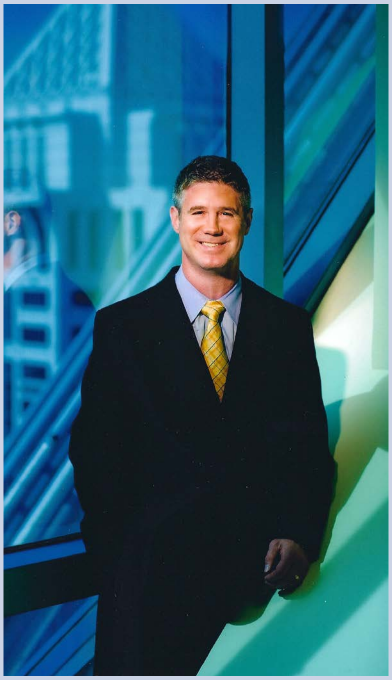
ClarkCapital MANAGEMENT GROUP

MarketOutlook 2014

Market Commentary by K. Sean Clark, CFA® Chief Investment Officer

January 2014



K. Sean Clark, CFA
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Executive Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean was featured in an article in Barron's and has been quoted in a number of articles in nationally distributed business journals and newspapers.

Will Momentum Give Way to a Mid-Term Election Year Correction?

Executive Summary

Equity Market: Early stages of long-term secular bull market. Anticipated range for S&P 500 in 2014 is 1575 – 2000. Strong momentum and mid-term year historical tendencies suggest year-end target of 1950. Risks increase of meaningful correction in second and third quarters based on mid-term election year and new Fed chairperson historical studies. Expect major developed markets to outperform during any correction into a market bottom in late second quarter or third quarter. Then look for high beta emerging markets to lead to the upside.

Bonds: Long-term secular bear. In 2014 favor credit over duration risk as credit spreads can stay low for extended period supported by continued economic growth and low default rates. 10-year Treasury yield range 2.40% - 3.75%, with high end of range being tested late in the year.

Economy: Leading indicators suggest continued economic growth. U.S. economy to grow 3.0%. Modest inflationary pressures.

Volatility: Expect volatility to move higher from historic low levels as the risks of a market decline increase during the second and third quarters.

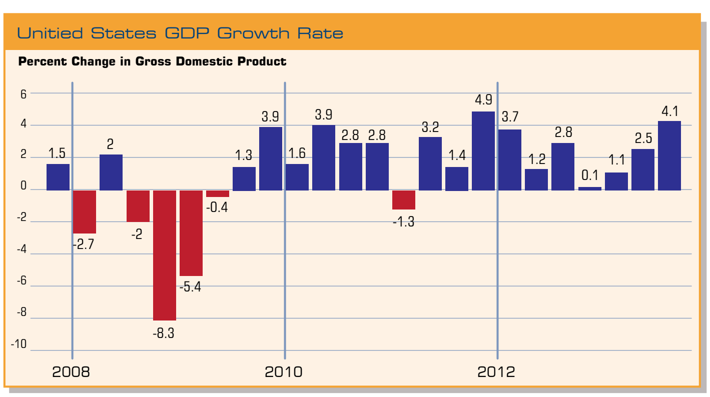
Look Back at 2013

The global equity markets experienced a year to remember in 2013 with the major developed markets gaining more than 20 percent. The global equity markets were led higher by the U.S. and Japan. The S&P 500 gained 32.36% and the MSCI Japan Index in dollars gained 27.16%. Reflecting European markets, the MSCI Europe Index in dollars was up 25.23%. Among the laggards in 2013 were the emerging markets, whose performance in our opinion suffered greatly due to currency weakness and rising interest rates. The MSCI Emerging Markets Index in dollars was down 2.60%. Fixed income also suffered losses with the Barclays Aggregate Bond Index down 2.02%. It was the biggest yearly loss for the bond market since 1994! Treasuries yielded losses across the yield curve with the Barclays 7-10 Year Treasury Index down 6.04% and the Barclays 20+ Year Treasury Index down 13.88%. The bright spot among the fixed income asset class was below investment grade credit, with the Barclays High Yield Index posting a solid 7.44% gain. Commodities performed poorly with the S&P GSCI Index down 2.21%. Gold declined 28.3%, its first losing year in 13 years and its worst percentage loss in more than 30 years. Industrial metals also suffered losses with the S&P GSCI Industrial Metals Index down 9.3%. Oil was the only major commodity to post gains, up 7.5%. By this brief summary of performance, it is apparent that equities did best, and the usual asset classes used to build robust diversified portfolios detracted from performance.

