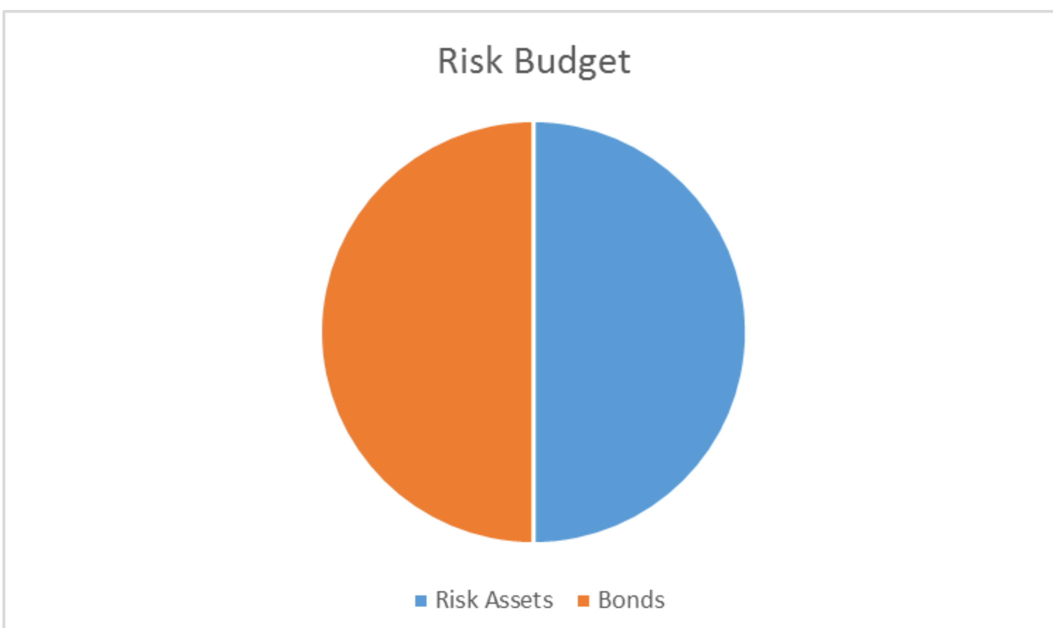
GLOBAL ASSET ALLOCATION UPDATE

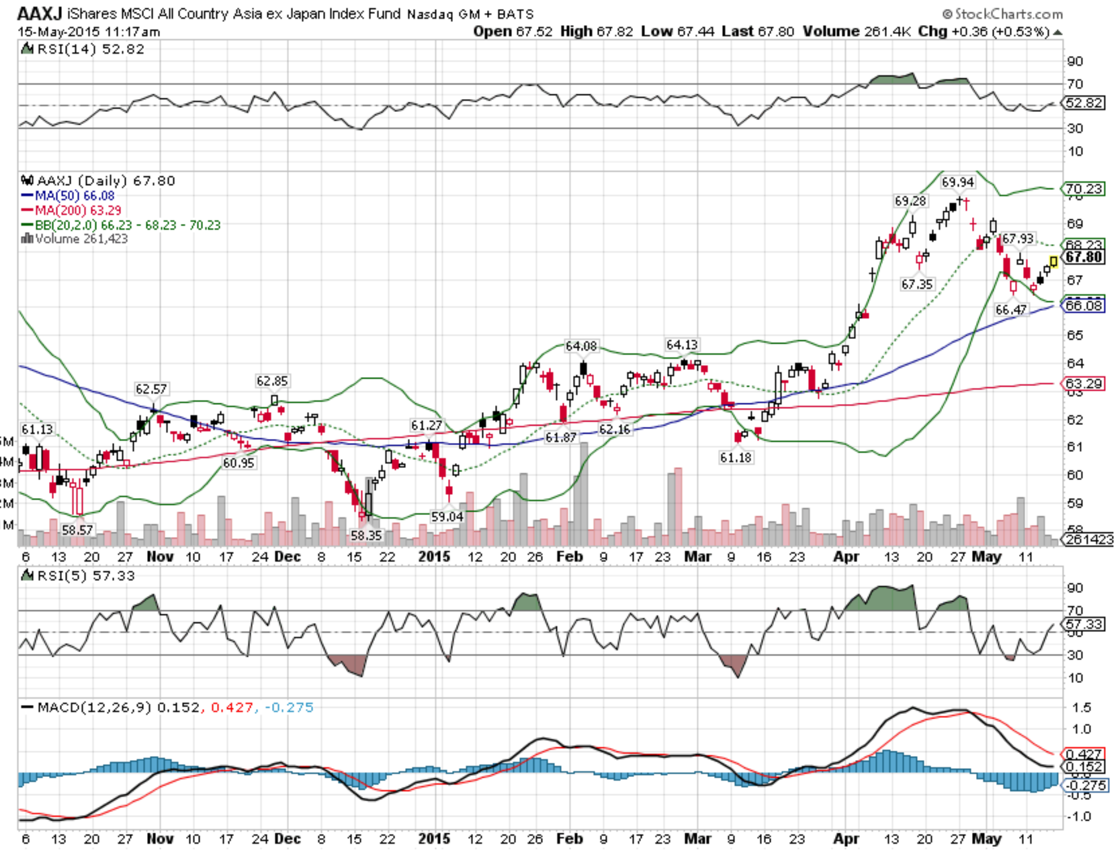
We are making no changes to our risk budget this month. For the moderate risk investor, the allocation between risk assets and bonds stays at 50/50 versus the benchmark of 60/40. The yield curve has steepened a bit recently and has me somewhat concerned since a steepening is exactly what we would expect just prior to recession. We have also seen the curve steepen in anticipation of QE but that doesn't seem to be the case now. The recent steepening is a result of long rates rising faster than short rates which is