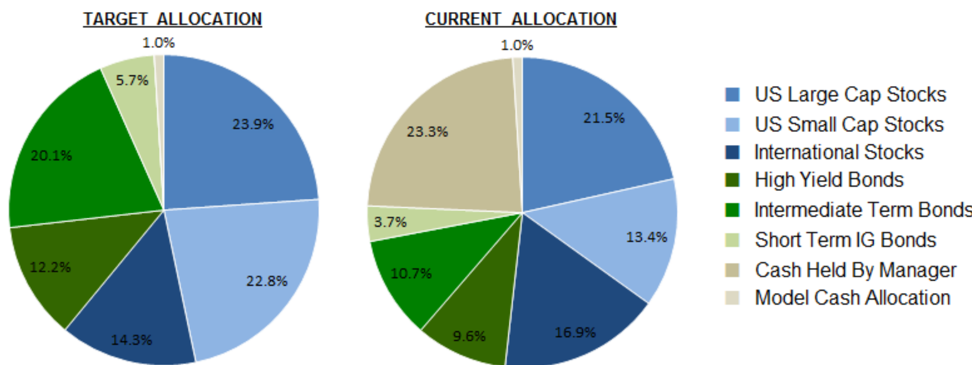
MODERATE GROWTH

*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as "Moderate Growth" throughout. Specific references to performance, current allocation, or comparison to indexes are derived from the CWA Model 5 Portfolio in the Pooled Fund Program; these specific comments will be referred to as "Model 5" throughout.

PORTFOLIO ANALYSIS

Overall Goal. We construct portfolios to generate a return that maximizes the probability that an investor will meet their retirement goals, as opposed to maximizing their asset base (which interjects significant risk). We believe that a value bias, international exposure and general diversification provide the best avenue to meet this objective. Our portfolios, have lower volatility†, but can go through periods where they do not keep pace with the U.S. equity markets (the most common benchmark) because of our focus on value, fixed income and international stocks.

The **Moderate Growth Portfolio** is intended to provide a balanced allocation, with a slight overweight to equities over fixed income. The goal is to provide a balance of growth and income with lower volatility than an all-equity portfolio. Our target and current portfolio asset class allocations for Model 5 are listed below.



ACTUAL VS. TARGET

Underweight Equities

Equal Weight International exposure

Underweight Intermediate and Long-Term Fixed Income

High cash position

LARGEST EQUITY AND FIXED INCOME POSITIONS

In normal market environments, Moderate Growth has a target allocation of 60% stocks & 40% bonds, with approximately 20% of the portfolio in international equities and fixed income. So, the portfolio is a global one – with a US tilt. By design, the holdings are broadly diversified by location/country, by company size, by credit quality/yield and by maturity/duration. The investment managers have a degree of flexibility which allows them to respond to different market environments, and our equity managers are currently holding a large amount of cash (given current valuations).

† as of 2/29/16, the 7-year volatility (standard deviation) of Model 5 is 7.1%, versus 13.6% for the S&P 500 Index.

PERFORMANCE

The Moderate Growth portfolios in the Pooled Fund Program and the Unified Managed Account Program have slightly different investments, costs and thus returns. Accordingly, we direct you to your account statement for your individual performance.

In February, Model 5 (net of fees and expenses) market-performed(1) compared to the Global 60/40 Index and out-performed(1) both the U.S. 60/40 Index and the S&P Moderate Growth Index, which posted the following returns:

PERFORMANCE	FEB.	COMMENTS
Global 60/40 Benchmark Index[2]	0.42%	International bonds outperformed domestic bonds during the month. The Moderate Growth portfolio has global bond exposure, yet holdings are tilted to the U.S. U.S. stocks outperformed international stocks by close to 1%.
US 60/40 Benchmark Index[3]	-0.21%	
S&P Moderate Growth Index[4]	0.07%	

(1) "Market Perform" means within a range of +10 bps to -10 bps of the applicable index for the month (or +/- 8 bps per month for YTD performance); "Outperform" means more than +10 bps for the month (or more than +8 bps per month for YTD performance); "Underperform" means more than -10 bps for the month (or more than -8 bps per month for YTD performance). **Please note performance comparison comments are based upon Model 5 Pooled Fund Program data. There are inherent limitations in the use of model performance – please read the Model Disclosure found on page 7. Investors should consult their individual custodial statement for actual performance of individual portfolios. Actual performance comparisons may differ from model comparisons.**

(2) Global 60/40 Benchmark is 60% MSCI ACWI Index & 40% Barclays Global Aggregate Bond Index.

