MANAGED ASSET PORTFOLIOS

FOCUSED · DISCIPLINED · TRANSPARENT

First Quarter Investment Outlook

Prepared

February 11, 2016

Not Your Father's Economic Cycle

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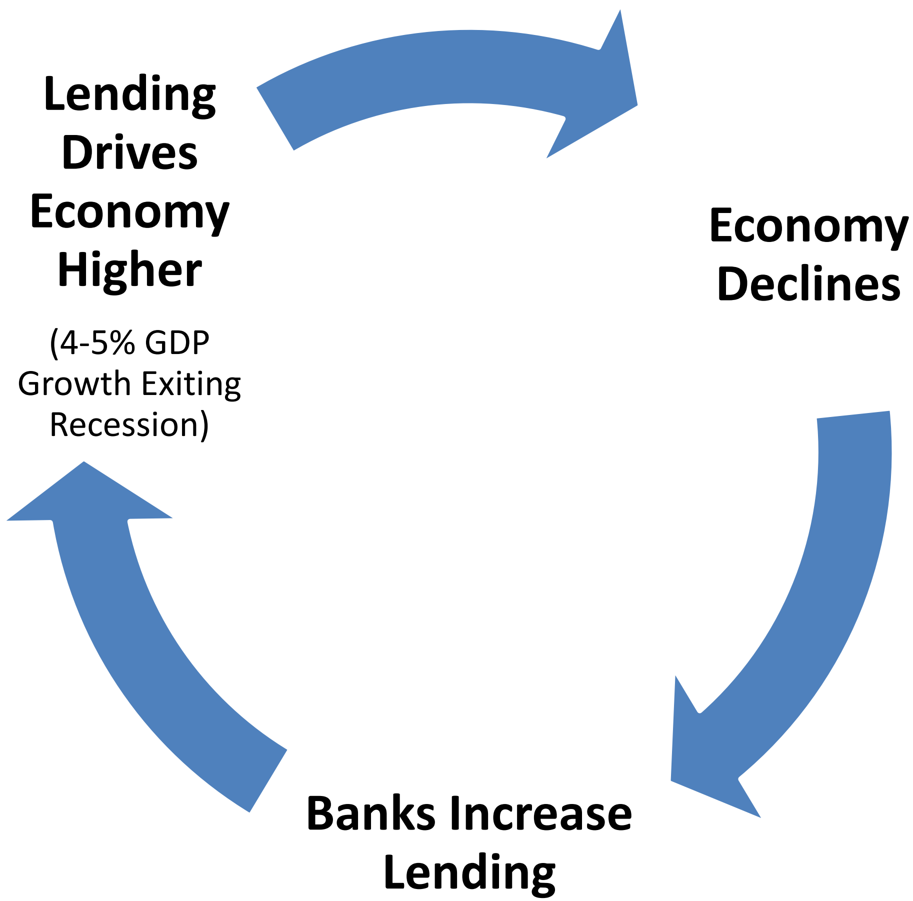
- One of the worst openings to a year
- Believe decline is more driven by emotion than reality
- Structural changes in the economy have forever changed market dynamics
- Redefines the 'Economic Cycle'

Typical Economic Cycle



Structural versus Cyclical

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Structural

Job Shift

- From Manufacturing to Servicing

Too Much Debt

- Private & Public

Cyclical

Housing Boom/Bust

- Geographic Shift – Lending standards

Energy Markets

- Low cost producers to leveraged investors

U.S. Jobs Shift: Structural

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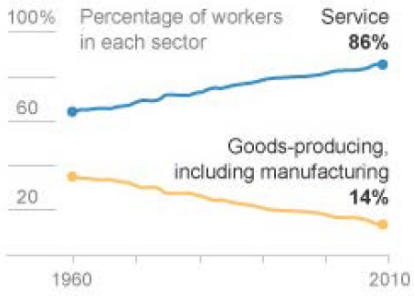
A Shift From Manufacturing

A look at the largest employers shows how America's economy has changed. Over the last 50 years, the country has shifted from creating goods to providing services. Today, about a tenth of Americans work in manufacturing, while service providers and retailers like Walmart and temp firms like Kelly Services employ about six in seven of the nation's workers.



Goods-producing | Service-providing

1960

- 595,200 employees General Motors
- 580,400 Bell System (later AT&T)
- 260,000 Ford Motor
- 260,600 General Electric
- 225,100 U.S. Steel
- 208,000 Sears, Roebuck
- 153,000 Supermarket chain
- 140,000 Later Exxon
- 138,300 Bethlehem Steel
- 132,000 International Telephone & Telegraph
- 114,000 Westinghouse Electric
- 105,700 U.S. military contractor
- 105,400 Chrysler
- 105,300 Sperry Rand
- 104,300 International Harvester

2010

- 2,100,000 Walmart
- 538,000 A job placement agency
- 426,751 I.B.M.
- 400,600 Package delivery company
- 400,000 McDonald's Corporation
- 378,000 Operator of Taco Bell, KFC, Pizza Hut
- 355,000 Target
- 338,000 Grocery retailer
- 324,600 Hewlett-Packard
- 321,000 Home improvement retailer
- 312,000 Sears Holding
- 294,000 PepsiCo
- 288,000 Bank of America
- 287,000 General Electric
- 280,000 CVS Pharmacy

Note: The numbers in the chart are total worldwide employees.

