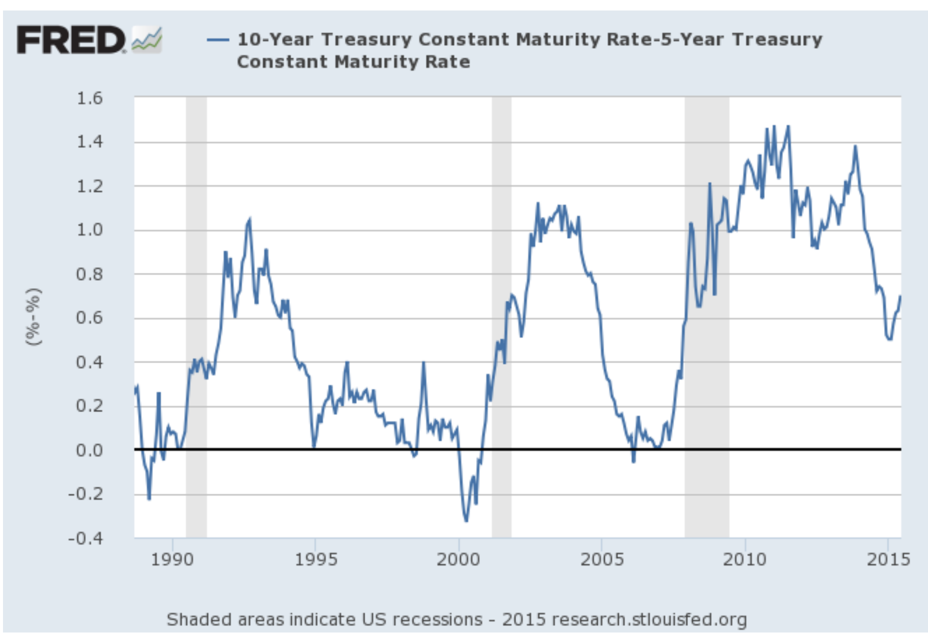
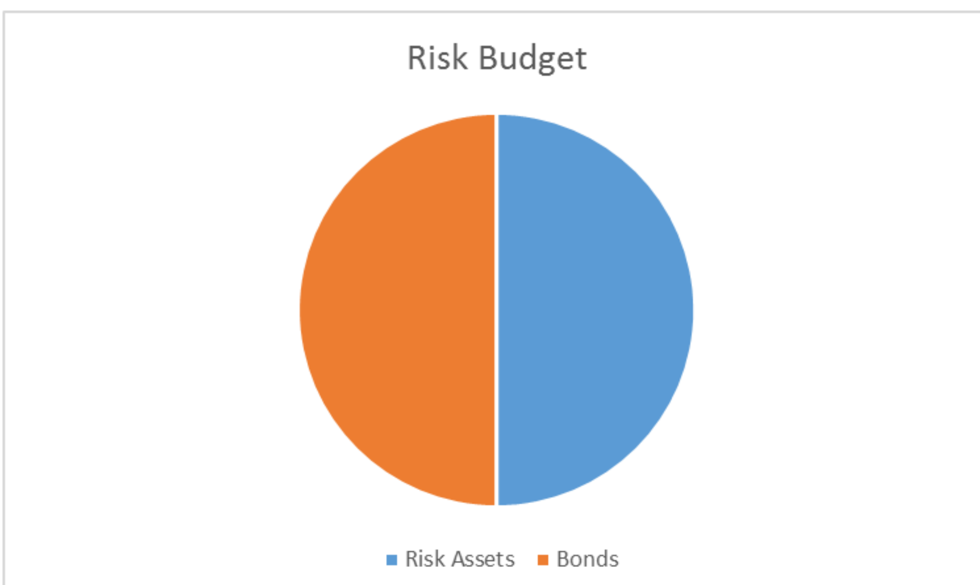
Alhambra Investment Partners