generally a situation one encounters as the market anticipates a Fed rate hike. If the steepening were happening with short rates falling that would be much more concerning.

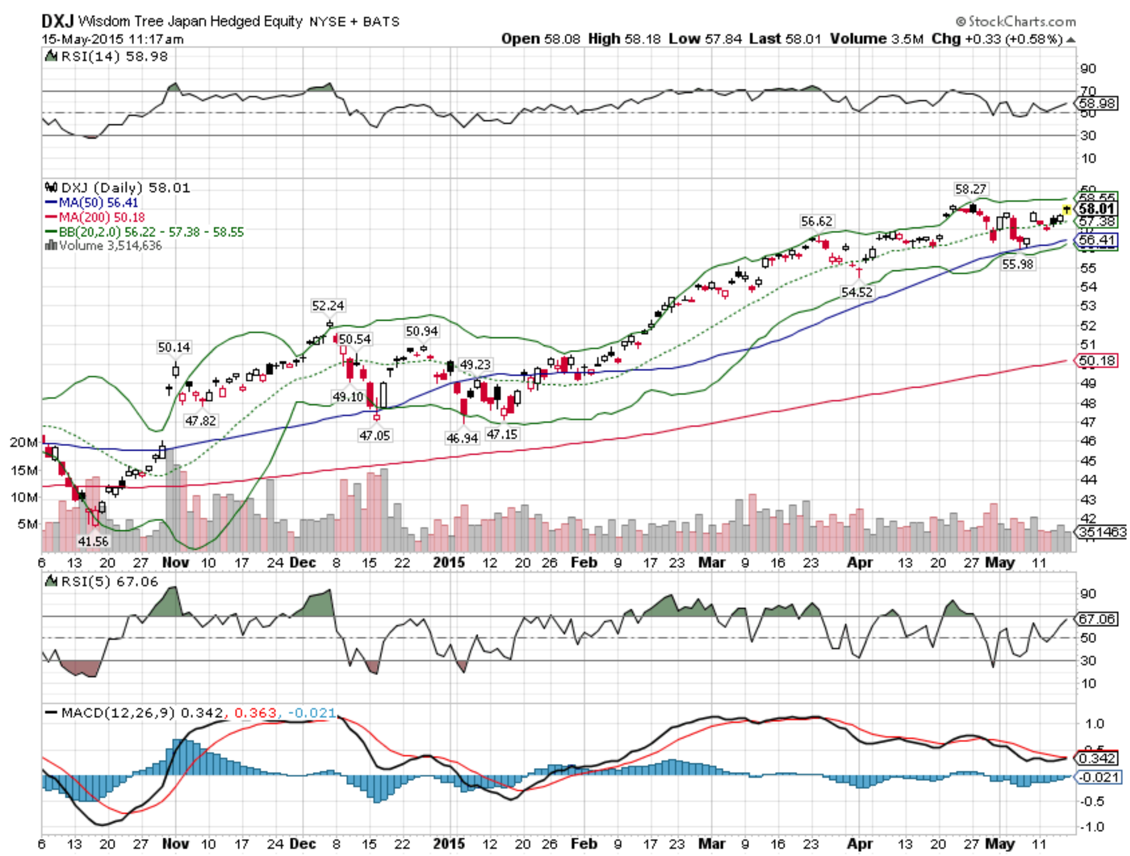
Credit spreads remain elevated from the best levels of the cycle but have stabilized here and are not worsening. Valuations remain historically high. For me these factors result in a slight risk reduction versus the standard moderate risk portfolio. If the economy continues to deteriorate I would expect to see credit spreads resume widening and if that happens would be a trigger to further reduce our risk allocation



