Market Commentary – Fourth Quarter 2014

Fourth Quarter Volatility Rewards Investors

The fourth quarter began with heightened volatility as markets declined in early October on concerns of weakening economic activity outside the United States. Despite these concerns, global markets recovered as investors shifted focus to strong third quarter earnings results from US companies and the potential for more accommodative monetary policy actions by various international central banks. In early December, global markets were once again rattled by the sharp decline in oil prices before staging a late month rally to close out 2014.

For the fourth quarter, the US stock market was once again the best performer returning +4.93%[i], while small US companies rallied from their third quarter losses to return +9.73%[ii]. Our decision to increase client exposure to real estate and healthcare earlier in the year proved timely as these two sectors outperformed the broader market in the fourth quarter returning +12.9%[iii] and +8.19%[iv] respectively. International stock market returns for US investors were once again weak as positive local market returns were negated by a stronger US dollar. European markets declined -4.35%[v] during the quarter while Emerging Market stocks declined -4.50%[vi]. Falling interest rates across the globe led to returns of +1.79%[vii] for US bond investors, while commodity investors experienced losses of -12.10%[viii] due to a strengthening US dollar and various supply/demand issues.

A New "Crude" Reality

Crude oil took center stage in the fourth quarter as the ripple effect of the commodity's dramatic price decline was on display across stock and bond markets. The decline in oil prices over the past year has been largely a result of increasing supply, with the US shale boom driving a dramatic rise in US oil production. At the same time, growth in global demand for oil has slowed due to weaker than anticipated demand from the United States, China and Japan.

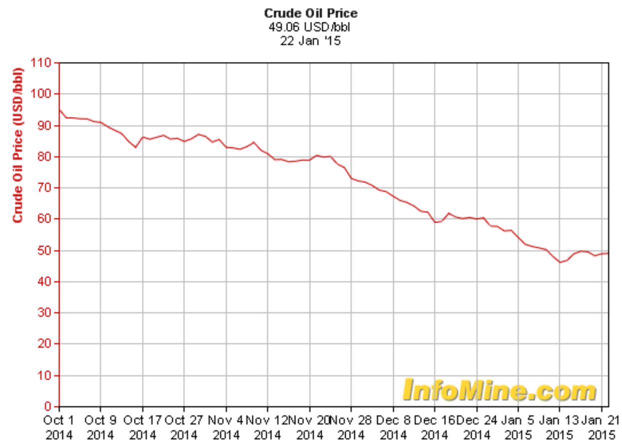

Figure 1 - Crude Oil Price Decline in 4Q2014

On November 28th, OPEC shocked the oil markets with its decision to maintain existing production levels despite falling oil prices. Oil prices declined -10.2% on "Black Friday" after OPEC's announcement. The changing dynamics of OPEC's role in the oil markets is notable, given that it has historically acted as the marginal producer and adjusted production levels to stabilize oil prices. Commentary from the Saudi oil minister highlighted the shift in priorities for OPEC from supporting prices to maintaining market share. Some analysts have argued that OPEC is willing to accept lower prices in the near term to push high-cost producers (including US shale drillers) out of the market.

In the wake of oil's price decline, the energy sector was the worst performing segment of the US market during 2014 losing -8.7%[ix]. Investors sold energy exploration and production companies and oil services companies anticipating falling revenues and cost cutting. Lower fuel prices boosted returns for airline and transportation stocks during the quarter, while consumer discretionary stocks also fared well with the expectation that lower gasoline prices will lead to increased consumer spending. With energy prices falling, investments targeting energy-efficiency markets (electric cars and renewable energy for example) experienced selling pressure.

Longer term, lower oil prices should benefit global consumers and will disproportionately benefit major oil importers including the US, Europe and Japan while hurting oil exporters such as Venezuela, Russia, Brazil, Iran and Nigeria. Countries heavily reliant on oil exports to fund government budgets will face growing deficits and rising political instability. From an investment perspective, we are beginning to see some interesting opportunities emerge across the energy industry. However, we remain cautious as we do not believe all of the bad news related to the new "crude" reality of sub-$50 p/barrel oil has been reflected in company prices and earnings estimates.

