2015 1st Quarter

Braziel & Associates

PERFORMANCE WEIGHTED ASSET ALLOCATION REPORT

James A. Braziel, CFP®
Registered Principal, NPB

1074 East Avenue, Suite L | Chico, California 95926
(530) 895-3344 | (800) 675-3344 | Fax (530) 895-3141

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ADVISOR'S THOUGHTS

2015 begins on a positive note. **Both stocks and bonds gained** as investors continue to look for returns outside of low yielding cash accounts. Large cap US stocks, represented by the S&P 500 saw a modest increase of 0.44% as shown in the Total Return table. Stronger returns were seen in the technology heavy Nasdaq of 3.48%.

More **noteworthy** were the **returns seen outside the US**. After lagging in recent years, foreign stock returns perked up in the first quarter. The **MSCI EAFE gained a solid 4.19%** easily outpacing the S&P 500. Although many foreign economies are still quite weak, there is a growing optimism that recent monetary policy decisions by the European Central Bank, China and others will lead to a more sustained recovery.

Also of note, bonds continue to provide positive returns in the US. The Barclays Intermediate Treasury Index gained 1.64% in the first three months of the year. Despite near record low interest rates in the US, global investors still find our bond market attractive when compared to even lower rates outside the US as discussed on page two.

US Corporate profits are anticipated to be weak in the first quarter as a strong dollar, falling oil prices and severe weather in most parts of the country subdued economic growth. However, lower oil prices should benefit the consumer in time and the weather's impact is temporary. The US economic expansion appears to be intact and corporate profits should improve later this year. The global backdrop remains supportive of further stock market gains.

TOTAL RETURN THROUGH 3/31/2015

	3 Mo.	6 Mo.	12 Mo.
DJIA	-0.26%	4.30%	8.01%
S&P 500	0.44%	4.85%	10.44%
Nasdaq	3.48%	9.07%	16.72%
MSCI EAFE	4.19%	0.18%	-3.46%
MSCI Emerging Markets	1.91%	-3.06%	-2.02%
Barclays Inter-term Bond	1.64%	-0.07%	4.15%
Barclays Long-term Bond	3.71%	12.03%	19.81%

Source: Wall Street Journal
Does not include reinvestment of dividends

DJIA: A price weighted average of 30 stocks.

S & P 500: A market value weighted index of 500 stocks.

NASDAQ Composite: Market value weighted index of approximately 2,082 companies.

MSCI EAFE: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.

Barclays Capital Treasury Intermediate-Term Bond Index: An index comprised of US Treasury securities with maturities between 2 and 10 years.

Barclays Capital Treasury Long-Term Bond Index: An index comprised of US Treasury securities with maturities of 10 years or longer.

LOW YIELDS

For many years now, savings rates in the US have remained stubbornly low. The Federal Reserve, in an attempt to stimulate economic activity, has held the Fed Funds rate near zero. In addition, they have implemented three times a program that became known as quantitative easing (QE1, QE2 and QE3) to buy bonds in order to hold down long term interest rates, provide cash to the economy that in turn would encourage borrowing and lead to greater economic growth. Today a 2 year Treasury note yields 0.6% and a 10 year Treasury bond yields under 2.0%. And while growth has picked up in recent years, interest rates remain near record lows.

In Europe, the term "low interest rates" may overstate the return investors can receive. There are a growing number of **foreign government bonds trading at negative yields**. A look at the chart below, shows that 2 year government bonds in **Germany, France and Switzerland are all trading below zero**. This does not mean that the investor is not being paid interest, but rather the annualized return, if that bond was held until maturity, is negative.

How can this occur? Negative yields are the result of the price paid for the bond and interest payments received from the bond.