By AMANDA COX, CHARLES DUHIGG, XAQUÍN G.V., MIKA GRÖNDAHL, HAEYOUN PARK, GRAHAM ROBERTS, KARL RUSSELL

Sources: Government Accountability Office; Bureau of Labor Statistics; S&P Capital IQ; iSuppli

Too Much Debt in the System: Structural

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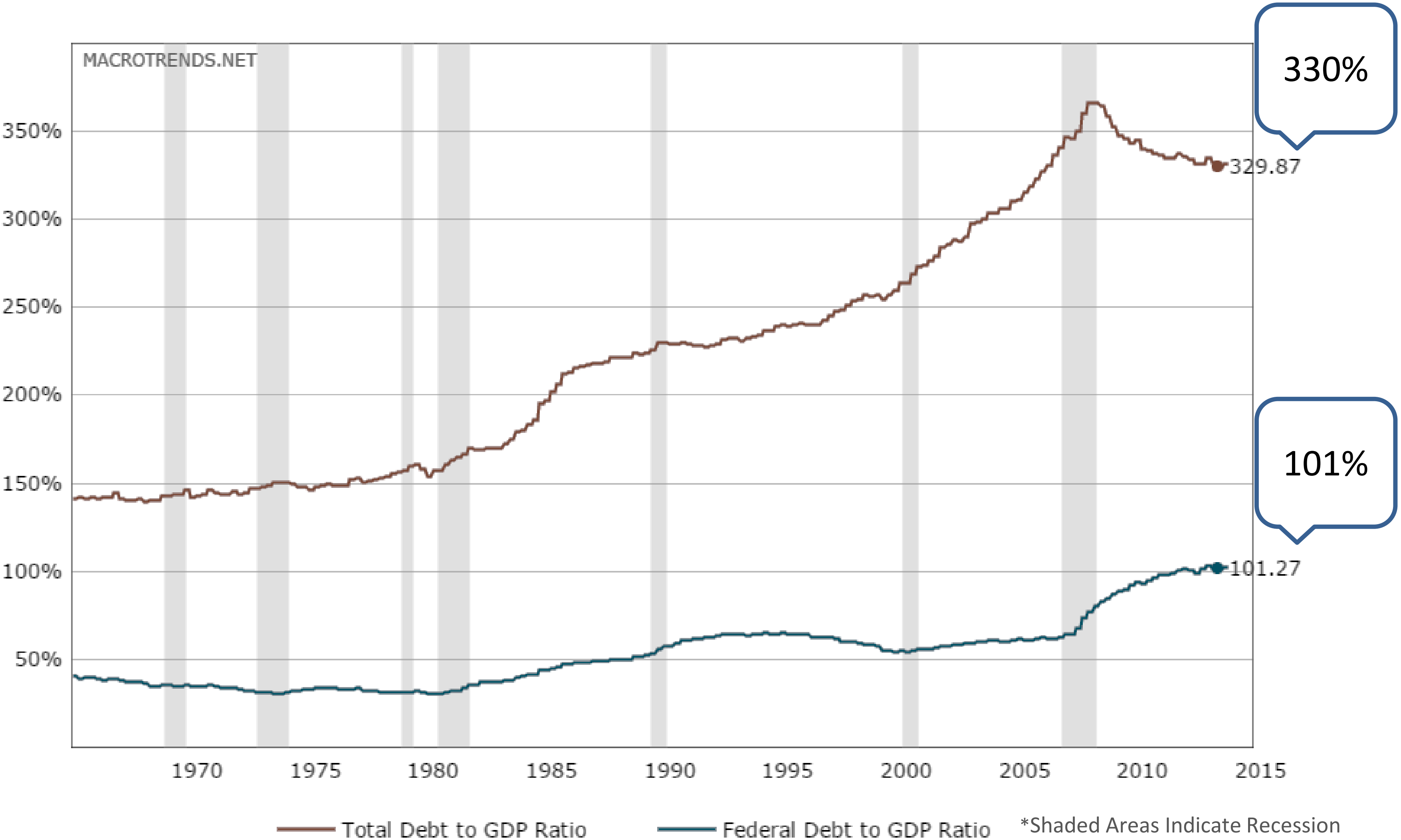

*Shaded Areas Indicate Recession

Source: Macrotrends.net

The Fed Moves Indices

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By excluding 294 "day of + day before " Fed meeting trading days (147 x 2 days excluded) out of over 4,500 total trading days since Jun-1997, the drop is ~50%.

Basically, excluding just 6% of Fed-influenced days cuts the S&P 500 price in half.