At the more detailed level I continue to overweight International versus Domestic, following a trend that started at the beginning of the year.

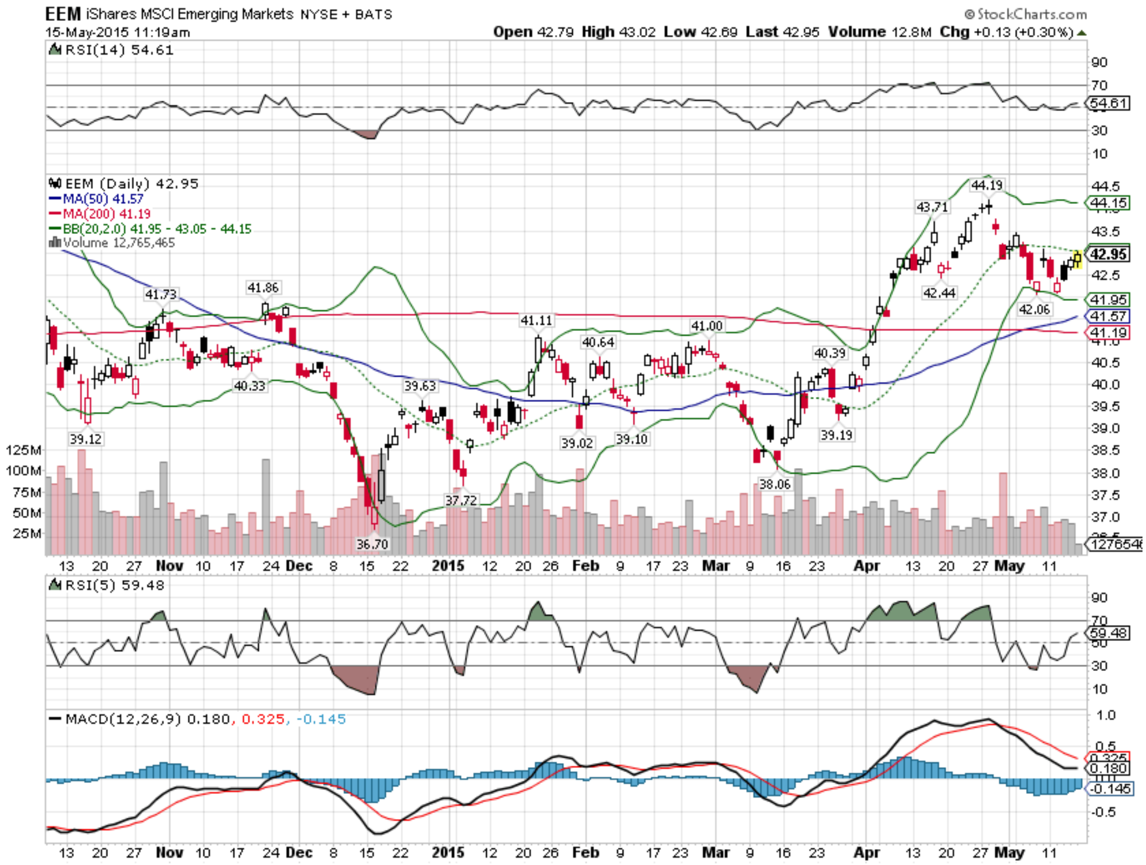
For moderate and more conservative investors Asia/China is overweight as well as currency hedged Japan.


