George M. Hiller Companies L.L.C.
INVESTMENT MANAGEMENT, TAX, ESTATE & FINANCIAL COUNSEL

Financial & Investment Newsletter

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Market Outlook

As of May 29, 2015

The bull market, which began in March 2009, (over six years ago) continues to advance slowly albeit with increased volatility and signs of market and economic weakness. Our intermediate market outlook (weeks to months) is cautionary. Evaluation of supply and demand measures indicate a slide toward greater market weakness.

June has generally not been a good month for the market. In the month of June for the last 10 years the Dow has been down 80% of the time, the S&P 500 down 60% of the time and NASDAQ down 70% of the time. The observed June weakness in the stock market has been dubbed "The June Swoon" (source CNBC television broadcast, May 29, 2015).

We suggest caution regarding positioning new capital into the domestic equity markets at this time. We recommend maintaining and building cash reserves or cash substitutes and looking for investment opportunities in developed international markets and emerging market equities.

In spite of the caution we have in our intermediate market outlook (weeks to months), our longer-term market outlook (months to years) continues to remain positive, although we have concerns. In our longer-term market outlook the following asset categories; US Equities, International Equities, Resources and Materials, Real Estate, and Bond/Fixed Income are bullish at this time. Please remember that no market outlook or indicator is foolproof or guaranteed to accurately forecast future market conditions. Observed historical trends are not guaranteed to occur in each and every year nor in any given year or time period.

Year-to-date the Dow Jones Industrial Average is up 1.05%, the S&P 500 Index is up 2.36%, and NASDAQ is up 7.05% as of May 29, 2015 (source money.cnn.com). After 15 years, the NASDAQ has finally reclaimed the ground lost in the tech bubble collapse that occurred in the year 2000 and has recently hit new all time highs. Please note that the Dow, S&P 500, and NASDAQ are all equity indexes.

Most diversified investment portfolios are not invested 100% in equities. Also, while it is possible to invest in various equity index funds, it is not possible to invest directly in the indexes themselves.

Our market snapshot (taken daily) is as follows:

-- U.S. Equities	*Positive outlook for past 1,218 days*
-- International Equities	*Positive outlook for past 1,022 days*
-- Resources and Materials	*Positive outlook for past 987 days*
-- Real Estate	*Positive outlook for past 2,114 days*
-- Bonds/Fixed Income	*Positive outlook for past 455 days*

Currently, the top 3 performing sectors (based upon our assessment and ranking methodology) are:

- ***Healthcare***
- ***MidCap Growth***
- ***Developed International Markets***

In addition to the top three sectors listed above Technology and Small Cap Growth have above average rankings. Normally, this suggests that these sectors are also above average investment candidates, but because of the current market environment we suggest caution at this time in deploying new capital. Currently the worst performing sectors are Utilities and Real Estate.

US equities are already at or near all-time highs as measured by broad stock market indexes. Also, US equities have gone an unusually long period of time without a correction of 10% or more. At some point one or more of the asset categories listed above will begin a significant decline.

Right now, some economic and business signs we review are bullish, but there will come a time when that changes. Currently, we remain generally bullish on U.S. Equities, International Equities, Resources & Materials, Real Estate and Bonds/Fixed Income.

Stock Market & Bond Valuation Indicators

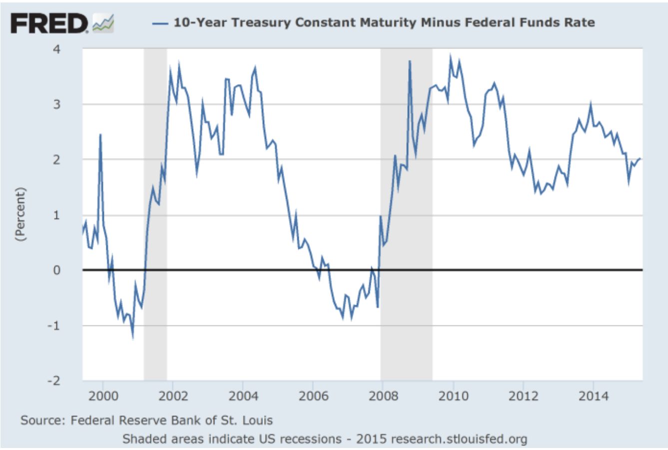
There are indications that the stock market may be overvalued. This does not mean that the market will not continue to move up. As noted above, our longer-term market outlook remains positive although we have concerns.

The S&P 500 price to earnings ratio (PE) is rising and now stands at 20.66 (source multpl.com). This is well above the long-term mean of 15.54. The S&P 500 PE ratio is based upon the current price divided by the earnings over a 12-month period.

