F.L.PUTNAM
INVESTMENT MANAGEMENT COMPANY

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A LETTER FROM THE PRESIDENT

BY JOHN V. CARBERRY

So much for consensus forecasts.

2014 was especially harsh on economists' predictions about what the year would bring to investors. Here are some of the key consensus forecasts made a year ago [along with the actual outcome]:

- The S&P 500 Index would pause in 2014, posting only modest results after a terrific gain of 32% in 2013 [the S&P 500 posted a solid 13.68% gain in 2014].
- The yield on the 10-year Treasury Note would rise from 3.00% at year-end 2013 to 3.50% – 4.00% by year-end 2014, powered by global growth [the 10-year Note went the other way and finished 2014 at 2.17%].
- Crude oil was trading at $98 per barrel and was expected to remain at close to that level in 2014, given supply / demand forecasts [today, oil is trading at $53 per barrel].

These prognosticators are all very bright people with enormous resources and a good track record. They are not often hung out to dry. They were simply blindsided by enormous global cross-currents that developed during 2014 and that remain firmly entrenched at the beginning of 2015.

To us at F.L.Putnam, the major cross-current is the increasing strength of the U.S. economy while virtually all the other major economies in the world are either stagnating or slowing. At the most strategic level, we believe this will be the primary market dynamic for investors in 2015.

It is clear to us that the U.S. economy continues on a solid and sustainable upswing: U.S. GDP rose at a powerful 5% in the 3rd quarter; corporate profits and balance sheets are strong; there is continuing improvement in employment and consumer spending; lower gasoline prices at the pump are a meaningful tax cut to consumers; and corporate merger activity is at the highest level on record – a sign of business confidence.

In other major economies the contrast vs. the U.S. is stark: the Eurozone is stagnant; Japan is in recession; and China's rate of growth is slowing, causing most emerging market economies to slow along with it.

How long can this dichotomy persist? Will the U.S. be the engine of global growth, pulling other economies up with it or will economic weakness abroad cause the U.S. to slow? This is the $64 question for 2015, and as economic data comes in supporting one side and then the other, we expect to see increased market volatility during the year.

At F.L.Putnam, we have made some modest changes in our investment posture in 2014 given the changing global economic picture. We remain positive on stocks as the most attractive asset class, but with increasing caution as valuations reach new highs. Another way to put it: we like stocks but we don't love stocks – and we like U.S. stocks far more than non-U.S. stocks.

As we have mentioned in previous letters, we believe bonds hold more risk than stocks in today's market. However, with the Federal Reserve Bank's recent announcement that it will be "patient" in raising interest rates, we believe that the trajectory of rate increases may be shallower than previously thought. In response, we have been adding modest amounts of short-term bonds in some portfolios.

We believe these tactical changes will position our clients' portfolios well for the unknown events of the new year. However, there is one thing I can guarantee for 2015: we will all be surprised.

2014 has been a good year for F.L.Putnam. We have had near-record inflows of new business, which is a strong vote of confidence in our firm by the marketplace. We always enjoy attracting new clients – especially referrals from our existing clients.

In addition, our entire staff continues to provide our clients with the highest level of personal service that I am aware of in the industry. I often hear from clients about how much they appreciate the efforts made by the people at F.L.Putnam. These are my favorite conversations of the year.

We want to thank you for entrusting your portfolio with us and we wish you health and happiness in 2015.

Sincerely,

John V. Carberry

John V. Carberry
President

2014 MARKET DIARY		
	12/31/14	**YTD Change***
Dow Jones Industrials	17,823.07	10.02 %
NASDAQ	4,736.05	14.81 %
S&P 500	2,058.90	13.68 %
Russell 2000	1,204.70	4.89 %
10-Year Treasury Bond Yield	2.17 %	-86 b.p.

Source: *Bloomberg Capital Markets*

* Includes dividends for equity indices