The markets were evidently fueled by Fed-driven liquidity and an improving economic landscape both in the U.S. and overseas. The year turned out better than even the most bullish analysts on Wall Street expected, including ourselves. Coming into 2013 the average year-end target for the S&P 500 predicted by the major Wall Street firms was 1531. The most bullish of the major Wall Street firms was Citigroup, which expected the S&P 500 to close 2013 at 1615. To our credit, we were more bullish than most. Our forecast called for the S&P 500 to end 2013 at 1625, which would have been a 14% gain for the year. That would have been double the historic average for a first year Presidential Cycle gain. As it turned out, even though we were one of the most bullish firms on the street, the gains still trumped our expectations. We have been fairly accurate in our forecasts since we started making annual predictions, and last year was our largest miss.

	Our Target	Finish	% Missed by
2013	1625	1848.36	13.7%
2012	1425	1426.19	Spot on
2011	1350	1257.60	6.8%
2010	1300	1257.94	3.2%
2009	1100	1115.10	1.5%

We feel the major drivers of returns for the market in 2013 were an improving economy and continued stimulus from the Federal Reserve. The U.S. economy gained momentum throughout the year and allowed the market to rally in the face of taper concerns. In fact, the economy accelerated in each quarter from the fourth quarter of 2012 through the third quarter of 2013. In the fourth quarter of 2012 the economy stalled and grew at just 0.1% before accelerating to 1.1%, 2.5%, and 4.1% for the next three quarters. The 4.1% growth in the third quarter of 2013 was the second highest quarterly reading since the expansion began in 2009.



Source: www.tradingeconomics.com | U.S. Bureau of Economic Analysis

The markets did experience a bout of volatility mid-year on fears that the Federal Reserve was going to taper its bond purchases. That volatility was short lived. The S&P 500 only declined by 5.76% before rebounding to new highs. However, interest rates spiked with the 10-year Treasury note hitting 2.99% on September 5th from a low of 1.40% on July 24, 2012. The 10-year Treasury note ended the year at 3.03%, its highest level since July 2011. It was not a pleasant year for bond investors as we detailed above. In our bond portfolios, we favored credit as opposed to duration risk and therefore were able to navigate the fixed income markets well throughout the year.

2014 Outlook

U.S. Stocks

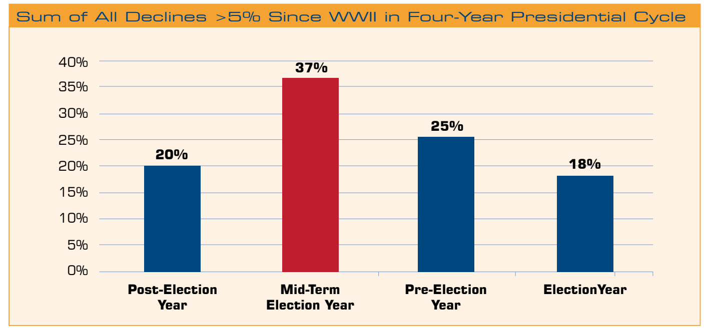
We believe we are in the early stages of a new secular bull market in stocks. Relative valuations and comparisons to other secular advances support the case for higher stock performance over the long-term. We will discuss these factors but first let's consider our outlook for 2014. From a fundamental viewpoint, we see a strengthening economy providing a solid measure of support for stocks, and, consequently, this bull market deserves the benefit of doubt even as concerns grow about its technical strength. Trends throughout developed equity markets remain strong, cyclical stocks are outpacing defensive stocks, credit spreads remain tight, with yields and the curve discounting improving economic prospects. Our baseline expectation for 2014 is for the market to post additional gains but not without a long overdue correction, which we think has the potential to be quite sharp. Our year-end target for the S&P 500 is 1950, which would be a 5.5% increase. We see upside potential in the neighborhood of 2000, which would be a 12% advance from the December lows, and downside risk near 1575, which is near the June 2013 lows. 2014 is a mid-term election year and dating back to 1934 the average price gain for the S&P 500 in mid-term election years has been 7.3%. Those years tend to be marked by volatility with a steep correction in the middle of the year. So, while we expect a good year overall, getting there may be difficult and cause investors a lot of angst, but the rally into year-end is likely to continue into 2016. So, we would view the potential for a deep correction in 2014 as setting the stage for an explosive rally into 2016.

History suggests that good years tend to follow great years. On average the S&P 500 rose 10.0% in the year following a 20% or greater advance (versus an average gain of 8.7% for all years since 1945) and increased in price nearly 80% of the time versus the more normal 70%. So, this suggests that the strong momentum experienced in 2013 should carry over to 2014. In addition, the S&P 500 posted a 10.50% gain in the fourth quarter, one of its best fourth quarter performances of the past 85 years. A big question many are asking as we enter 2014 is if the strong momentum will carry through to the new year or if a first quarter pullback is in order. History suggests that momentum should be respected.

