To: Aequitas Client

From: Aequitas Investment Advisors

Subject: Navigating through a Troubled Global Sea

Dear Client,

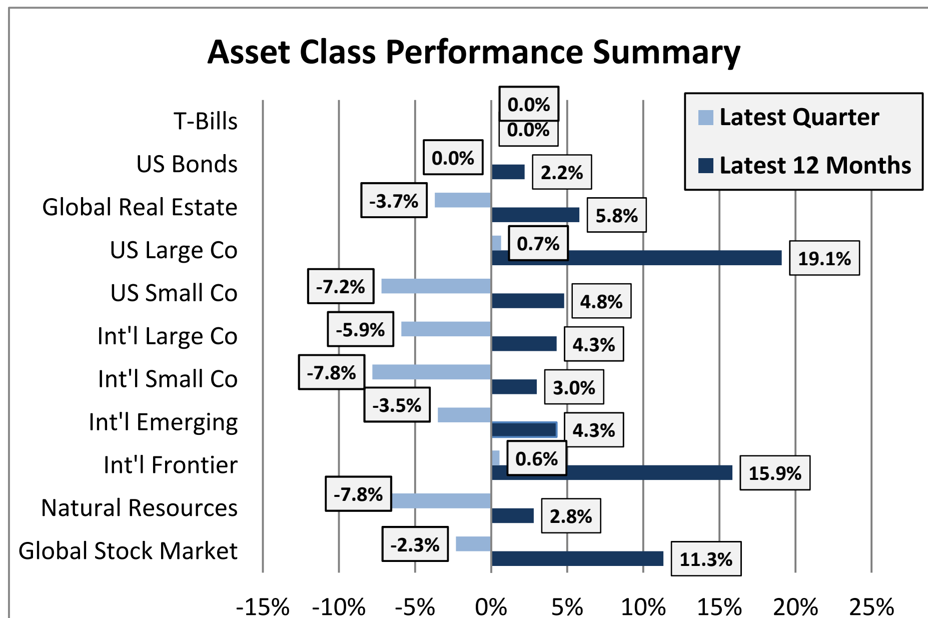
Over the past few weeks and months, we've been reminded of the reality of living in a highly connected and dynamic global society. For better *and* worse, developments around the globe impact our lives in both positive and challenging ways. On a day when the battle against extremism is raging in the Middle East, two extraordinarily brave individuals from Pakistan and India are awarded the Noble Peace Prize for their work to promote tolerance. In an era when technological and medical advancements have improved the health conditions for billions of people around the world, we are challenged with the Ebola epidemic in West Africa which was recently - and literally - brought home to our consciousness. And just one week after the stock market applauded a strong US jobs report, negative economic news from Europe and the International Monetary Fund quelled investor enthusiasm and sent the stock market sharply lower.

In the dedication of his book, *A Mathematician Plays the Stock Market*, John Allen Paulos, Professor of Mathematics at Temple University and philosopher, recounts his father's words of wisdom, "Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security." Written in 2003, these words were heavily influenced by the terrorist attacks of 9/11 and the wars in Afghanistan and Iraq. At first read, Paulo's words may seem perplexing and not particularly reassuring; however, I believe his message offers insight into how we might deal with today's troubled world and its seemingly endless array of problems and challenges. Of course, there's an investment message in Paulo's words, which I will comment on at the end of this report. First, let's review the latest investment results.

Asset Class Performance Review

For the most recent quarter, all but two of the stock asset classes posted negative returns with the entire Global Stock Market down by 2.3%. Most of the decline occurred over the last few weeks of September as global turmoil wreaked havoc on the minds of investors. The only positive returns came from US Large Cap stocks and Frontier Markets stocks which gained 0.7% and 0.6% respectively. The other stock asset classes were off between 3.5% and 7.8%. T-Bills and US Bonds were flat for the quarter.

Resulting from improving economic conditions in the US relative to Europe and Japan, the US Dollar has gained strength (i.e., appreciated) against most foreign currencies. Since May, the Dollar has appreciated by about 10% against the Euro and 8% against the Japanese Yen. While the Dollar's strength presents us with a great opportunity to travel abroad at a discount, it also depreciates the value of investments which are priced in foreign currencies. In fact, practically all of the losses in the Int'l Small (-7.8%) and Int'l Large (-5.9%) stock asset

