HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

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One recent headline declared: "The stock market could be kind of scary this year." Let us state right up front to our clients: we are not scared. But nor are we wildly enthusiastic about the outlook ahead. We expressed pretty clearly three months ago that 2015 would be a more subdued year for the market than in 2014. But that restrained viewpoint does not translate into something scary.

The market is stuck now in a fairly narrow trading range. The story is pretty simple: There is not enough good news to drive stocks higher and not enough bad news to push them lower. The bulls and bears are in a fight for control. We advised in January that the market would be stymied by concerns over Federal Reserve policy, the strong dollar, and the ability of corporate earnings to drive stock prices higher. But the counter veiling force is the sustained long-term growth of the U.S. economy.

At times like these, we always like to check on what Warren Buffet is saying. In his most recent shareholder letter, Buffett was blunt on the question of which asset carries the higher risk – stocks or cash? His answer was cash – hands down! He said that inflation destroys the value of cash investment "like rust gnawing away at an unpainted bridge." The same applies to bonds, says Buffett. In the five decades from 1964 to 2014, stocks were the only asset class to run ahead of inflation and preserve purchasing power for investors. Buffet tells his shareholders to shake off those short-term nervous moments.

We give the same guidance to our clients. We are committed equity investors. Admittedly, choosing stocks in the period ahead will not be easy. Many stocks in the S&P 500 look highly valued right now. We are working quite hard to find stocks that have foreseeable growth potential. But we do not see a major retreat in the market this year. We can protect our clients and find areas for modest gain.

MARKET TRENDS

The accompanying chart summarizes stock and bond market prices in the first quarter. The stock market ended basically flat – after first rising, then retreating. Meanwhile, the U.S. Treasury market continued to show moderate advances.

Equity Market: The first quarter was a time of fits and starts for U.S. stocks. Both the Dow Jones Industrial Average and the S&P 500 index hit new records at various points in January and February. Then, in March, the rally stalled largely over concerns about the impact of the strong dollar on the profits of big, U.S. - based multinational firms. The S&P 500 ended up with just a .95% gain for the quarter and Dow Jones returned .30%. Both indexes have continued to bounce around in April. The story is much better for the Nasdaq Composite Index. Many investors endorsed innovations in the technology sector and the index ended up 3.5% higher. It came close to breaking a 15-year record. The story was also positive for the Russell 2000 index which rose 4.32%. Smaller companies are less affected by a stronger dollar.

Fixed Income Market: U.S. Treasury bonds were the instruments of choice in the fixed income markets. The yield on the benchmark 10-year notes ended the quarter at 1.930% -- down from 2.173% at the start of the year. Yields fall when bond prices rise. Many investors continue to see U.S. Treasuries as the place to go when equities look uncertain. They overlook the future risk of inflation and an eventual increase in interest rates. U.S. Treasuries were helped by offering much better yields than government debt of other developed nations – and demand from foreign investors was strong. In the corporate sector, junk bonds drew interest from a group of investors hungry for income – and obviously impervious to the credit risks. (Next quarter, our view on negative yields on sovereign European bonds.)

MAJOR MARKET INDEXES

	1Q Total Return	1 YR Total Return
Dow Jones Industrials	0.30	10.57
S&P 500 Index	0.95	12.73
Russell 2000 Index	4.32	8.21
NASDAQ Index	2.30	20.52
EAFE Index NR	4.88	-0.92
Barclays Aggregate Bond Index	1.64	5.36

*Total Return Includes Reinvested Dividends.

THE OUTLOOK

The Economy: The U.S. economy is in good position for sustained long-term growth. We see no prospect of recession in the next several years. New jobs have grown by over 200,000 per month in the last year. The unemployment rate is down to about 5.5%. The March new job numbers – which slipped to 126,000 – were a disappointing aberration caused largely by bad weather in most parts of the country, in our view. Growth should reaccelerate to the 2.5% to 3% annual range – consist with recent momentum.

Other events support our confidence. First, energy prices have declined nearly 50% since last June. Some business sectors do get hurt. But, on balance, cheaper energy is positive for consumers and many businesses. This positive impact is just starting to work its way through the consumer sector. Second, the European Central Bank is finally injecting liquidity into its banking system. The results should be to boost lending and stimulate the laggard Eurozone economy. Thirdly, despite all the anxiety, we think the Federal Reserve will act with caution and intelligence. They probably will increase rates by the end of 2015 – but perhaps by a modest 25 basis points. Interest rates will stay historically low for a prolonged period.

The Market: Many investors worry now that the stock market is due for a pause – and perhaps a meaningful correction. In five of the past six years, the S&P 500 has generated double digit returns. Since its March 2009 bottom, it has more than tripled in value. Historically, few bull markets have lasted this long.

