



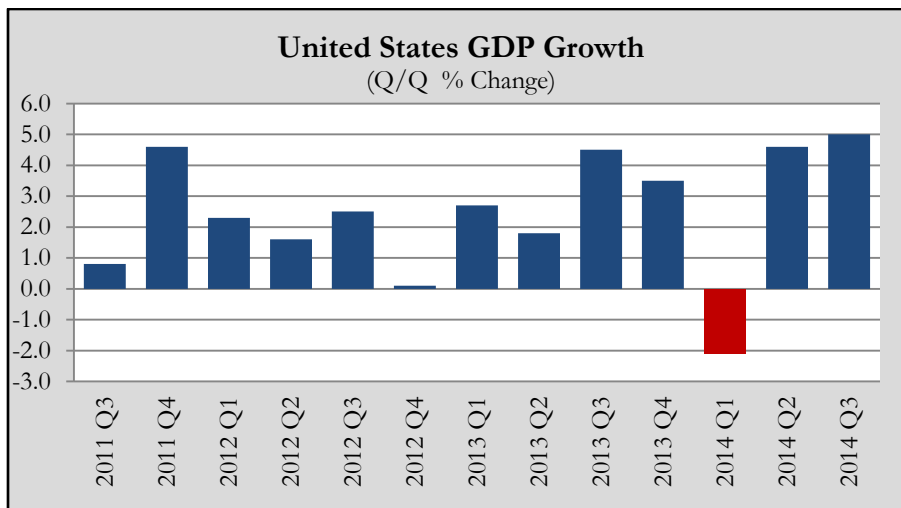
Divergent economic growth partly reflects the divergent policy paths taken by global leaders in the wake of the financial crisis.

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Q4 2014 Economic Review and Market Update

Introduction: The main story of 2014 was the divergent performance across advanced economies. The United States grew at a healthy rate (see chart 1) as labor-market conditions continued to improve. On the other hand, economic prospects flagged across Europe, Japan, and many emerging market countries. In Europe, fears deepened that the continent was tipping towards deflation. Likewise, in Japan, the core consumer-price index rose at its slowest pace of 2014 in November. Both Europe and Japan were impacted by the fall in energy prices, which is offsetting the push by their central banks to boost inflation and stoke confidence.



Source: U.S. Bureau of Economic Analysis

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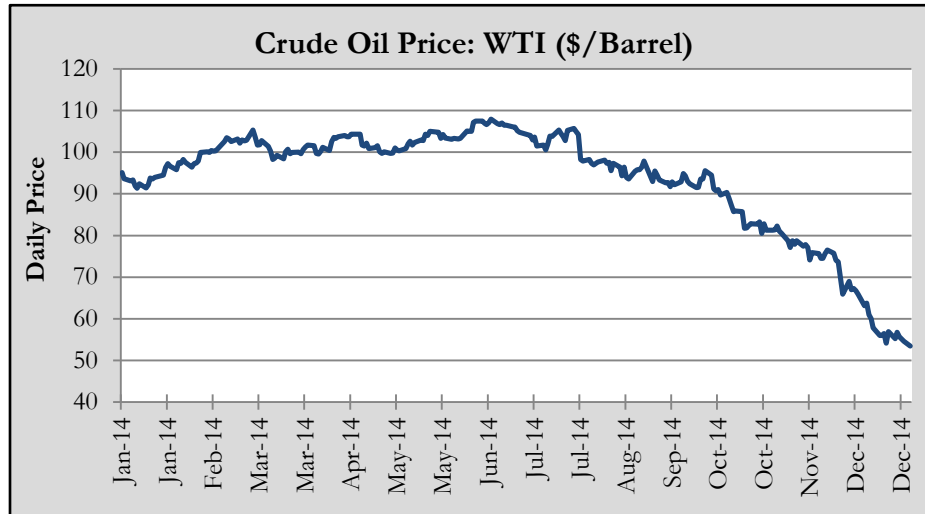
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Economic Review

U.S.: Slower global growth raised concerns over how sustainable U.S. economic growth would be in 2014. Nevertheless, America's economy grew

steadily in 2014 following the first quarter's weather-induced contraction. Reduced energy costs and consistent employment growth, which averaged more than 200,000 new jobs per month, combined to boost the economy.



Source: U.S. Energy Information Administration

Eurozone: The Eurozone economy did not perform as well. The unemployment rate of 11.5% was nearly double the U.S. unemployment rate. Moreover, consumer spending and retail sales fell in many of Europe's largest economies.