(3) US 60/40 Benchmark is 60% S&P 500 Index & 40% Barclays US Aggregate Bond Index.

(4) S&P Moderate Growth Index is 50% S&P Target Risk Moderate Index & 50% S&P Target Risk Growth Index.

MARKET PERFORMANCE

General Overview. The beginning of February saw markets both in the U.S. and overseas continue to move downward in a rapid and volatile fashion. The first two weeks of the month saw the S&P 500 lose -3.74% and International stocks lose -5.52%. However, there was a rapid recovery in the second half of the month that brought the U.S. markets back to close to unchanged and erased roughly 80% of the downside move in the international markets.

The energy markets continue to be highly correlated with stocks. Oil began February over $35/barrel and fell to roughly $29/barrel as equity markets moved lower. In the second half of the month oil moved back to over $34/barrel and, of course, equities rallied in the second half of the month.

The global investment environment looks more uncertain than ever – with a mix of positives and negatives that tend to result in frenetic, schizophrenic markets (which is what we have). On the positive side of the ledger, the economic news in the U.S. has been reasonably good. The U.S. economy continues to grow. The U.S. jobless rate and unemployment continue to fall. Yet, the U.S. economy seems a bright spot in an otherwise uncertain world. Markets tend to like certainty, and there is little certainty in the world. The U.S. political scene is highly volatile (no pun intended!), with both the Republican and Democratic primaries seeing significant surprises from upstart candidates with unconventional views. The economic news abroad ranges from slightly negative to very concerning. Japan now has negative interest rates on its government debt, joining many European nations.

Janet Yellen – the Chairman of the US Federal Reserve – declined to rule out negative rates in the U.S., though she conceded that it might not be legal. And, China's central bank has been depleting its foreign reserves at a pace of a $100 billion per month to prop up the Yuan, as investors continue to dump the Yuan based on concerns about the Chinese economy. In short, the US economy is the lone source of stability in an otherwise uncertain world.

We remain concerned that further tightening by the Federal Reserve will create additional strain on emerging markets, as investors in these markets dump their currencies for a higher yield (and much safer) US dollar. By dumping their currencies and buying dollars, emerging markets investors will continue to put downward pressure on their currencies and upward pressure on the dollar, causing their central banks to increase rates and/or deplete their foreign reserves to keep their currencies stable. As noted above, this is precisely what is happening in China and it is not sustainable. However, despite this, we expect that US economic news will result in further tightening by the Federal Reserve – which we would expect to happen once or twice this year. This bias on the part of the Federal Reserve (to increase rates) will likely cause this situation to persist and paints a picture of a very volatile investing climate in the days and months to come.

Equities. As noted earlier, the global equity markets had modest declines in the month of February.

PERFORMANCE	FEB.	MULTIPLE	COMMENTS
US Equities(5)	-0.04%	18.65	The broad market was very volatile over the quarter, but the index closed roughly flat for the month. Selling initially was led by higher beta names.
International Developed(6)	-1.77%	19.65	Foreign equities under-performed domestic markets, partly due to a strengthening dollar and continued concerns over the efficacy of global central bank policy in the current environment.
Emerging Markets(7)	-0.18%	11.18	Continuing currency wars, China's slowdown and global growth concerns continue to be the themes driving these markets. For the month, however, EMs recovered to post a modest loss.