The Shiller PE ratio also known as CAPE is based upon cyclically adjusted price to earnings (CAPE) over a ten-year period. Currently the Shiller PE ratio or CAPE is at 27.27. The long-term mean average of the Shiller PE ratio is 16.61.

These two stock market indicators suggest that stocks are expensive relative to the long-term averages of these indicators. The Shiller PE in particular suggests that the stock market may produce lower returns over the next ten years than what might otherwise be expected. In fact, since 1881, the average annual returns for all ten-year periods that began with a CAPE at this level have been just 3% per year (source, The Sherman SITREP for the week ending 5/22/2015).

One bond market valuation indicator is the Treasury Yield Spread. The yield spread is simply the difference between the quoted yield on 10-year Treasury bonds versus the federal funds rate. The federal funds rate is the overnight rate at which banks can lend funds to each other through the Federal Reserve. The current Federal Funds rate is 0.12% (source, Reuters, May 29, 2015). The yield spread indicates the risk premium required for bond investors to invest long-term. When bond investors are seeking a safe haven they are willing to accept a lower yield spread and thus are willing to pay more for bonds. The lower the yield spread the more overvalued the bond market may become.



The 10-year Treasury yield spread compared to the Federal Funds Rate indicates that the yield spread has narrowed from a spread of close to 4% in late 2009 to about 2% spread currently, a significant drop (notably the yield spread dropped below 0 following the Tech Bubble of 2000 and prior to the Financial Crisis of 2008). The narrowing of the Treasury yield spread over the Federal Funds Rate is an indication that bonds may be becoming more overvalued and thus subject to greater risk.

The Economic Environment

The revised estimate of first quarter GDP (gross domestic product is the value of goods and services produced in the U.S.) came in at -0.7% reversing the earlier first GDP estimate of positive 0.2%. This contraction in GDP is down from 2.2% GDP growth reported for the fourth quarter of 2014 (source, Bureau of Economic Analysis). There will be one more revisionary estimate of first quarter GDP in reports to be released in June.

The negative first quarter GDP estimate may signal increased risk of recession. This indication of economic weakness may cause the Federal Reserve to delay further a move to increase interest rates in the very near future.

However, on Friday, May 22, 2015, Chairwoman Janet Yellen stated that the Federal Reserve will likely start raising interest rates this year, noting that normalization of monetary policy could take "years". Yellen cited recovering home values, a brighter global economy, and an improving job situation as signs of an improving economy. "For this reason, if the economy continues to improve as I expect, I think it will be appropriate at some point this year to take the initial step to raise the federal funds rate target and begin the process of normalizing monetary policy," Yellen said. The phrase "at some point this year" is the most specific timeframe given by the Chairwoman so far.

It is worth noting that an increase in the federal funds rate if occurring without an increase in the 10-year Treasury yield would further narrow the Treasury yield spread. This would tend to increase the degree to which the bond market might be deemed overvalued.

The unemployment rate ticked down from 5.5% for March to 5.4% in April (source, Bureau of Labor Statistics). This is the lowest unemployment rate since May 2008 and is one of the positive economic signs that Chairwoman Janet Yellen was alluding to in her recent remarks.

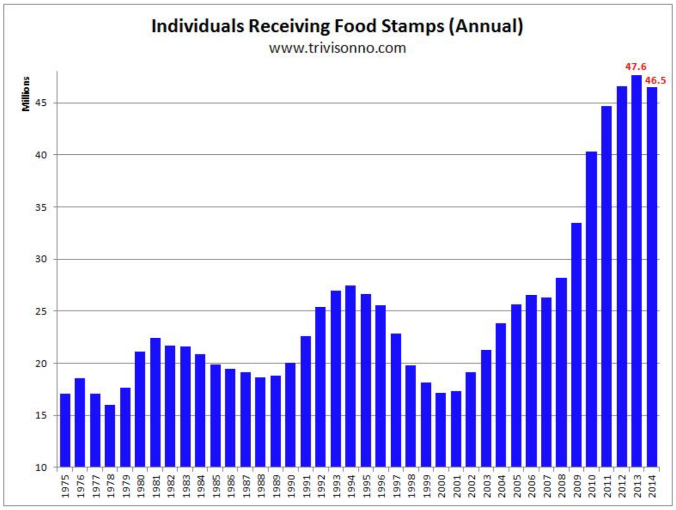
The labor force participation ticked up from a level of 62.7% in March to 62.8% in April. This slight rise in the labor force participation rate tends to validate the positive economic news of a lowered unemployment rate.

