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April 15, 2015

BCA Q1 2015 Review

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First Quarter in Review

Compared to recent experience, financial markets were more volatile in the first quarter of 2015. By historical standards, however, volatility was still fairly modest. The S&P 500 finished just under 1% including dividends, while international markets generally performed better. Europe and Japan performed very well, bolstered by renewed monetary easing in those countries and some signs of economic improvement from low levels.

Defying pundits yet again, longer maturity Treasury bonds continued to outperform as inflation remained dormant and economic growth was restrained around the world.

Benchmark Index	% Return
U.S. Dollar Index	5.40
MSCI EAFE Equity	4.19
Long-Dated Treasury Bonds	3.83
High Yield Bonds	2.52
U.S. Corporate Bonds	2.32
MSCI Emerging Markets Equity	2.24
U.S. Aggregate Bond	1.61
U.S. Municipal Bonds	1.01
S&P 500 Index	0.95

Source: Bloomberg, MSCI

Energy

The recent, dramatic collapse in oil prices has investors wondering about implications for their investments. No one knows what will happen to oil prices in the near term, as the past seven months have demonstrated. For that reason, we are avoiding investments that need a rebound in oil prices to thrive. However, the dislocation in the market has created opportunities for investors. Potential opportunities include lending at high rates to distressed but solvent companies, shorting the stock or debt of companies with poor balance sheets, and merger and acquisition activity. We would pursue this kind of opportunity through managers with on the ground expertise.

Setting Expectations

Investors have seen stocks rebound spectacularly since the end of the financial crisis. Due to this significant rise, one can no longer argue the overall market is "cheap." We think the best course is for investors to plan for lower returns in the coming investment cycle. Yet careful asset allocation and superior manager selection can greatly improve investors' odds of achieving their financial goals. Moreover, stocks can still provide decent returns going forward, especially for investors willing to look farther afield for opportunities. All markets are not the same. Investors will also have opportunities to take advantage of heightened volatility that may create dislocations in financial markets.

Chart 1: S&P Valuation Above Average, But Not Extreme

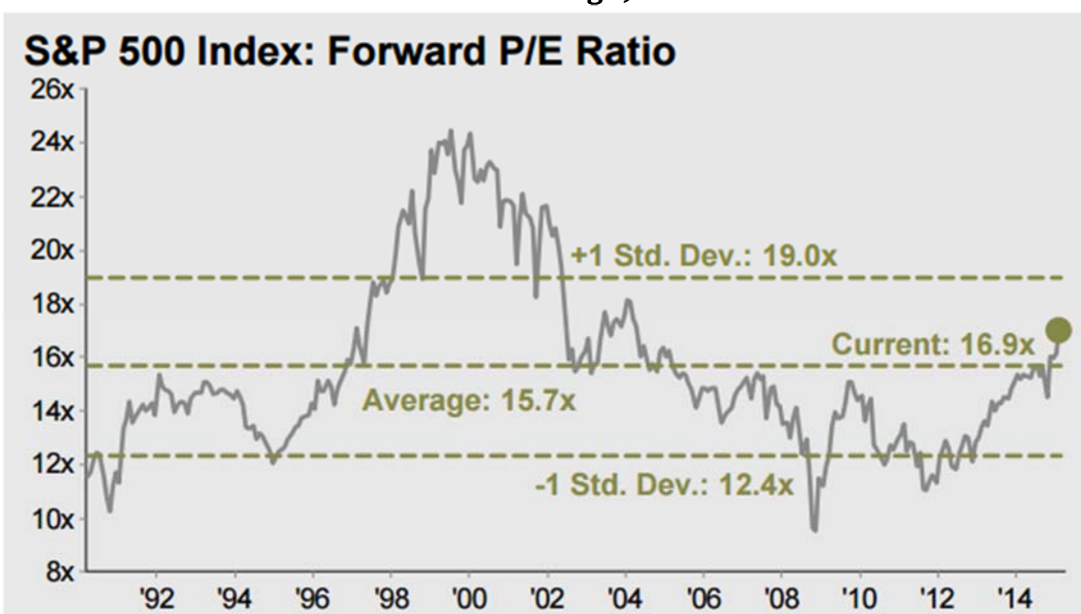

Chart: JP Morgan Asset Management

It's also worth remembering that aside from long-term time horizons, valuation ratios are poor predictors of market performance. Investors should instead analyze the expected returns on their equity investments as a component of a diversified portfolio. Our current outlook sees the risk of recession as low. While market corrections occur frequently, the truly difficult ones are strongly correlated with significant economic trouble.

