WINFIELD
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Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

At first glance, first quarter 2015 equity market performance looked much like the first quarter of 2014. Through March 31, 2015, the S&P 500 and the Dow Jones Industrials Average (DJIA) posted total returns of 0.9% and 0.3% respectively. In January 2014, the total return of the S&P 500 was 1.8% while the DJIA was down -0.2%. Monthly trends in both years were also similar, with January being down, February up, and March essentially flat. Similarly, both the first quarter of 2014 and the first quarter of 2015 were adversely affected by severe winter weather in the U.S. While economists expect the weather-related effects on GDP to dampen 2015's first quarter reading, we doubt estimates will match the severity of the -2.9% drop in 1Q 2014's GDP.

A closer look at the macro data showed the first quarter of 2015 differed from the same period last year despite the similarities in equity market returns. Four notable shocks to the global economy have affected the markets since March 2014:

- *Lower Oil Prices*
- *Interest Rate Cuts*
- *Dollar Appreciation*
- *Changes in EPS Projections*

Lower Oil Prices

In the first quarter of 2015, the price of crude oil traded between $45 and $56 per barrel. In the first quarter of 2014, oil prices were on average 100% higher, trading between $92 and $108 per barrel. As we discussed in last quarter's *Market Commentary*, this was both good news and bad news. The consumer had more cash for discretionary consumption, but energy sector job creation slowed as drillers shuttered operations in relatively higher cost production areas such as deep water offshore oil rigs.

Interest Rate Cuts

Twelve central banks across the globe (including Australia, India, Russia, and Canada) cut interest rates in the first quarter of 2015. This was the fastest pace of rate cuts since the 2008-2009 financial crisis. In Europe, yields collapsed as the European Central Bank (ECB) initiated its much anticipated quantitative easing (QE) program. German government yields extending out 5 years turned *negative.* The effect on U.S. Treasury bonds surprised most investors. The U.S. 30-year Treasury bond ended lower at 2.54% as did investment grade U.S. corporate bonds. Once again, the yield of the benchmark 10-year Treasury bond dipped below 2%, finishing the first quarter of 2015 at 1.94%.

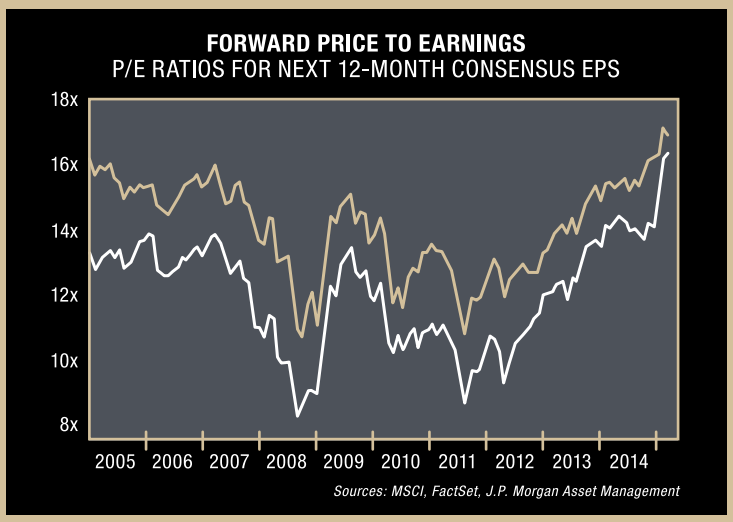
Dollar Appreciation

The Trade Weighted U.S. Dollar Index rose more than 15% year over year as central banks implemented quantitative easing programs in Europe and Japan. At the end of the first quarter of 2014, the euro traded at 1.38 €/$ versus 1.07 €/$ at the end of March 2015. The dollar showed similar strength against the yen, rising from 1.03 $/¥ in March 2014 to 1.20 $/¥ in March 2015. The dollar's appreciation has a profound impact on global markets. According to Morgan Stanley, big positive moves in the U.S. dollar and declines in price of oil tend to have a disproportionately negative effect on S&P 500 earnings initially, but rebound in relatively short order as currency fluctuations stabilize.