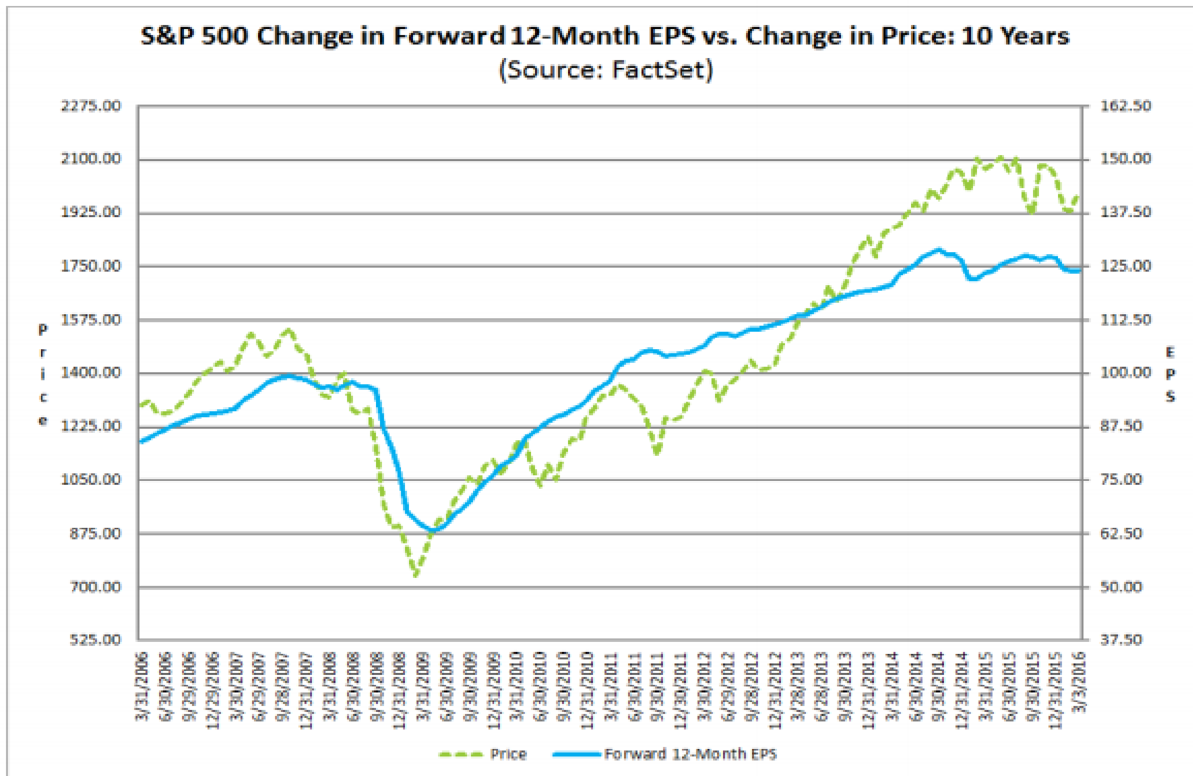
(5) US Equities are represented by the Russell 3000 Index.
(6) International Developed is the MSCI EAFE Index.
(7) Emerging Markets is the MSCI EM Index.

U.S. Markets Continue to Lead; Earnings Headwinds. The U.S. equity markets continued to lead the world. However, there are starting to be signs of a negative trend in corporate earnings. Per Factset (Exhibit 1), S&P 500 EPS (Earnings per share) are set to decline approximately 8% for the first quarter, which would be the first time that the index will have two consecutive quarters of year-over-year (YOY) earnings declines since Q4 2008 through Q3 2009. All sectors have seen slowing earnings growth, with energy contributing the most to the significant declines in earnings (a trend that should continue at least through 3Q or 4Q 2016). Further, the ratio of negative vs. positive earnings revisions is nearly 4:1 (91 negative vs. 24 positive).

Impact of Slowing Corporate Earnings. The U.S. markets have enjoyed steadily growing earnings (on a per share basis) since 3Q 2009. Earnings growth has outpaced revenue growth, as top line growth has been difficult to generate during a period of relatively stagnant economic progress across the globe. Accordingly, earnings have been boosted by: (a) cost cutting, (b) low interest rates, (c) share buy-backs and (d) productivity growth. The law of diminishing returns may be starting to set in with these four metrics, and we may have to see greater revenue growth to support earnings growth going forward. While we believe that the US is in relatively good shape, we believe that the rest of the world is still suffering from overcapacity, shaky balance sheets and fierce competition. Thus, we are not optimistic about top line growth this year.