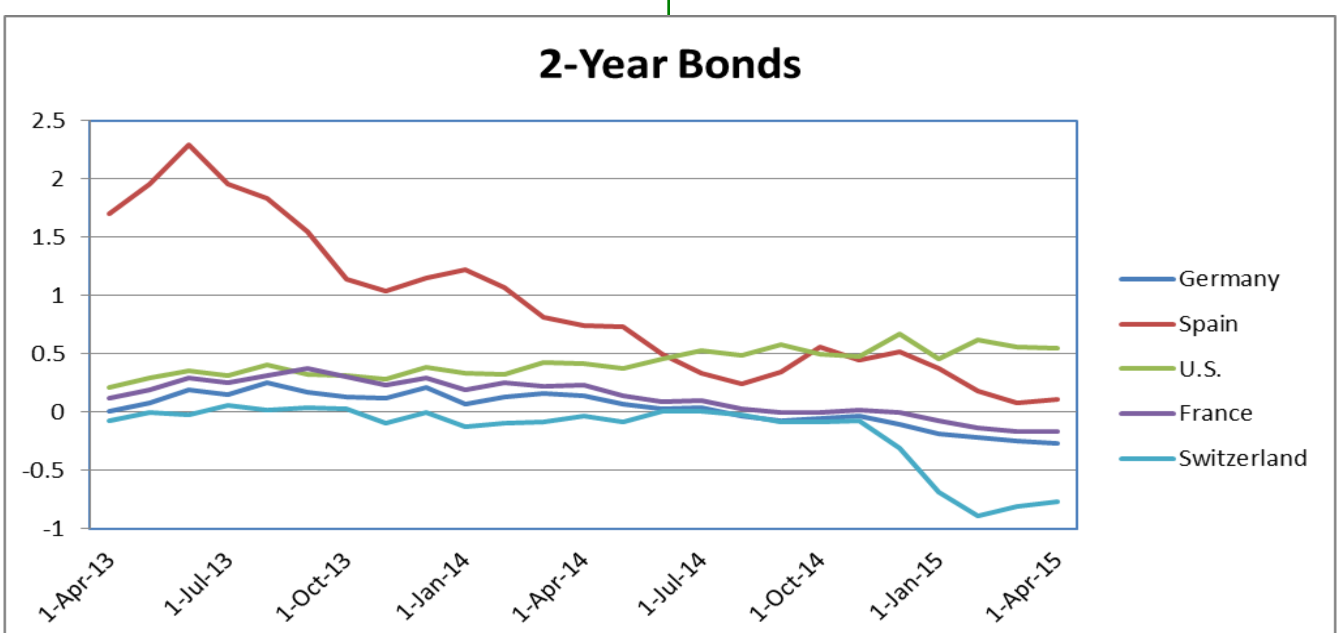
First, let's discuss the price paid. Bonds prices are quoted as a percentage of the face amount. A bond that trades at 100 is called trading at par. Therefore a face amount of $100,000 that trades at 105 would be currently worth $105,000 and a current price of 97 would be worth $97,000.

Second, how about the interest payments. Bonds pay a coupon payment (interest rate) based on the par value of 100. Therefore, an interest rate of 2% on a $100,000 bond would be $2,000 per year. This $2,000 per year payment to the bondholder occurs regardless of what price the bond trades at in the future.

Now let's connect the bond price and coupon rate to see how a negative yield occurs.

On April 15th a **France 2 year government bond** with a **3.75% coupon rate** that matures on April 25, 2017 **traded at 107.893** as reported at www.investing.com. If one purchased $100,000 of face amount of this bond, they would have paid $107,893 ($100,000 x 107.893). Each year the bondholder will **receive $3,750** ($100,000 x 3.75%) **per year or $7,500 over the two years**. When the bond matures the bondholder will receive the $100,000 face amount (not the $107,893 they paid). Total **cost of investment $107,893** and total **proceeds received $107,500** ($100,000 + $7,500) for a **loss of $393** ($107,500 - $107,893). As a result, this particular bond had a **negative yield of 0.172%**.

Negative yields in Europe are a result of a number of factors, but primarily it is a **result of years of subpar economic activity**. In fact, while the US has seen an economic expansion since 2009, the Eurozone has been in and out of recession. The overall unemployment rate in the Eurozone remains above



11% and inflation is nonexistent. Inflation began 2014 below 1% and continued to decline throughout last year. In the last few months they have experienced falling prices (deflation).

Government bonds are in **high demand during periods of weak economic activity** when inflation is low and will not erode the bondholder's purchasing power. This is exactly the environment that Europe has been in.

Eurozone troubles have finally reached a point where central bank policy makers have been able to agree on taking action in an effort to stimulate growth. In March, the European Central Bank (ECB), the equivalent of our Federal Reserve, began their first ever bond buying program. They intend to purchase 1 trillion Euros ($1.1 trillion) in bonds by September 2016 –a target of 60 billion per month. The possible purchase of government debt by the ECB had been discussed for much of last year and the program was announced in January of 2015. This created more demand for government bonds that may have driven up the price and down interest rates even further.

So **why would anyone purchase a bond that** if held until maturity **is assured of losing money**? This is actually a very difficult question to answer, but here are a couple of explanations we have seen.

One reason is **if interest rates continued to decline, the bond would appreciate** prior to maturity and could be sold at a profit. **For** a while this would work, but eventually, as the bond gets closer to maturity, the bond **will mature at its face value**.

