



Financial Concepts Unlimited, Inc.

30B West Street
Annapolis, MD 21401
Phone: (301) 315-6344
Fax: (301) 315-6343
Toll Free: (866)-444-5122
<http://www.fcuinc.com>

John R. Taylor Jr.
President & CEO

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QUARTERLY MARKET REVIEW: JANUARY - MARCH 2015

Dear Clients,

As we conclude the first quarter of 2015, we wanted to share some thoughts with you on the markets as a whole and our model portfolios in particular.

In general, we remain cautiously optimistic on U.S. equities. We are mindful that as we continue to hit new highs in the equity markets, volatility and the heightened risk that accompanies it may become a greater factor. We also note that while the International Markets have quickly rotated back into favor, the U.S. is still the healthiest of the developed economies in the world. The U.S. recovery can largely be attributed to the aggressive monetary policies of the Fed, whose actions helped the U.S. become the first major economy to emerge from the 2008/09 financial crisis. It is worthwhile to note that at the same time the Fed was aggressively cutting interest rates and enacting Quantitative Easing (“QE”), many European countries were adopting austerity measures—the exact opposite of what was required to stimulate growth. However, that too is now changing....both here and abroad. The Federal Reserve (the “Fed”) will likely start to slowly and

steadily increase interest rates and move away from the monetary stimulus it has provided the markets with for years.

We as a firm have a continued preference for stocks over bonds and cash, based primarily on equities' attractive earnings yields. In our fixed income allocation, we continue to underweight U.S. Treasury and government agency bonds in favor of higher-yielding corporate- and mortgage-backed securities, as well as favoring floating rate corporate debt. However, with stocks at record highs and the Fed likely to begin raising rates, know that we are prepared for the volatility ahead. Effective diversification across markets can help to control combined volatility and to limit downside risk.

As always, we appreciate the trust that you and your family place in our firm and look forward to being partners in the preservation of your wealth for years to come....

The Markets

Volatility continued to rule the domestic equities markets. After losing ground in January, the major indices had a strong February. March saw early losses, then solid gains, with the Dow industrials, S&P 500, and Russell 2000 all hitting closing highs, and the Nasdaq closing above 5000 for the first time in 15 years, just shy of its all-time high. But these gains were tempered by a late-month downturn, with all the major indices losing ground in five of the last seven trading days as investors, jittery about corporate earnings, took profits. The small caps of the Russell 2000, which are seen as having less international exposure, saw March's only gains, and also led all indices for the quarter, up almost 4% with the Nasdaq right behind at 3.5%. The S&P and Global Dow trailed, up .4% and .7% respectively, while the Dow industrials slipped into negative territory for the year.

The Fed's slower-than-expected approach to interest rate hikes caused a sharp but temporary drop in the U.S. dollar, which continued to gain strength during the quarter against the currencies of its major trading partners. While a strengthening dollar was good news for Americans traveling abroad last quarter, it added to investor angst because of the potentially adverse effects on the global profits of U.S. multinational corporations. In January, the benchmark 10-year Treasury note dropped below 2% for the first time since May 2013, with demand driving yields to as low as 1.68% that month, before stabilizing to end the quarter just under 2%.

Oil prices fell below \$50 a barrel during the quarter, but that seemed to be a mixed blessing. Lower gas prices boosted consumers' spending power, but the sharp declines also raised questions about whether prices would fall so far that energy companies would cut back on jobs and/or ongoing operations. Even escalating tensions in the Middle East caused only a temporary spike back over \$50, with U.S. spot crude prices closing the quarter under \$48 a barrel, due to concerns that lifting sanctions against Iran could cause an increase in already abundant oil supplies. Gold, meanwhile, despite spiking to \$1,300 in late January, finished the quarter almost exactly where it started, at roughly \$1,183 an ounce.