GLOBAL ASSET ALLOCATION UPDATE

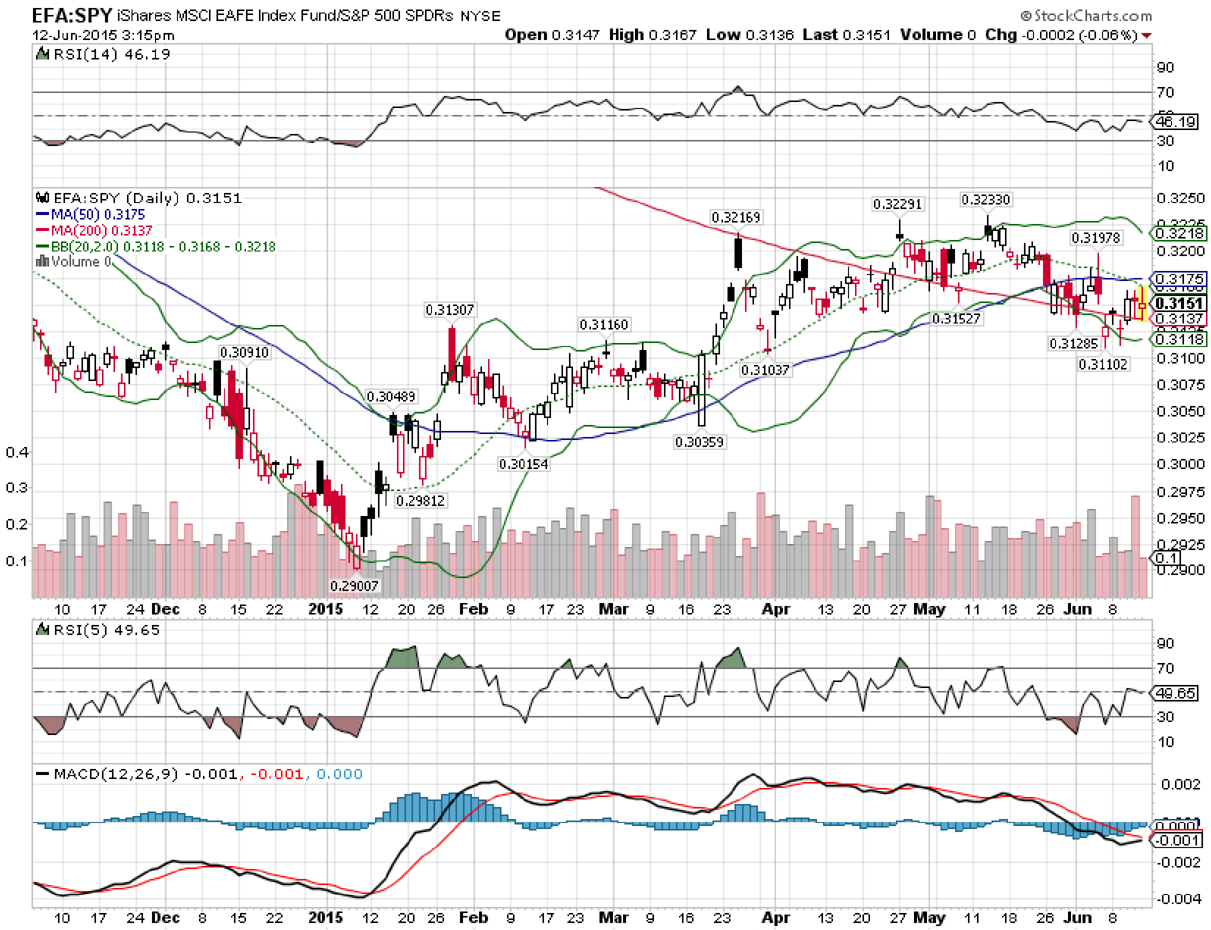
There is no change to our risk budget this month. For the moderate risk investor, the allocation between risk assets and bonds stays at 50/50 versus the benchmark of 60/40. The yield curve has steepened since the beginning of the year but did not steepen further since the last update. The TIPS market showed a slight fall in inflation expectations and a slight rise in real growth expectations. The economic data has started to improve but not enough to push the Fed to hike sooner. Expectations now seem to be centered on December '15 or January '16. That may change if the recent pullback in the dollar proves durable. That would tend to move up inflation expectations and probably the rate hike schedule.



