"As a bull market continues, almost anything you buy goes up. It makes you feel that investing in stocks is very easy and safe and that you're a financial genius."
–Ron Chernow

The first quarter gave investors reason to pause and celebrate: March 9 marked the five-year anniversary of the U.S. bull market.

The bad news is that, to riff off of Mr. Chernow's thought, there are fewer and fewer "financial geniuses" out there. Why? Because the markets have stopped spoon-feeding gains to any and all investors.

The five-year bull market lifted all stock-market sectors, from utilities to financials to technology. But in the first quarter, even though U.S. stocks as a whole were up modestly, sectors fared very differently. Nervous investors snapped up utilities, making that sector the quarter's top performer, while consumer discretionary, the hottest sector in 2013, struggled.

The quarter's results came against the backdrop of mixed signals on the U.S. economy. Early weakness may have been largely the result of the exceptionally miserable winter weather. By the end of the quarter, hints of a thaw appeared as key measures of manufacturing and housing activity picked up, and monthly payroll gains ticked upward as well.

International stocks, meanwhile, were also a mixed bag in the first quarter. The MSCI All-Country World ex-U.S. Index ended up .61%. Europe led the way, with the MSCI Europe Index rising 2.21%. But Japan fell 5.47%, correcting after a terrific 2013. And, largely because of concerns about China's economic slowdown, the rest of Asia fell .68%. Emerging markets, meanwhile, fell .37%, largely due to currency weakness.

This kind of choppy environment is where Steel Peak's Dynamic Model Portfolios offer tremendous value. Their active covered call strategies provide enhanced extra cash flow that can bolster performance in challenging markets. (Commentary continues on page 3.)

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Spotlight: Dynamic Global Equity ETF

Let's look at our Dynamic Global Equity ETF portfolio. In the first quarter, the model returned 2.16%, beating its benchmark, the MSCI World Index, which returned 1.4%. Dynamic Global Equity ETF is designed to provide global equity market returns, enhanced by an active covered-call writing strategy to generate additional cash flow.

Two factors helped the strategy to outperform in the first quarter. The first was the fact that, like all of our Dynamic Models, Global Equity ETF is continuously analyzed and adjusted in light of changes in market conditions.

The second factor is our covered-call strategy. When markets aren't going up uniformly, covered calls are a great way to sustain and smooth out performance by generating cash premiums.

At Steel Peak, covered calls are an important tool in our overall investment philosophy, which focuses on bolstering cash flow into our portfolios. The covered call strategy is part of what helped the Dynamic Global Equity ETF to significantly outperform its benchmark.

Our covered-call strategies can also help to contain volatility. In the first quarter, Dynamic Global Equity ETF had a lower beta than the MSCI World Index. Translated, that means it was less volatile than the market as a whole. The MSCI World Index had a beta of 1.4, meaning it was theoretically 40% more volatile than the market. The Dynamic Global Equity ETF model had a beta of 1.04, meaning its volatility was about equal to that of the market.

Smooth returns are important because when investors avoid big losses they are able to spend more time making money, rather than trying to recoup those losses. Thus, over time, lower volatility can result in higher overall returns. To learn more about our Dynamic Global Equity ETF strategy, click here.

(Continued from Page 1) Bonds staged a surprisingly broad first-quarter recovery. Demand rose due to the slower-than-expected economic growth, instability in the emerging markets and growing confidence that the Federal Reserve's tapering of its bond-buying program will play out smoothly. Every major bond market segment ended the quarter with a gain, and long-term U.S. Treasuries led the pack, with the Barclays U.S. Government Long Index climbing 7%. We remain cautious about fixed income, which should be used primarily as a diversifier in light of continuing headwinds for the asset class.

Looking ahead, global economic conditions look positive, led by the U.S. and the developed countries of Europe. However, volatility in global asset markets may continue to rise due to emerging market economic concerns as well as geopolitical risks, centered in particular on Ukraine.

The bottom line: We believe markets remain on course for gains this year—but it's likely that those gains will be more modest than last year's, and that they will involve more volatility. Against that backdrop, we believe investors are best served by active investment selection and by strategies that maximize cash flows to cushion losses and bolster gains.

Investor Education: Understanding Covered Calls

Covered-call investing provides a means to increase the income generated within a stock portfolio. The strategy involves buying a stock and giving another party the option—for a fee—to buy it at a pre-determined price.

<u>An example</u>: You buy 100 shares of XYZ Corp. at $100 per share in April, and write a call with expiration in May at a "strike price" of $105. If XYZ Corp. stays below the strike price of $105, then the option will expire without the stock being sold. If the stock exceeds the $105 strike price, then it can be sold, anytime before the expiration date. Either way, the premium received for this transaction is $1.00 per share, which, in this example, equals a 1% premium cash flow for the month.

In addition to enhancing income, call options can lower a portfolio's volatility by offsetting capital losses. Thus, cash flow becomes especially important in markets that are falling or moving sideways.