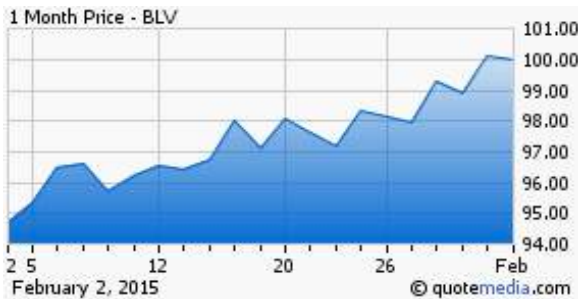


Overview

The major market trends that developed during the latter part of last year remain unbroken, so far in 2015. Notable among these are 1) the continued positive performance of the US long bond (+3.0% in January), 2) the persistent softness of most commodities indices (-4.4% for the DJ CI) and, 3) the upward momentum of the USD.

Below is a chart of the performance of the Vanguard ETF (BLV), a proxy for the US bond market at large, over the past month.



In equity land, the S&P's 500 was down 2.98%, volatility was up, as measured by the VIX index, and early fourth quarter earnings were not without some disappointments, adding to the restive mood across most markets.

As one might expect, diversified portfolios perform comparatively well in an environment as choppy as this one. The performance of our four model portfolios ranged from down .80%, for the most equity laden, to up .80% for the most interest rate sensitive and conservative one.

Noteworthy Developments

The quantitative easing program announced by the European Central Bank is likely to lift European stocks and, possibly, emerging market ones over time. For a US investor this does not necessarily translate into a buying opportunity. It is a matter of risk appetite and comfort with currency risk. We have been reminded lately that currency swings can be quite violent and painful. In January, Eurozone equities in France and Germany were up respectively 8.0% (CAC 40) and 9.5% (DAX).

For US investors, they were up only 1% to 2.5%, once the depreciation of the EUR vs. the USD is factored in.

Nevertheless, the performance of these Eurozone markets remained significantly better than that of the US markets. The chart below illustrates the spread between the EZU (currency adjusted Eurozone ETF), in blue, and the SPY (S&P's 500 ETF), in orange. It shows a spread of over 3% between the two lines. In spite of strong currency headwinds, Eurozone stocks outperformed their US counterparts in January by a significant margin.



I expect this trend to continue and Eurozone markets to outperform US equities markets over the next few months, in spite of unfavorable currency movements. In what could be yet another classic case of mean reversion (with a bit of help from the ECB), European markets may finally recover a good part of the ground they lost in 2014. We are positioned to take advantage of this trend should it gain further momentum.

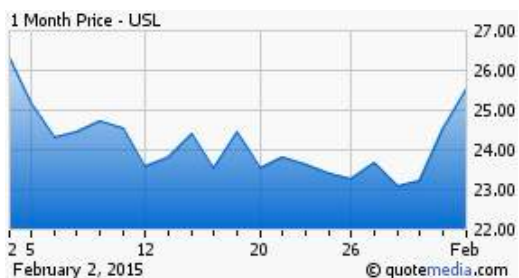
Tilts and Allocations

Last month I indicated that, going forward, Fleurus would cut its equity allocation across all portfolios by 5%. We have done so by reducing our US large cap equities. Our current equity tilts remain partial to small caps as far as the US markets are concerned, and to Eurozone stocks as far as international equities are concerned.

Elsewhere, our 5% REIT allocation across all portfolios helped us perform relatively well. We intend to maintain it over the medium term. Below is a chart that illustrates the January performance of the Vanguard Reit ETF as a proxy for the sector.



We have no allocation to commodities and will keep out of these markets for the foreseeable future. Interestingly, could oil prices be finally forming a bottom? The chart below is that of the USL, an ETF that tracks the spot price variation of crude oil.



Closing Comments

One of the most valuable nuggets of investment wisdom I have taken from my experience as an investment professional over the years is the absolute need for humility. There is simply no way that a money manager, no matter how stellar her record may be, can predict what the economic landscape of tomorrow will be, let alone how a stock or sector is going to do over the next few months.

With this in mind, one common behavioral bias that investors need to be aware of, if they want to be on their way to sustainable investment performance, is overconfidence.

Overestimating or exaggerating one's ability to successfully perform a particular task is not a trait that applies only to money managers or investors. Consider the number of times where you have entered a contest with the attitude that you had what it takes to win regardless of the odds. Applied to investing, this bias is associated with excessive trading, the belief that one can pick winners consistently and the ability to time the market well.

Research has shown, time and again, the fallacy of these beliefs. They are often the main reason why the majority of investors underperform over the long term.

Some of the best ways to correct for these biases include:

- 1) Having an investment plan, with a well defined and thought out asset allocation process,
- 2) Sticking with it, even when the market is shaky as it inevitably goes through periodic turmoil,
- 3) Keeping track of all investment decisions and periodically making an honest performance assessment.

Being able to maintain the discipline outlined in the three previous points is well worth it over the long run.

We hope that you have found the various discussion points and items of this newsletter useful. We look forward to answering any questions you may have and to assisting you with your portfolios when needed.