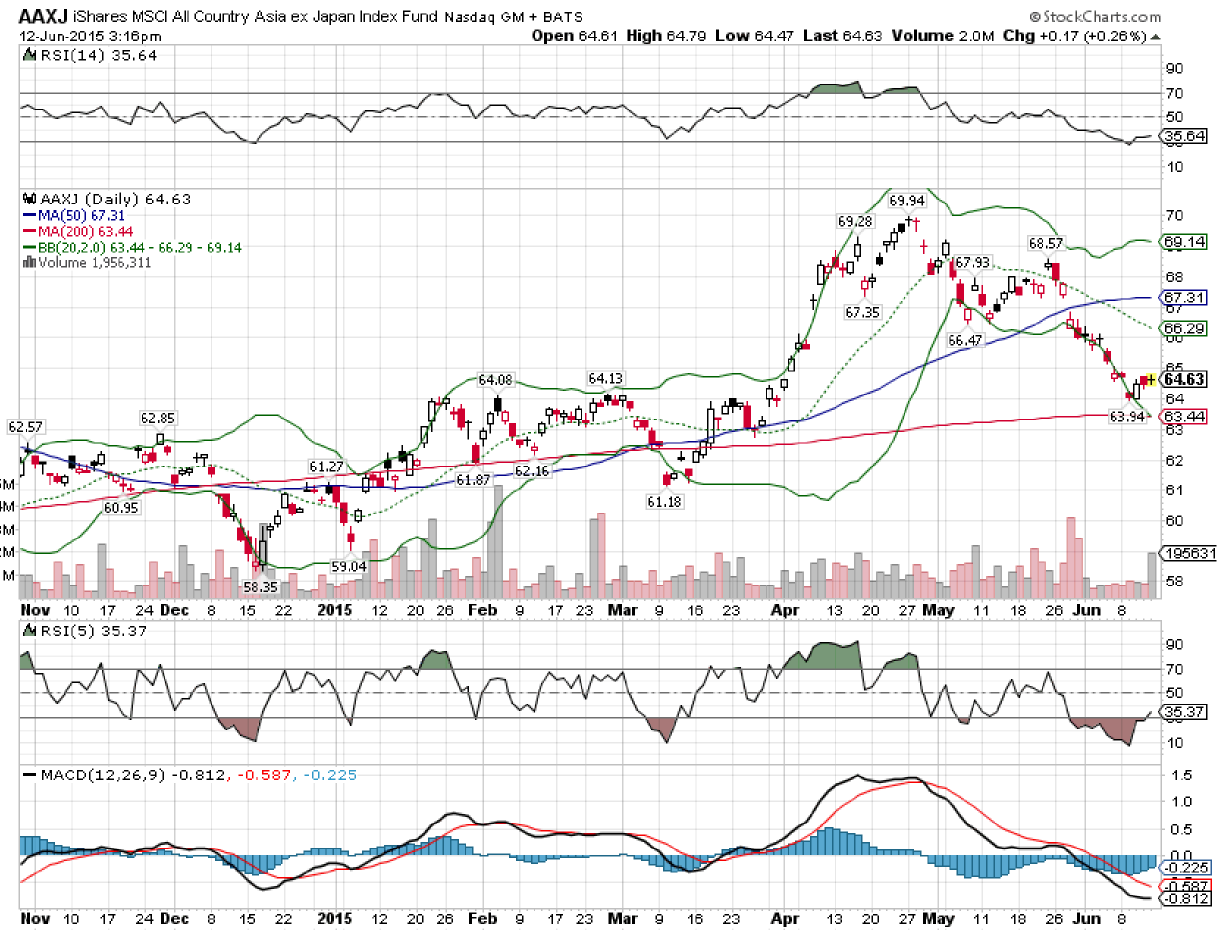
Credit spreads moved a bit wider on the month as the bond selloff finally reached the high yield market. While the absolute level of spreads is not particularly concerning the direction of change is. Credit spreads have a very high inverse correlation with stocks (about -0.80) so they are one of our most important indicators for asset allocation. As I said last month, a further deterioration in credit spreads would likely push me to further reduce our allocation to stocks. I don't think the slight move wider over the last month was sufficient to make that call.



