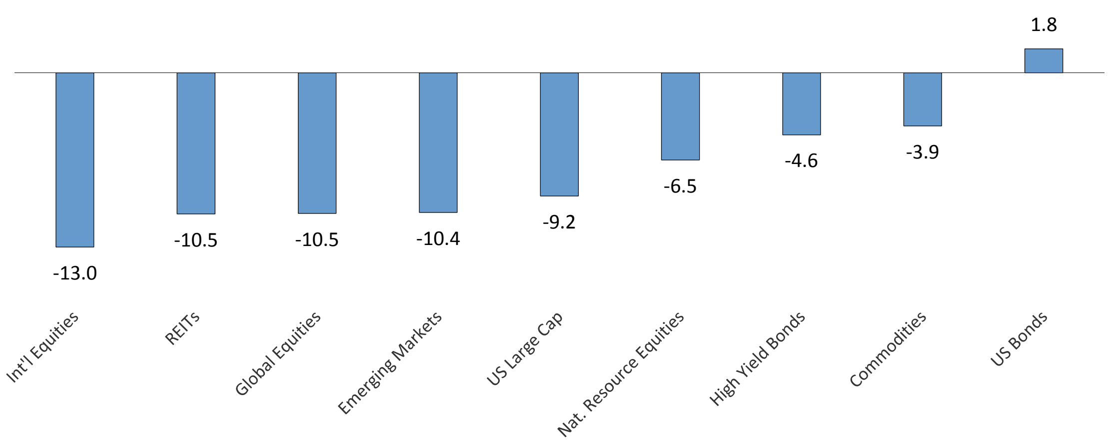
SPECIAL REPORT ON Q1 MARKET VOLATILITY

February 16, 2016

Dear Partners,

We are writing in response to the recent volatility in global financial markets. Several themes which were pervasive in the 2nd half of 2015—uncertainty emanating from China, weak commodity prices, an overall tightening of financial conditions—have continued to impact markets during the first 6 weeks of 2016. As of last Friday, global equities have registered double digit losses for 2016 and are down 20% since May of 2015. Meanwhile commodities have extended their multi-year losing streak, and credit spreads on US high yield bonds have increased to their highest levels since June of 2009.

Figure 1: Total Returns of Major Asset Classes
As of February 12, 2016



Source: Morningstar. Exhibit refers to the following indices; MSCI EAFE (International Equities), Dow Jones US REIT Index (REITs), MSCI All Country World Index (Global Equities), MSCI Emerging Markets (Emerging Markets), Russell 1000 (US Large Cap), S&P Global Natural Resources (Natural Resource Equities), Barclays US Corporate High Yield (High Yield), Bloomberg Commodity Index (Commodities), Barclays US Aggregate (US Bonds).

US Economy Still on Track

In our Q4 Capital Markets Update, we predicted an uptick in "recession chatter", but indicated that the probability of a recession in the US in 2016 was low. Notwithstanding the recent volatility, we continue to hold this view, largely on the basis of solid consumer fundamentals.

Consumer spending accelerated in January as retail sales grew 3.4% year-over-year. Meanwhile the unemployment rate recently fell below 5% for the first time since March 2008, data on new home sales indicated strong momentum entering 2016, and measures of consumer confidence remain supportive of growth.

Europe Poised for More Stimulus

In Europe, economic data have been underwhelming, yet consistent with expectations of slow, but positive growth. In response to sluggish conditions, European Central Bank (ECB) president Mario Draghi has made multiple references to additional monetary stimulus as soon as March. Although such action would be broadly supportive of risk assets, shares of European banks have sold off sharply (the MSCI Europe Bank Index is down over 20% in 2016, nearly twice as much as broad equity markets) due to concerns over the impact of even lower interest rates, which would further undermine the profitability of the banking sector.

It bears mentioning that the pressures currently facing European banks do not resemble those of the 2007-08 and 2010-11 crisis periods, when the toxicity and leverage of bank balance sheets posed an existential threat to the global financial system. Following several years of painful deleveraging and re-regulation, the asset quality and leverage positions of European banks have improved dramatically, and the risk of a 2008-style systemic meltdown is low.

