In This Report

Colony Market Perspectives

Brian Katz, CFA
Chief Investment Officer

Introduction

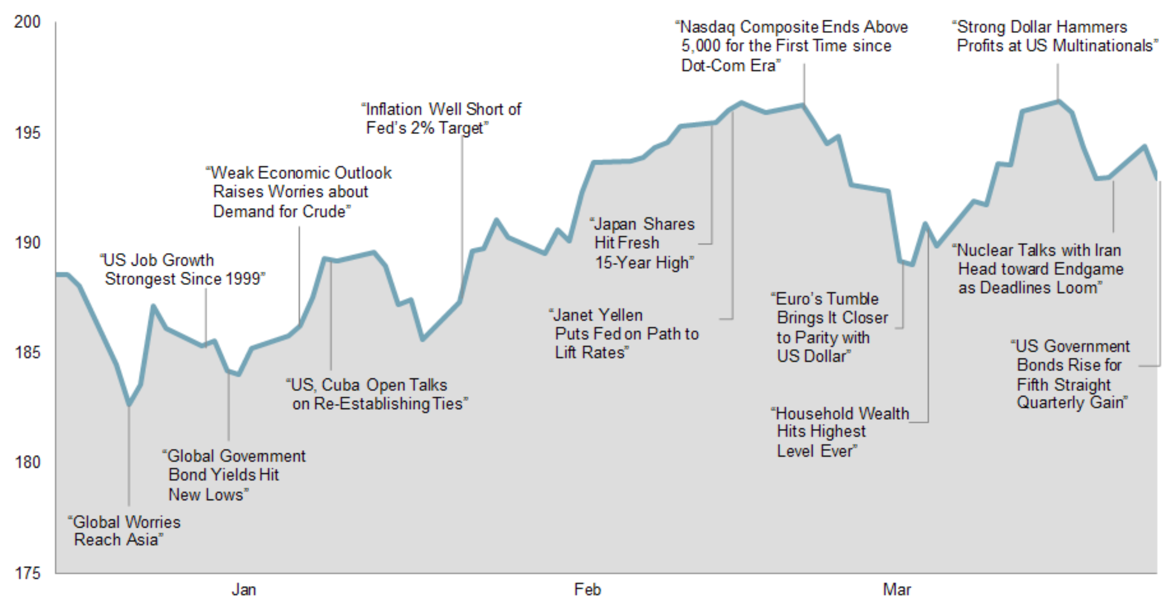
Welcome to our new, quarterly Colony Market Perspective. We have listened to our clients' valuable feedback and are pleased to provide a more concise pulse of economic and market trends. In addition, we are now including "what this means to us" sections to help clients understand the import of our thinking in light of current economic and market trends. Of course, for a deeper dive into what this means for you, your investment goals, and your portfolio, you need only contact your Financial Counselor.

The first quarter of 2015 saw the return of volatility to the financial markets. The S&P 500 ended the quarter with a total return of 0.95% but experienced nine moves (up or down) of 3.5% or greater. Likewise, the 10-year Treasury yield ended the quarter at 1.85%, near where it started the year, but traded in a relatively wide range of 1.68% to 2.24%. International equity markets generally outperformed their domestic counterparts, at least temporarily reversing the trend in place for the last several years. Weaker than expected growth in the U.S. and emerging markets continues to pressure commodities, most notably oil. Finally, many alternative investment strategies performed well relative to equities, as managers were able to take advantage of the aforementioned increase in volatility and corresponding reduction in correlations.

Earnings Chill

Analysts are cutting their estimates for 2015 S&P 500 members' earnings at the fastest pace since the financial crisis. Consensus estimates have fallen from \$136 per share last October to \$119 as of mid-April, a decline of more than 12%. Certainly, the precipitous drop in oil prices has made an outsized contribution to the decline. Earnings estimates for energy companies have fallen 43% over the past three months alone. Nonetheless, estimates have fallen for every other sector as well, due in part to the impact of a stronger dollar, which is up more than 20% since June of last year, and the impact of rising wages on corporate profit margins. Finally, similar to last

MSCI All Country World Index with selected headlines from Q1 2015



Graph Source: MSCI ACWI Index. MSCI data © MSCI 2015, all rights reserved year, the weather has adversely influenced revenue growth. Heavy snowfall and colder than normal temperatures have kept the consumer at home and have snarled logistics across much of the Northeast.

While it is common for analysts' estimates to decline during the first quarter of a calendar year, this year's cuts are greater in magnitude than usual. This fact, along with what we consider "optimistic assumptions" underlying current forecasts, makes us concerned that more declines in estimates may be forthcoming.

What this means to us? Deteriorating earnings growth joins a growing list of concerns that loom over the U.S. equity markets for the near term. The equity markets appear fully valued, and the Federal Reserve looks poised to move interest rates higher. As such, it would seem that the domestic stock market is likely to experience a period of greater volatility. We continue to believe, however, that over the intermediate-to-long term, the equity markets will continue to move higher. This is due to our view that the odds of a recession remain low; inflation and restrictive monetary conditions are not on the horizon; and interest rates should remain low enough that many investors will not consider fixed-income or cash as a viable alternative to equities. We continue to recommend that clients generally maintain their current asset allocation despite our belief that volatility may increase in the near term.