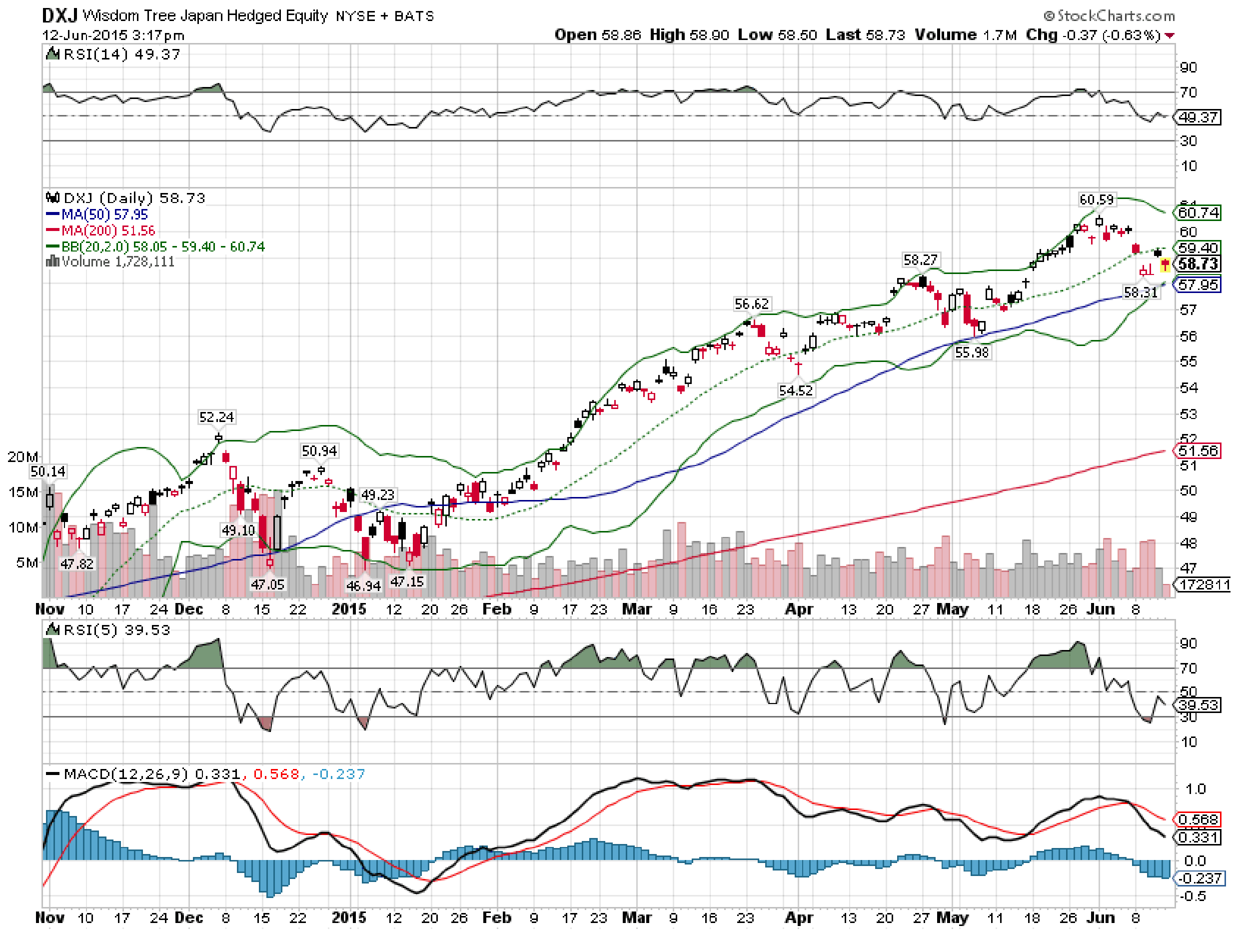
The trend for international versus US large cap corrected a bit but on a 3 month basis, EFA is still outperforming SPY. We maintain an overweight to EFA. We did, however, reduce our large cap exposure overall this month in equal amounts. That is a technical consideration as SPY momentum continues to deteriorate. If we get a correction in SPY we would expect it to spill over to EFA.



As with EFA vs SPY, our Asian exposures corrected a bit on the month. But on a 3 month momentum basis both are still leading.