Stock prices are an important concern. The S&P 500 is trading at 16.7 times the coming 12 months' forecast earnings – above the 10 year average of 14.1. So we will continue to watch earnings reports closely. As stated in January, we see a mixed picture. The fundamentals in the U.S. economy will allow some companies to do well. Others will struggle. We see a few signs that the markets are a bit overvalued in certain sectors. Corporate M & A activity and stock buybacks are at record levels. Private equity valuations, in particular in the social media space, are at highly optimistic levels similar to the late 90s dot com era. In addition, an equity screen via Thomson Reuters looking for US listed Large Cap stocks with a dividend yield greater than 3% and a Forward P/E Ratio Less than 20 produced only 74 stocks with many in the energy and materials sector (results listed in the Market Data section).

Three months ago, we thought the market might end the year with gains as high as 8%. That forecast now seems a bit optimistic. The growth will probably be less. But, most important, we do not expect the market to undergo significant setback or correction this year. However, after a strong recovery from 2009, clients should look to rebalance if overweight in equities.

OUR STRATEGIES

Asset Allocation: For clients investing new money, same as last quarter, we recommend 55% allocation to equities and the remaining portion to cash, bonds with maturities under two years, and alternative investments. We suggest fully invested clients to trim equities to 55-65% depending upon time horizon and objectives.

Preferred Equities: We remain focused on large cap companies with strong balance sheets, sustainable cash flows, and credible business models. Companies that pay attractive dividends are central to our strategy. Some of the sectors we like are similar to those indicated last quarter:

- FINANCIALS: The stocks of insurance companies and some banks have attractive value.
- TECHNOLOGY: Some technology companies have room for further growth – especially those with innovative consumer products.
- HEALTH CARE: We are attracted to some pharmaceutical companies because of new products coming to market.
- INTERNATIONAL: Emerging market stocks have been underperformers in recent years – and have not been our friend. But we anticipate them to rebound in the period ahead. We also share the new interest in European stocks as the economies there look brighter.

Fixed Income: We still shun long-term bonds for reasons we have explained repeatedly. With yields near historic lows, bondholders are more vulnerable to losses if yields snap higher because price declines could outpace interest payments.

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Market Data Center

Dow Jones U.S. Sectors (Percent Change for YTD, Ending March 31, 2015)			
Oil & Gas	**-2.09**	**Consumer Services**	**5.14**
Basic Materials	**-0.23**	**Telecommunications**	**2.02**
Industrials	**1.58**	**Utilities**	**-4.74**
Consumer Goods	**1.14**	**Financials**	**-0.75**
Health Care	**7.29**	**Technology**	**0.85**

1st Quarter 2015 Top 25 and Bottom 25 performing stocks (US listed stocks with a market cap greater than $500 Million)