Japan: Inflation in Japan moved lower and further away from the Bank of Japan's 2% target. This softness caused the Bank of Japan to accelerate its monetary easing program. As a result, the Japanese economy showed signs of life in the fourth quarter after contracting during the previous two quarters. Industrial output improved modestly, while the labor markets strengthened.

Policy: Divergent economic growth partly reflects the divergent policy paths taken by global leaders in the wake of the financial crisis. The U.S. and U.K. were more aggressive in trying to stimulate growth, while the Eurozone and Japan procrastinated. As a result, unemployment rates after the crisis peaked at 10% in the U.S. and 8.5% in the U.K. but have since declined to 5.8% and 6%,

respectively. The Eurozone rate, on the other hand, climbed in the past few years to 11.5%, while Japan's economy has fallen back into recession. The Federal Reserve Bank and the Bank of England embraced aggressive monetary stimulus early on. Europe and Japan appear to be following this same playbook now.

Capital Markets Update

Equities: U.S. equity markets generally finished the year with a strong showing, bolstered by corporate earnings, improving economic prospects, and lower energy prices. The S&P 500 gained almost 5% in the fourth quarter and closed the year with a total return of 13.7%. It appeared that investors were getting more comfortable with the prospects of improving economic growth and the Federal Reserve's intentions for interest-rate policy change. After struggling for much of 2014, small-cap stocks rose sharply in the quarter, with the Russell 2000 Index climbing almost 10%. Nonetheless, the



significant dispersion between large-cap and small-cap stock performance of more than 8 percentage points (as measured by the difference in performance between the Russell 1000 and Russell 2000 indices) was a notable hallmark for the year.

Outside the U.S. a different picture emerged, with many local markets challenged by slowing economic growth and concerns surrounding possible negative catalysts erupting around countries like Russia, Greece, and Venezuela. Geopolitical unrest in Russia/Ukraine, Iraq/Syria, and Israel/Palestine distressed investors for much of the year, along with economic growth concerns about Europe and Asia. The European equity market declined over 4% in the fourth quarter and closed down 5.7% for the year. China surprised many investors and posted a strong quarterly gain of more than 7% despite continued concerns around a slowdown in Chinese economic growth, struggling economic reforms in Japan, and the impact on the broader Asian region. Japan was down 2.4% in the quarter and down 3.7% for the year.

S&P 500 sector performance was mixed for the quarter. Utilities posted a 13% gain in the quarter. Consumer Discretionary and Consumer Staples stocks were each up over 8% for the quarter. Financials and Health Care also did well, with each rising more than 7%. Energy stocks, however, continued their decline, dropping 10.7%, as oil prices for West Texas Intermediate Crude fell to \$53 per barrel at the year's end. Telecom and Materials stocks also struggled, falling 4.2% and 1.8%, respectively, in the quarter. Value generally outperformed growth in large- and mid-cap stocks for the quarter, while growth outperformed in small-cap stocks.

Fixed Income: U.S. bonds generally outperformed their international counterparts for the quarter and the full year. Declining interest rates continued to challenge bond investors who expected rates to

be higher as the year came to a close on the strength of improving economic prospects in the U.S. In fact, interest rates in the U.S. gradually declined over the year, trading at 3% in January and falling to 2.2% at year-end due in large part to the rise of the U.S. dollar and lower rates in the Eurozone. Municipal bonds continued to see strong demand in the quarter, advancing another 1.4% to close the year up 9%. High-yield bonds declined 1% during the quarter as investors expressed concerns about companies' exposure to declining oil prices. The Energy sector has more than doubled its weighting in the high-yield market from 5% for most of the 1990s to the mid-2000s, to about 13% currently as debt capital was raised to fund the energy renaissance in the U.S. Foreign and emerging-market debt declined 3% and 11%, respectively, in the quarter.

Non-traditional: Within the non-traditional asset class, returns were largely negative. MLPs succumbed to the decline in energy prices and cuts to energy companies' earnings outlook, falling 12.3% for the quarter. The REIT space, however, experienced a sharp recovery from third quarter weakness, rising over 14%. Many hedge fund strategies were weak for the quarter and the full year, particularly given the inconsistent performance of the equity, fixed-income, and commodities markets.