Search for Yield

Many investment commentators refer to the current monetary policy regime as "financial repression." They point out that the Federal Reserve's zero-interest-rate policy (ZIRP) has pushed the level of interest rates below the rate of inflation, causing the amount of interest earned to lag rising costs. As a result, yield-hungry investors have rushed into alternative sources of income, such as real estate investment trusts (REITs), master limited partnerships (MLPs), and stocks with high dividend yields. For instance, utilities, which is the highest yielding sector in the S&P 500, was the best performing sector in 2014, returning more than 28%. These types of investments are now fully valued, and their yields have compressed to historically low levels. For sure, high savings rates across the world are partly responsible for high valuations and low yields across a range of investments. We shed light on this topic not because of a negative outlook for higher yielding investments, but rather because of concern that investors are using these investments in unintended ways and may not fully appreciate the risks that they are taking.

What this means to us? We are aware that some investors use high yielding equity investments in place of fixed income but would caution most investors against this practice. REITs and MLPs, for example, are worthwhile investments that we generally use in our clients' portfolios. That being said, using these as proxies for fixed-income vehicles could lead to unplanned consequences. Many of these investments offer yields similar to or greater than fixed-income investments but are not obligated to return principal at a predetermined maturity date. Moreover, as equity investments, they are lower on the capital structure. Therefore, in the event of a bankruptcy, claims from these investments typically are subordinate to fixed-income securities' claims. In summary, investors should understand that these investments carry a greater probability of capital loss. Otherwise, an investor may fail to achieve their longer-term investment goals by unknowingly taking on greater risk.

Expectations Game

At the onset of 2015, investors were universally more positive on U.S. equities versus their European counterparts. European stocks were being restrained by weaker economies, fears of deflation, and policymakers that seemed unwilling to act boldly to stimulate growth. On the other hand, the U.S. had a relatively strong economy that was poised to transition from moderate to more substantial growth. The Federal Reserve, by communicating its intention to raise interest rates, seemed to validate this viewpoint.

Markets are forward looking and therefore are influenced more by expectations than current conditions. On that front, things are looking up for much of the Eurozone. Following the launch of the European Central Bank's (ECB) bond buying program, otherwise known as quantitative easing, confidence has improved. Likewise, overall economic growth has improved during the first quarter. Indeed, after a string of positive economic surprises, economists are raising growth estimates. The International Monetary Fund (IMF) raised its forecast for Eurozone gross domestic product (GDP) growth to 1.5% from 1.2% since January. Conversely, the IMF's outlook for U.S. GDP growth was downgraded to 3.1% from 3.6% due primarily to a stronger dollar, which is expected to impact exports negatively. In our opinion, the relative shift in monetary policy between the Federal Reserve and ECB amounts to a redistribution of growth from the U.S. to Europe.

What this means to us? These shifting growth forecasts are having an impact on equity markets. Despite beginning of the year forecasts to the contrary, Europe's equity markets have outperformed domestic markets year-to-date.

Many investors were beginning to question the role of international equities in their portfolios. This is understandable following several years of underperformance by international equities relative to domestic equities. Over the past three years ending December 31, 2014, the MSCI EAFE Index (in U.S. dollars) has underperformed the S&P 500 by more than 9% per annum. This quarter, however, the MSCI EAFE outperformed by 3.9%.

Asset classes frequently go in and out of favor. Determining the specific timing of when these periods of relative strength or weakness will begin and end is difficult, if not impossible. We strongly advocate diversification as a means to mitigate having too much or too little exposure to any one asset class.

Conclusion

Rising volatility is generally associated with an inflection point in financial markets. We noted in this newsletter a couple examples of trend changes, such as the deterioration in S&P 500 earnings and the outperformance of international equities. We plan to watch these closely to see if new trends are established. Our outlook calls for volatility to remain elevated until the Federal Reserve provides more certainty around when and by how much interest rates will rise. Once this happens, perhaps in the fall of 2015, the markets should better reflect fundamentals, on which we continue to have a positive outlook.

Colony Spotlight

- Our CEO, Michael Nathanson, and Vice Chair, Bob Glovsky, spoke at the Barron's Top Independent Advisors Summit in Scottsdale, Arizona.
- We were recognized as one of the fastest-growing private companies in Massachusetts by the Boston Business Journal in their annual Pacesetters List.
- Two of our professionals were ranked in Barron's list of top advisors in Massachusetts.
- CapGroup Advisors joined our team and added our newest office location in Richmond, Virginia.
- We opened our second Massachusetts office in Norwell, MA.
- Nine of our counselors were recognized as FIVE STAR Wealth Managers.

The Colony Group

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Boston Business Journal's Pacesetters List – The 2015 list included the fastest-growing private companies in Massachusetts based on revenue growth from 2011 through 2014. To be considered, companies needed a baseline of $1 million in revenue for 2014.

Barron's 2015 Top Advisor Rankings by State – The 2015 list included two Colony professionals ranked in the top 30 for Massachusetts. The rankings were based on assets under management, revenue produced for the firm, regulatory record, quality of practice, and philanthropic work.

FIVE STAR Wealth Managers – The 2015 list, published by *Boston Magazine*, included nine Colony counselors. To be eligible, individuals must be credentialed as an IAR, FINRA-registered rep, a CPA, or a licensed attorney; have at least five years in the financial services industry; have a favorable regulatory and complaint history review; meet firm's review standards; and be accepting new clients. Additional criteria include one and five-year retention rates, assets administered, number of households served, and education and professional designations.