6600 Perimeter Dr.
Suite 200
Dublin, Ohio 43016

614.791.HAWK

info@hawk100.com
www.hawk100.com

Dear Hawk100 Member,

2013 in Retrospective.

Your Hawk100 wealth advisor wishes you and your family a blessed and prosperous year during 2014 and sends warmest regards with your Wealth Alignment Report.

The enclosed report offer insights that may assist your understanding of the investment process and results we provided you during 2013. We hope that you also find this letter instructive of our planned strategy for 2014

Ordinary income taxes.

The financial market returns of 2013 surprised us. To explain, let's revisit the state of financial markets at the start of 2013.

- Stocks had just closed a year of abnormally high returns while the S&P 500 had returned 16%, and MSCI EAFE Index returned over 17%.
- Stock valuations were relatively rich as stocks traded at 16.3 times earnings compared with a 10-year average P/E of 15.5 times (a measure which was skewed upward by extremely high measurements while earnings were abnormally depressed during the great recession depths). Charts 1 and 2 illustrate this trend.
- Expected returns for stocks had fallen when considering expected mean reversion coupled with relatively high fundamental valuations.
- Historically low interest rates offered subdued return prospects from domestic bonds. 10-year US Treasury notes yielded just 1.83%; the muni master index yielded 1.63%; and TIPS offered negative real yields through April 2029.
- Suppressed return expectations among traditional stocks and domestic bonds drove us to favor foreign bonds and alternative assets.

Chart 1—S&P 500 price and P/E Ratio, 2003-2013.
Telemet.

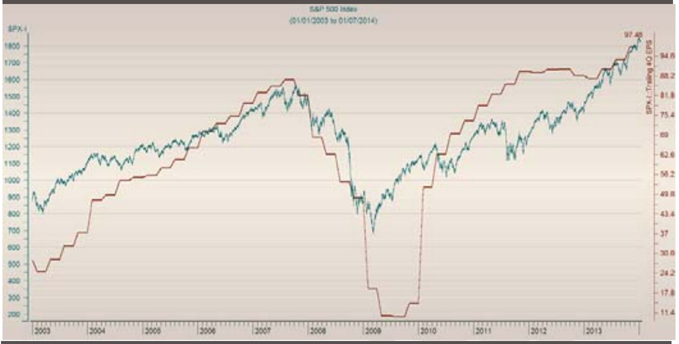

Chart 2—S&P 500 price and EPS TTM, 2003-2013.
Telemet.

Several political and economic risks compounded financial market concerns.

- Barely minutes into 2013, Congress enacted new tax policies that raised rates on investment activity and higher incomes. Taxes applied to interest, dividends, capital gains, wages, and ordinary income all increased. The new tax policies reduced after-tax expected returns effective 1/1/2013.
- Treasury expected to encroach the debt ceiling at least once during 2013, and we had expected Washington paralysis to

By Richard Clemens, CFA CPA, *President*

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exacerbate the problem into an economic crisis. Indeed, the debt ceiling was central to the fight that caused a government shut-down in October although it wrought little economic damage.

- We had expected further enactment of Obamacare to materially impact the economy. The far-reaching law had already impacted labor markets and has just begun to affect discretionary income as a greater portion of wealth is encumbered by higher costs of medical delivery and payment through a more complex bureaucracy.
- We had expected the US Federal Reserve to begin to end its quantitative easing efforts that have taken various forms since 2007. The current Fed chair, Ben Bernanke, has overseen enormous monetary expansion, and the Fed now holds over $4 trillion in assets—having grown $1.1 trillion in 2013. Expansion of the monetary base may have been the predominant driver of financial market returns since 2008. We fear the Fed is in a "catch 22." If it slows the pace of monetary expansion, financial markets could contract. If it continues the pace of expansion, inflation could accelerate. Janet Yellen has been confirmed to replace Ben Bernanke as Fed chair this month. Ms. Yellen is expected to favor a dovish monetary policy; however, she is likely to eventually see pressure to end the easing cycle especially if inflation rises.