AAXJ iShares MSCI All Country Asia ex Japan Index Fund Nasdaq GM + BATS
©StockCharts.com
15-May-2015 11:17am
Open 67.52 High 67.82 Low 67.44 Last 67.80 Volume 261.4K Chg +0.36 (+0.53%)
RSI(14) 52.82
AAXJ (Daily) 67.80
MA(50) 66.08
MA(200) 63.29
BB(20,2.0) 66.23 - 68.23 - 70.23
Volume 261,423
RSI(5) 57.33
MACD(12,26,9) 0.152, 0.427, -0.275


DXJ Wisdom Tree Japan Hedged Equity NYSE + BATS
©StockCharts.com
15-May-2015 11:17am
Open 58.08 High 58.18 Low 57.84 Last 58.01 Volume 3.5M Chg +0.33 (+0.58%)
RSI(14) 58.98
DXJ (Daily) 58.01
MA(50) 56.41
MA(200) 50.18
BB(20,2.0) 56.22 - 57.38 - 58.55
Volume 3,514,636
RSI(5) 67.06
MACD(12,26,9) 0.342, 0.363, -0.021

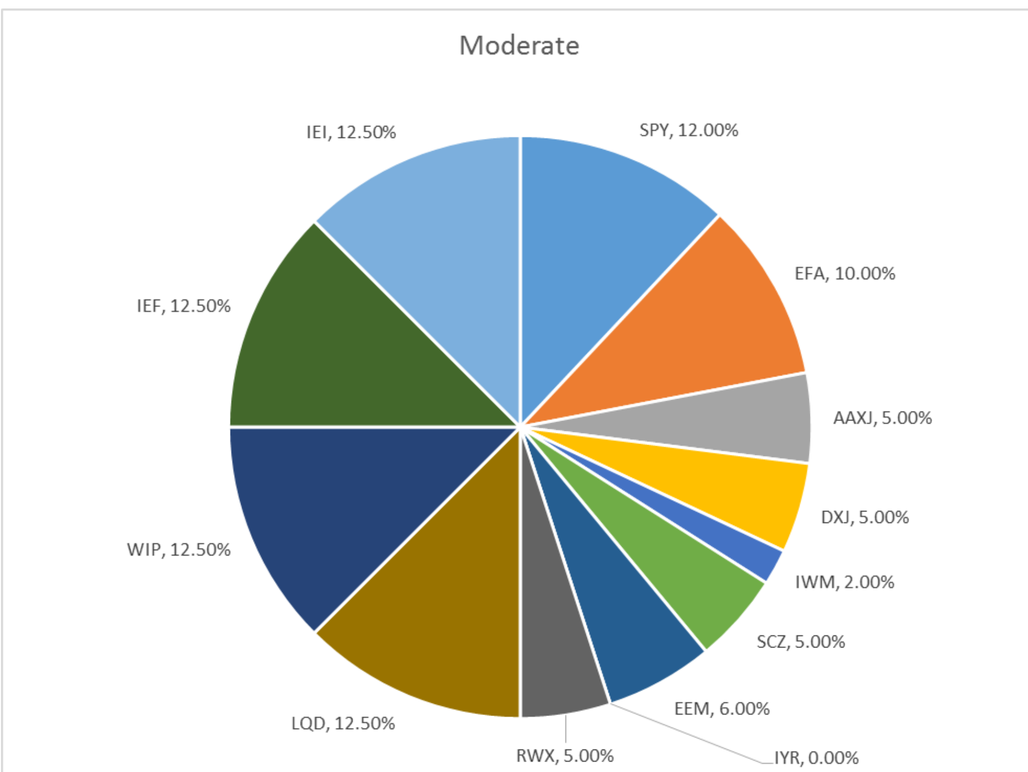
For more aggressive investors I also add an unhedged European exposure.