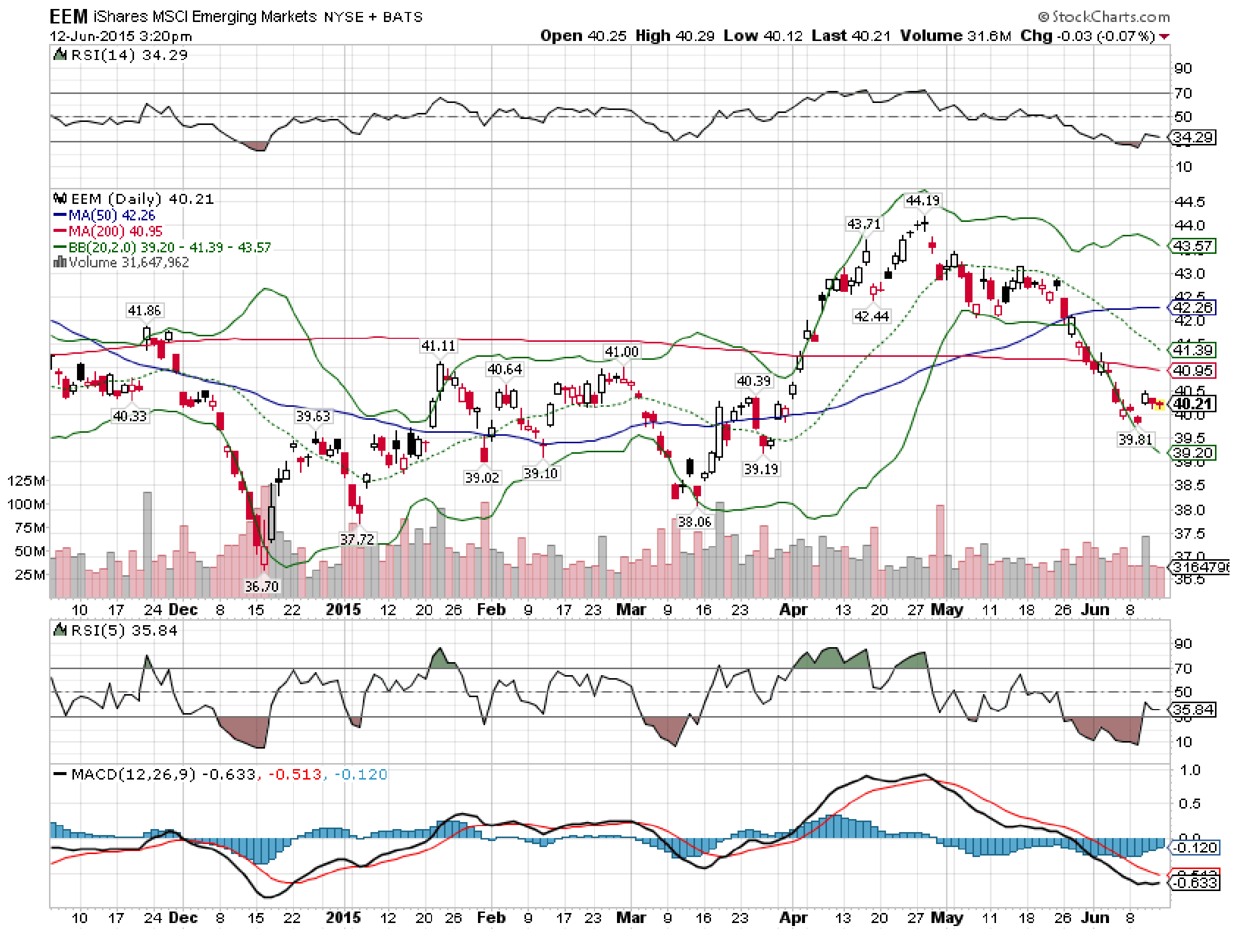


Japan continues to be my favorite equity market. DXJ is still preferred but the Yen may have seen its low for a while. I'll keep an eye on it and may shift to an unhedged version at some point.



For more aggressive investors I continue to favor unhedged Europe over the Euro hedged version:

As I said last month, I added emerging market exposure very reluctantly and of course it promptly corrected to back below its 200 day MA. Nevertheless the 3 month change is still positive and with the dollar continuing to pull back, I am going to stick with it. It is on a short leash though.