Outlook

Looking ahead to 2015, prospects for the global economy have dimmed slightly. Despite unprecedented monetary stimulus from the central banks of advanced economies over the past year, expectations for real economic growth in the world's key economies in 2015 appear weaker now than they were a year ago. Inflation has remained below target in nearly all major economies. In response, the central banks in the Eurozone and Japan have increased monetary stimulus in an effort to boost demand. Reflecting

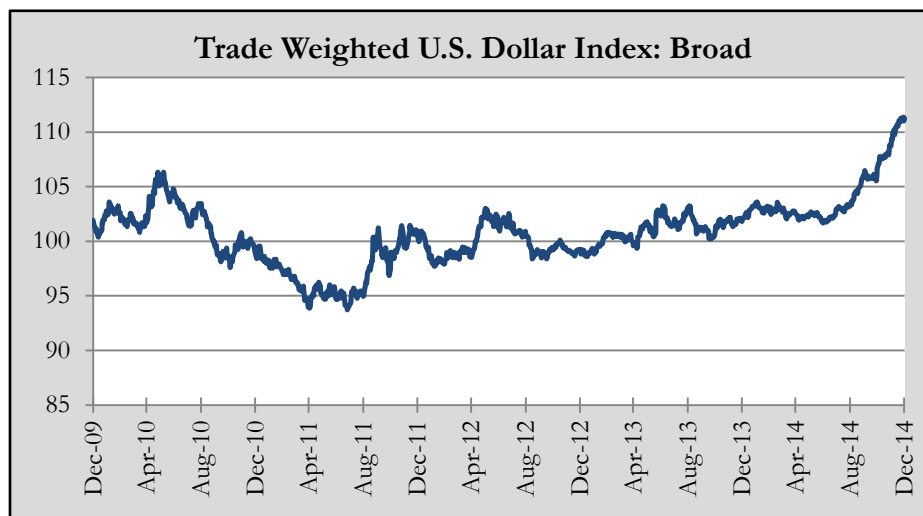


this subdued demand environment, commodity prices have fallen, increasing the risks that deflation takes hold.

Given the strengthening labor market and low energy prices, the U.S. economy has the potential to post its strongest growth performance in 2015 since the prior recession. The Fed will likely increase interest rates in 2015, but the pace of increases should be gradual. Relatively stronger

U.S. economic growth should contribute to further appreciation in the U.S. dollar.

Risks to this positive outlook will persist, however, in the form of an unsupportive global economic backdrop, the strong dollar, geopolitical tensions, and financial instability in emerging markets. 2015 should prove to be an interesting year, marked by increasing volatility across many markets. 🌐



Source: Board of Governors of the Federal Reserve System

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Department of Commerce, European Central Bank, Federal Reserve Board, Department of Labor, U.S. Energy Information Administration, Capital Market Consultants