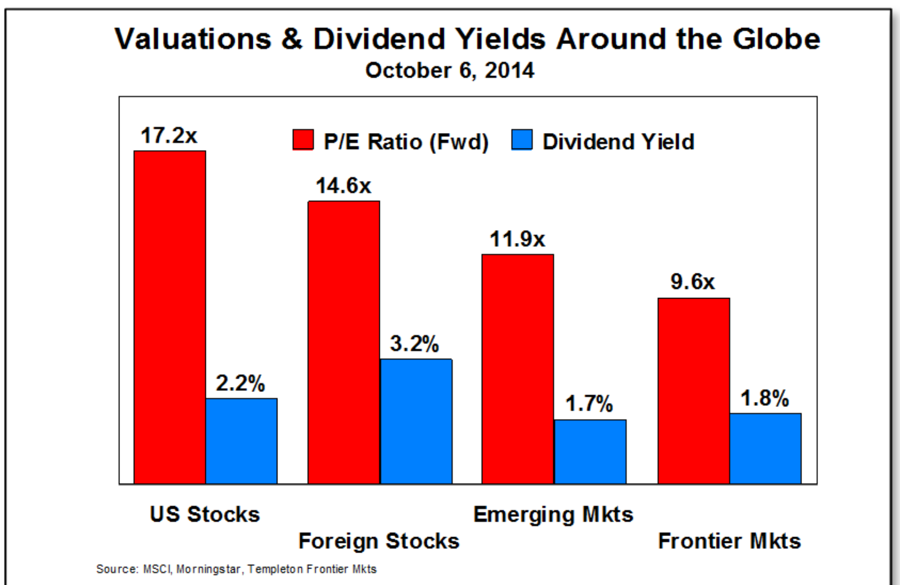


classes are attributable to currency depreciation (in their local currencies, these two asset classes posted modest gains). Over the long-run, for global investors, the fluctuation in currencies moves in both directions; at times the US Dollar is strong and at other times it's weaker. Such currency fluctuations present an additional diversification and rebalancing "dynamic" which has proven beneficial over long periods of time. (Note: the current exchange rate for the Dollar per Euro is about the same today as it was ten years ago, although in the interim has fluctuated significantly.)

For the trailing twelve months, the Global Stock Market gained a healthy 11.3%, primarily due to the strong showing of US Large Cap stocks which surged by 19.1% and reached a record high by mid-September (they've since retreated by about 7%). In second place, Frontier Markets stocks posted a surprisingly robust 15.9% gain. All of the other stock asset classes delivered modest gains of between 2.8% and 5.8%. T-Bills were flat and US Bonds gained 2.2%.

Global Stock Valuations

In reviewing the various regions in the Global Stock Market, US stocks remain the most "expensive" from a valuation standpoint with foreign stocks, on average, being about 15% less expensive. Stocks in the Emerging and Frontier Markets look particularly attractive on a valuation basis. While we believe that lower prices for foreign stocks will lead to higher returns over the long-term, the current strength of the US Dollar and perceived economic weakness in some regions abroad, especially Europe, is acting as a headwind in the short-run. Therefore, we will continue taking measured steps toward adjusting our global asset allocation targets in an effort to balance the short-term risks against what we believe are significant long-term opportunities.



Recent IMF Report and Global Growth Concerns

Just this past week, the International Monetary Fund (IMF), an organization comprised of economic leaders from more than 180 countries, held its annual meeting in Washington and released its semi-annual *World Economic Outlook*. The IMF report entitled, *Legacies, Clouds, Uncertainties*, forecasts global growth in 2015 to be somewhat slower than forecast last April (3.8% vs. 4.0%), although the report ends on a cautiously optimistic note. As would be expected, however, the media hyped the slower growth theme which spooked investors and contributed to the recent sell-off in stocks. We are posting the full IMF Annual Report in our website's *Chart Room*, but after digging through the report's *Country and Regional Perspectives* section, I offer the following takeaways:

- Among the Developed Markets, the U.S., Canada, United Kingdom, Ireland and Australia are expected to expand their economies between 2% and 3.1% in 2015 (3% is considered a healthy rate of growth for a developed economy); U.S. economic growth is one of the bright spots with projected growth of 3.1%. Europe could slip into a mild recession this year, but is expected to grow by 1.6% in 2015; Japan is expected to grow by just 0.8%.
- In the Emerging Markets, most countries are still adjusting to slower rates of growth. However, Emerging Asia is expected to lead global expansion with projected growth of 6.6%. Latin American economies are forecast to grow by 2.2% with Mexico being a relative bright spot with forecast growth of 3.5%. Emerging Europe is expected to grow by 2.9%.
- In the Frontier Markets, Sub-Saharan Africa is forecast to expand by 5.8% in 2015 (this figure includes mostly East African countries which are currently unaffected by the Ebola virus); Vietnam's expected growth is 5.6%.