Improving US Economy leads to Fed QE Exit

The US economy continued to exhibit signs of acceleration in the fourth quarter. The unemployment rate reached a new low of 5.6%[x] in December with the US adding +252,000 jobs. US GDP grew +5%[xi] during the third quarter, as the economy benefitted from an increase in consumer and business spending and investment. As expected, the Federal Reserve ceased its bond buying program (QE) in October signaling its confidence in the US economic recovery. The Federal Reserve also announced its intention to begin raising rates at a gradual pace in 2015, which many believe will not occur until the second half of 2015.

The US consumer continues to benefit from low interest rates which have kept mortgage rates low, while also reaping a savings windfall from lower fuel prices. Per the December University of Michigan survey, consumer confidence has continued to improve in the face of improving labor markets and rising asset prices.

Despite the improving economic picture in the US, challenges still remain. The Federal Reserve continues to focus on the low level of wage growth in the economy, while long term inflation expectations continue to fall below the Federal Reserve's goal of 2%. Low rates and increased regulation have reduced credit availability to consumers, and a stronger US dollar could result in weaker US exports going forward and reduced profitability for US multinational companies.

A Fairly Valued US Market with Potential

Valuations across the US market continued to rise in the fourth quarter, with the S&P500 trading at 16.2x[xii] projected earnings as of 12/31/14. Though higher than a year ago, improving corporate sales and profits continue to support current market valuations which are slightly above 25 year averages. History has taught us that valuations alone are a poor timing mechanism for determining when to increase/decrease market exposure, but we remain cognizant of the fact that there are fewer bargains to be found in the US markets today.

As such, we continue to favor high quality US companies, many of which pay dividends and have a clear competitive advantage. In the current depressed interest rate environment, the dividends paid by many large US company stocks significantly exceeds the paltry interest rate on corporate debt and US Treasuries, while providing investors with the potential for price appreciation in the future. We have also continued to watch shorter term market disruptions for opportunities to make investments at discounted prices.

Stagnant Growth in Europe & Japan

The Eurozone's ongoing battle with falling inflation (-0.2% in December across the Eurozone[xiii]) and stagnant growth remained at the forefront of most international investor minds during the quarter. The much anticipated government bond buying program from the European Central Bank (ECB) failed to materialize, a proposition which has continued to face significant opposition from German officials. Divergence in central bank policies and economic growth globally led to the continued devaluation of the Euro vs. the US dollar. Though a weaker currency will boost European exports and businesses and potentially stimulate growth, a depreciating currency has continued to hurt US investors due to currency exchange losses.

Rising political instability in Greece once again called into question the country's future in the European Monetary Union. A snap general election has been scheduled for January 25th where the Syriza party, an outspoken critic of the ECB-imposed austerity measures tied to loan bailouts, is expected to win. We expect continued volatility surrounding the Greek election as the new government begins renewed negotiations with the ECB related to outstanding debt and growth initiatives.

More bad news emerged from Japan as the country continued to be mired in a recession with third quarter GDP falling -0.5%.[xiv] Consumer spending remained weak leading to reductions in business inventory investment. In late October, the Bank of Japan announced further monetary actions including a government bond buying program (QE) geared towards boosting economic growth and combating deflation. Based on the IMF's Japan GDP growth projections of +0.6%[xv] in 2015, additional policy reforms within Japan will be required to boost the country's stagnant growth.

Russian Ruble Fire Sale & Slowing China

The Russian economy, already destabilized by western sanctions related to the ongoing Ukraine conflict, was forced to confront an even greater debilitating force of plummeting oil prices. As oil prices sank, the Russian Ruble began to depreciate from 40 Rubles p/dollar in October to above 70 Rubles p/dollar in December. The Bank of Russia was forced to intervene in the currency markets in an attempt to stabilize the Ruble, and raised interest rates from 8% to 17% in the course of several months. Economic growth is expected to remain weak in Russia for 2015.