This leaves US companies with solid, but stagnant, profits – which could be a portent of challenging markets ahead:

Exhibit 1



Source: Factset (March 4, 2016)

Indexing vs. Active Management. Indexing is certainly a good way to get exposure to a market relatively inexpensively and works quite well when markets and/or sectors are appreciating. However, in stagnant or declining markets, indexing is a tougher proposition. That begs the question: "How can we make money in this type of market?" We believe that active management is better in stagnant or declining markets because good stock pickers can find values and trade them to make money and/or minimize losses. And importantly, we believe that quality and value – in this type of market – are critical.

Our Active Managers: So Far, So Good. For the month, the equity managers in the Model 5 portfolio saw strong outperformance. Cash positions in the portfolio helped performance during the beginning of the month, while positions in defensive and resilient businesses with sound balance sheets were generally rewarded in the back half of the month.

The Model 5 portfolios have international exposure, which hurt performance in February (and for the past several years!). However, the active manager utilized for international equity management significantly outperformed their benchmarks for February. Further, the CWA Moderate Growth allocations are value tilted, which means their price to earnings multiple is lower than that of the S&P 500. The past several years have seen value lag growth, although we are starting to see the beginning signs of this changing. Given cyclical research on markets, we are long overdue for value to come back in favor. If this happens, our equity managers are positioned to take advantage of that.

Fixed Income. Fixed income once again outperformed the equity markets for the month.

PERFORMANCE	FEB.	SPREAD OVER UST 10 YEAR	COMMENTS
US Treasuries (Medium Duration)[8]	1.49%	-	U.S. 10 Year Yield declined by ___ basis points (or ___%) over the course of February.
US Treasuries (Longer Duration)[9]	3.13%	0.86%	Long term treasuries continued to benefit from a flight to quality and capital outflows from emerging markets.
Global Fixed Income[10]	2.23%	-0.23%	Global sovereign debt rallied and now trades at a lower yield than the U.S. 10-Year.
Emerging Fixed Income[11]	1.45%	4.0%	Safety in sovereign debt was offset by currency devaluation.
High Yield[12]	0.57%	6.78%	Spreads narrowed in the back half of the month as liquidity pressures eased modestly and energy sector bonds bounced off their lows.

(8) US Treasuries (7-10 Years), represented by the Barclays UST 7-10 Yr Total Return Index
(9) US Treasuries (20+ Years), represented by the Barclays UST 20+ Yr Total Return Index
(10) Barclays Global Aggregate Bond Index.
(11) Barclays Emerging Markets USD Aggregate Bond Index.
(12) Barclays US Corporate High Yield Index.

The Investment-Grade Fixed Income portion of the Moderate Growth portfolio underperformed the broad bond indices during the month, posting a flat return versus +0.71% for the Barclays Aggregate Bond Index and even higher returns for the International markets (given dollar weakness in February). Our portfolio underperformed because it has a shorter duration than the index (that is, our portfolio has an average maturity of 4.9 years vs. the index at 7.4 years). Shorter duration fixed income does not benefit from declines in interest rates to the same extent as longer duration fixed income. This is because as rates fall, the owner of a longer duration bond will receive the benefit of above-market interest payments on his or her bond for a longer period of time. We have kept our portfolio shorter duration because we are already in a low interest rate environment. Thus, the Moderate Growth portfolios are positioned to perform better in a rising rate environment. Since the bond market was driven by a global flight to quality and lower interest rates, our bond positons were not additive to overall performance. Positions in High Yield were modestly negative for the month. But, we like our high yield manager. We believe that this manager will continue to navigate the high yield market well, particularly during times of stress and/or illiquidity.