Liquidity Drives Markets

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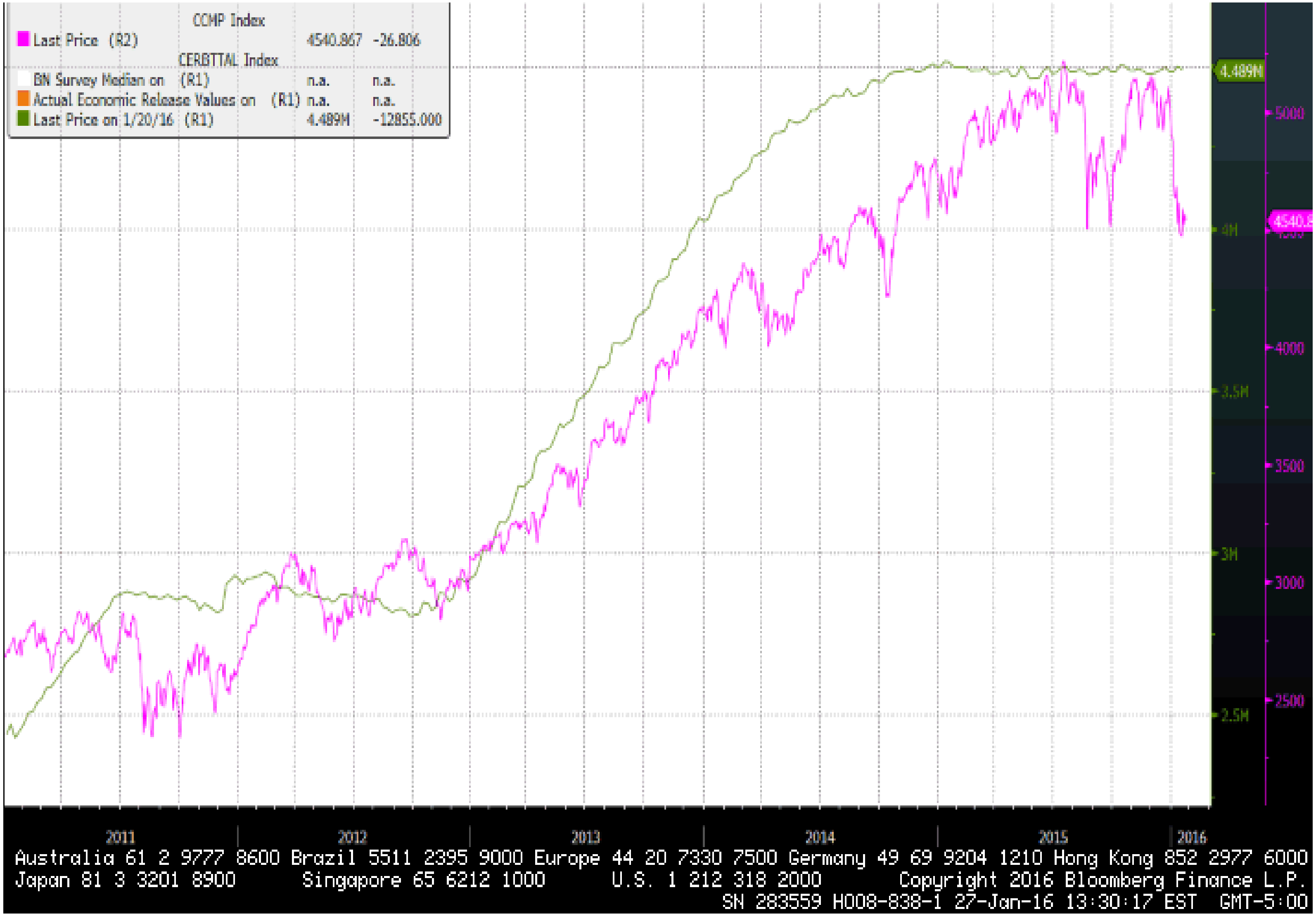