Figure 2: MSCI Europe Bank Index
Leverage and Valuation Statistics

	12/31/2007	4/30/2010	2/15/2015
Total Debt to Total Assets (%)	44.5	38.3	28.8
Total Debt to Total Equity (%)	999.8	739.4	464.9
Price to Book Ratio	1.49	0.99	0.62

Source: Bloomberg

China Continues to Export Volatility

As in 2015, China has been the epicenter of uncertainty thus far in 2016. As we've stated in prior commentaries, we believe that a meaningful portion of the volatility in global equity, commodity, and currency markets since mid-2015 is attributable to policy miscues on the part of Chinese officials, coupled with an acute lack of transparency regarding the state of the Chinese economy and financial system. In early January, traders were once again caught off guard by a devaluation in the Chinese currency, the renminbi (RMB). This re-ignited concerns over weakness in China and sparked a broad-based selloff in risk assets reminiscent of the May-August 2015 period, which also corresponded with a surprise devaluation of the RMB.

Policymakers Take the Podium

Since the 2007-08 financial crisis, the world's major central banks have repeatedly taken steps to restore confidence during and following periods of market volatility. In the weeks ahead, policymakers—including the Chinese—will have ample opportunity to reinforce this pattern.

- In late-February, the G20 Conference in Beijing will host the finance ministers and central bank governors of the world's most prominent developed and emerging economies.
- In early March, China's National People's Congress (NPC) will convene, and is expected to approve its 5 year plan, which will serve as a blueprint for social and economic development thru 2020. In addition, the NPC is empowered to pursue measures such as fiscal spending and additional bailouts for local governments, which would be supportive of near-term growth.
- On March 10th, the European Central Bank will meet on monetary policy and, as previously mentioned, is expected to introduce some form of additional monetary stimulus.
- The March ECB meeting will be followed by the monetary policy meetings of the Bank of Japan and the (US) Federal Reserve the week of March 14th. Due to recent changes in inflation expectations and an overall tightening of global financial conditions, we expect the Fed to refrain from further interest rate hikes, and to acknowledge that policy risks are now skewed towards weakening growth rather than inflation.

In summary, we feel that patience is warranted and markets are poised for better days. While we cannot predict the direction of markets in the short-term, nor the actions of global policymakers, we are cautiously optimistic that, on balance, the calendar events listed above will bolster investor confidence and produce outcomes which are supportive of asset prices and cyclical growth trends.

In addition (per the table on the following page), we're encouraged by the lessons of capital markets history, which suggest that episodes of turmoil tend to be followed by strong rebounds in equity prices that reward patient, long-term investors.

As always, we welcome and encourage your comments and feedback.

Sincerely,

Gene Lohmeyer

Gene Lohmeyer, CFA
Chief Investment Officer

Sean P. Cook

Sean Cook
President

Figure 3: Global Equities

Stress Period Performance and Subsequent 36 Month Returns

	Start	End	Return (Cumulative)	Subsequent 36 Month Return (Cumulative)
Savings & Loan Crisis and Recession	12/31/1989	9/30/1990	-23.9%	55.5%
Asian Financial Crisis	7/31/1997	10/31/1997	-7.9%	46.6%
Russian Financial Crisis	4/30/1998	8/31/1998	-14.1%	19.5%
Dot Com Bust and Early 2000s Recession	3/31/2000	3/31/2003	-44.9%	91.5%
Global Financial Crisis	10/31/2007	2/28/2009	-54.6%	83.0%
European Sovereign Debt Crisis	4/30/2011	9/30/2011	-20.3%	66.5%

Source: Morningstar. Return data refer to the MSCI All Country World Index.

Dislcaimer

David Cook and Associates (DBA "Cedar Rowe Partners") is an investment advisor headquartered in Atlanta, GA and registered with the Securities and Exchange Commission. Registration does not constitute an endorsement, and does not imply any level of qualification, training, or skill.

While Cedar Rowe Partners uses reasonable best efforts to provide accurate information, Cedar Rowe Partners makes no representations or warrantees regarding the accuracy or completeness of any information contained. Nothing contained or referenced in this document constitutes tax, legal, or investment advice. Recipients in need of tax or legal assistance should seek such assistance from a qualified professional services organization. This communication reflects the opinion of its author as of the time of publication, and will not necessarily be updated as views or information change.

This communication does not constitute an offer or solicitation to provide any investment advisory service or to sell or purchase any security. Cedar Rowe's publications reference historical performance data. Such data do not guarantee or imply future performance. To varying degrees, the investments and investment strategies referenced in Cedar Rowe publications entail risk of financial loss.