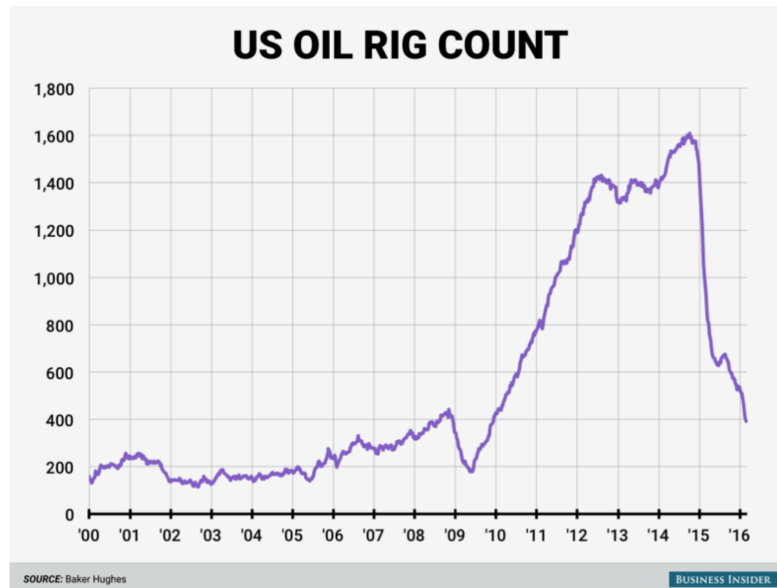
Commodities and Real Assets. The Moderate Growth portfolios do not have significant exposure to commodities, except indirectly. However, commodities and real assets (real estate) provide a good sense of global demand (in the case of industrial commodities) or fear (gold).

PERFORMANCE	FEB.	TREND	COMMENTS
Energy[13]	-4.52%	DOWN	A continued strengthening of the dollar hurt oil during the month, although prices rebounded off their lows in the back half of February.
Real Estate[14]	-0.73%	DOWN	Potential rising rates are a headwind to profits and valuations.
Industrial Metals[15]	3.39%	UP	Industrial metals rebounded in the back half of the month
Gold[16]	10.57%	UP	Gold benefited from the flight to safety, even in the face of a rising dollar.

(13) S&P GSCI Energy Total Return Index.
(14) Dow Jones US Real Estate Index.
(15) S&P GSCI Industrial Metals Total Return Index.
(16) Gold Spot Index in USD.

The Energy markets continue to decline, taking the overall equity markets with it. Oversupply has been joined by concerns over weaker demand, driving energy prices lower. However, we believe that we are seeing the markets bottom, as we previously discussed. The US energy markets have seen production decline from 9.5 million barrels per day to 9.0 million barrels, with the trend-line clearly downward. The U.S. rig count is just one rig shy of an all-time low (Exhibit 2). Production tends to follow a fall in rigs, though there is a lag. Accordingly, we believe that given the steep decline of production in existing shale wells (which decline more dramatically than conventional wells) and dramatically lower drilling, the US will see production fall significantly over the next several months (at least another 500,000 barrels per day). This fall, along with modest demand increases, should start to bring the market into balance by the end of this year or early next year, if not sooner.

Exhibit 2



Gold has finally caught a bid, surging 10% in February. Gold has been driven upward by a flight to quality, unprecedented central bank easing (negative interest rates) and a weakening dollar (which supports the price of gold, given that it takes more, less valuable dollars to buy an ounce of gold).

What Do We Expect?

Global Markets; Economic Climate. Not much has changed since last month – the markets continue to struggle both domestically and abroad. The source of volatility and losses stems from the effects of Central Bank policies on a global basis. In the U.S., fears over further interest rate hikes have caused the market to begin to price in some of the negative ramifications due to tightening. This can be most clearly seen in growth stocks and in particular some of the market leaders over the past few years – stocks that were trading expensively and were some of the recipients of "hot money" coming into the markets have been the leaders on the way down as well. This is a pretty common occurrence in the markets – yesterday's darlings are often some of the first stocks to feel pain.