Chart Courtesy of Bloomberg

Same Action, Same Response

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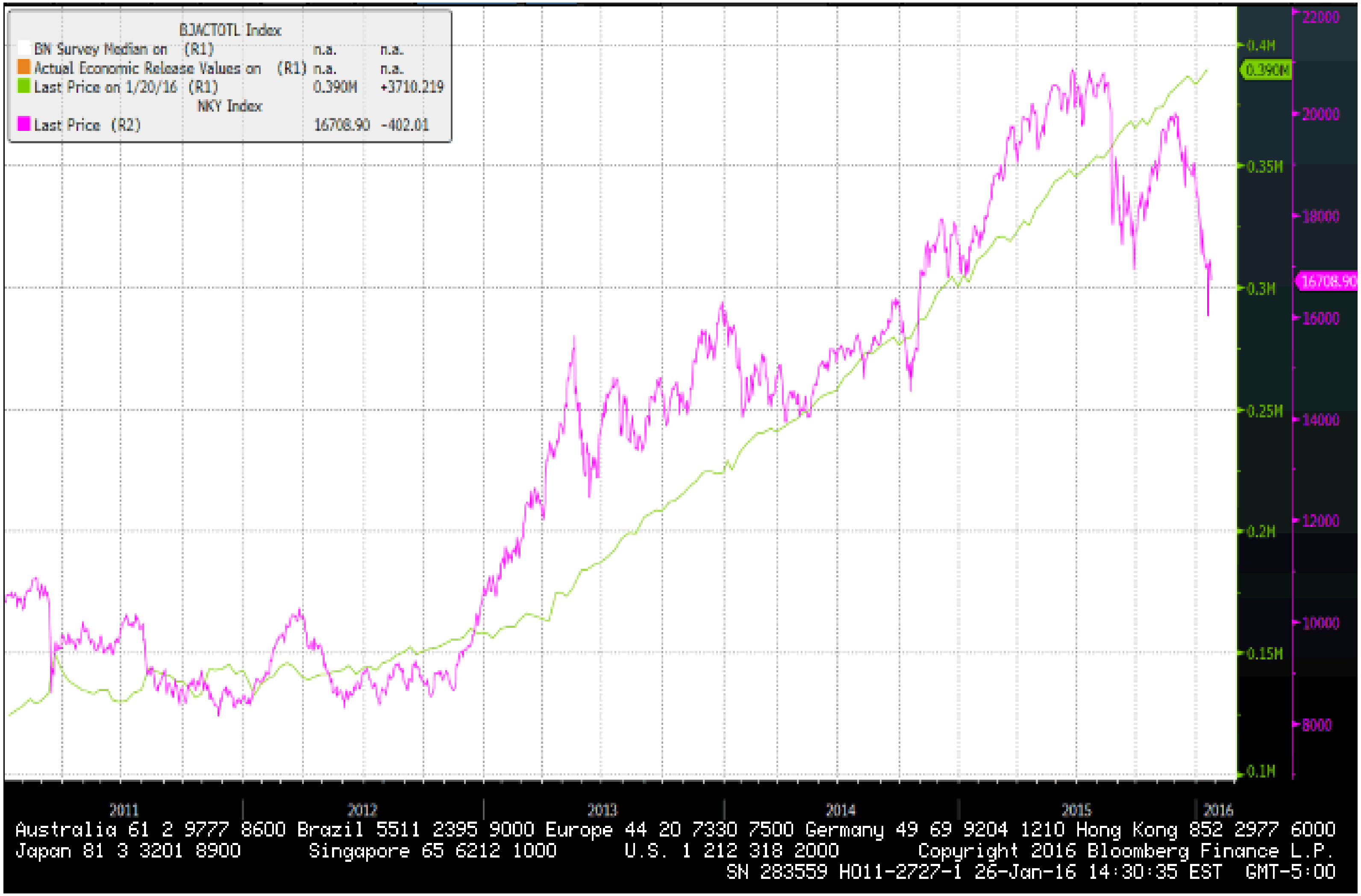

Chart Courtesy of Bloomberg

Risk of Recession Following US Rate Rise?

- The negative economic hangover from lower profits at US multinationals, coupled with divergent monetary policies among the Central Banks as well as weakening emerging market currencies poses significant risks to the global economy

- Could push US into a recession, following years of lackluster growth

- Believe the Fed was premature in their rate rise and lead to a reversal in policy

Value Typically Outperforms

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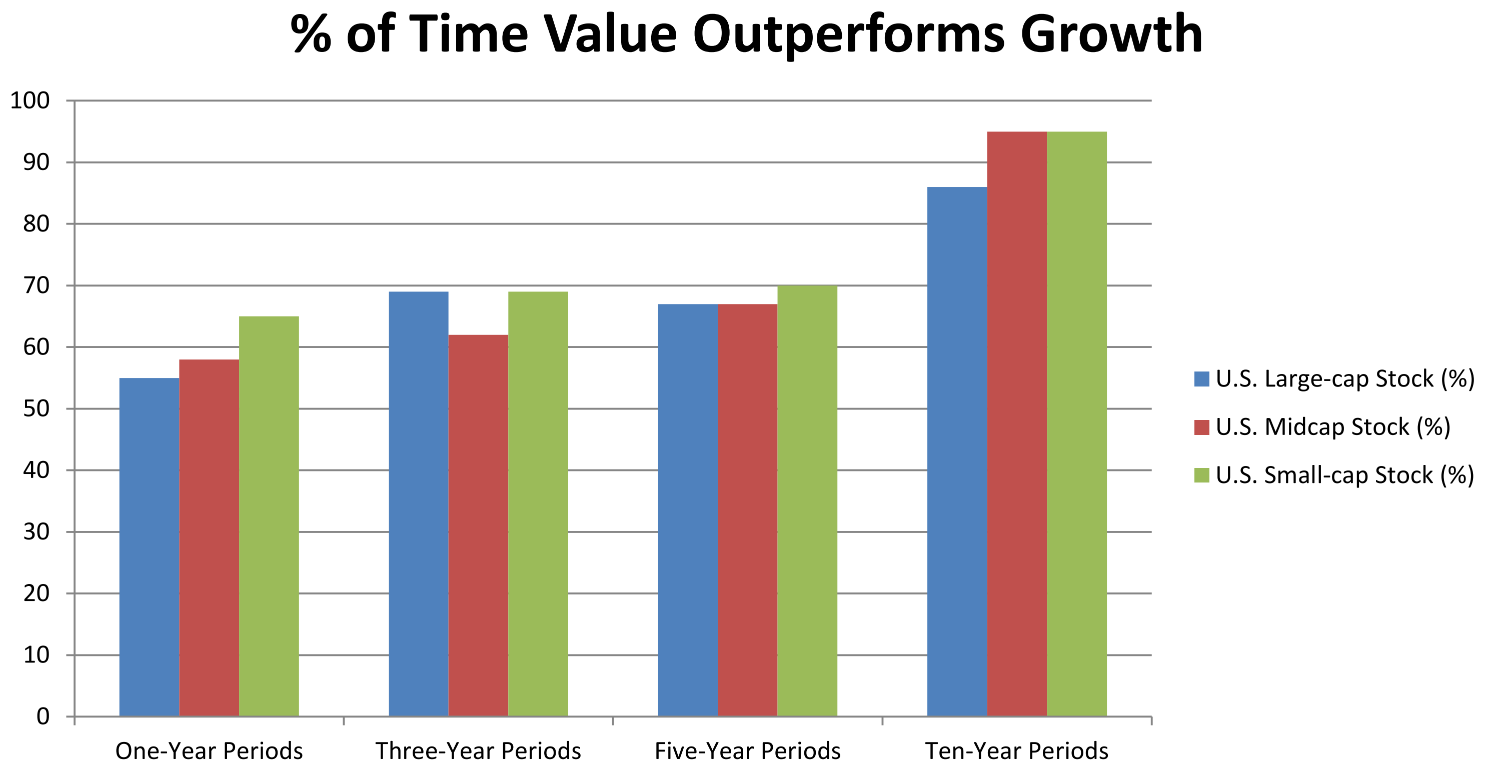