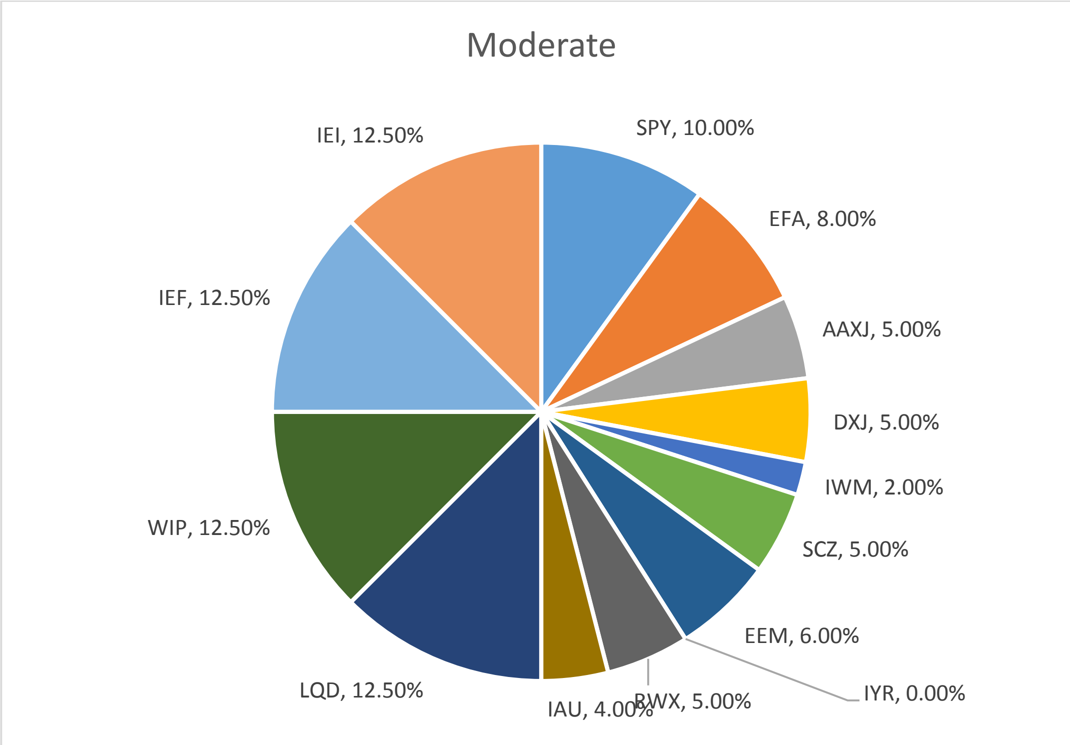


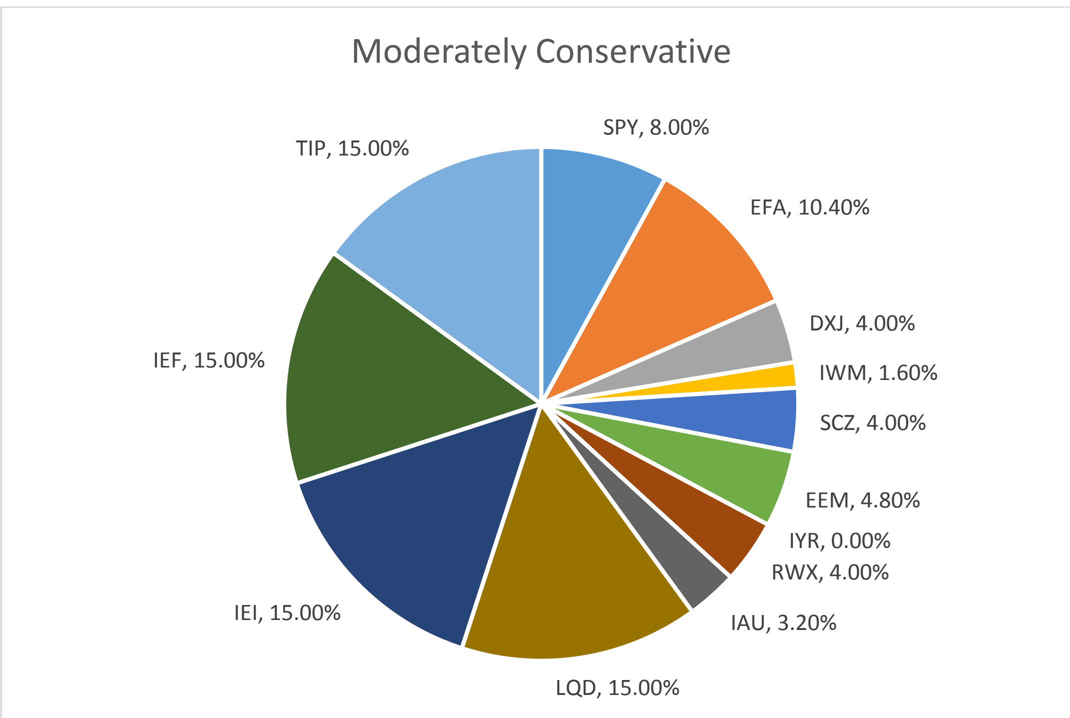
Emerging Europe followed the broader EEM lower, but the 3 month return lags only China so I will maintain the exposure.