Following the top twenty fourth quarters since 1928 (return of 8% or greater), markets have rallied well in excess of the longer-term averages to start the new year, with median returns of 3.6% and 5.9% in January and the first quarter respectively. In more recent history we have seen year-end rallies continue well into the new year. For example, in January 2013 we saw the largest market spike in years as a result of the fund flows and the QE program already in place. The S&P rallied 250 points in five months. In 2012, the S&P 500 rallied 225 points from December 20th though the end of March. In 2011, the rally started off on December 1st and lasted until mid-February for a gain of 160 points. Simply using history and momentum as a guide suggests the markets will likely have additional upside early in 2014.

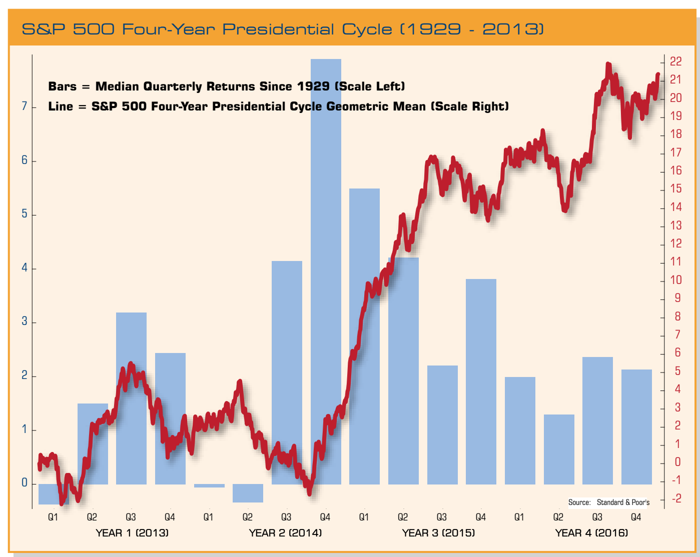
Even though the economy is accelerating as we turn the calendar to the new year and the market has a tremendous amount of momentum behind it, there is no shortage of concerns that cause us to expect a sizeable correction in 2014. 2014 is a mid-term election year and they tend to follow a very reliable pattern of returns. Some of the concerns we have are the Ned Davis Research (NDR) Cycle Composite, that warns of some weakness in the second and third quarters, the longevity of the current bull run, a new Fed chairman, overly optimistic investor sentiment, stretched valuations, cash in money market funds that has slipped to levels that suggest a lot of bull market fuel has been expended, record earnings and expectations that are a little too robust, and record high profit margins. None of these concerns by themselves are enough to stall the market, but taken together they suggest the market is vulnerable to a valuation and sentiment driven correction to relieve the excesses. Let's take a look at some of these beginning with the mid-term tendencies.

2014 is a mid-term election year and those are usually wrought with uncertainty as investors speculate about how the balance of power may shift within both houses of Congress. As a result, according to S&P Capital IQ, it should come as no surprise that the greatest number of notable declines since 1945 were clustered in the mid-term election year. In particular, 20% of all declines of 5% or more concluded in the post-election year, 37% ended in the mid-term election year, 25% fell in the pre-election year, and, finally, only 18% occurred in the final year of the election cycle. In addition, the second and third quarters have been especially challenging in mid-term years and are the only two quarters to average successive declines. Furthermore, the average correction in mid-term years dating back to 1934 has been 21.7%. So historical precedent suggests we should be especially wary of a possible correction beginning as the second quarter begins.



Source: S&P Capital IQ. Past performance is no guarantee of future results.

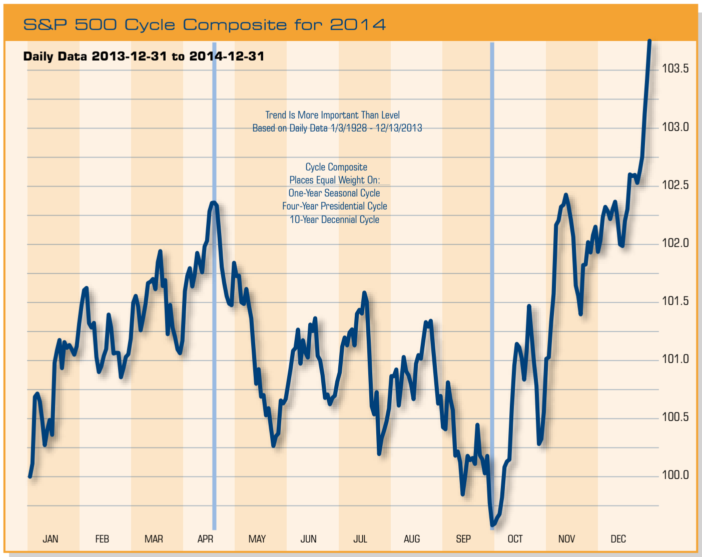
However, the rebound out of the mid-term correction once a low is established has been very powerful. The four best quarters of the presidential cycle immediately follow the two challenging ones, and gains from the mid-term into year-end have averaged 22.8%. The gains are even more impressive when measured to the highs during the next year and the Presidential Election year, averaging 48.5% and 60.0% respectively. So, we would view the potential for a deep correction in 2014 as setting the stage, replanting the seeds of doubt from a sentiment perspective and relieving valuation concerns for an explosive rally into 2016.