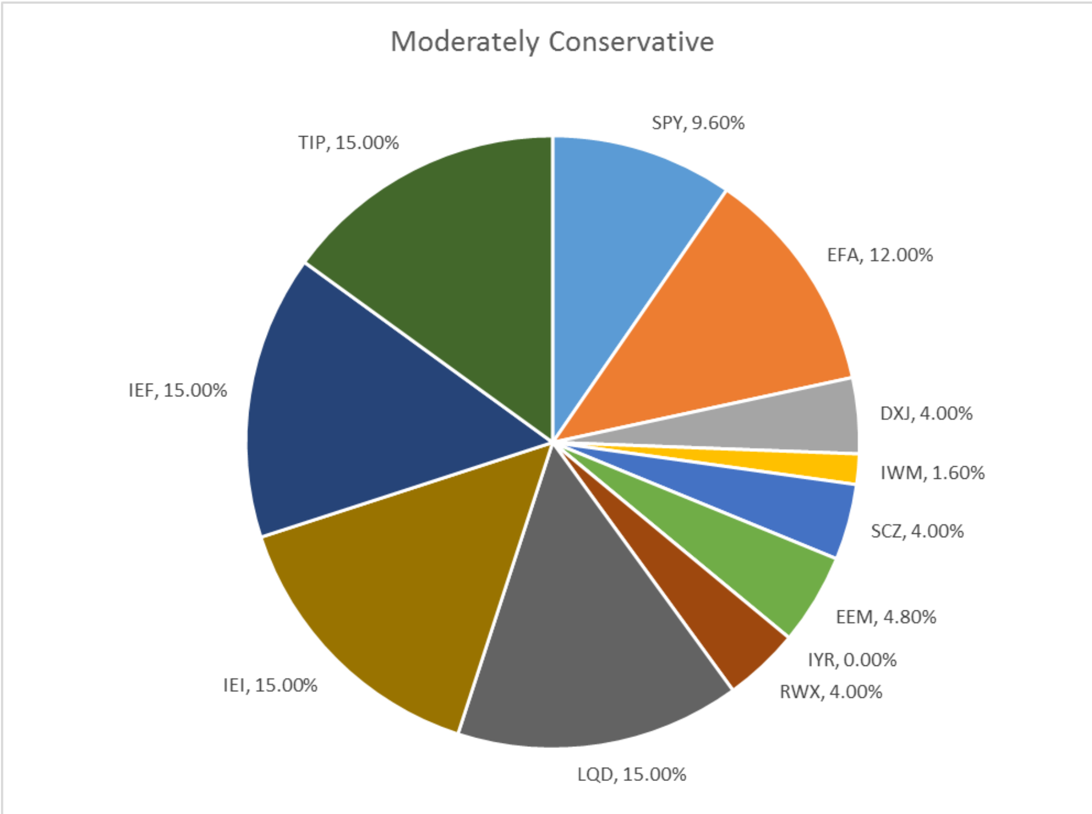
I am also adding, reluctantly, emerging market exposure to the portfolios this month due to momentum. While growth prospects for EM outside of Asia have not improved much the pullback in the dollar has relieved some of the dollar debt concerns. In addition,the falling dollar has been a positive for commodity prices which has supported Latin American equities. There is no doubt EM performance has improved recently, equity and fixed income, but I'm not convinced yet that the rally is sustainable. However, momentum suggests a small exposure.