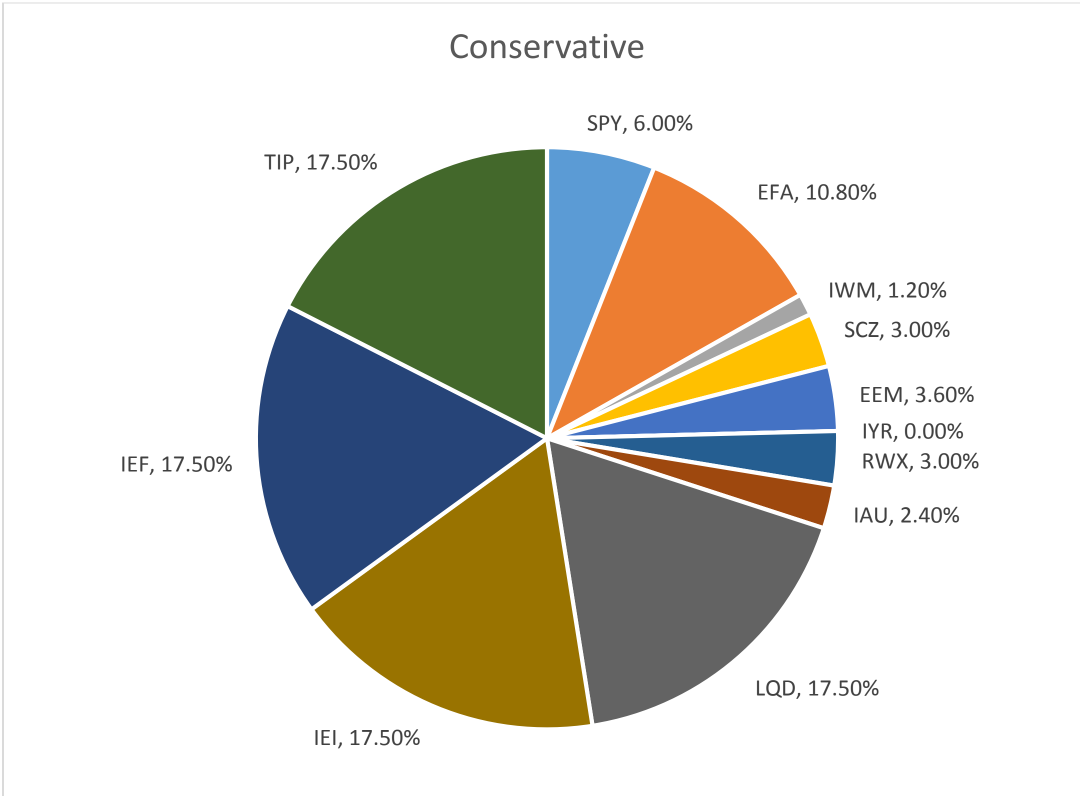
A similar story for EM small cap which is also still positive on a three month basis:

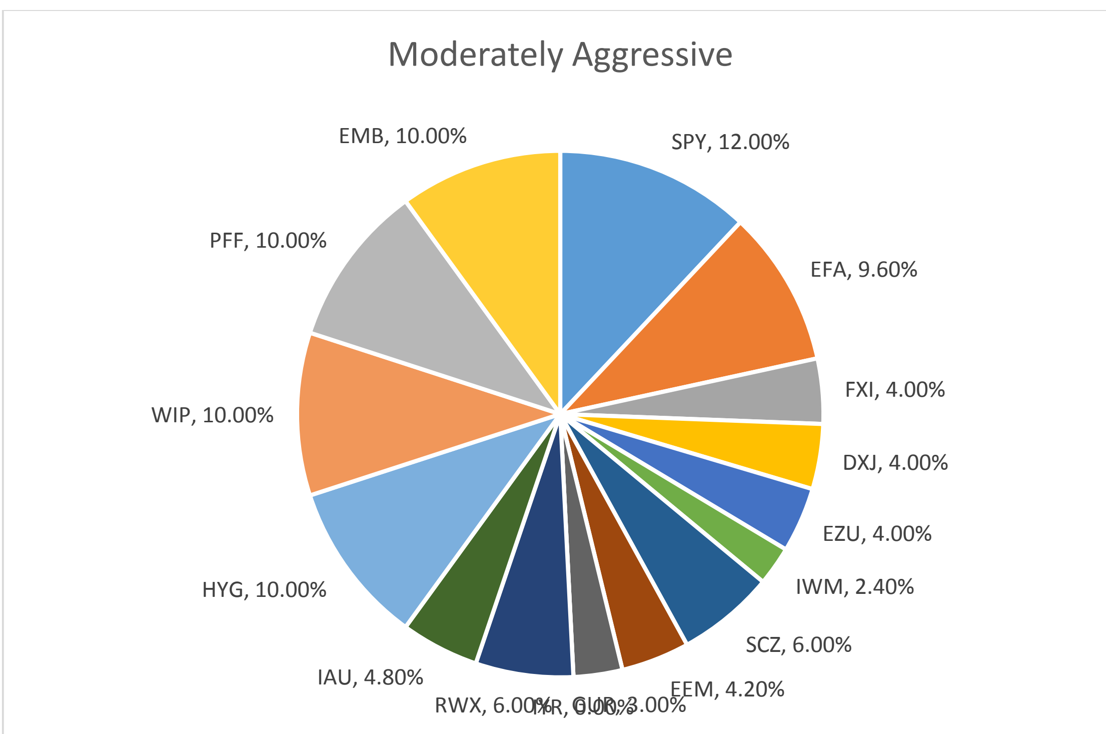
Lastly, due primarily to the newly weakening dollar, I am adding a gold position to the portfolio. GSCI has actually performed better than IAU but considering the iffy growth outlook I decided gold was a more conservative choice.

