MANAGED ASSET PORTFOLIOS

MAP Views
First Quarter 2015

For the past four years we have used the analogy "Stocks are the Best House in a Bad Neighborhood." Last year, the U.S. was the best house in a bad neighborhood. As Japan's economy remains trapped in a two decade plus economic malaise and Europe's economy struggles with deflationary pressures, investors around the world piled into U.S. equities and the U.S. dollar. Large cap, domestic equities have been the primary beneficiary of this trend. As the table below highlights, this trend has pushed U.S. valuations ahead of most of its global peers.

Index	P/E	Est P/E	P/B	P/S	Yield
S&P 500	18.15	16.88	2.77	1.79	1.97%
Euro STOXX 50	21.25	14.11	1.53	0.98	3.51%
Thailand	17.10	14.87	2.18	1.20	2.92%
Singapore	13.68	13.77	1.39	1.24	3.27%
South Africa	15.27	16.21	2.23	1.68	3.07%
Hong Kong	10.39	11.27	1.38	1.85	3.67%
Japan	20.93	18.70	1.68	0.91	1.45%

The U.S. economy, albeit far from perfect, is better than many of its global counterparts; however, we note that the U.S. is not immune to the world's ills. As the dollar strengthens against the euro, yen and other currencies, this creates a headwind for U.S. companies trying to export their goods. Over 40% of the S&P 500's revenue is earned abroad and dollar strength will pinch sales and margins. Today, foreign ownership of U.S. equities stands at a 70 year high. For followers of market trends, this should flash warning signs, as a crowded trade is a dangerous one. Should U.S. companies begin to reduce earnings guidance due to the stronger currency, or should the Fed keep interest rates lower than anticipated, foreigners may be quick to head for the exits.

While the U.S. market is not grossly expensive, and we still find select pockets of value, we believe that U.S. valuations are getting a bit high. Currently, the price/earnings ratio for the S&P 500 is at the highest level since June of 2007, and well above the 10-year average of 14.1. As logic would suggest and academic studies support, historically, the greatest stock market returns occur when valuations are their lowest. Today's valuations, while not at record levels, are above historic norms, which will probably keep 2015 returns modest.

Oil prices have tumbled with the price of WTI falling from a 2014 peak of nearly $108 a barrel in June to $50 by year end and these prices have continued to weaken into the New Year. The last time oil prices were at these levels were in the depths of the 2008/2009 financial crisis. We believe it is important to realize that the weakness in 2008 was demand driven, whereas the current weakness is supply driven. In 2008, the economy was tanking. Fewer cars and trucks were being driven, fewer planes were flying and fewer factories were operating. Today, the price decline is supply driven. Demand remains fairly strong (although some growth projections have been pared). Today's price declines are primarily the result of an excess amount of supply stemming from the success of the U.S. shale operations and the unwillingness of OPEC or Russia to secede market share to the Americans. Eventually, we believe many of the smaller shale operators in the U.S. will fold, thereby decreasing supply and pushing prices higher. With that said, we believe this may very well take several quarters.

While we believe supply factors are the primary driver in the recent move in oil, we do believe the financial markets have played a role in the rate of decline as well. We believe many investors (both retail and institutional) bought commodity investments in 2010, 2011, and 2012 as an inflationary hedge, fearing that the Fed's Quantitative Easings would spur on inflation. Since inflation has not materialized, it appears as though many of these investors are throwing in the towel on these investments, exacerbating the price decline.

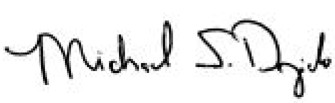
While we wait for oil prices to stabilize, we think it makes the most sense to focus on the large multinational, integrated oils. We believe they have the financial wherewithal to weather the current storm, maintain their dividend payouts to take advantage of weaker competitors that may need to sell properties at distressed levels. Specifically, we favor Royal Dutch Shell, BP plc, and Total S A, as the firms have both upstream and downstream operations, which we believe provides them with somewhat of a hedge against lower oil prices. Additionally, chemical operations also benefit from lower oil prices. Conversely, we are shunning the drillers and pure exploration and production (E&P) companies, as we believe they will be the most hurt by the lower oil prices.

We think that 2015 can be a respectable year for equities, but believe that global markets will outperform the U.S. as investors realize the valuation discrepancies between the geographies. We believe the global economy will continue to post lackluster growth, forcing Central Banks to maintain their accommodative posture. This should keep interest rates from going materially higher this year, thereby allowing equities to remain an attractive asset class versus cash and fixed income. While we believe interest rates will move only modestly higher, we see little reward in extending maturities. Hence, we are heavily weighted toward the shorter end of the curve with a weighted average maturity of about 2 years for our fixed income holdings. Of note, as low as rates are in the U.S., they are even lower in other geographies. The ten year German bond yields only ½ percent. In Zurich, investors with over $100,000 receive a negative 0.75% and returns on 50-year bonds are a meager 0.5%. Considering the robust dividend yields provided by quality European companies such as Nestle and Novartis, we believe the attractiveness of equities over bonds will eventually be recognized by investors.

While the benign inflationary and low interest rate environments are conducive of multiples toward the higher end of historic norms, we fear that the U.S. has become the "Island of Utopia" in the eyes of investors. This has pushed U.S. valuations higher and depressed global valuations – a trend we believe will be reversed in 2015.

As always, thank you for entrusting your assets with Managed Asset Portfolios. We know that you have worked hard to accumulate your assets and rest assured that we work hard every day trying to find the best opportunities for our clients.

Kindest Regards,



Michael S Dzialo
President and Chief Investment Officer

For more insights on our thoughts on the global economy and financial markets, please view our latest webinar. It will be posted on our website (www.managedassetportfolios.com) February 6, 2015.