Equity Outlook

At present, we still see equities as a favored asset class, but selectively so. A slow but positive recovery will likely continue to favor growth stocks over value stocks, as investors seek out faster and more reliable earnings growth. Later in the year, a stronger economic growth cycle should begin to favor value stocks. We have also been recommending a significant allocation to mid and small cap stocks, which are performing well after lagging behind larger U.S. stocks last year.

The equity market does have a number of significant positive factors behind it for now. First, Central bank action continues to be a strong theme. Europe, in particular, has jumped on the easing bandwagon, driving a large gain (in local currency terms) in the first quarter. We have favored the U.S. over international stocks, but are seeing more positive signs overseas.

U.S. companies continue to be able and willing to return significant capital to shareholders in the form of dividends and buybacks. This is also a positive trend we think is in place for at least the entirety of 2015.

Chart 2: S&P Companies Have Strong Financial Flexibility

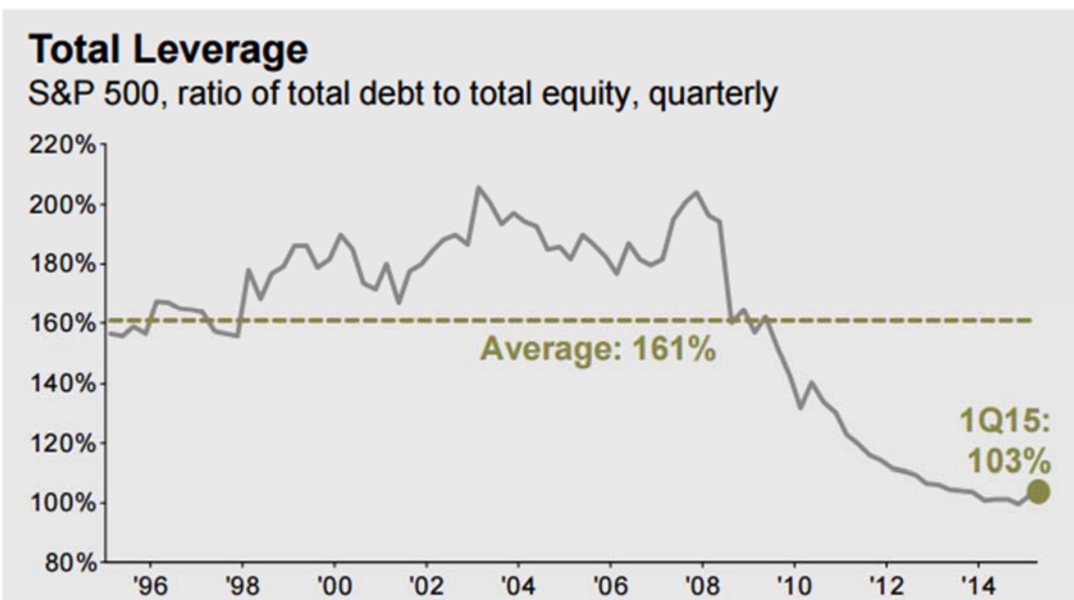

Chart: JP Morgan Asset Management

Chart 3: U.S. Companies are Returning Capital at a Signicifant Pace

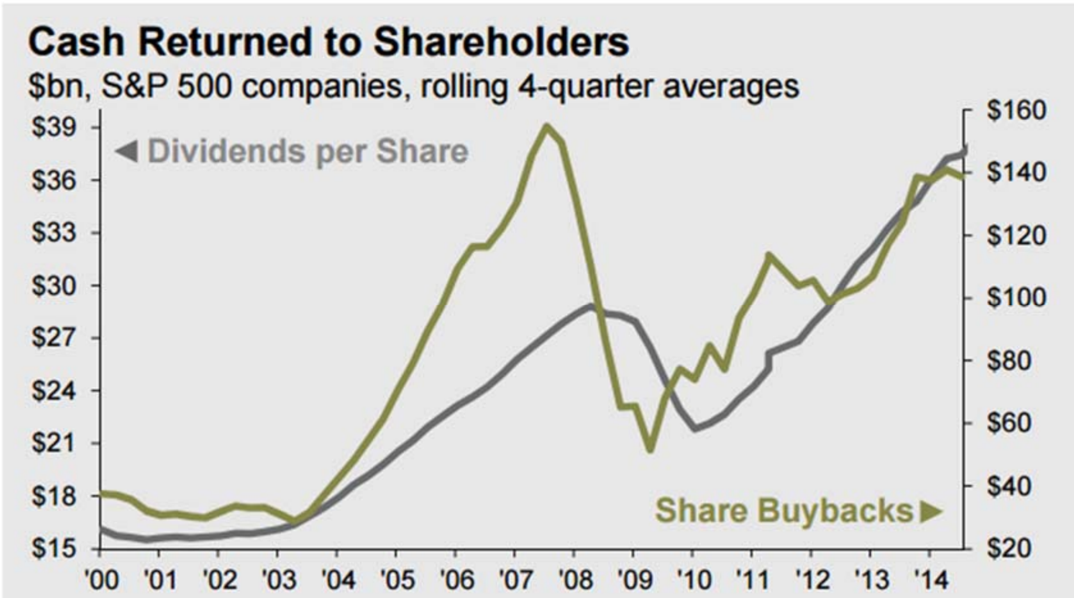

Chart: JP Morgan Asset Management

Fixed Income Outlook

After a much-telegraphed campaign, this year will likely mark the start of a Fed rate-hiking cycle. This follows an unprecedented period of zero Fed Funds rates. Unless we enter a global recession, it is truly difficult to see further strong returns from longer maturity Treasury