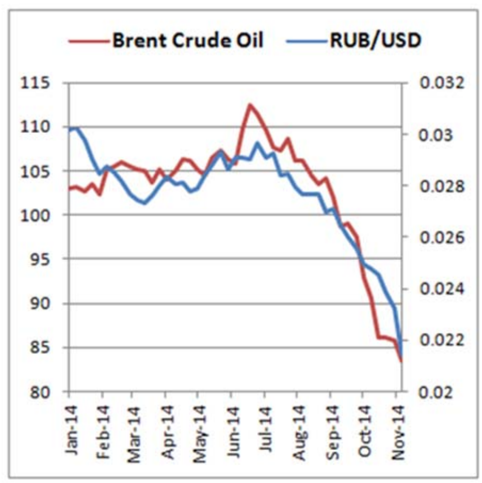

Figure 2 Rubles Slide Follows Declining Crude

In spite of slowing GDP growth rate of +7.4% in 2014, the Chinese stock market was one of the world's top performers. Investors, driven by poor returns in local real estate and falling gold prices, aggressively invested in stocks (many using borrowed money) to drive Chinese stock prices higher. The Peoples Bank of China continues to face the unenviable tasks of attempting to boost a decelerating economy while avoiding adding to existing debt levels and steering the economy towards services and consumption. We remained concerned about the potential outcome should they fail.

Global Bond Yields – Look Out Below

Bond yields across developed nations continued to fall throughout the fourth quarter accounting for the majority of bond investor returns. Much to the chagrin of most Wall Street strategists, the yield on the 10 Year US Treasury declined from 3% at the start of the year to 2.17% as of December 31st. Investors who had positioned portfolios defensively expecting rising rates earned lower returns as longer term rates declined faster leading to larger price gains for long term bonds and a flattening of the yield curve. In the face of monetary easing from central banks outside the US, bond yields across Europe and Japan moved even lower. Foreign demand for US government bonds has remained strong in the face of the relative attractive nature of US yields vs. European yields and the strengthening US dollar further boosting foreign investor returns.

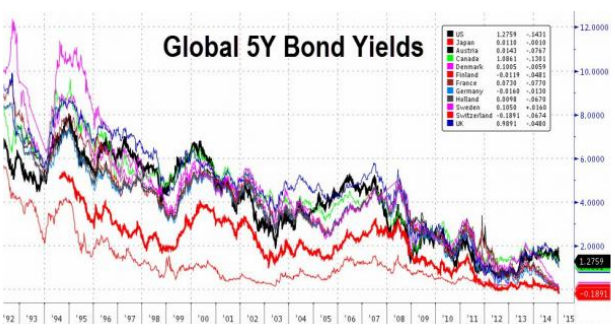

Figure 3 Govt. Bond Yields Continue Decline

We continue to expect downward pressure on global bond yields in the face of slow global growth and central bank actions. We would not be surprised to see interest rates higher in the US by the end of 2015, but would expect the move to be gradual. We continue to advocate well diversified bond portfolios for clients with limited exposure to longer term bonds. The recent selloff in high yield bonds on fears of rising energy defaults may present an opportunity to add exposure to this bond segment.

2015 Market Outlook

- Given current market valuations, we believe US stock returns over the next year will be moderate and driven more by earnings growth than further multiple expansions. Tailwinds may become headwinds for the US as the Federal Reserve begins gradually raising rates and multinational companies see declines in exports and softer overseas profits due to the stronger dollar. We remain concerned about the longer term impact of falling oil prices on the energy sector, and recent weak financial results across major money center banks. Together, energy and financial services account for roughly ¼ of the S&P500, so prolonged weakness across both sectors could reduce potential market returns.
- We remain cautiously optimistic that the ECB's January 22nd announcement to begin a 60B EUR p/month quantitative easing program will help to boost growth and inflation across Europe. Challenges abound, particularly given Europe's fragmented banking system and resistance to structural reform. We currently maintain a below average allocation to international investments for clients and continue to emphasize diversification with a small allocation to emerging markets.
- Our cautious positioning in client bond investments during 2014 reduced returns but provided our clients with the peace of mind that any sharp increase in rising rates would not result in large losses of principal. As we enter 2015, we continue to focus on short and intermediate term bonds across wide range of bond sectors. We also continue to research and allocate client

funds to unconstrained strategies with an emphasis on total return.