Source: Ned Davis Research

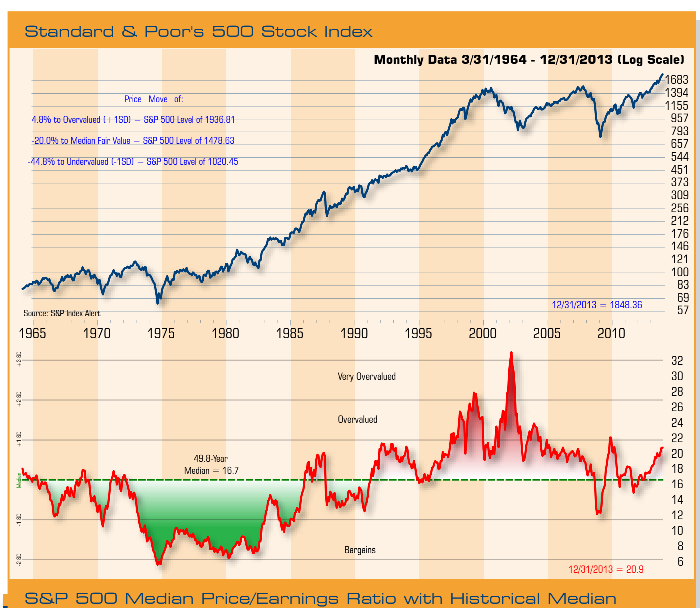
We use many tools and methods of analysis when preparing our Annual Outlook publication, one of which is the Ned Davis Research (NDR) Cycle Composite. The Cycle Composite is a combination of the market's historical one-, four-, and ten-year cycles combined into a single composite and serves to provide a framework or possible roadmap of how the market may trade. The cycle composite for 2014 suggests that we should expect early year strength, and then possibly two quarters of general weakness before the market stages a dramatic recovery into year-end. The

Cycle Composite confirms the general historical trends highlighted above during mid-term election years. We don't think that should go unrecognized and when multiple analyses provide confirming evidence; it usually suggests a higher degree of probability.



Source: Ned Davis Research

On a valuation basis the market is more than fairly valued. The price to earnings ratio (P/E) of the S&P 500 based on trailing earnings is 17.50. A different measure of valuation from Ned Davis Research using the S&P 500 median P/E ratio shows the market to be overvalued with a P/E of 20.9. By this measure the market is currently approaching a valuation that is one standard deviation above fair value. The chart illustrates that this is a very rare occurrence. Cyclically the market is more overvalued than in any period other than 1999 to the early 2000s.



Our upside reward and downside risk range comes out of analyzing valuations, the cycle composite, and mid-term election year trends. Our upside of 2000 on the S&P 500 would be a 12% gain from the December low. That would stretch valuations beyond one standard deviation above fair value based on the median P/E ratio. Our downside risk area of 1575 on the S&P 500 is near the June 2013 lows and would also represent close to the average correction of 21.7% experienced during a mid-term year from the upside range. If the market does correct we expect a furious year end rally to our target of 1950 in the S&P 500.

Adding to the concerns about valuations is the quality of record earnings and the record high profit margins. Corporate America is flush with cash but, by and large, earnings growth has been driven more by cost cutting and productivity enhancements than by top line revenue growth. That could change if the economy surprises to the upside. But, according to Reuters, earnings warnings and guidance for the fourth quarter are running at the worst rate since they began tracking the data. Historically there are about 2.2 negative guidance events for every company with positive guidance. For the fourth quarter they are currently running more than ten to one negative to positive guidance. At the same time profit margins are at record highs and we know that margins can't grow to the sky and are cyclical. We feel these trends make it a tall order to expect much in the way of multiple expansion.