Data Courtesy of Bloomberg

Value versus Growth

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	Valuation Metric	4th Quartile			3rd Quartile			2nd Quartile			1st Quartile		
		MTD Returns	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Retuns*	*One Year Returns*	*MTD Returns*	*QTD Retuns*	*One Year Returns*
S&P 500	Price-to-Earnings	-5.28%	-0.32%	-15.37%	-3.03%	4.59%	-5.55%	-0.47%	6.93%	4.84%	-0.88%	8.31%	12.20%
	Price-to-Sales	-4.51%	-1.70%	-14.65%	-3.12%	5.66%	-2.54%	-1.87%	6.37%	-0.31%	-0.90%	8.64%	11.31%
	Price-to-Book	-5.06%	0.94%	-13.81%	-3.23%	3.58%	-5.07%	-1.34%	6.62%	0.05%	-0.68%	7.99%	11.37%

	Valuation Metric	4th Quartile			3rd Quartile			2nd Quartile			1st Quartile		
		MTD Returns	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*
MSCI ACWI Ex US	Price-to-Earnings	-2.69%	0.28%	-14.52%	-1.87%	3.37%	-7.14%	-1.36%	4.20%	-1.25%	-1.33%	4.63%	4.64%
	Price-to-Sales	-3.99%	0.12%	-11.47%	-2.53%	2.43%	-7.18%	-1.46%	3.56%	-6.24%	-0.78%	4.20%	-0.40%
	Price-to-Book	-3.93%	-1.12%	-19.36%	-2.11%	2.34%	-6.69%	-1.08%	4.73%	-2.19%	-1.72%	4.35%	2.72%

	Valuation Metric	4th Quartile			3rd Quartile			2nd Quartile			1st Quartile		
		MTD Returns	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*	*MTD Returns*	*QTD Returns*	*One Year Returns*
Russell 2000	Price-to-Earnings	-7.65%	-2.75%	-16.57%	-5.22%	4.27%	0.63%	-4.10%	6.03%	1.80%	-3.61%	7.70%	6.24%
	Price-to-Sales	-9.05%	-5.77%	-27.05%	-5.03%	4.43%	-6.01%	-3.88%	6.03%	1.05%	-3.48%	11.44%	8.99%
	Price-to-Book	-8.43%	-6.58%	-24.51%	-4.93%	4.46%	-5.30%	-4.30%	5.81%	-4.76%	-2.63%	12.10%	14.17%