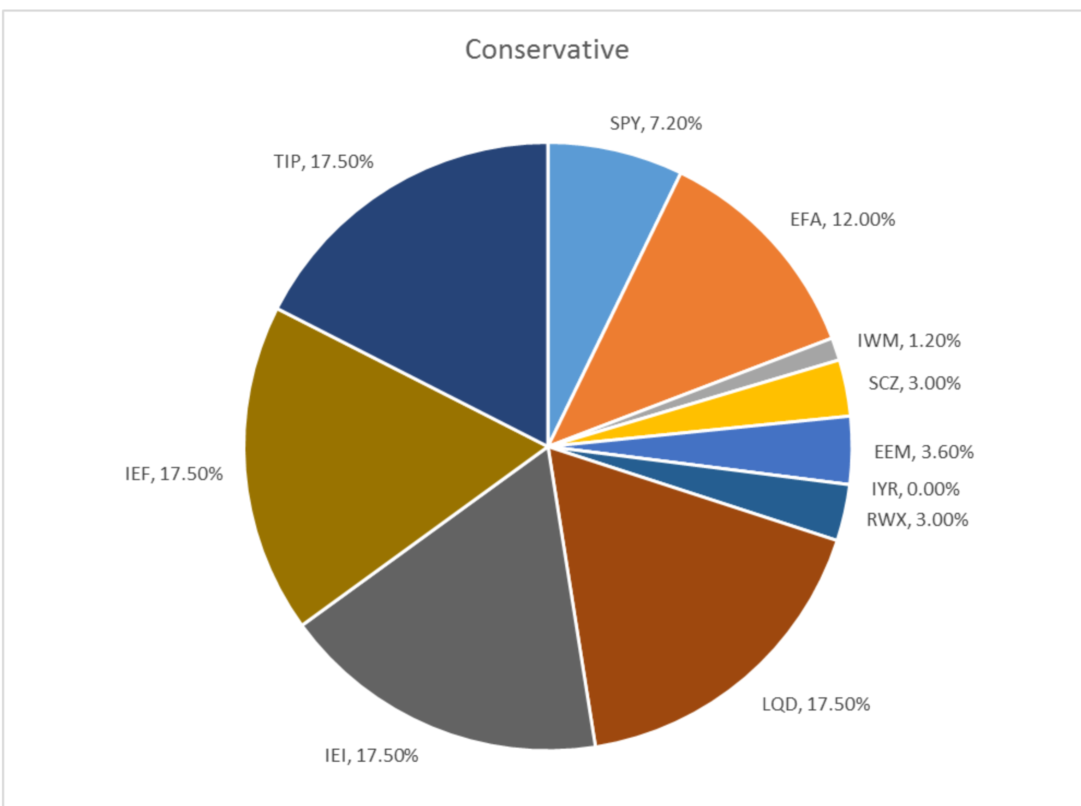

EEM iShares MSCI Emerging Markets NYSE + BATS
©StockCharts.com
15-May-2015 11:19am
Open 42.79 High 43.02 Low 42.69 Last 42.95 Volume 12.8M Chg +0.13 (+0.30%)
RSI(14) 54.61
EEM (Daily) 42.95
MA(50) 41.57
MA(200) 41.19
BB(20,2.0) 41.95 - 43.05 - 44.15
Volume 12,765,465
RSI(5) 59.48
MACD(12,26,9) 0.180, 0.325, -0.145
13 20 27 Nov 10 17 24 Dec 8 15 22 2015 12 20 26 Feb 9 17 23 Mar 9 16 23 Apr 13 20 27 May 11

For moderately aggressive investors, I've overweighted emerging Europe to minimize the exposure to Latin America where I think the problems are deeper.