The current bull market is no spring chicken. It began in March 2009, and at 4.75 years of age it is longer than the 3.8 year average bull market duration of the past 80 years. Fortunately, bull markets do not die from old age and investors have profited by that during this run. However, the age of this bull does suggest that risks are rising and expecting it to last much longer without a cyclical downturn would be stretching historical probability. Another fact is that we have not had many deep corrections since the crisis lows in 2009. We have only had two corrections of more than 10% on the S&P 500 since the bear market lows and last year the largest correction was only 5.75% in the S&P 500. The historic average is a 10% or greater correction and three 5% or greater corrections every year.

10% Corrections Since 2009	
4/23/10 – 7/2/10	-15.99%
4/29/11 – 10/3/11	-19.39%
4/2/12 – 6/4/12	-9.93%

The market cycles, mid-term election year trends, and longevity of the current bull make it likely that we will see a sizable correction this year. Another risk factor for the market is that come February 1st the Federal Reserve will have a new chairperson. Janet Yellen takes the helm as Fed chairperson and according to history the markets have a tendency to test new chairpersons. The average drawdown over the first six months after a new chairperson is appointed has been 16.1%.

DJIA Following Fed Chairperson Changes

Source: Ned Davis Research

Fed Chairperson	First Day	Max Drawdown 1st Six Months
W.P.G. Harding	8/10/1916	-21.0
Daniel R. Crissinger	5/1/1923	-12.7
Roy A. Young	10/4/1927	-9.8
Eugene Meyer	9/16/1930	-33.8
Eugene R. Black	5/19/1933	-23.0
Marriner S. Eccles	11/15/1934	-9.8
Thomas B. McCabe	4/15/1948	-8.9
William McChesney Martin Jr.	4/2/1951	-7.8
Arthur F. Burns	2/1/1970	-20.4
G. William Miller	3/8/1978	-7.0
Paul Volcker	8/6/1979	-11.2
Alan Greenspan	8/11/1987	-36.1
Ben S. Bernake	2/1/2006	-8.0
Median		**-11.2**
Average		**-16.1**

Source: Ned Davis Research

International Stocks

Major developed markets continued their multi-year trend of outperforming emerging markets in 2013. We expect that trend to continue into at least the second or third quarter, especially if the markets do experience a cyclical decline. We think the prospects of a leadership shift favoring emerging markets is compelling given their higher beta and valuation advantages.

We think the European economies should stay out of recession in the coming year, but limited monetary and fiscal stimulus will stand in the way of a robust recovery. Low potential growth due to poor demographics and uncoordinated fiscal policy gives the region a relative economic disadvantage to the U.S. We believe European markets are no longer cheap and we expect them to perform in line or slightly underperform the U.S.

China's size and higher economic growth rate dictate that it will contribute substantially to global growth even as the pace of its expansion slows in the coming years. But with the focus in China on transitioning to a consumer-oriented society, its reduced commodity intensity may hurt other commodity-rich economies that export to China.

With the Fed now tapering, we are seeing sharp currency declines in places like Thailand, Indonesia, Turkey, and other emerging markets. The Thai baht has fallen 5.1% and international investors have pulled $2.75 billion out of equities in Thailand since the end of October. That is the worst outflow in 14 years. You may remember that a collapse in the baht was responsible for the 1997 Asian financial crisis. Turkey is on the edge of collapse with reshuffling of the cabinet due to corruption and a collapse of confidence in Prime Minister Erdogan. The Turkish lira is under siege and seemingly hitting new lows on a daily basis. A collapse of Turkey would present a serious geopolitical risk given its location and the fact that it is a member of NATO. We don't believe that these events are an imminent threat to the global economy or markets, but nothing in the global marketplace happens in a vacuum anymore and we should pay attention to these risks.

Emerging markets should continue their trend of underperformance, at least during the first half of 2014. Given their higher beta than developed markets, emerging markets are likely to get hit harder during any market correction. However, emerging markets have been seen to trade at a considerable valuation discount to the developed world and once the markets stabilize in the second half of the year, they are likely to outperform on a rebound. Also, the valuation gap suggests that once the tide changes, emerging markets are likely to outperform in the longer term.

