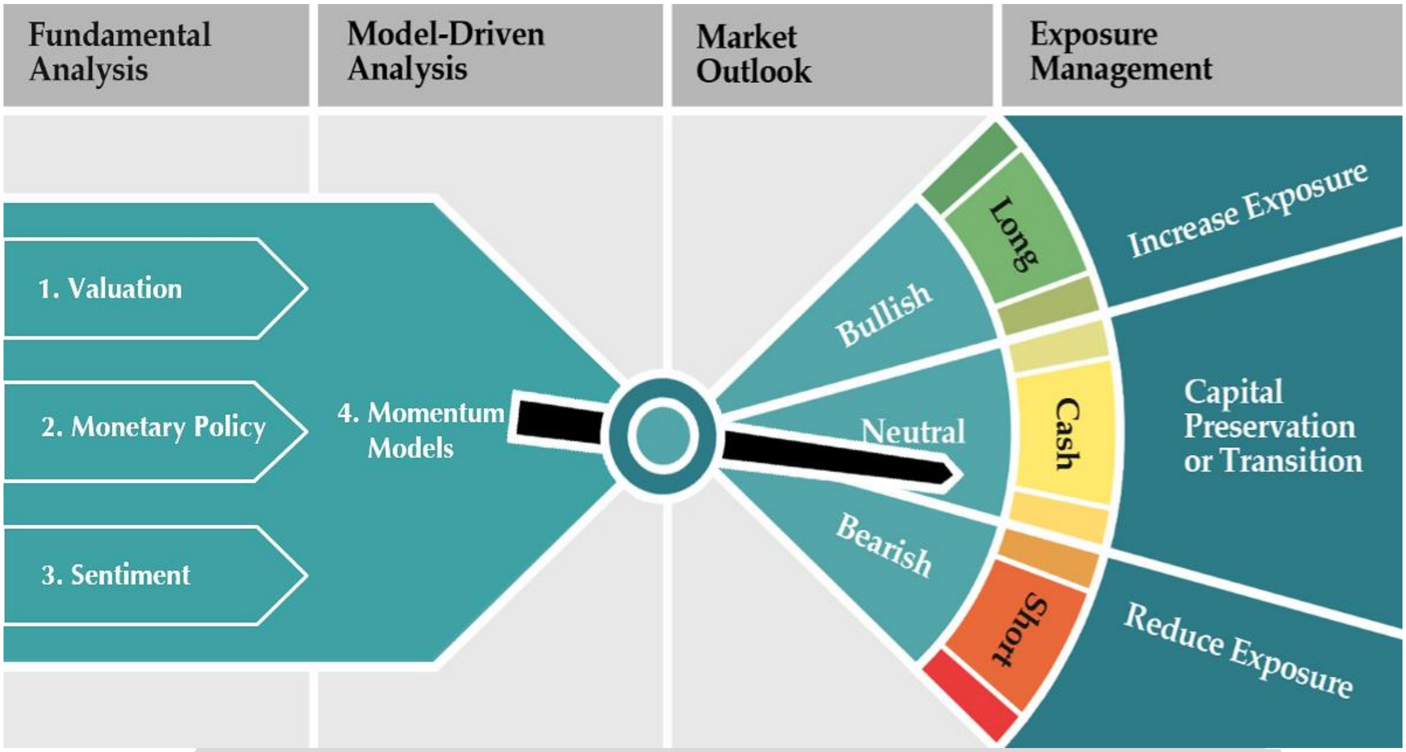
Introduction

Equity market turbulence picked up in the quarter. The Federal Reserve is attempting to carefully prepare the market for change without scaring it. The risks of tightening too early can outweigh the benefits. The current targets for an increase in rates is 2% for inflation and closer to 5.1% for unemployment. These dovish comments from the Fed coupled with softening economic data shifted the mood, from fear of tightening to a growth scare virtually overnight. The S&P 500 continues to flirt with all-time-highs and finished the quarter up 0.95%.

Broadmark Investment Process



Investment Philosophy

At the core of our investment philosophy is the rejection of traditional buy and hold investing, which allows us to be benchmark agnostic and apply a flexible investment mandate. We focus on dynamic portfolio repositioning, trying to protect investor capital, and aim to deliver above average risk-adjusted investment returns in any market environment. We have a disciplined process that attempts to manage equity market risk.

What differentiates the Broadmark strategy from other tactical and long/short strategies is that we are able to move to a 100% cash position or can go net short if our models turn negative. In addition, we are able to change exposure immediately as market conditions change, since our models are continuously updated.

Quarter in Review

The quarter was highlighted by an increase in volatility, oil weakness and the strong dollar. Economically sensitive sectors, such as the transportation index, suffered substantially.

A brief look at the four pillars of our investment process show that measures of **valuation** are broadly negative, but historically are not a good timing tool. A bull would argue that when interest rates and inflation are low, you can have much higher multiples and can remain expensive until there is a shift in monetary factors. Therefore we rank valuation as neutral to negative.

Global **monetary factors** are mixed. In the U.S., NAIRU is the buzz word of the day. Following the March 18th Fed meeting the fear of tightening has been pushed a bit into the future. Market participants had trades on that would do well into a strengthening economy with rising rates but are now getting unwound. Credit spreads have improved, which can be an indication that we are not yet at the end of the bull market. Typically spreads narrow with improving economic activity and the Fed will try to prevent an inflation spike by tightening.

Our **sentiment** models have improved but are still neutral to negative. Heavy put writing and extreme margin debt has kept sentiment in bearish territory.

Momentum is positive with the lack of broader participation beginning to improve, specifically the percentage of stocks trading above their 200 day moving average beginning to climb.

Tactically any improvement in sentiment along with improvement in credit spreads and credit conditions would allow us to be more bullish. Conversely, further deterioration on the credit front will cause us to become much more defensive.