- *Source Thomson Reuters Eikon*

Ticker	Company Name	Market Capitalization (USD, Millions)	Total Return, YTD (Simple) (%)	Ticker	Company Name	Market Capitalization (USD, Millions)	Total Return, YTD (Simple) (%)
CLLY.PK	CNL Lifestyle Properties Inc.	1,138.16	3400.00%	HMCP.PK	Heritage Media Corp	703.58	-56.00%
QRVO.OQ	Qorvo Inc	11,770.60	380.41%	LL.N	Lumber Liquidators Holdings Inc	827.24	-53.58%
ZDPY.PK	Zoned Properties Inc	926.32	212.50%	OCN.N	Ocwen Financial Corp	1,022.87	-45.36%
COFI.PK	Credit One Financial Inc	978.47	172.73%	KBSR.PK	KBS Real Estate Investment Trust II	695.37	-45.15%
EGRX.OQ	Eagle Pharmaceuticals Inc	604.21	170.26%	SBLK.OQ	Star Bulk Carriers Corp	563.21	-44.66%
ESPR.OQ	Esperion Therapeutics Inc	2,034.04	128.98%	APOL.OQ	Apollo Education Group Inc	2,066.40	-44.53%
FMI.OQ	Foundation Medicine Inc	1,397.46	116.52%	ZU.OQ	Zulily Inc	1,616.13	-44.49%
ZIOP.OQ	ZIOPHARM Oncology Inc	1,312.68	112.43%	CENX.OQ	Century Aluminum Co	1,261.15	-43.44%
PCYC.OQ	Pharmacyclics Inc	19,502.52	109.35%	FPCG.PK	First Physicians Capital Group Inc	11,795.70	-42.31%
HZNP.OQ	Horizon Pharma PLC	2,728.44	101.47%	CMLS.OQ	Cumulus Media Inc	604.26	-41.61%
RTRX.OQ	Retrophin Inc	719.27	95.75%	TDW.N	Tidewater Inc	918.02	-40.17%
HPTX.OQ	Hyperion Therapeutics Inc	887.91	91.25%	ENTA.OQ	Enanta Pharmaceuticals Inc	585.63	-39.78%
ASPX.OQ	Auspex Pharmaceuticals Inc	2,256.01	91.06%	SSYS.OQ	STRATASYS LTD	2,786.54	-36.49%
ABMD.OQ	Abiomed Inc	2,890.21	88.07%	BTU.N	Peabody Energy Corp	1,425.06	-36.40%
CHRS.OQ	Coherus Biosciences Inc	946.75	87.38%	ACTG.OQ	Acacia Research Corp	541.07	-36.10%
CORT.OQ	Corcept Therapeutics Inc	565.84	86.67%	GSKNF.OB	Genco Shipping & Trading Ltd	544.64	-35.56%
PRTA.OQ	Prothena Corporation PLC	1,036.80	83.72%	SNDK.OQ	SanDisk Corp	13,758.56	-34.76%
CBM.N	Cambrex Corp	1,092.69	83.30%	CACQ.OQ	Caesars Acquisition Co	882.42	-34.04%
ICPT.OQ	Intercept Pharmaceuticals Inc	6,652.90	80.78%	COUP.N	Coupons.com Incorporated	966.14	-33.86%
ANAC.OQ	Anacor Pharmaceuticals Inc	2,382.23	79.38%	NDLS.OQ	NOODLES & CO	525.09	-33.81%
EBIX.OQ	Ebix Inc	1,063.52	79.25%	CSLT.N	Castlight Health Inc	725.87	-33.68%
OCUL.OQ	Ocular Therapeutix Inc	906.32	78.51%	LE.OQ	Lands End Inc	1,132.86	-33.51%
NBIX.OQ	Neurocrine Biosciences Inc	3,275.03	77.75%	CZR.OQ	Caesars Entertainment Corp	1,403.37	-32.89%
OLED.OQ	Universal Display Corp	2,140.33	68.47%	RYAM.N	Rayonier Advanced Materials Inc	648.56	-32.87%
ISLE.OQ	Isle of Capri Casinos Inc	549.18	67.86%	CLF.N	Cliffs Natural Resources Inc	725.01	-32.63%

Top 25 Yielding Large Cap US Listed Stocks with a 3% (Forward P/E Ratio<20x, Market Cap>$5 Billion)

**Source Thomson Reuters Eikon*

Ticker	Company Name	Market Capitalization (USD, Millions)	Forward P/E (Mean) FY1	Dividend Yield (%)
RIG.N	Transocean Ltd	6,085.36	10.5	18.34%
CG.OQ	Carlyle Group LP	8,902.02	10.5	12.42%
AGNC.OQ	American Capital Agency Corp	7,655.51	8.1	12.23%
NLY.N	Annaly Capital Management Inc	9,856.06	8.9	11.59%
ARCC.OQ	Ares Capital Corp	5,383.81	10.6	8.88%
NRF.N	Northstar Realty Finance Corp	5,886.23	9.8	8.79%
KKR.N	KKR & Co LP	18,519.12	8.9	8.31%
STWD.N	Starwood Property Trust Inc	5,504.13	11.4	7.83%
ENBL.N	Enable Midstream Partners LP	7,280.63	17.4	7.19%
BX.N	Blackstone Group LP	46,372.82	10.7	6.72%
IEP.OQ	Icahn Enterprises LP	11,154.40	16.0	6.62%
MAT.OQ	Mattel Inc	8,197.99	15.7	6.25%
CTL.N	CenturyLink Inc	20,254.17	14.0	6.07%
NYCB.N	New York Community Bancorp Inc	7,543.48	16.6	5.87%
T.N	AT&T Inc	170,081.80	13.1	5.72%
PM.N	Philip Morris International Inc	120,674.33	18.2	5.17%
CNP.N	CENTERPOINT ENERGY INC	8,925.69	19.3	4.82%
SO.N	Southern Co	40,559.44	15.6	4.75%
VZ.N	Verizon Communications Inc	200,438.03	13.3	4.49%
LVS.N	Las Vegas Sands Corp	47,343.68	18.9	4.48%
SEP.N	Spectra Energy Partners LP	16,172.43	17.8	4.47%
PPL.N	PPL Corp	22,721.14	14.5	4.44%
OAK.N	Oaktree Capital Group LLC	7,884.14	15.1	4.37%
GRMN.OQ	Garmin Ltd	8,922.65	15.1	4.36%
ED.N	Consolidated Edison Inc	17,825.13	15.5	4.30%