Data courtesy of Bloomberg. As of December 31st, 2015

Average Stock in Bear Market

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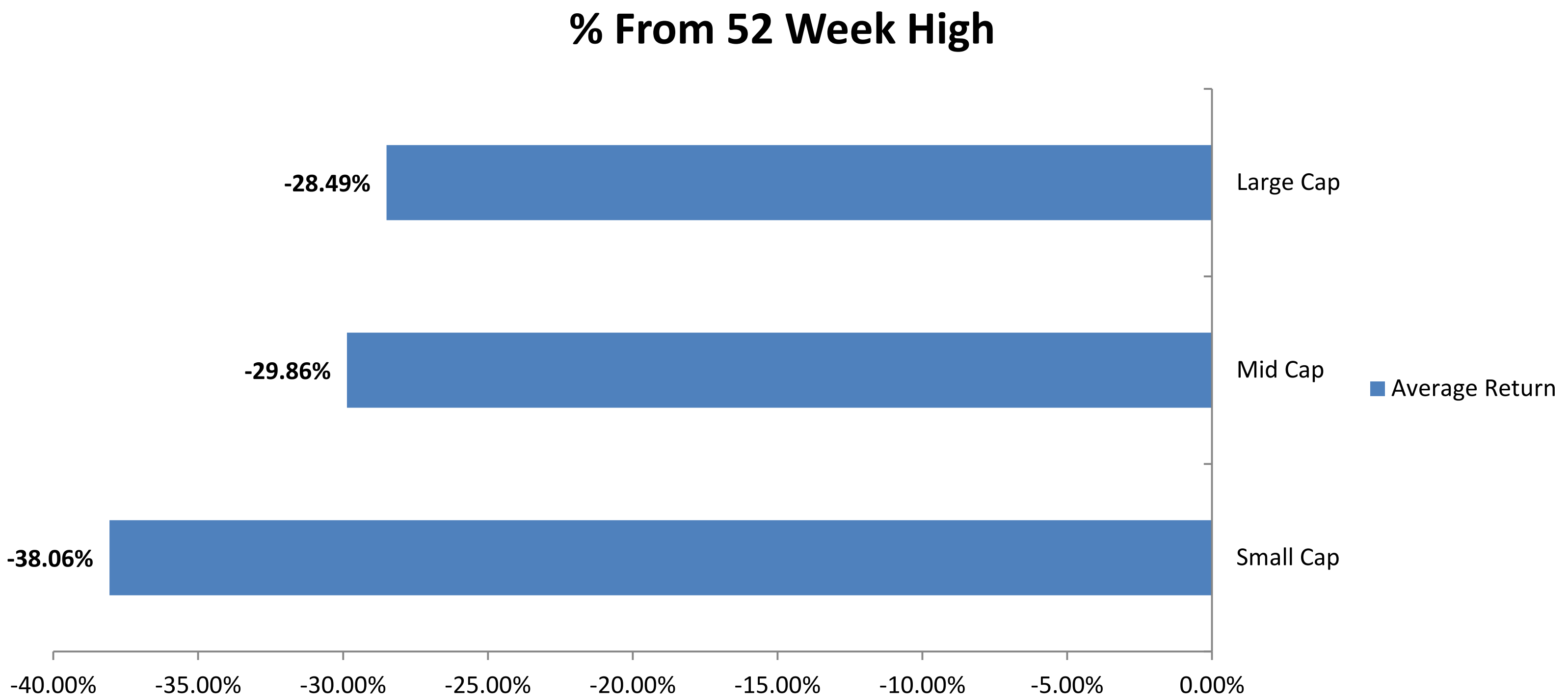
Data compiled from the Russell 2000, Russell Mid-Cap Index, and Russell 1000 Index to represent small, mid and large cap stocks respectively.

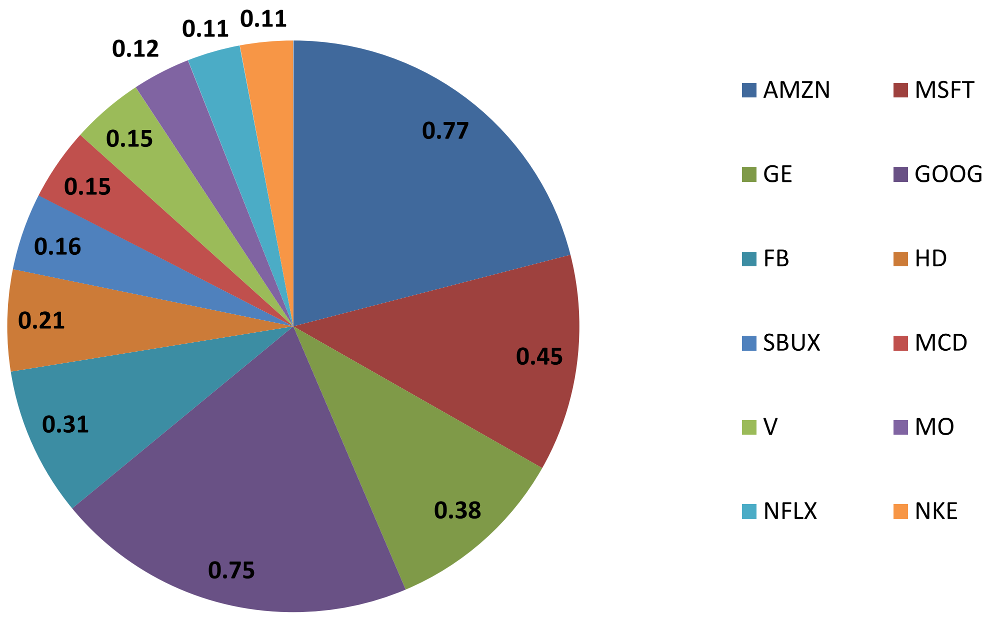


Data courtesy of Bloomberg 01/21/2016.