Market/Index	2014 Close	As of March 31	Month Change	Quarter Change	YTD Change
DJIA	17823.07	17776.12	-1.97%	-.26%	-.26%
NASDAQ	4736.05	4900.88	-1.26%	3.48%	3.48%

S&P 500	2058.90	2067.89	-1.74%	.44%	.44%
Russell 2000	1204.70	1252.77	1.57%	3.99%	3.99%
Global Dow	2501.66	2518.18	-2.47%	.66%	.66%
Fed. Funds	.25%	.25	0 bps	0 bps	0 bps
10-year Treasuries	2.17%	1.94%	-9 bps	-23 bps	-23 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Quarterly Economic Perspective

The Fed has lost its patience. That's the main headline of the quarter, as the Federal Reserve finally removed long-standing language from its monthly statement of monetary policy that it would be patient about moving away from a near-zero interest rate environment. While this means the Fed is closer to raising interest rates, Fed Chair Janet Yellen indicated any increase wouldn't happen before June, and in any event not until warranted by economic data. The Fed indicated that rate increases would likely occur later, and at a more gradual pace, than previously forecast due to more moderate growth expectations.

The Bureau of Economic Analysis's final figures confirmed that U.S. growth slowed in 2014's final quarter, dropping from 5% in Q3 to 2.2%. That meant GDP increased 2.4% over all of 2014. The 4.4% increase in consumer spending was the biggest quarterly gain since the first quarter of 2006, but a 12.2% decline in federal defense spending and a 10.4% increase in imports helped offset it. Meanwhile, a 1.6% drop in the quarter's after-tax corporate profits (adjusted for inventories and capital consumption) contributed to an 8.3% annual decline for 2014--the worst year for profits since 2008.

The U.S. economy added 295,000 jobs in February, which helped cut the unemployment rate from 5.7% to 5.5%. The Bureau of Labor Statistics said February's job growth exceeded the 266,000 monthly average for the last year. Hourly wages were up 2% from a year earlier.

Sales of existing homes rose 1.2% in February (4.2% higher than a year earlier, according to the National Association of Realtors) but ongoing low inventories of homes for sale pushed prices up once again. New home sales also were up by 7.8% in February, and the January figure was revised upward. The Commerce Department said that put sales almost 25% higher than last February, and the 539,000 annual sales rate for new single-family homes hasn't been that high since February 2008.

After 3 months of falling consumer prices, consumer inflation turned up 0.2% in February. The Bureau of Labor Statistics said energy, food, and housing costs all contributed to the monthly increase, which left the inflation rate over the last 12 months essentially flat.

A 1.4% drop in February durable goods orders--the third decline in the last four months--confirmed a winter slowdown in the economy. More troubling was a 2.6% slump in business spending on capital equipment.

In March the European Central Bank commenced a long-awaited quantitative easing program worth at least €1.1 trillion (\$1.3 trillion) to try to stimulate the sluggish economy there. The euro, pressured by QE and uncertainty about Greece, posted the largest quarterly loss versus the dollar since 2008.

Greece's anti-austerity opposition party Syriza, led by Alexis Tsipras, topped vote-getters in January's parliamentary election and formed a coalition government with another anti-austerity party, the Independent Greeks. The election raised concerns about Greece's willingness to go along with conditions imposed by its creditors after bailouts in 2011 and 2013, and the possibility of a default and "Grexit" from the eurozone.

By March, Greece was struggling to satisfy creditor demands for detailed economic reform plans, in order to qualify for the next round of bailout funds. Reuters reported that without those funds, Greece will run out of money by April 20.

China cut its growth forecast for 2015 to 7%; Premier Li Keqiang cited underutilization of manufacturing capacity, slowing investment growth, potential deflation, and the need for increased public spending on social services. Though most developed economies would be thrilled with 7% growth, it's lower than 2014's 7.4% increase.

Eye on the Month Ahead

Domestically, all eyes will be on Q1 earnings and, equally important, any forward-looking guidance, to gauge the strong dollar's impact on future overseas profits. GDP, housing, and labor data will be watched closely to glean any possible clue about the timing of Fed interest rate hikes. Overseas, the Yemen situation, nuclear negotiations with Iran, and Greece's ongoing negotiations with its creditors will be monitored. Finally, as the "sell in May, go away" season approaches, equities could see continued market turbulence.

Sincerely,

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30 (B) West Street, Annapolis, MD 21401
301.315.6344 office
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866.444.5122 toll-free

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates).

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The

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S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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