/E**		**Above P/E of 50**		**0 Earnings**	
	YTD Return	*EPS Growth*	*YTD Return*	*EPS Growth*	*YTD Return*	*EPS Growth*	*YTD Return*	*EPS Growth*
S&P 500	5.13%	11.01%	0.16%	5.51%	9.54%	8.55%	7.15%	-127.00%
Russell 1000	-4.49%	7.96%	-5.96%	2.01%	5.78%	17.06%	5.75%	-0.22%
Russell 2000	4.21%	10.25%	0.55%	0.00%	5.67%	0.00%	1.26%	-24.95%

For 2015’s first quarter, stocks with price/earnings (P/E) multiples below the market median produced subpar returns relative to stocks with loftier valuations. In fact, stocks with P/E ratios greater than 50 were one of the best performing sectors of the stock market. This current “risk-on” environment will not end well for those investors who ignore the risks inherent in buying assets without regard to valuation. Chasing momentum stocks and buying long-term bonds in a negative yield environment is at strategy that will not end well. We urge investors to maintain a longer-term perspective and keep an eye on the proper balance between risk and reward.

As always, thank you for entrusting your assets with us. We know you have worked hard to accumulate your assets and rest assured that we work diligently every day trying to find the best risk adjusted opportunities around the world.

Kindest regards,

Michael S. Dzialo
President and Chief Investment Officer

For more insights on our thoughts about the global economy and the financial markets please view our latest webinar. It will be posted on our website (www.mangedassetportfolios.com) May 11, 2015.