

Volatility finally kicked into gear early in the quarter and resulted in both a swift correction and rebound to new all-time highs. The quarter's volatility was driven by global instability, the end of QE in the US, the Ebola crisis and plummeting oil prices. After the S&P 500 reached its 53rd all-time-high closing price in 2014, it finished the year by erasing its December gain and closing down 0.4% for the month, but finishing the year with a strong 13%+ return.

The Forward Tactical Growth Fund returned +1.82% for the fourth quarter, slightly outperforming its Morningstar peer group.

A brief look at the four pillars of our investment process show that while **valuations** may appear high when you look at median price/earnings multiples, when adjusted for interest rates and inflation they remain average. Global **monetary factors** are mixed. While rates remain low and policy is easy, credit spreads have widened due to the collapse in energy prices.

The short, intermediate and long term **sentiment** models are all negative and have reached levels coincident with a pullback. **Momentum** is solidly negative on a short and intermediate term basis, but the long term models are still holding to the positive side. Typically when the intermediate term model turns negative, there is potential for a 5% - 10% correction. However we are not in enough of an over-sold condition currently to indicate the end of the early January correction. Currently, we see this collapse in oil as similar to the 1980s when oil went from \$40 to \$8 per barrel. Equity prices continued to move higher as the decline improved the economy. So far, we see this drop in energy as a positive as we see positive relative performance in consumer discretionary and retail stocks. However, one concern is how much leverage is in the system and to what level will that create a global margin call.

Tactically we are watching credit conditions to adjust exposure. Every major market reaction in the past 50 years has been preceded by widening credit spreads.