Changes in Earnings Per Share (EPS) Projections

Full-year S&P 500 2015 earnings forecasts prior to the shocks listed above were around 7%. At the end of the first quarter, many forecasters lowered their S&P 500 earnings projections for all of 2015 to a range of 0-4% growth. This compares to nearly 9% earnings growth in 2014. On the other hand, in recent weeks, forecasters *raised* forward earnings projections in Europe and Japan due to the positive effects of lower oil prices, quantitative easing programs, and weakened currencies. Consensus estimates in both Europe and Japan project 15% earnings growth in 2015 versus roughly 8-9% in 2014.

A closer look at Europe warrants attention. The graph below shows the forward price to earnings multiple of the S&P 500 versus the MSCI Europe Index. The MSCI Index includes large and mid-cap equities across the 15 Developed Market Countries in Europe. The index includes 441 companies that represent 85% of the market capitalization of the European region.



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Over the past several years, the MSCI Europe Index traded at a significant discount to the S&P 500 Index. Historically, European equities have traded at a small discount, but the gap widened in 2014 as questions surrounding Greece's solvency and Russia's aggression in Crimea affected valuations. As shown, the graph indicates a rapid closing of the valuation gap with the two indices trading near 16x forward earnings at the end of March 2015. A graph of the Nikkei versus the S&P 500 would demonstrate a similar outcome.

Given the appreciation in Developed Market equities ex-U.S. over the past several quarters, particularly in Europe, investors are wondering how long the recovery will last. Importantly, U.S. equities have outperformed Eurozone equities by nearly 90% (in $U.S.) since 2010. The performance gap is closing, but the European market remains a long term underperformer. The key to further appreciation in Europe will be improved efficiencies as a result of the ECB's changes in monetary policy. Better economic data in early 2015 should result in more robust European profits throughout the remainder of the year and into 2016.

Our current investment strategy reflects the impact of these shocks. We continue to de-emphasize energy, re-emphasize Developed Market equities, and maintain positions in U.S. fixed income for stability. We will be mindful of the disruptions caused by the fluctuations in currency translation and will look for investment opportunities presented by shocks to global markets.

FIRM BROCHURE

In March, Winfield filed an updated Firm Brochure with the United States Securities and Exchange Commission (SEC). This brochure provides information about the qualifications and business practices of our company. Clients of Winfield received a copy of the Firm Brochure at the end of the first quarter. Information about Winfield is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 801-54970.

ESTATE PLANNING DOCUMENTS

Organizing important documents should be the first step to comprehensive estate planning. Winfield's ClientView web portal offers a secure, cloud-based document storage vault for copies of your most important estate planning documents.

YODLEE ACCOUNT AGGREGATION

Winfield's ClientView users now have access to Yodlee, an industry-leading cloud-based account aggregation tool used by many major financial institutions. Winfield clients can now link financial accounts to get an accurate picture of net worth. The Yodlee platform collects data from over 14,000 sources including banks, brokers, insurance companies, and credit card providers. Integration with ClientView ensures that clients can access all of their important financial information in one place from anywhere with internet access. We strongly encourage any clients or prospective clients who are interested in this tool to call for further information.

MARKET PERFORMANCE

	2014	2015 YTD
Dow Jones	10.0%	0.3%
S&P 500	13.7%	1.0%
Nasdaq	14.7%	3.8%
Russell 2000	4.9%	4.3%
MSCI EAFE	-8.1%	4.9%
Barclays Agg	6.0%	1.6%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements to meet investment objectives

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to meet investment objectives and lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to meet investment objectives and lessen risk of concentrated assets

RETIREES

- Customize investment portfolios to meet investment objectives with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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