However, in March 2015 according to data released by the Bureau of Labor Statistics, for the first time in US history over 93 million Americans (age 16 and over) are not in the labor force (not working). We are near a 37-year low in the labor force participation rate and that is not a good economic sign.

How Many Receive Food Stamps in the United States?

The number of Americans receiving food stamps tops 46 million and has stayed over that level since September 2011 (source, cnsnews.com, "Food Stamp Beneficiaries Exceed 46,000,000 for 38 straight months", by Al Meyer, January 13, 2015). One in five families and/or one in five children in the United States receive food stamps (source, United States Census Bureau, February 20, 2015).

As the chart below shows the number of Americans receiving food stamps has exploded in recent years. Over the last 14 years over 29 million Americans have been added to the food stamp participation program from a level of 17.2 million participants in the year 2000 to 46.5 million as of year-end 2014.



Asset Allocation

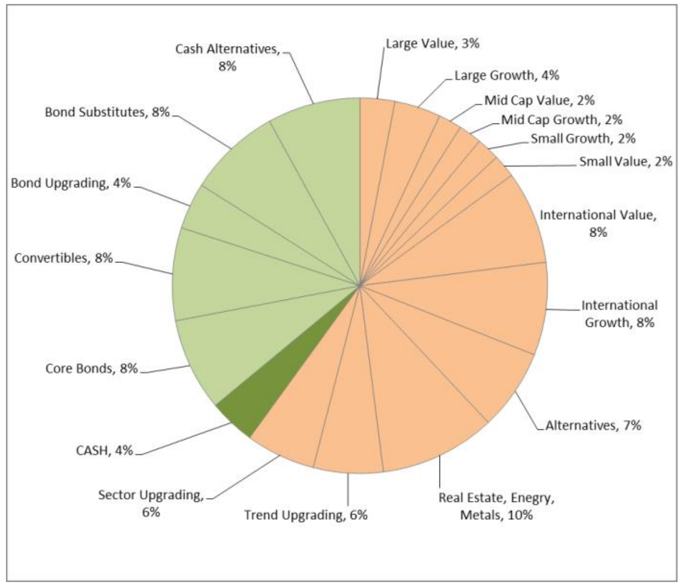
In reviewing investment portfolios one of our concerns is that many investors do not have a portfolio that is prepared for today's challenging and changing investment environment. There are times when market and economic conditions suggest a need for changes in the relative weightings or components assigned to an asset allocation portfolio. This process of changing asset allocations based upon changes in the market (such as market anomalies or identifying strong market sectors) and in economic data and trends is called tactical asset allocation. Investors have an opportunity to improve investment performance over time through proper implementation of tactical asset allocation.

The United States is one of the best places to invest in the world, but valuation indications suggest that U.S. stocks may be overvalued as a group. Given this, it makes sense in our view to reduce exposure to U.S. investment assets (especially US bonds) and increase exposure to international investment assets. Based on ongoing evaluation of supply and demand measures we also recommend conserving and building cash reserves or cash substitutes at this time.

The following asset allocation pie chart is an example of tactical asset allocation in implementing lower U.S. exposure and increasing international exposure (compared to a previous asset allocation pie chart published in the March issue). The asset allocation pie chart also shows an increase in cash reserves and cash substitutes compared to a previous asset allocation pie chart published in the May issue. These changes are based upon an ongoing assessment of U.S. stock market valuation indicators and the evaluation of supply and demand data and performance data using in part our proprietary tracking and ranking methodology.

We also recognize and evaluate certain economic data and trends in developing tactical asset allocation strategy. Changes in investment data and economic data occur regularly and can in turn lead to changes in asset allocation at any time.

Example of Asset Allocation Pie Chart



In summary the asset allocation pie chart expresses tactical asset allocation strategy in pursuit of the following broad investment themes:

- ***Reduced exposure to US investment assets (especially US bonds)***
- ***Increased exposure to International investment assets***
- ***Increased cash reserves and/or cash alternatives***

This asset allocation example is for educational and informational purposes only. It is not representative of any particular client account. Each person, family, or account has different facts and circumstances, so no single investment allocation can fit all situations. In addition, changes in an individual's time horizon and risk tolerance as well as various economic, financial and market factors can lead to changes in the asset allocation of an investment portfolio for any particular investor.

It is our mission to provide high quality professional and objective financial counsel in the areas of investment management, estate and personal financial planning designed to help our clients improve their financial condition and achieve long-term financial goals.

Sincerely,
George M Hiller Companies, LLC Investment Team

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