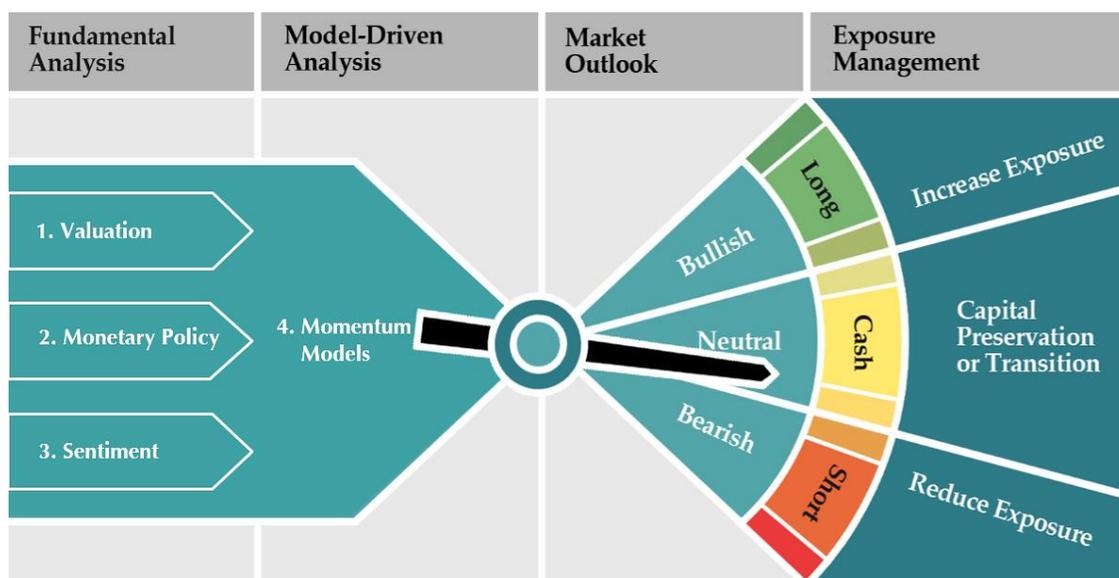


Introduction

Broadmark is excited about the recent acquisition of Forward by Salient, which includes a 34% equity share of Broadmark. Combining the people and talent of Forward, Salient and Broadmark will greatly enhance our ability to service our client.

The S&P 500 spent the second quarter in a sideways trading range returning just 0.21%. Headlines were dominated by predictions of when the Federal Reserve will initiate an increase in rates, the potential for a Greekexit and the quick and dramatic end to the raging bull market in China. All of these events are yet to have come to a conclusion. The quarter was highlighted by uncertain geopolitics producing a narrow trading range environment.



Broadmark Investment Process

A brief look at the four pillars of our investment process show that virtually any measure of **valuation** is at its historical high. Valuation however is not a good timing tool, it just tells us that risks have risen. Higher valuation markets are more sensitive to changes in interest rates.

Most notably is that for the first time since quantitative easing was accelerated in 2011, we are seeing deterioration in **monetary factors**. Specifically, the general level of interest rates have begun to rise along with pronounced deterioration in interest rate sensitive. Interest rate sensitive stocks often peak ahead of the broader market. We see this as a warning sign as an anticipated change in monetary policy along with deterioration in monetary factors often proceeds a general equity market decline.

Sentiment, which we view from a contrarian perspective, has improved due to global turbulence causing investor fears to rise. Intermediate term sentiment is heading toward the levels we saw in October 2014 at the market low.

Momentum is negative across the board as a number of our volume based momentum models have deteriorated. There has been a marked narrowing in the participation of stocks making new highs as the S&P 500 has made new highs. Generally speaking, a vulnerable market is characterized by fewer and fewer stocks participating. Examples of this today are transportation stocks which are in a pronounced down trend.

The central theme is that risks are high, higher than they have been in the last 5 years. Risk aversion needs to be a focus. We remain cautiously defensive as we see multiple red flags in our process.

