ANALYTICS INVESTMENT ADVISORS, LLC

Oasis of Prosperity

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What? While the July 1, 2014 quarterly commentary presented data supporting the magnitude for the weakest economic recovery since 1933 (1/3 of the historic average), the U.S. economy appears to be in an "oasis of prosperity"[1]. In spite of the slow U.S. revival and uncertain and troubled world environment:

- U.S. factories had the strongest quarter in more than three years;
- Exports rose to a record in August;
- The U.S. trade deficit in August was the lowest in 7 months;
- Consumer outlays rebounded in August as employment gains revived household earnings growth; and,
- The U.S. is the only large economy experimenting acceleration of growth, preparing for the tightening of monetary policy due to expanding aggregate demand, and an appreciating currency.

Why?

- U.S. companies in the S&P500 are the healthiest in decades with the lowest net debt to earnings ratio in 24 years;
- Improved balance sheets are allowing households and corporations to increase spending;
- Divergent world economies reflect monetary policy makers moving in different directions;
- U.S. is 75% of the way through its deleveraging process, whereas Europe is approximately half completed, and China is just beginning to rein in its shadow banking sector composed of trusts, leasing companies and other less regulated financial firms; and,
- The U.S. and Germany are the only major economies to reduce total public and private debt as a share of GDP since 2007.

How? It will be the objective of Analytics Investment Advisors to take advantage of the above described diverging world economies in the coming months to:

- Continue to utilize primarily domestic Exchange Traded Funds (ETFs) as the geographic norm in all of the strategic allocations summarized below (see Performance Summary); and,
- Continue to identify and emphasize economic sectors that will likely outperform the overall market (see ETF Price Comparisons), as defined by the S&P 500, which have allowed each of the strategic allocations historically to outperform the overall market on a risk adjusted basis (see Performance Summary).

The upcoming commentary at the end of the 4th quarter in January will present the conceptual framework and statistical model used to identify the potentially best performing ETFs.

[1] A term coined by Allan Greenspan in the late 1990's to describe the ability of the U.S. economy to thrive while much of the rest of the world, most notably Asia, struggled.

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***	**09/30/2014***	**Alpha****	**Beta****	**Sharpe Ratio****
S&P 500	**13.41%**	**29.60%**	**6.70%**			
Barclay US TR	**4.42%**	**-2.02%**	**4.10%**			
Cautious	8.53%	32.73%	6.28%	4.04	.88	1.63
Moderate	10.51%	35.85%	7.30%	1.13	1.12	1.37
Assertive 1	17.10%	38.40%	8.77%	4.19	1.10	1.55
Assertive 2	n/a	44.93%	14.80%	5.09	1.34	1.53
Aggressive	22.70%	68.62%	-5.39%	6.93	2.06	1.45

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 06/30/2014

ETF Price Comparisons
Assertive 1
12/31/13 to 9/30/2014