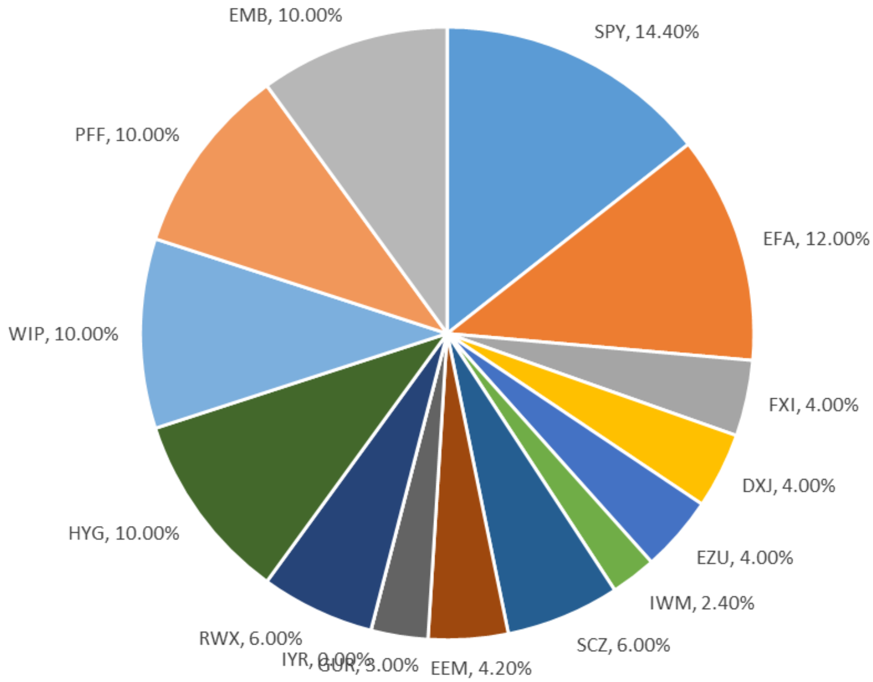
For aggressive investors an EM small cap exposure is added.



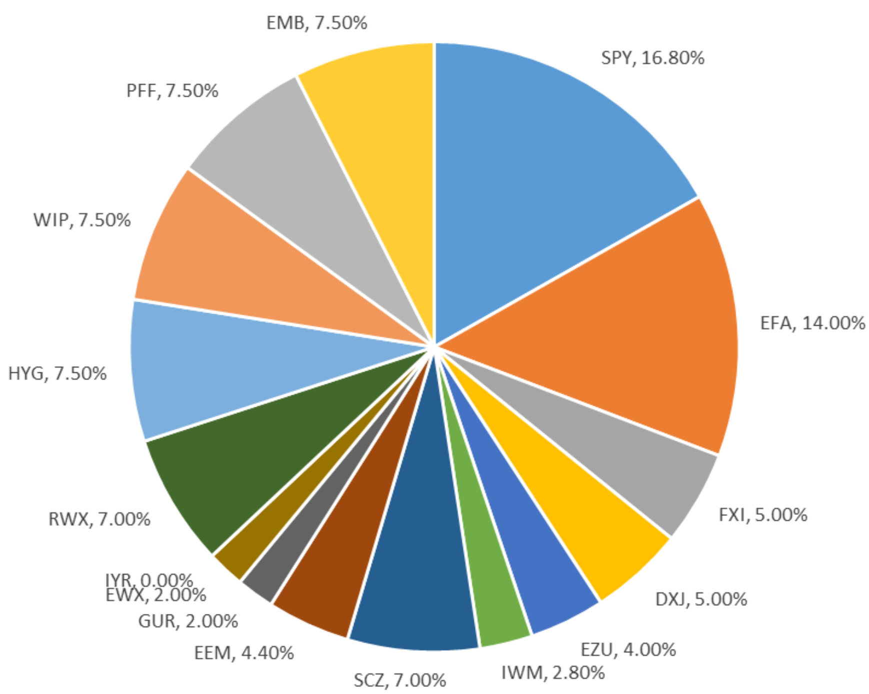

Moderately Conservative
SPY, 9.60%
EFA, 12.00%
DXJ, 4.00%
IWM, 1.60%
SCZ, 4.00%
EEM, 4.80%
IYR, 0.00%
RWX, 4.00%
LQD, 15.00%
IEI, 15.00%
IEF, 15.00%
TIP, 15.00%


Conservative
SPY, 7.20%
EFA, 12.00%
IWM, 1.20%
SCZ, 3.00%
EEM, 3.60%
IYR, 0.00%
RWX, 3.00%
LQD, 17.50%
IEI, 17.50%
IEF, 17.50%
TIP, 17.50%

Moderately Aggressive



Aggressive



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"Wealth preservation and accumulation through thoughtful investing."

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