STRATEGIC WEALTH PARTNERS INC.
Partners in Protecting Your Capital

One evening, an old Cherokee told his grandson about life. He said, "My son, there is a battle going on inside of me. It is a battle between two wolves and each is strong. One is good; one is false. One is generosity, joy, courage, truth, hope, love, kindness, compassion and faith. The other is fear, anger, greed, arrogance, sorrow, envy, lies, regret and doubt. The same battle is going on inside of you, and inside every other person too." For a long while, the boy thought about this. Then he asked his grandfather: "Which wolf wins?" The old man smiled and quietly said: "The one you feed."

Quarterly Report- 4th Quarter 2014

On the Markets...

This past year was a stunning and humbling illustration of how inordinately difficult it is to accurately predict even the immediate future. Not only did the price and directional moves of the stock and bond markets defy "expert" forecasts, it can be said that the major events of 2014 which served as significant market catalysts were either completely unexpected or erroneously calculated.

Despite a strong consensus among market analysts, commentators, economists, and credible market strategists....

-Interest rates did not rise, they fell
-The price of oil dropped by more than 60%: trading above $112 in June, collapsing below $50 by year-end
-The Chinese economy did not sink into weakness
-The Eurozone did
-Russia annexed Crimea and intervened in the Ukraine
-Several major corporations were the victims of cyber-attacks and serious data breaches
-The Republicans kept the House and regained control of the Senate
-Currency movements in the Yen, the Dollar, the Euro and the Ruble were significantly stronger or weaker than expected
-The "most despised" bull market in U.S. stocks continued

-Market volatility returned
-We experienced five sharp V-Shaped sell-offs and recoveries leading to a confused and highly polarized outlook for U.S. markets.

Given this environment, it is not surprising that over 90% of portfolio managers failed to meet their performance benchmark.
We are gratified to be among the few money managers who outperformed and to have successfully delivered the results you expect of us.

Decades ago we recognized that our core competency was not in forecasting, but in trend-following; not to predict market events, but to appropriately respond to them.

Because our primary responsibility is to protect your principal, and risk cannot be avoided, we think of ourselves first as risk managers, and secondarily as asset managers.

As risk managers, we remind ourselves daily, that the distinguishing characteristic of superior investment performance is the ability to effectively trade risk for return.

Economists have tried to define and "capture" risk with a variety of commonly accepted ratios. This may prove satisfying to academics, but in the "real world" we are forced to recognize that risk engages a personal experience that cannot be reduced to a mathematical formula and is largely a function of <u>uncertainty</u>.

In the short term, we endeavor to separate useful signals from the daily noise. When this enables us to see a bit more clearly what had previously been more opaque, we recalculate the risk/reward and perhaps, rebalance. Because short term volatility (sudden, sharp price movement) increases uncertainty, we work to dampen this in several ways. One way we have done this is by diversifying your portfolio to include investments in different asset classes which historically lessen volatility because they do not all move in lock-step. We have also created regular streams of income from diverse sources which may include dividends, option premiums and bonds. This cash flow provides a strong defense.

For the long term, we must begin by acknowledging that as important as it is to have a long-term focus, it is a difficult perspective to maintain. As a basic survival instinct, humans are "hard-wired" to be extremely sensitive to immediate, perceived threats. Modern media outlets exploit this sensitivity relentlessly because they know that they can attract viewers (to sell to advertisers) by grabbing our attention with the sensational and the alarming. This has been the preferred strategy of newspaper editors from the beginning- when selecting front-page news was guided by the principle- *If it bleeds, it leads.*

Once we have shifted our focus to the long term, we must think of the two wolves. After all, these concerns arise only when things look grim. Do we view the future, then, with the pessimism of fear, sorrow and doubt? Or do we view it with the serenity of courage, confidence, patience and faith?

History may demonstrate that over the past 100 years, the market has produced a positive return more than 75% of the time and that the annual average of that return has been nearly 10%- with roughly half of that coming from dividend income. However, it also demonstrates that there have been entire ten year periods where the total return was negative. This underscores the need for patience and faith and an unwavering emphasis on protecting your principal.

From time to time we revisit these words from Warren Buffett: "We always live in an uncertain world. What is certain is that the United States will go forward over time...It's never paid to bet against America. We come through things, but it's not always a smooth ride."

For 2015 we wish you a healthy, happy & prosperous New Year. One of the great joys of this space is the chance to say *Thank You* for your faith, your trust and the opportunity to continue to work on your behalf.

Respectfully,

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