2015 Rise in S&P 500 Led by a Handful of Stocks

Managed Asset Portfolios

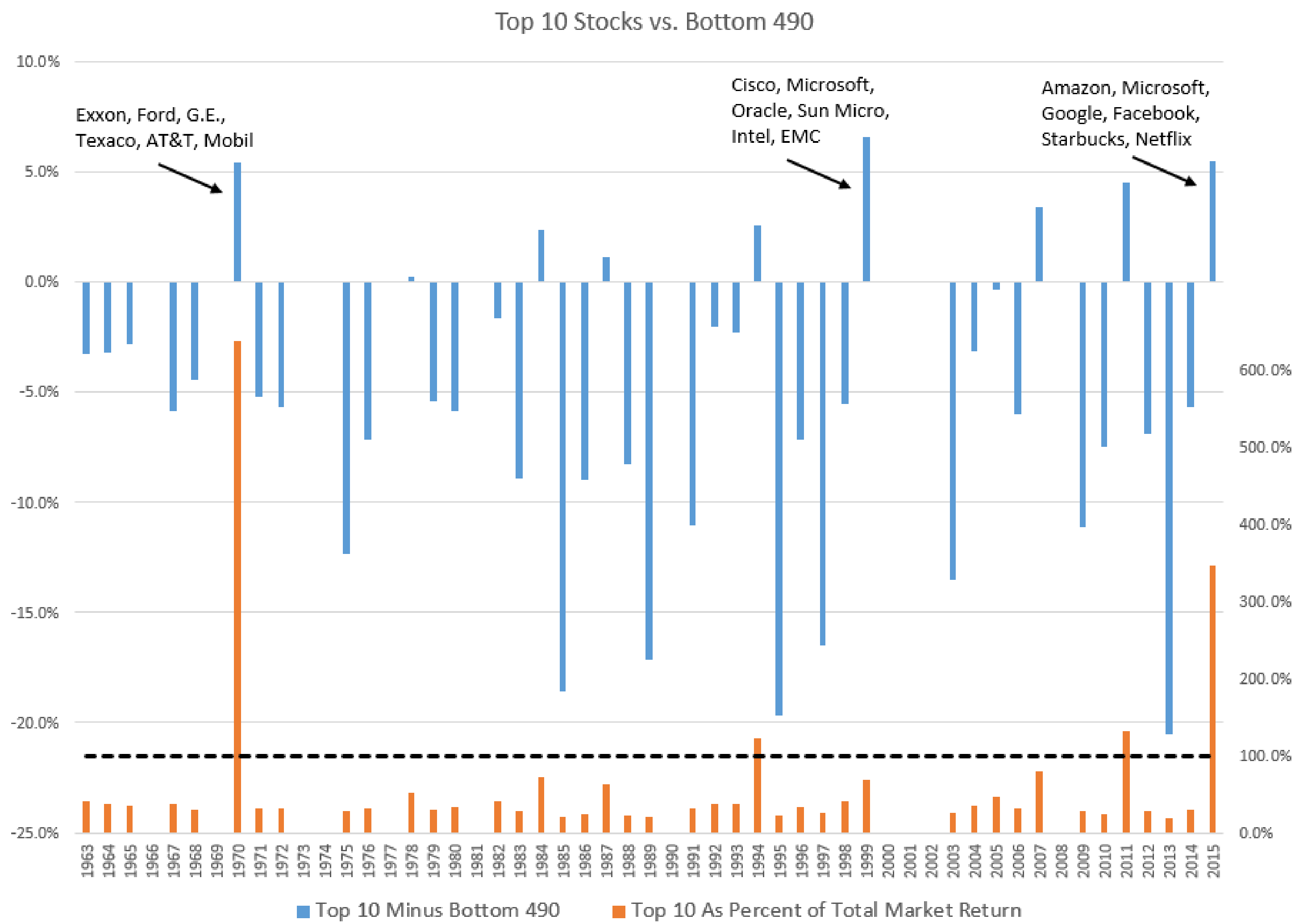
In 2015 12 stocks added 3.67% to the 1.31% total return of the S&P 500 [5]



In order to generate good returns last year investors needed to take on substantial risk

Data Courtesy of Bloomberg

History of Top and Bottom Performers



"Investor Field Guide", Patrick O'Shaughnessy, CFA

We’ve Seen This Before

Managed Asset Portfolios

- **The Collapse of the Nifty Fifty**
  - The Nifty Fifty led the markets for a better part of a decade before collapsing in 1973, falling 45% in 2 years
    - Included names like McDonald’s, Coca-Cola, IBM, Texas Instruments and Digital Equipment Corp
  - In 1972, the year before the collapse, the P/E of the S&P 500 stood at 19
    - The average P/E of the Nifty Fifty was more than twice that at 42 – sound familiar?
- **The Dot-Com Bubble**
  - Led by richly valued internet stocks – with a peak mean P/E ratio of 156
  - Ended with the NASDAQ falling from 5,000 in March 2000, to nearly 1,000 by 2002
  - Sent the US economy into recession

Recovering from a bear market…

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- **In the last 114 years, there have been 32 bear markets**

- **In the last 81 years, as measured by calendar year, the S&P 500 has suffered total return losses of at least 20% in four different years**

  - In the year after three of the 20% tumbles, the index gained an average of 32%

  - In the fourth, 2008's 37% decline, the S&P 500 continued its drop until it bottomed in March 2009. From there, it began a remarkable ascent, climbing over 100% in the following 48 months