- Our investment approach emphasizes actively managed mutual funds across client portfolios where we believe the specialized focus and track record of the team warrant the expenses incurred. Over the past year, we have implemented low cost ETF investments for targeted exposure to areas of the market where we have failed to find active strategies which meet our investment criteria. We expect this trend to continue as we enhance our focus on reducing investment costs for our clients.

Market Return Data for 4Q2014

Broad Market Benchmarks	4Q2014
S&P500	4.93%
DJIA	5.20%
Russell 2000	9.73%
FTSE Global All-Cap ex-US	-3.74%
MSCI Europe	-4.35%
S&P Developed Ex US Small Cap	-2.59%
MSCI Emerging Markets	-4.50%
Barclays US Aggregate Bond Index	1.79%
Barclays US Treasury Bill 1-3 Months	0.00%
Bloomberg Commodity Index	-12.10%
CBOE Interest Rate 10 Yr Treasury	2.17%
Consumer Price Index (CPI-U) 12 Month	1.30%
TWM Client Benchmarks	**4Q2014**
Aggressive Growth Strategy	3.16%
Capital Appreciation Strategy	2.89%
Balanced Return Strategy	2.53%
Capital Preservation & Income	1.94%

Disclosures

[i] S&P500 Total Return, 4Q2014
[ii] Russell 2000 Total Return, 4Q2014
[iii] MSTAR Real Estate Sector Data, 4Q2014
[iv] MSTAR Health Care Sector Data, 4Q2014
[v] MSCI Europe NR USD, 4Q2014
[vi] MSCI Emerging Markets NR USD, 4Q2014
[vii] Barclays US Aggregate Bond Index, 4Q2014
[viii] Bloomberg Commodity Index, 4Q2014
[ix] Energy Select Sector SPDR ETF, Total Return for FY2014
[x] US Department of Labor, 01/09/2015 release
[xi] US Bureau of Economic Analysis, 12/23/2014 release
[xii] JP Morgan Market Insights, 1Q2015 Outlook
[xiii] Wall Street Journal, 01/02/2015
[xiv] Trading Economics, 01/24/2015
[xv] International Monetary Fund, World Economic Outlook Update, January 2015

About Us

Liam Timmons, President

Liam Timmons is the president and founder of Timmons Wealth Management. Driven by his passion for investing and desire to positively impact the lives of his clients, Liam focuses his considerable energies on helping clients achieve their most important goals. Liam has extensive experience and expertise in the areas of investment research, portfolio management, financial planning and trading.

Liam began his career as an accountant in 2000 with Investors Bank & Trust. From 2001-2006, Liam held numerous roles in risk management at Deutsche Asset Management (Deutsche Bank) including work in the Insurance Asset Management Division and Private Wealth Groups. His tenure at Deutsche eventually culminated in his position as Assistant Vice President in the Active Fixed Income and Funds Group. Realizing his passion was working with individuals instead of large institutions, Liam left in 2006 and spent the next six years as an analyst at FinArc Investment Management where he conducted equity and multi-asset class mutual fund research. During this time, Liam honed his skills developing proprietary investment models and complex financial plans for clients. His position at FinArc eventually led to oversight over $17.6M in equity investments and $25M in mutual fund and ETF investments. In 2012, Liam left to launch Timmons Wealth Management.

Liam earned a MBA with a concentration in Asset Management from Boston College's Carroll Graduate School of Management. He graduated first in his class with high honors and was awarded the James A. Waters Award for outstanding academic excellence. In addition, Liam was inducted into the National Business Honor Society, Beta Gamma Sigma. Prior to business school, Liam received a BA in Political Science from Boston College.

Given his lifelong commitment to continuing education, Liam has successfully completed Boston University's Financial Planning Certificate Program and passed Level 1 of the Chartered Financial Analyst (CFA) exam. He also holds the Series 65 license for registered investment advisor representatives.

Liam currently serves as the Vice President and Membership Committee Chair of the Board of Directors at Highland Country Club. Liam is also an active member of the CFA Institute, Boston Security Analyst Society, Boston College Alumni Association, United Regional Chamber of Commerce, Beta Gamma Sigma Boston Chapter and St. John the Evangelist Church. Liam and his wife Lauren, a Registered Nurse at Massachusetts General Hospital, currently reside with their daughters Mackenna and Emma in Attleboro, Massachusetts.