ANALYTICS INVESTMENT ADVISORS, LLC

Bond Blahs

"Owning bonds today is like picking up nickels in front of a steamroller!"

Doug Kass[1]

Richard C. Hoyt

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What? "The focus of every long term investor should be the growth of purchasing power; monetary wealth adjusted for effects of inflation." [2]

- Bonds are the most important asset class competing with stocks (equities);
- Total return on stocks as measured by the S&P 500 has significantly outperformed the 10 Year bond and 30 Day Bill the past thirty years (see chart);
- The excess return for holding equities, or *equity risk premium* averaged 4.91% over the past 30 years;
- Interest rates as measured by the 3 month T Bills have steadily fallen over the past 30 years; and,
- While the yields on most bonds, including Treasuries, mortgage securities, municipals and preferred stocks have increased approximately 1% in the last 12 months resulting in yields between 3% and 7% on a range of debt and equity securities, investing in the current low interest rate environment favors dividend equities and convertible bonds.

Why?

- The earnings yield (E/P) which shows the percentage earned for each dollar invested in the stock market as measured by the S&P 500 index is approximately 2X the current yield on 10 year Treasuries, implying that stocks are undervalued relative to bonds.
- The long term risk (as measured by standard deviation) for equity returns falls almost twice as fast as fixed income assets as the holding period increases, leading to the conclusion that historically a diversified portfolio of common stocks over 30 years will generate more purchasing power than a U.S. government bond portfolio.[3]
- With interest rates expected to rise, a 1% increase in yield will cause a bond fund with a duration of 4.5 years to decrease by 4.5%, resulting in zero total return.

How?

- It is hard to beat a diversified portfolio of dividend-paying equities for income and capital appreciation over the long term. The total return on Dividend Paying Equities and Convertibles Stocks was 30.1% and 24.9% respectively in 2013.[4]
- Analytics Investment Advisors applies the advantages of Exchange Traded Fund sector investing to maximize total long term returns through a combination of growth *and* income criteria consistent with each individual client's risk return criteria.

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[1] http://dougkass.tumblr.com/post/115198999503/why-im-shorting-bonds.

[2] Siegel, Jeremy J. *Stocks for the Long Run, The Definitive Guide to Financial Market Returns and Long-Term Investment Strategies,* McGraw-Hill, 2002, p.11.

[3] Ibid, p.41.

[4] "Where to Find Yield", *Barron's,* January 13, 2014, p.19.

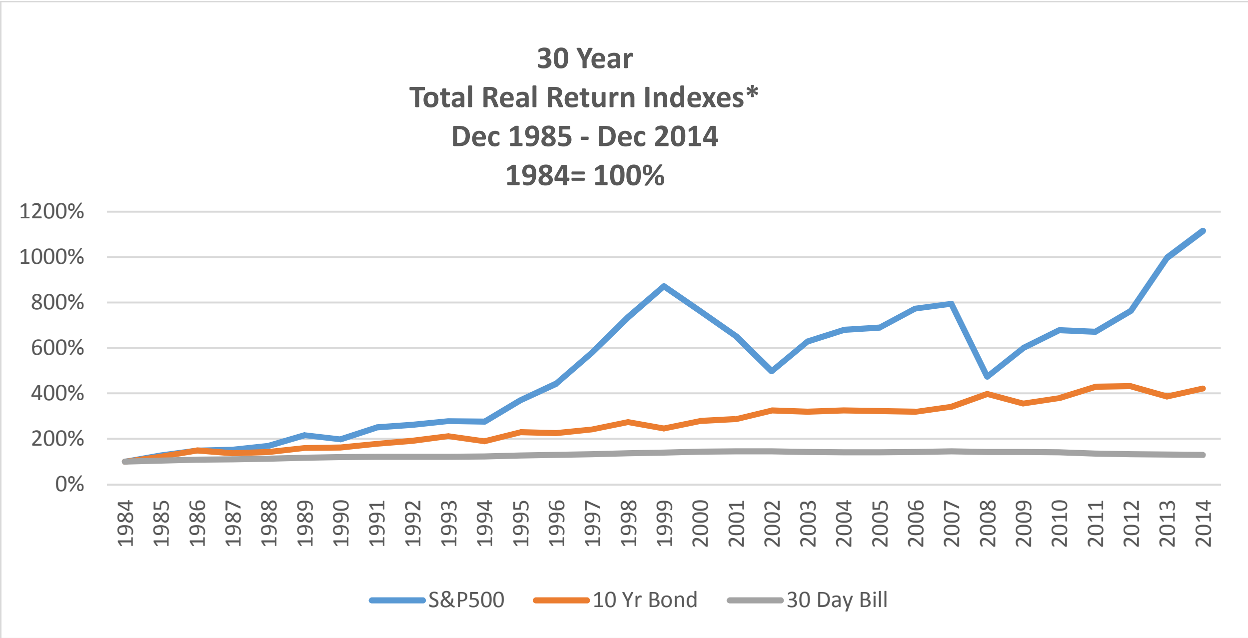
Exchange Traded Fund Investment Model

The investment strategies below are comprised entirely of Exchange Traded Funds (ETFs) which: 1) are a way to combine the potentially high returns of individual stock trading with the benefits of diversification of mutual funds; 2) are a basket of stocks that trade on an exchange with the simplicity and liquidity of an individual stock; 3) add flexibility and safety through diversification, access to varied markets; 4) are low cost and tax efficient; 5) trade under the jurisdiction of the Security and Exchange Commission offering protection and liquidity for orderly and continuous trading; and, 6) allow the ability to effectively monitor performance and effectuate sound risk management strategies; for example, stop and limit orders.

Performance Summary

	2012*	2013*	2014*	YTD 3/31/2015	% AUM	Alpha**	Beta**	Sharpe Ratio**
S&P 500	**13.41%**	**29.60%**	**12.55%**	**1.27%**				
Barclay US TR	**4.42%**	**-2.02%**	**5.97%**	**1.61%**				
Cautious	8.53%	32.73%	9.01%	3.55%	1%	9.39	1.13	2.37
Moderate	10.51%	35.85%	12.92%	4.33%	31%	6.07	1.00	2.51
Assertive 1	17.10%	38.40%	16.90%	6.30%	32%	8.00	0.99	2.56
Assertive 2	n/a	44.93%	24.83%	7.73%	26%	10.22	1.37	2.51
Aggressive	22.70%	68.62%	2.07%	14.94%	10%	7.90	1.89	2.34

Alpha   Difference between portfolio actual return and expected return
Beta   Expected change in portfolio returns per 1% change in the market index return
Sharpe Ratio   A measure of risk-adjusted return showing excess return per unit of total risk
* Net Size Weighted Returns, PortfolioCenter, Schwab Portfolio Technologies (Net of Standard Fees)
** Three Year Risk Return Statistics, Morningstar 12/31/2015



*Source: Federal Reserve Data Base: St. Louis, Missouri