Major Bear Markets Since 1929 and their Subsequent Bull Runs

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S&P 500 Double Digit Losses with No Recession		Plus 5 years	Plus 10 Years
1939-40	-31.9%	110.2%	231.2%
1941	-34.5%	120.6%	369.5%
1943	-13.1%	64.6%	267.7%
1947	-14.7%	139.0%	359.5%
1961-62	-26.4%	78.8%	155.4%
1966	-22.2%	48.9%	90.5%
1967-68	-10.1%	10.5%	37.6%
1971	-13.9%	27.9%	88.6%
1978	-13.6%	119.2%	346.2%
1983-84	-14.4%	152.1%	281.2%
1987	-33.5%	107.9%	419.0%
1998	-19.3%	-2.9%	-12.8%
2002	-14.7%	34.4%	32.8%
2010	-16.0%	103.6%	???
2011	-19.4%	79.1%	???
2015	-12.4%	???	???
Average	**-19.4%**	**79.6%**	**205.1%**

*Gains calculated from Jan 1 of the following year

"A Wealth of Common Sense", Ben Carlson, CFA

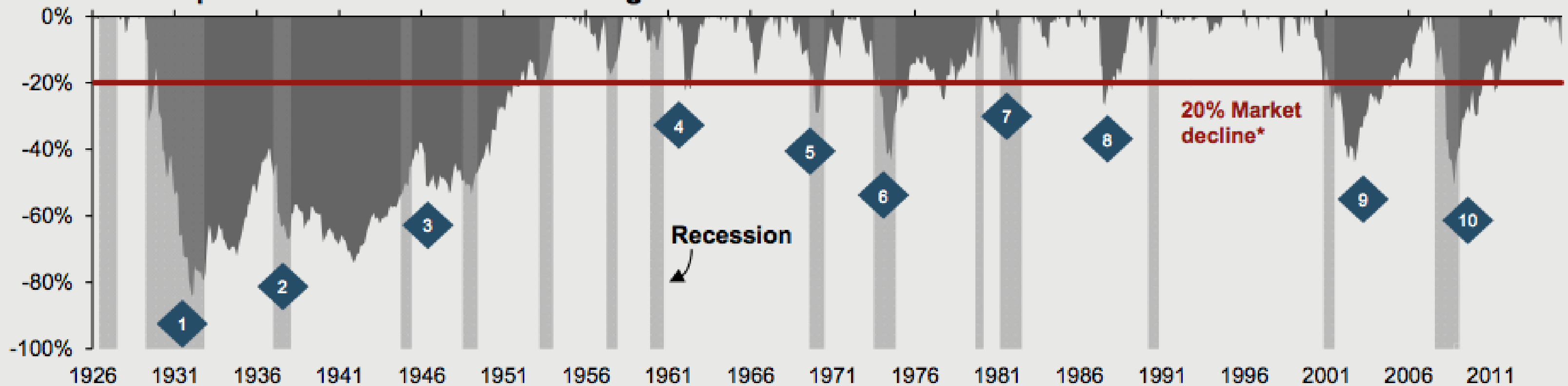
Major Bear Markets Since 1929 and their Subsequent Bull Runs

Managed Asset Portfolios

Bear markets and subsequent bull runs

GTM - U.S. | 15

S&P 500 composite declines from all-time highs



Characteristics of bull and bear markets

Market Corrections	Bear Markets: Market Peak	Bear Markets: Bear Return*	Bear Markets: Duration (months)*	Macro environment: Recession	Macro environment: Commodity Spike	Macro environment: Aggressive Fed	Macro environment: Extreme Valuations	Bull Markets: Bull Begin Date	Bull Markets: Bull Return	Bull Markets: Duration (months)
1 Crash of 1929 - excessive leverage, irrational exuberance	Sep 1929	-86%	33	◆			◆	Jul 1926	152%	38
2 1937 Fed Tightening - premature policy tightening	Mar 1937	-60%	63	◆		◆		Mar 1935	129%	24
3 Post WWII Crash - post-war demobilization, recession fears	May 1946	-30%	37	◆			◆	Apr 1942	158%	50
4 Flash Crash of 1962 - flash crash, Cuban Missile Crisis	Dec 1961	-28%	7				◆	Oct 1960	39%	14
5 Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	18	◆	◆	◆		Oct 1962	103%	74
6 Stagflation - OPEC oil embargo	Jan 1973	-48%	21	◆	◆			May 1970	74%	32
7 Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	21	◆	◆	◆		Mar1978	62%	33
8 1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	61
9 Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	31	◆			◆	Oct 1990	417%	115
10 Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	61
Current Cycle								Mar 2009	184%	80
Averages	-	**-45%**	**25**					-	**150%**	**53**

www.bloombergview.com

Conclusion

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- Understand the difference between structural and cyclical
  - Structural changes imply the “new normal”
  - Cyclical changes indicate trends which can change direction
- Believe further rate increases by the Fed will be put on hold
- Divergent monetary policy could result in a global recession in the next 12 to 18 months
- Volatility is likely to increase
- History continues to evolve - important to consider changing market dynamics when choosing an effective investment portfolio
- Anticipate value outperforms growth

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