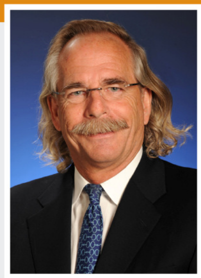
THE OMNIVEST MARKET VIEW



Tom Sowanick
Co-President
Chief Investment Officer
tom@omnivestgrp.com
Tel: +1 609 921 7939

Eleni Athanatos
eleni@omnivestgrp.com
Tel: +1 609 986 1001

Low Market Correlations to Persist

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In the past two weeks the Japanese equity market has experienced two very sharp declines of 7.3% and 5.1%, while the US equity market has remained largely unscathed. The lack of correlation gave reason for us to see if other markets were also becoming less correlated with the US and the answer was a resounding "yes". Over the last 3 years, the correlation between the S&P and the Japanese TOPIX Index has fallen from 0.20 to 0.004. The correlation between the S&P and emerging markets has declined from 0.66 to 0.36 and against Europe (developed markets), the correlation to US equities has declined from 0.70 to 0.50.

We believe that there are three main reasons why the correlations have been declining. First is that the US banking system was the quickest to recognize its problems post the 2008 credit crisis and worked to recapitalize itself in an effort to improve economic activity domestically. Second is the fact that the Federal Reserve was very aggressive early on in easing monetary policy and implementing quantitative easing; much more so than the European Central Bank (ECB) in response to their own crisis. The third reason is that the US economy was not hampered by untimely austerity measures. As a result of this decoupling, investors have become fearful of markets that have underperformed relative to those in the US, thereby reducing the traditional benefit of holding a diversified portfolio. For example, the Brazilian equity market has dropped 13% YTD while the S&P 500 Index is up a nifty 16% (in US dollars). The Shanghai B Share Index has gained 9.8% YTD, Korea's KOSPI Index is down 5.6% YTD and Australia is down 1.4% YTD.

Accordingly, picking stocks appears to have been less important than actually picking the right markets. At some point correlations will once again converge, most likely when underperforming markets begin to play catch up with the S&P 500 Index.

We believe that in order for Europe and the US to become more correlated, the European banking system has to address its banking problem with a unified banking supervisor. Europe must also transition away from broad policies of austerity towards fiscal expansion.

Emerging markets will continue to be choppy as their economies deal with the impact of a weakening yen which has a knock-on effect of making these economies less competitive. It is unclear when the yen will bottom but it is our judgment that a move towards 130 yen vs the US dollar is not too farfetched.

Until some of these changes are realized, the US market will continue to benefit and outshine other markets. It remains our contention that the US stock market is in the early stages of a P/E multiple expansion which should allow for US stocks to continue to make new record highs, even as other global markets are lagging or actually falling. The lack of high correlations is a friend to investors who today are focused on US equities.

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