Many of our 2013 expectations did occur, but some failed to be realized in investment results.

US government bonds fell 4.2%. US corporates lost 1.4%, and foreign bonds dropped 6.2%. Unexpectedly, stocks outpaced any forecast. US large stocks returned 32.4%. US small stocks outperformed with 41.3%, and international stocks added 22.8%. 2013 marked the highest calendar year returns since 1997 and 1971, for large and international stocks, respectively, and the highest on record for small stocks. Meanwhile, alternative assets fell short of expectations. Commodities lost 11.1% as gold lost some luster, and real estate dropped 1.7% despite $564 billion Fed mortgage purchases and a stable housing market as shown in Chart 3.

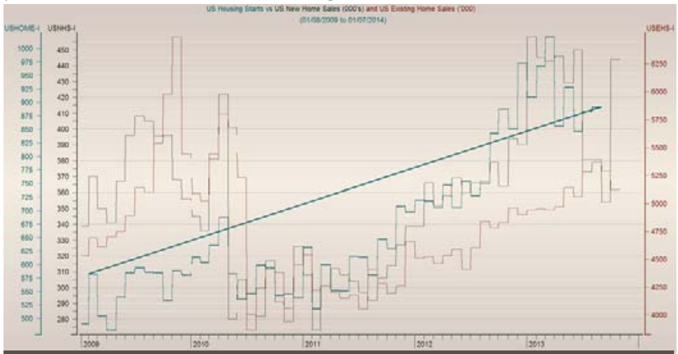

Chart 3—US Housing Starts, New Home Sales, Existing Home Sales, 2003-2013. Telemet.

We were concerned with potential fallout from a change in direction at the US Federal Reserve. We strategically invested in positions thought to be well suited for a market where the Fed would either slow or end quantitative easing. We recommended emerging and frontier investments—both debts and equities—as geographically independent from Fed policy and that offered positive investment prospects if the Fed bond binge continued.

Markets behaved contrary to our expectations when, in April, the Fed began hinting that it intended to "taper" its monthly bond purchases. Instead of outperforming under those conditions, emerging and frontier securities acutely declined. As a result of lessons learned during the ensuing months, we modified our investment process to better position portfolios going forward. We reiterate these modifications in a later portion of this letter.

Looking ahead to 2014.

Our expectations for 2014 resemble those held in 2013 only for somewhat different reasons.

First, we believe that excessively loose monetary policy throughout the Bernanke regime has increasingly elevated financial prices while risking a more precipitous fall if not hyper-inflation. We expect that the Fed will further wind down its quantitative easing policy during the first months of Ms. Yellen's tenure. A muted pace of monetary expansion would likely constrain investment results for virtually all assets.

Second, the political cycle—mid-term elections in the US and significant votes abroad (Scotland and Catalonia will consider referenda for separating from the UK and Spain, respectively)—will make for another divisive year. Midterm election years tend to underperform. Over the last 90 years, stock market returns during midterm election years have lagged non-midterm years by 5% on average. Interestingly, US treasury yields have tended to decline during midterm election years. In the past, Federal Reserve policies have primarily driven those declines. Again, we think Fed monetary policy will be muted during 2014.

Provide. The 10-year US treasury now yields 3.0%, still historically low although 1.2% higher than a year ago. Credit spreads have narrowed considerably with US investment grade corporate bonds yielding only 3.3% and junk yielding 5.6%. Meanwhile, emerging markets yields have increased to 6.1%. If credit spreads widen while interest rates rise the forecast result would be for very low returns among most bonds. The only fixed income investments that appear to offer respectable value would be those holding emerging market positions.