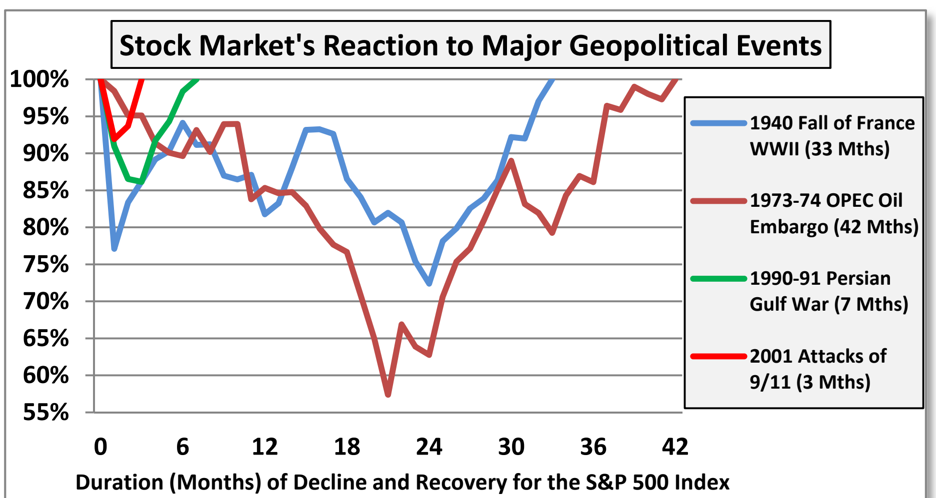
In summary, the IMF's outlook is for the global economy to grow at 3.8% in 2015 with a wide dispersion in growth rates among individual countries and regions. Legacies of the global financial crisis of 2008, including high levels of debt and unemployment, remain barriers to stronger growth. The IMF notes there is considerable downside risk to their forecasts, including heightened geopolitical risk which could result in higher fuel prices and trade disruptions (which have not occurred at this point). Another major risk is that stimulative monetary policies and "financial market optimism" may have driven stock prices to unsupportable levels should we experience negative economic surprises, including adverse geopolitical events, slower than forecast global growth, or faster than expected hikes in U.S. interest rates.

The Impact of Past Geopolitical Events

Given that geopolitics is on the minds of most investors, I thought I'd look at history for some insight and guidance. Surprisingly, many significant events had no impact whatsoever on the stock market or the global economy, including the 1962 Cuban Missile Crisis, the terrorist bombings of US Embassies in 1983 and 1998 and the invasion of Iraq in 2003. The following list of geopolitical events did move the markets, however, with several either causing or worsening economic recessions:

- The Fall of France in World War II which sent shockwaves throughout the world when Germany unexpectedly invaded and conquered France within a matter of weeks (America maintained its isolationist policy following the invasion, but began ramping up its military budget shortly thereafter).

- The OPEC Oil Embargo of 1973 which was in retaliation for the US providing military aid to Israel to defend against Egypt and Syria (the price of oil eventually quadrupled helping to send the US economy into recession).



- The Persian Gulf War (1990-91) which resulted from Iraq's sudden invasion of Kuwait. The resulting spike in oil prices contributed to the recession which lasted until the War's end in early 1991.

- The Attacks of 9/11 which awoke our nation to the threat of global terrorism.

Several observations and lessons can be gleaned from these examples: (1) stock prices can drop precipitously following sudden geopolitical events, but they can also recover quite rapidly; (2) even in the two longest downturns, the market fully recovered within 42 months (which is similar in duration to most economic cycles); and (3) a recurring and unfortunate theme over the past forty years has been *problems in the Middle East and the supply of oil*. On this last point, our current war in Iraq and Syria has thus far not impacted the price of oil; most likely due to slowing demand and the fact that we now produce 60% of our own oil with another 20% coming from Western Hemisphere countries and only about 12% from Persian Gulf countries.

Closing Comments

While the continuing war against terrorism, the Ebola crisis and other troubling developments around the globe grab headlines, the reality is, in the words of conservative political and cultural commentator, David Brooks, "…..we're living in an era with the greatest reduction in global poverty ever — across Asia and Africa….. We face nothing like the slavery fights of the 1860s, the brutality of child labor and industrialization of the 1880s, or a civilization-threatening crisis like World War I, the Great Depression, World War II or the Cold War. Even next to the 1970s — which witnessed Watergate, stagflation, social decay and rising crime — we are living in a golden age." (New York Times Op-Ed, September, 2014)

While Brooks reminds us of our good fortunes today in retrospect, John Allen Paulos counsels us to accept the reality of uncertainty and insecurity; and to plan for a wide range of possibilities. In structuring our investment portfolios, this means planning for potential downturns whether they result from geopolitics or economic cycles; but it also means planning for the long-term rewards of humankind's continued socioeconomic progress. By *balancing* our portfolios between safe haven bonds and stocks with growth potential, we can weather the inevitable storms and improve the chances of reaching our long-term goals.