FLEURUS INVESTMENT ADVISORY

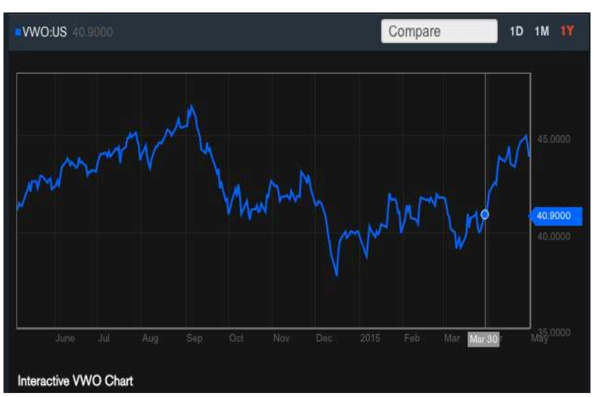
May 4, 2015

Overview

April brought mostly good news to the markets. The S&P's 500 index finished the month up 1.01%. Emerging markets rose strongly, from 4% for our frontier index to close to 8% for the Vanguard FTSE Emerging Market Index. This sharp move up was in part a consequence of the broad decline of the USD against most currencies. Finally, the price of oil consolidated around the $50-$55 price per barrel after touching a low of about $43 earlier in the year.

Our four model portfolios rose from .02% for the most conservative to .65% for the most equity sensitive. As a reference, a 60/40 portfolio consisting of the MSCI ACWI (Morgan Stanley All Country World Index) as a proxy for global equities and the Barclays US Aggregate as a proxy for our fixed income allocations would have been up about +1.51% in April. YTD our portfolios are up from 2.61% to 3.78%, net of fees. Our ACWI/US Bond Aggregate reference portfolio is up 3.74% over the same period. The S&P's 500 is up 1.42% YTD.

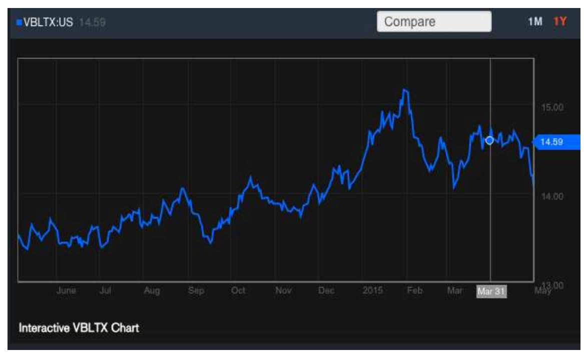
The main contributors to our portfolio performance this month were our allocations to the international markets in general, with a special mention for our emerging market allocation. Below is the one-year chart of VWO, the Vanguard emerging market ETF. The vertical bar is set at the end of the month of March. This ETF went up 7.41% in April.



Market developments

The US equity market seem to be attempting to find its footing in an environment dominated by diverging monetary policies globally, massive currency moves and reversals, stretched equity valuations and continued uncertainty as to the future price of oil.

The month of April saw the USD drop a little over 4% against the Euro, after gaining close to 25% last year. Crude oil went up 24% during the month after dropping more than 50% over the previous nine months. Finally, the US long bond was down a significant 3.60% as illustrated in the chart below. The vertical line indicates the beginning to the month of April.



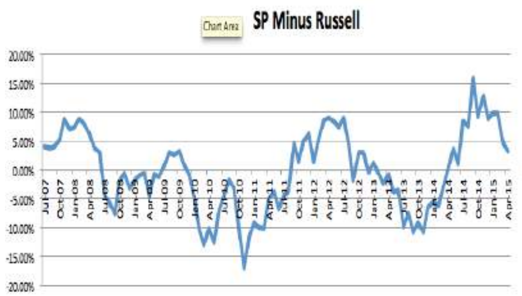
While a USD dropping 20% or an oil price increase of the same magnitude can be perfectly rationalized and justified after the substantial price action that both markets experienced in 2014 and early 2015, they remain disconcerting and point to a general sentiment of heightened uncertainty.

In this unstable environment, we are increasingly alert to signs of an impending correction in the US equity markets. Yet, while Q1 2015 earnings are slightly down compared to those of 2014 over the same period, analysts are still expecting modest earnings growth for 2015 overall. This apparently justifies valuations that, on an historical basis, tend to approach the upper 10% of the P/E ratio range, using the Schiller valuation approach. In this mixed environment, we cannot yet fully justify reducing further our equity allocation.

Tilts and Allocations

We have not made any changes to our allocations in April and remain overweight European equities, within our International developed equities. Our investment in this sector was up 2.8% in April and is up 9.8% YTD. As indicated earlier, our emerging market allocation was a significant positive contributor to our April performance and more than compensated for the losses associated with our slight overweight Small Cap allocation.

Small caps went unexpectedly down 2.45% in April, reversing the substantial gains made by the sector over their large caps counterparts in March. Yet they remain up about 2.0 % YTD vs. 1.4% for Large Caps. Absent a market correction, we expect them to gain further ground in the coming months and will maintain our slight overweight allocation until the line in the chart below decisively crosses zero.



We are maintaining our partial hedge against our Euro exposure for now with a view to lifting it should the Euro continue to stabilize. This may happen as further signs of European growth are confirmed in the coming months.

Closing Comments

My approach to portfolio management is principally anchored by the primacy of asset allocation over all other potential sources of return. It is also significantly influenced by the concept of mean reversion that says that most if not all price movements tend, in the long run, to move towards their average.

Below is a chart of the S&P's 500 since 1990.

Since the last bottom of March 2009, the US equities market has not experienced a significant and prolonged reversal. On the contrary, over the most recent past the average annual rate of growth of the index has been well above its long-term average. Mean reversion is a powerful force and this recent market trend gives us pause.

Does this mean that investors should be out of the market now? Probably not as market timing rarely works as an investment strategy.

In that perplexing context what should a savvy investor do? Here are my suggestions.

Ask yourself the following questions:

1) Does my current asset allocation fit with my risk profile, appetite, and abilities to take losses?
2) Can I sustain a 20% portfolio loss without jeopardizing my long-term financial objectives and aspirations?
3) Do I have enough cash to take advantage of a market reversal should one materialize?

If your answer is no to any of them, now may be the time to trim your equity allocation.

As usual, please feel free to call me with any questions.