bonds, as they have no credit risk but considerable interest rate risk. On the other hand, inflation remains very low, so those calling for significant pain in the bond market will likely be wrong again this year. Ultra-low rates in Europe and Japan are also driving their investors to relatively higher yielding U.S. debt, keeping a lid on rates.

Despite slow economic growth, the backdrop for credit is still strong. The economy is stable, credit is easier to come by, and companies have generally cut costs and increased cash flow. Increased regulation has also restricted the lending activities of large and regional banks, creating opportunities for more nimble and less-regulated investment vehicles to fill the gap. For these reasons, we still believe niche credit opportunities are attractive for investors seeking higher yields. As a bonus, many of these investments have floating rate structures in case rates do rise. We would avoid well-trafficked areas such as high yield bonds widely held by mutual funds and ETFs.

Economic Outlook

The current state of the economy still forms a positive backdrop for financial assets. Labor market conditions are improving, but wage gains (unfortunately for many workers) remain subdued. Consumers are increasingly confident as household net worth rises and gasoline prices fall, yet we are far from signs of euphoria or overheating.

Chart 4: Unemployment Claims Have Sharply Fallen

Consumers have significantly de-levered, giving them more firepower to buy as they regain confidence and the economy continues to improve. At that juncture, consumer lending will be flowing more strongly as well, creating a boost for the economy.

