DEAVEL WEALTH ADVISORS
CLARITY • CONFIDENCE • CONTINUITY

703.287.1567
(cell) 703.200.4272
(fax) 703.287.1581
Cindy.Deavel@LFG.com

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Dear Valued Clients:

% Return as of 03/31/2015			
Equity Indexes	**1st Q**	**1 Yr**	**3 Yr**
S&P 500	1.0	12.7	16.1
Russell 2500	5.2	10.1	17.1
MSCI EAFE	4.9	-0.9	9.0
Emerging Market	2.2	0.4	0.3
Wilshire REIT	4.7	25.2	14.2
Bond Indexes			
TIPS	1.4	3.1	0.6
Aggregate	1.6	5.7	3.1
Governments	1.6	5.2	2.3
Mortgages	1.1	5.5	2.5
Investment Corporate	2.3	6.8	5.2
Long Corporate	3.3	12.6	8.1
Corporate High-Yield	2.5	2.0	7.5
Municipals	1.0	6.6	4.1
Cash Equivalents			
3-Month T-Bill	0.0	0.0	0.1
Consumer Price Index	-0.5	-0.1	1.0

The investment markets began 2015 as they often do, with concerns. Oil prices continued to plunge, potentially threatening the U.S.'s reemergence as an energy leader. Greece continued its tedious and long-running dance with bankers over fiscal responsibility. European weakness continued to cast a pall over international stocks.

Still, people reflected on the previous year and hoped for a bright and profitable 2015. Indeed, 2014 was not a typical year. While some asset classes, like the S&P 500, did rather well, others, like small and international stocks did not. A media chorus grew louder questioning why diversification across asset classes was necessary or wise in 2015 or any other year.

International trade and currencies have strong tendencies to self-balance over time. As the euro weakens against the dollar, euro-denominated goods become cheaper. This tends to lead to greater demand. We did not have to wait long for things to begin to revert. As European Central Bank leaders announced their own version of "quantitative easing," the laggards of last year, international equities and U.S. small caps, considerably out-performed the S&P 500. While diversification does not enhance returns in all periods, it tends to work well over time.

Our method is neither to forecast nor react to short-term moves in the markets. Instead, we believe that a quiet, thoughtful examination of long-term valuations tends to be more useful. Performance-chasing reactions often lead to disaster. As an example, in a 2011 Gallup poll, 34% of Americans said gold was the best long-term investment, while only 17% said U.S. stocks. Since then, stocks are up 99.5% while gold is down 34.0%. As 17th century French philosopher and mathematician, Pascal once said, most human miseries "…derive from not being able to sit alone in a quiet room." That is not to say we are inflexible and blind to what is going on around us. A more modern American philosopher, Bruce Springsteen said "Blind faith in anything will get you killed." The key is balance and discipline to get you all the way home.

Domestic Equities: Be careful what you wish for. Some believe a strong dollar means a strong U.S. economy which translates to strong investment returns. This is not necessarily true. In the first quarter of 2015, a particularly strong dollar versus international currencies led to muted returns. As U.S. multi-national companies most often sell their products in foreign currencies and convert them back to dollars, fears of an earnings slowdown began to emerge. The S&P 500 was able to eke out a modest 1.0% return for the quarter. Smaller stocks quite often have lower international currency exposure. The Russell 2500 rose a healthy 5.2%.

International Equities: As the quarter progressed, the Russian/Ukrainian situation continued to settle. As noted above, currency movements gave international companies a potentially competitive advantage. These, coupled with a newly-

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announced round of bond buying, helped international shares regain their footing. The MSCI EAFE index, a measure of international developed market shares, jumped 4.9% during the first quarter. Emerging markets also joined the party. The Emerging Markets index rose 2.2%.

Fixed-Income: For years now, it seems that conventional wisdom has been that interest rates must rise. While that may eventually prove true, it appears early 2015 is not the time. The Barclay's Aggregate, a broad measure of the bond market, rose 1.6% in the first quarter. High-yield bonds continued a recovery from credit quality fears relating to plunging oil prices. They advanced 2.5%. Municipal bond returns cooled somewhat given their strong performance last year. Municipals still managed a 1.0% return.

Real Estate: In 2014, publicly traded real estate was the top performer. Considering the stellar advance, some wondered if the rally could continue. A further decline in interest rates revealed the answer. The Wilshire REIT index jumped a healthy 4.7% in the first quarter. Bear in mind that there is somewhat of a correlation of real estate to interest rates. When interest rates do finally rise, some of real estate's glow could be diminished.

Despite the positive returns across most asset classes, the first quarter was not without its challenges. Oil and most commodities were hard-hit. Fear and the resulting flight-to-quality caused huge swings in currencies. The Swiss franc and U.S. dollar soared, creating massive losses for some speculators. Even though most equities were left with gains, volatility was up. During the quarter, the S&P 500 advanced or declined by over 1% about one third of the time. This is the highest number since 2012. As the U.S. apparently prepares to raise interest rates, volatility could increase.

It would be nice if markets were always calm and predictable. Unfortunately, markets do not often operate that way. Risks often appear where Wall Street least expects them. We do not get to pick the time period or climate in which we invest. As a rancher and soldier as well as a politician, Theodore Roosevelt knew a few things about getting the job done, regardless of the circumstances. He once said, "Do what you can, with what you have, where you are." That is our commitment to you. Our strategies are based on a diligent examination of risk and return which are then applied to your individual goals and circumstances.

Thank you for the faith you have placed in us. We take it seriously. Please let us know if you need anything. It is always a pleasure talking with you.

Sincerely,

Cindy H Deavel

Cindy H. Deavel, CFP®

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