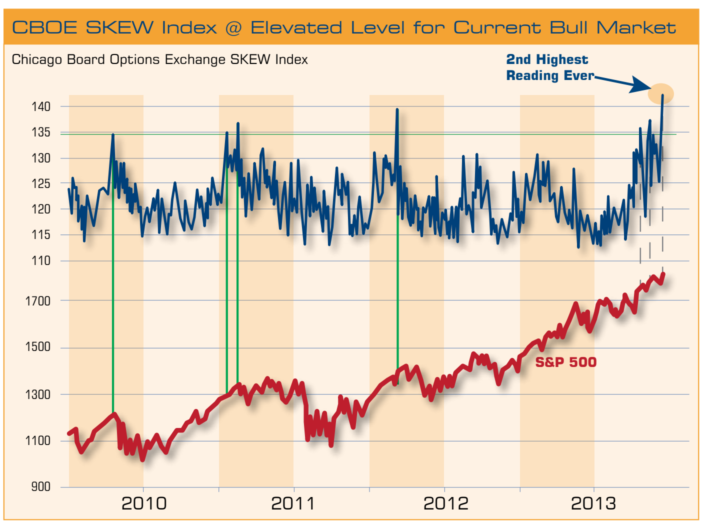
Volatility

Volatility was low throughout 2013 and the CBOE Volatility Index (VIX) declined 24%. The VIX is back down to the bottom end of its range near 12.50, which has been a launching pad for prior volatility spikes and market declines. It doesn't mean the market is immediately susceptible as volatility can stay low for an extended period. But, a characteristic of volatility is its mean reverting tendencies.

Low levels of volatility eventually lead to volatility events. We expect to see volatility move higher as the risks of a market decline increase during the second and third quarters.

Another warning sign is the CBOE SKEW Index, which recently hit its second highest level ever. The higher the SKEW the greater the chance for a volatility event. The CBOE describes it this way.

> *The CBOE SKEW Index (SKEW) is an index derived from the price of S&P 500 tail risk. Similar to VIX, the price of S&P 500 tail risk is calculated from the prices of S&P 500 out-of-the-money options. SKEW typically ranges from 100 to 150. A SKEW value of 100 means that the perceived distribution of S&P 500 log-returns is normal, and the probability of outlier returns is therefore negligible. As SKEW rises above 100, the left tail of the S&P 500 distribution acquires more weight, and the probabilities of outlier returns become more significant.*

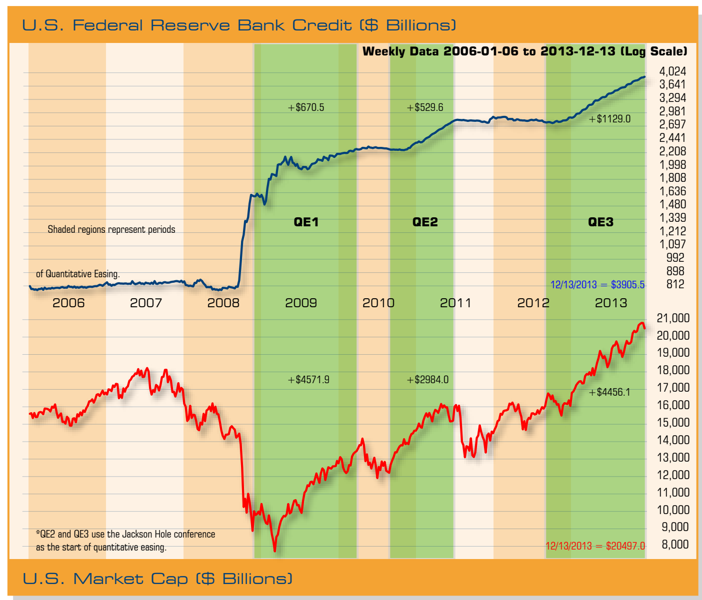


®J. Lyons Fund Management, Inc.

Bonds

The Fed's balance sheet has swelled to $4 trillion and this will have to be dealt with sooner or later. We feel this will be a big influence on performance in 2014. As you can see from the chart at right, the total capitalization of the U.S. stock market has risen and fallen in recent years along with trends in the Fed's quantitative easing programs. The Fed announced last month that it will begin tapering by $10 billion. Instead of buying $85 billion of bonds per month they will buy $75 billion. The market responded positively, in large part because the market was expecting the tapering to begin. We expect that the Fed will phase-out its bond buying program by the end of the year, and as that realization sets in it could weigh on both stocks and bonds.

Philadelphia Fed President, Charles Plosser, a voting member on the FOMC and a monetary hawk, said the Fed must be ready for a rapid tightening program as the Fed unwinds its $4 trillion balance sheet. He said, "We like to believe that everything is going to be gradual, everything is going to be smooth, and everything is going to be hunky-dory. History does suggest that the Fed, as an institution, is oftentimes late when it comes to tightening." He said the Fed has the technical ability to unwind the stimulus quickly but it will need "sufficient willpower" to tackle the task of removing the $4 trillion in stimulus.