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Index Performance as of: 12/31/2014								
	<u>1 Week</u>	<u>1 Month</u>	<u>QTD</u>	<u>3 Month</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Russell								
3000 Value	-0.94	0.78	5.31	5.31	12.70	12.70	20.68	15.34
3000	-0.92	0.00	5.24	5.24	12.56	12.56	20.50	15.63
3000 Growth	-0.90	-0.75	5.17	5.17	12.44	12.44	20.25	15.89
1000 Value	-1.02	0.61	4.98	4.98	13.45	13.45	20.89	15.43
1000	-0.99	-0.23	4.88	4.88	13.24	13.24	20.61	15.64
1000 Growth	-0.96	-1.04	4.78	4.78	13.05	13.05	20.26	15.82
Mid Cap Value	-0.73	0.75	6.05	6.05	14.75	14.75	21.97	17.43
Mid Cap	-0.78	0.21	5.94	5.94	13.22	13.22	21.40	17.19
Mid Cap Growth	-0.82	-0.28	5.84	5.84	11.90	11.90	20.71	16.94
2000 Value	-0.04	2.73	9.40	9.40	4.22	4.22	18.28	14.26
2000	-0.11	2.85	9.73	9.73	4.89	4.89	19.21	15.55
2000 Growth	-0.18	2.97	10.06	10.06	5.60	5.60	20.14	16.80
Standard & Poors								
S&P 500	-1.07	-0.25	4.93	4.93	13.69	13.69	20.41	15.46
Consumer Disc	0.50	0.97	8.74	8.74	9.68	9.68	24.81	21.38
Consumer Staples	-1.77	-1.04	8.15	8.15	15.98	15.98	17.45	16.08
Energy	-1.18	0.50	-10.68	-10.68	-7.78	-7.78	6.46	8.76
Financials	-0.95	1.81	7.25	7.25	15.20	15.20	26.25	13.36
Health Care	-0.33	-1.32	7.48	7.48	25.34	25.34	27.85	19.38
Industrials	-1.45	-0.14	6.76	6.76	9.83	9.83	21.24	17.56
Information Technology	-1.96	-1.70	5.24	5.24	20.12	20.12	20.99	14.86
Materials	-0.95	-0.67	-1.80	-1.80	6.91	6.91	15.57	11.23
Telecom Services	-1.48	-6.13	-4.16	-4.16	2.99	2.99	10.74	11.42
Utilities	-1.59	3.52	13.19	13.19	28.98	28.98	13.93	13.34
Other U.S. Equity								
Dow Jones Industrial Avg.	-1.15	0.12	5.20	5.20	10.04	10.04	16.29	14.23
MSCI USA	-1.06	-0.31	4.81	4.81	13.36	13.36	20.41	15.50
Wilshire 5000 (Full Cap)	-0.87	-0.13	4.88	4.88	12.07	12.07	20.36	15.64
International Equity - Broad Market								
MSCI EAFE	-0.84	-3.44	-3.53	-3.53	-4.48	-4.48	11.56	5.81
MSCI Emerging Markets	0.72	-4.56	-4.44	-4.44	-1.82	-1.82	4.41	2.11
MSCI Frontier Markets	-0.10	-4.02	-12.44	-12.44	7.21	7.21	13.94	8.45
MSCI AC World	-0.75	-1.89	0.52	0.52	4.71	4.71	14.71	9.74
MSCI AC World ex USA	-0.41	-3.57	-3.81	-3.81	-3.44	-3.44	9.48	4.89
MSCI AC Asia ex Japan	1.14	-2.05	0.17	0.17	5.11	5.11	10.05	5.80
International Equity - Country Region								
MSCI Brazil	-0.28	-11.06	-14.79	-14.79	-13.74	-13.74	-10.01	-9.40
MSCI BRIC	1.02	-5.27	-4.05	-4.05	-2.56	-2.56	2.70	-1.67
MSCI China	2.60	1.16	7.17	7.17	8.26	8.26	11.48	3.50
MSCI Europe	-1.16	-4.28	-4.30	-4.30	-5.68	-5.68	12.52	5.91
MSCI India	2.73	-5.96	-0.68	-0.68	23.87	23.87	14.48	2.66
MSCI Japan	-0.91	-1.42	-2.40	-2.40	-3.72	-3.72	9.93	5.68
MSCI EM Latin America	0.11	-9.12	-13.38	-13.38	-12.03	-12.03	-5.95	-5.02
MSCI Russia	-8.68	-23.11	-32.78	-32.78	-45.86	-45.86	-14.38	-9.57
Fixed Income								
Barclays U.S. Aggregate	0.45	0.09	1.79	1.79	5.97	5.97	2.66	4.45
BofA Merrill Lynch 3-Month T-Bill	0.00	0.00	0.00	0.00	0.03	0.03	0.07	0.09
Barclays U.S. Government	0.48	0.13	1.86	1.86	4.92	4.92	1.40	3.70
Barclays U.S. Credit	0.54	0.01	1.76	1.76	7.53	7.53	4.84	6.25
Barclays High Yield Corporate Bond	0.14	-1.45	-1.00	-1.00	2.45	2.45	8.43	9.03
Barclays Municipal	0.34	0.50	1.37	1.37	9.05	9.05	4.30	5.16
Barclays TIPS	0.41	-1.13	-0.03	-0.03	3.64	3.64	0.44	4.11
Barclays Global Aggregate ex US	0.24	-1.21	-2.99	-2.99	-3.08	-3.08	-0.75	1.38
Barclays Global Aggregate	0.32	-0.69	-1.04	-1.04	0.59	0.59	0.73	2.65
BofA Merrill Lynch Emerg. Mkt. Credit	-0.28	-7.58	-11.10	-11.10	-9.07	-9.07	5.12	8.53
Alternative Investments								
Alerian MLP	-0.17	-5.62	-12.29	-12.29	4.80	4.80	11.90	16.74
Bloomberg Commodity	-1.73	-7.63	-12.10	-12.10	-17.01	-17.01	-9.43	-5.53
FTSE NAREIT Equity REIT	-0.81	1.87	14.20	14.20	30.14	30.14	16.33	16.89
S&P Global Natural Resources	-0.66	-3.00	-8.37	-8.37	-9.66	-9.66	-0.57	-1.47
S&P North American Natural Resources	-0.80	-0.85	-13.86	-13.86	-9.77	-9.77	2.42	4.28

Sources: MPI, Morningstar, Barclays, HFR