Promote. We expect equity market returns to be more narrowly focused in 2014. Earnings multiples (P/E ratios) tend to expand in two types of environments. Optimistically, they expand with bull markets albeit that investors become increasingly selective such as during the 1990s tech bubble. Pessimistically, they expand during recessions that cause earnings to contract more quickly than equity prices. The earnings multiple rose 20% during 2013, and we think further expansion is unlikely. An 18.0 P/E ratio and 1.8% dividend yield presently implies equity returns of 7.4% for 2014. Furthermore, we expect it will prove difficult to sustain excess returns following extreme returns of 2013. This does not preclude us from investing in equities. It simply explains our opinion that investment returns could be lower during 2014.

Protect. We firmly believe that diversification enhances long-run investment results and will continue to moderate our investment exposures with positions in alternative assets that will grow with rising risks and will fall when opportunities prevail.

The Hawk100 Wealth Alignment process.

We rigorously examined our entire investment process. That effort led us to change certain aspects and reinforced other aspects by supporting our hypotheses. The new process more thoroughly and rigorously analyzes relevant data and heightens prudence that increases our confidence in expected outcomes.

What have we changed to improve the process?

We replaced our quantitative model to manage portfolio diversification. We learned that our previous model contributed to investment decisions that concentrated certain statistically significant investments which in fact diminished realized results. The new model allows interpretation of statistical observations and increases our risk management control.

We modified the model to formulate expected bond market risks and returns to reflect expected changes in yield and duration. We are better equipped to project bond market risks and returns particularly when rates rise (prices fall).

We adopted a new model to determine fundamental global asset allocations. We measure the world's currencies, interest rates, productivity, and capital flows. From that information, we derive estimates of return from currency, bonds, and stocks in each market. We are able to aggregate measures from individual nations to reach judgments about markets of varying regions and stages of market development. Chart 4 illustrates the process to improve our understanding of opportunities and risks in interconnected global markets.

What have we reinforced in our existing process?

Diversification. Over long horizons, effective diversification reduces return variability, increases the likelihood of expected outcomes and avoids extreme losses that require substantially higher returns and excessive risk taking to overcome. A diverse portfolio that seeks to provide a prudent and reasonable return best suits Your Wealth Alignment Plan.

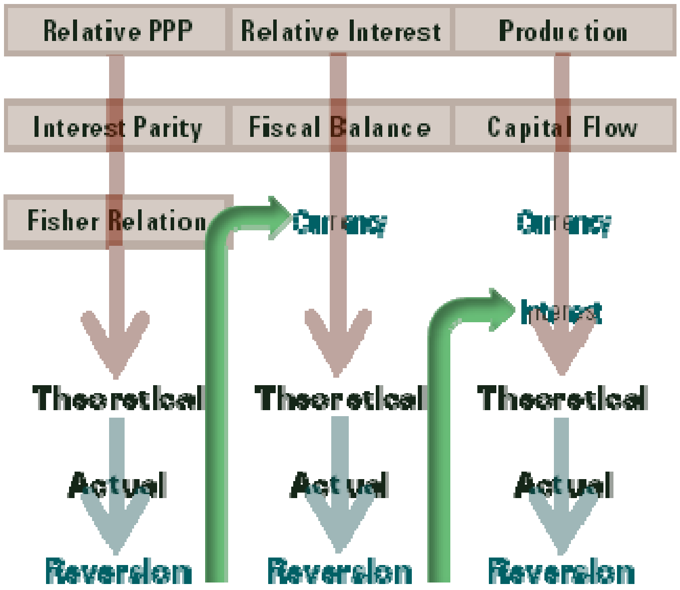

Chart 4—Global Allocation Model.

Sector allocation. Sectors respond differently to dynamic market and economic conditions. We maintain that prudent sector allocation made by judgments of quantitative, economic and fundamental conditions can improve performance.

Costs. We continue to recommend holdings that reduce underlying investment costs while affording efficient implementation of selected investments and strategies.

We believe our new process enables us to better serve you and your objectives and remain steadfast toward Hawk100's purpose to help you align your wealth with your life.

We welcome your questions and appreciate your membership.

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