Source: Ned Davis Research

Ben Bernanke gave what could be his last speech as Chairman and said the headwinds holding back the U.S. economy may be abating and leaving the country poised for faster growth. "The combination of financial healing, greater balance in the housing market, less fiscal restraint and continued monetary policy accommodation bodes well for the U.S. in coming quarters. The economy has made considerable progress since the recovery officially began some four and a half years ago. Of course, if the experience of the past few years teaches us anything, it is that we should be cautious in our forecasts."

With the Fed buying 75% of the treasuries in the market they have been able to keep rates low but even with that massive buying power rates have doubled over the last year. As the Fed leaves the market, that sets the stage for a disruption in the markets with a major buyer stepping away. The 10-year Treasury note yield has risen from a low of 1.4% in July 2012 and ended 2013 at 3.03%.

The yield has risen by more than 100% since bottoming and almost doubled since May. Now that the Fed has finally embarked on the taper program the yields should continue to rise and most analysts believe we will see 3.5% or even 4% yields in 2014. It all depends on how quickly the Fed tapers and the path of the rise in yields may differ from the consensus.

10-Year Constant Maturity Treasury Note Yields (Since 2007)

Source: Ned Davis Research

We have been on record for the past year and a half that we are in the early stages of a new long-term bear market in bonds. What that means is that we believe bonds now have secular head winds and interest rates will move higher over the long-term. We have already seen rates move higher over the past year, but historically they are still very low. Interest rates are not likely to go straight up and we may have years when they fall, but we expect the general trend of higher rates will persist for years to come.

In 2014 we think rates on the 10-year Treasury note will end the year higher at near 3.50%, but we could see this rate fall down to 2.5% first. Investor sentiment in bonds is very depressed and even though we fully expect equity flows to increase over the long-term, the asset flows out of bonds and into stocks have reached short-term extremes. Also, if the equity markets do experience the normal mid-term election year correction, we would expect Treasuries to be a benefactor given their risk off/flight-to-safety characteristics. Our range for Treasuries yields this year is 2.4 to 3.75%. The low end of the range would come into play mid-year during an equity market correction with rates heading higher into year-end in tandem with a market recovery.

The yield curve is likely to remain very steep. Janet Yellen is expected to maintain accommodative monetary policy and keep overnight lending rates as low as possible for as long as possible. Pricing in the risk of higher inflation along with the Fed's determination to keep short-term rates anchored close to zero should result in a steeper yield curve.

Within fixed income we continue to favor credit over duration risk as the strengthening economy offers support to lower quality fixed income. Credit spreads remain low historically, with the Barclays High Yield Index trading at a 274 bp spread over the 10-year Treasury, and given continued economic growth they could stay low for an extended period. In addition default rates are also running very low and fell to 2.4% in November, below the 4.5% average since 1993, and well below the peak default rate of 14% at the end of 2009. Default rates have historically tracked the fed funds rate with about a two-year lag and given the Fed's desire to keep policy rates near zero likely into 2016, we should not see a meaningful increase in defaults.

For income-oriented investors in high tax brackets, municipal bonds are relatively attractive. We continue to favor municipal bonds relative to taxables of comparable credit quality. Stronger economic growth and higher real estate prices have boosted municipality tax revenues, improving the outlook for most state and local government debt.

Economy

After four years of growing at a 2.3% annual rate, this economy's growth rate is still only half the historical average annual growth of 4.6% since 1959. The good news is that economy has accelerated over the prior four quarters and it appears to be on good footing for continued growth. We expect the U.S. economy to grow by 3.0% in 2014, spurred along by gains in income and payrolls, favorable credit conditions, and improving manufacturing and services activity. We have a high degree of confidence that the economy may have further growth potential. The Conference Board's Index of Leading Economic Indicators (LEI) has risen to its highest level since February 2008. On a year-over-year basis, the LEI is up 5.2%, more than twice the average annual gain historically, which confirms the economic recovery has accelerated. In addition, over the past 50 years, early weakness in the LEI has preceded recessions and provided an early warning signs for investors. As the table below shows, the typical lead time between the peak in LEI and the start of recession is at least four months. Since 1960, the average lead time has exceeded 11 months. If history is any guide, the economy should continue its expansion into 2015.