On the international front, many economies are struggling due to negative interest rate policy (NIRP). Japan currently has a negative yield on all of its short-term government bonds, and even their 10-year recently went negative. Germany has negative yields on debt that is five years and under to maturity. This means that investors are paying the government for the right to buy their bonds, which is a funny concept to consider. What NIRP means in the broad sense is that governments are trying to discourage saving to the point that it becomes punitive to have cash in the bank. The theory is that people will instead spend the money – be it by purchasing goods or by investing in some other asset – in order to stimulate the markets and the economy, and as a byproduct generate inflation.

Whether this will work remains to be seen, however, the fact that any world economies are running negative rates is symptomatic of a larger issue, and that is anemic growth in the face of growing debt burdens. In order to stabilize markets globally, growth will need to return so that debt burdens can be worked through in an orderly fashion. It is unclear if NIRP will accomplish this and negative rates will likely continue to be viewed with broad skepticism.

China continues to be the main source of global growth worries as their growth rates slow while they are working through issues surrounding their currency. We would expect to see China work to cautiously weaken their currency as they have been doing. If China can stabilize their economy to the point that they are not burning through their reserves at the rate they have in recent months, this will go a long way to promoting a more constructive global marketplace. However, if they continue to have to burn through reserves at a high rate, the odds of them floating their currency become higher, which would have far reaching negative effects on the global economy.

Our philosophy continues to be that investing in a higher quality, value-oriented portfolio – that is, quality companies with reasonable balance sheets and a reasonable valuation – seems to be the right approach in this market setting.

Further Reading

1) ***UP IN THE AIR: Gauging the Potential Impact of the 2016 Election***

   This white paper takes a broad look at some of the potential stock and bond market outcomes of the 2016 election. And, along the way, lays to rest some misconceptions about how markets perform under different political parties. It was written in January, just before the party primaries and caucuses, and is a well written, down-the-middle informative analysis.

   https://www.blackrock.com/investing/literature/whitepaper/political-outlook-market-perspectives-january-2016.pdf

2) ***Nope to NIRP***, Economist, February 20, 2016

   This article discusses the Bank of Japan's move to negative interest rates, what it could mean for their banking system, and the sentiment surrounding this move in the Japanese economy.

   http://www.economist.com/news/finance-and-economics/21693246-nope-nirp

3) ***The New Global Monetary Order***, Barron's, March 7, 2016

   This article, written by Tony Crescenzi of PIMCO, outlines many of the issues surrounding China that he recently presented in February at the CWA 25th Annual Meeting in Laguna Niguel.

   http://www.barrons.com/articles/china-and-the-new-global-monetary-order-1457119220

For questions, or to request additional information, please contact your CWA Financial Planner.

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CWA Model 5 Moderate Growth Pooled Fund Program: The target allocation and portfolio data used throughout this presentation is for the CWA Model 5 recommended for participants in the Pooled Fund Program. This Model is the most common recommendation and is used here to illustrate the CWA methodology. Other CWA Recommended Investment Program models will vary in asset allocation and underlying manager and/or security selection. Clients should discuss these models and programs with their planner prior to selection.

Model Performance Disclosure Model performance is NOT an indicator of future or actual results. Performance does not represent the returns that any individual investor actually received. Cain Watters Investors may incur a loss. *Cain Watters Models contain allocations to several different common pooled trust funds. Each individual pooled trust fund has a defined investment strategy; usually designed around a specific asset class. Investment managers and their respective strategies are chosen to meet each of the pooled funds' objectives. Investors in the models pay a monthly asset based trust fee, based on their average investment balance during the month. Model performance is calculated using the reported net asset value of each individual pooled fund. Performance for the individual funds is then weighted according to the model target allocation. Model performance includes the reinvestment of dividends and interest. The annual trust fee of 1.05% is subtracted from gross returns on a pro-rated basis of 0.0875% per month; and includes trust fees, manager fees, and investment advisory fees. Model performance has inherent limitations in that it does not reflect the effects of significant cash flows, or take into account actual client asset allocation that may differ materially from the target allocation due to rebalancing policies and changes in market values. This model performance information is provided for illustrative purposes only. Cain Watters Model investors may experience materially different returns.*

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