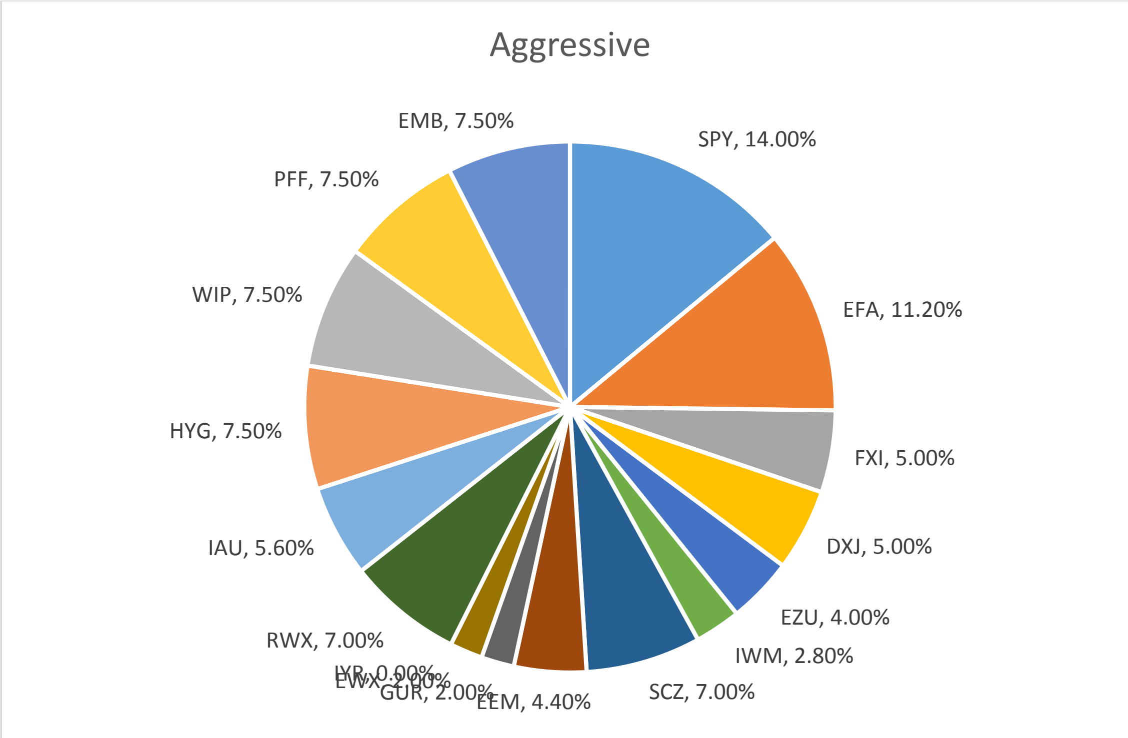
There are no changes to the bond portion of the portfolio this month.






Conservative
SPY, 6.00%
EFA, 10.80%
IWM, 1.20%
SCZ, 3.00%
EEM, 3.60%
IYR, 0.00%
RWX, 3.00%
IAU, 2.40%
LQD, 17.50%
IEI, 17.50%
IEF, 17.50%
TIP, 17.50%


Moderately Aggressive
SPY, 12.00%
EFA, 9.60%
FXI, 4.00%
DXJ, 4.00%
EZU, 4.00%
IWM, 2.40%
SCZ, 6.00%
EEM, 4.20%
RWX, 6.00%
IAU, 4.80%
HYG, 10.00%
WIP, 10.00%
PFF, 10.00%
EMB, 10.00%



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"Wealth preservation and accumulation through thoughtful investing."

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