Another reason is **if one anticipates deflation** to continue. If prices where to fall 1% per year and the yield on your bond was -0.2%, your purchasing power would be increasing at 0.8% per year. You would end up with less money, but your money would be able to purchase more than today.

Negative yields in Europe also impact **US bond yields**. If yields are negative in one country, some investors will seek higher returns outside their own country. Today, despite the extremely **low interest rates in the US**, when **compared to elsewhere** in the world, our returns **look much better**. A yield of 0.6 on a 2 year US Treasury sounds much better than negative 0.172% in France. This positive difference in yields between the US and most of Europe has **pushed investors into buying bonds and other assets in the US** and contributed to **keeping our rates lower**.

HINES GLOBAL REIT ANNOUNCES NEW SHARE PRICE

On **March 25, 2015**, the **Hines Global REIT** board of directors determined a **new estimated per share net asset value (NAV)** of the company's common stock of **$9.44**. For shareholders who purchased shares at one of their three **previous offering prices of $10.00, $10.28 and $10.40** this is a **decline in value of 5.6%, 8.2% or 9.2% respectively**.

At the end of last year, we shared with our Hines Global REIT shareholders our concerns over the pending share revaluation. This concern, based on previous company filings and our own independent research, lead us to believe the Hines Global REIT would appraise below their initial offering price. This was one important factor contributing to our recommending the redemption of Hines Global REIT. The fact that existing investors are now seeing a decline from the offering price bears out this concern.

The Hines Global REIT is a public, non-traded real estate investment trust. As such, there is no active public market place for investors to buy or sell shares. The Company does offer a limited ability to redeem shares, but that program is voluntary on their part and may be stopped at anytime.

Furthermore, our historical observation of the non-traded REIT industry is that REITs that have declined from their initial offering price have experienced subpar performance and an increased likelihood that the voluntary redemption program will end. Due to the possible restriction of liquidity and limitations imposed by non-traded REITs, we felt the timing of our redemption recommendation was appropriate.

We **continue to believe traded and non-traded Real Estate Investment Trusts** that own commercial real estate **can have a place within an investor's portfolio**. The **decision to sell the Hines Global REIT was unique to that investment** and we have been pleased with the other non-traded REIT's we have recommended in the past.

WHAT RECORDS SHOULD I KEEP?

The How, What and Where of Tax Records

With the writing of this newsletter, we are mindful that the 2014 tax season is now over. Whew! You may now breathe a sigh of relief unless, of course, you filed an extension. In any case, it is important to remember that whether you have finished filing or preparing to file, always **keep your tax records in a safe and accessible place**. That way, if the IRS should ever come knocking, you will have all your supporting documentation ready.

You may be wondering just how long a person should keep those records. According to the IRS Publication 17, Chapter 1, and Page 17 (2014), "You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code." Allow us to translate that for you.

Tax returns and supporting documentation should be kept for 3 years following the date of filing. However, if you have under-reported your income by 25%, the IRS can request records going back 6 years. It can go back 7 years if a loss for bad debt or worthless securities is claimed on the return. **To make things simple**, it is probably **best to keep all tax returns and supporting documentation for 7 years**. For anyone who does not file or has filed a fraudulent return, there is no statute of limitations.

So, what kind of records should a person keep? Again, we visit Publication 17, "you must keep your records that support items shown on your return until the period of limitations for that return runs out." In the box below we have provided some guidance.

The IRS has no preference on where you keep your records. Paper copies in a file cabinet work just fine. Electronic copies are acceptable as well. Be sure to have a back up copy if you choose to keep electronic files. Regardless of where you store your records, make sure they are accessible. When the time comes to dispose of your documents, a paper shredder is the best method in order to protect your privacy and security.

The good news is **we maintain records for your investments made through our firm**. We are happy to work with your CPA or tax preparer as the need arises. We do have a small request. Due to the nature of **REIT investments, you will need to keep all 1099's** (both current and previous years) handy at tax time. **These will be used to calculate your tax basis** and it will make your CPA happier during this otherwise stressful time of year.

RECORDS YOU SHOULD KEEP

- Filed tax returns
- Record of income (W-2, 1099, etc)
- Bank statements
- Mortgage statements
- Proof of payment – receipts, pay statements, credit card statements, or cancelled checks
- **Property – records of the original cost** of the property and any **improvements made** should be **kept as long as you own the property**. (This tax basis information will come in handy should you sell your house.)
- Investment statements containing the purchase price, sales price, and date of purchase