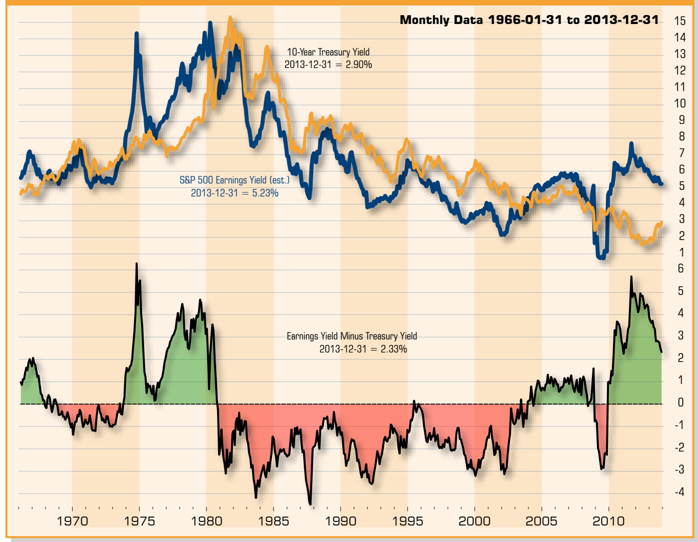
LEI Peak	Recession Start	Months from Peak to Start
12/31/1959	4/30/1960	4
4/30/1969	12/31/1969	8
2/28/1973	11/30/1973	9
10/31/1978	1/31/1980	15
10/31/1980	7/31/1981	9
1/31/1989	7/31/1990	18
4/30/2000	3/31/2001	11
3/31/2006	12/31/2007	21

The Fed has sown the seeds of future inflation through the massive liquidity it has injected over the past five years, but signs of inflation have been hard to find. Over the past 12 months the consumer price index is only up 1.3%, still well below the Fed's desired target. We don't think inflation will be a problem in 2014, but we do expect a modest rise in inflation to between 1.7 to 2.0%. The two main contributing factors to slightly higher inflation pressures are stronger economic growth and a rise in earnings. Wages make up about 70% of the cost of goods and we have seen an uptick recently in average hourly earnings. After bottoming at a record low yearly change of 1.3%, the year-over-year change in average hourly earnings has moved up to 2.2%.

Longer-Term Picture

We laid out our expectations for this year and shared that while we think it will be a good year overall, there are a lot of risks and historic trends that suggest a meaningful cyclical decline in the middle of the year. However, looking out longer-term we are very positive on the markets and think we are in the early stages of a secular bull in stocks. An interesting comparison can be made of this bull market to other new secular bull markets that began in 1921, 1942, and 1982. The average annualized gain four years into those secular bull markets was 22%, 22%, and 24% respectively. Four years into the current bull run the market was up 22%, closely tracking those previous examples.

S&P 500 Earnings Yield vs. 10-Year Treasury Yield



Source: Ned Davis Research

On a relative valuation basis, stocks are downright cheap compared to bonds. Comparing the relative valuation of stocks to bonds using the S&P 500 earnings yields and the 10-year Treasury yield, stocks are just now coming off their most undervalued level relative to bonds since 1974, and they have a long way to go before they are fairly valued, let alone overvalued. In addition, the depressed levels of consumer sentiment suggest we are early on in a trend of rising stocks as historically the long-term picture for stocks hasn't dimmed until consumer sentiment became too optimistic. Currently consumer sentiment is still at depressed levels. In addition, the NDR Cycle Composite shows that any mid-year weakness should be followed by an explosive rally into 2016 and a continued rising trend into and through 2017. Finally, the energy revolution in the U.S. is quickly turning the U.S. from net importer to net exporter of energy and forecasts suggest we will be energy independent over the next decade. That has huge long-term economic, employment, and fiscal implications.

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

MSCI Japan is an unmanaged index considered representative of stocks in Japan.

MSCI Europe is an unmanaged index considered representative of stocks of developed European countries.

Barclays 7-10 Year Treasury Index tracks the investment results of an index composed of U.S. Treasury bonds with remaining maturities between seven to ten years.

Barclays 20+ Year Treasury Index tracks the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than 20 years.

S&P GSCI Index is an unmanaged world production-weighted index composed of the principal physical commodities that are the subject of active, liquid futures markets.

S&P GSCI Industrial Metals Index is considered representative of investment performance in the industrial metals market.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI World Index is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

The MSCI Asia ex. Japan is is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The MSCI AC Asia ex Japan Index consists of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

The MSCI Emerging Markets Index is a freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The VIX Index is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries and government-related & investment grade U.S. Corporate securities that have a remaining maturity of greater than one year.

The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The iPath® S&P 500 Dynamic VIX ETN is designed to provide investors with exposure to the S&P 500® Dynamic VIX Futures™ Total Return Index.

The S&P 500® Dynamic VIX Futures™ Total Return Index (the "Index") is designed to dynamically allocate between the S&P 500® VIX Short-Term Futures™ Index Excess Return and the S&P 500® VIX Mid-Term Futures™ Index Excess Return by monitoring the steepness of the implied volatility curve. The Index seeks to react positively to overall increases in market volatility and aims to lower the roll cost of investments linked to future implied volatility.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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