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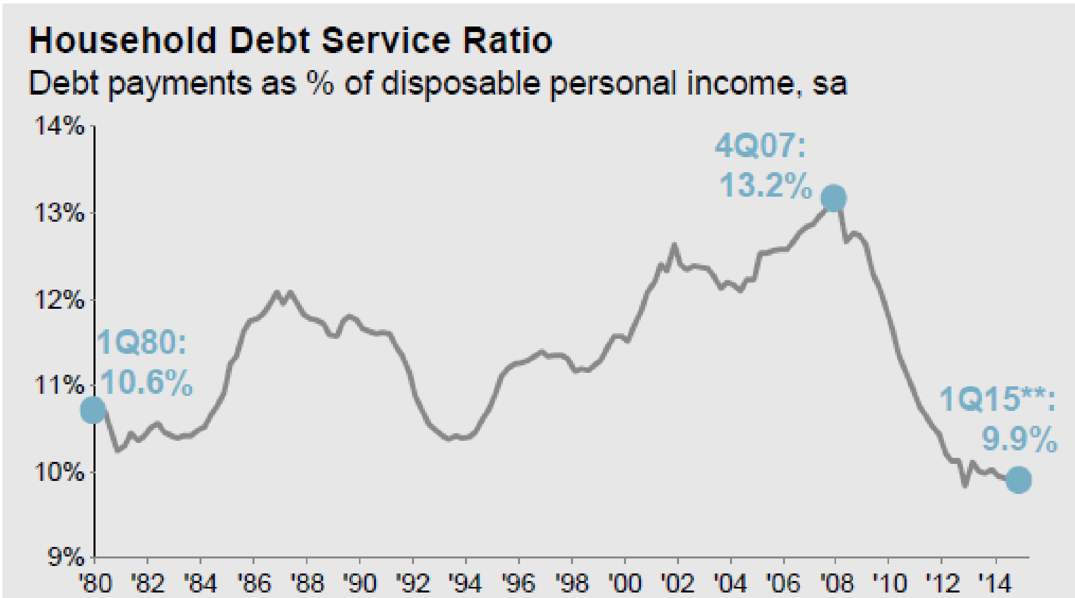
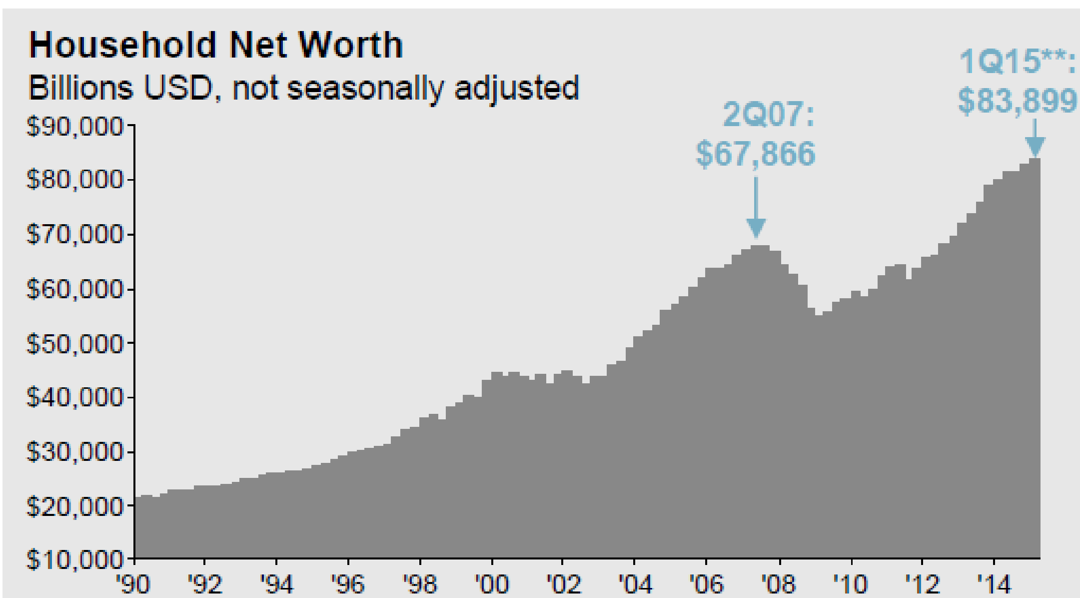
Charts 5 & 6: Consumer Spending Capacity has Improved





Charts: JP Morgan Asset Management

The coming year will likely feature more volatility, but also more opportunity for investors to take advantage of market dislocations. As always, patience and diversification will be keys to weathering potential storms. We appreciate your continued trust in us as your investment advisor, and we look forward to working together productively this year.

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