January 2, 2015

Dear Client,

Happy New Year! 2014 was a rewarding time for U.S. investors and New West Investment Management, Inc. clients. More mature portfolios that held large U.S. company stocks positioned in prior periods faired better than newer accounts where finding attractive opportunities was a challenge. That said all accounts, with the exception of a couple added in the last six months of the year, increased in value.

The S&P 500 notched 53 record closing highs during the year but that masked a less robust environment for many equity investments. Smaller company stocks trailed the larger ones and a sudden almost 50% drop in oil prices from the high of the year provided good news for motorists but hurt energy and commodity related stocks and economies. The poster child for this phenomenon was Russia, which was negatively impacted by energy price declines and geopolitical misadventures. European and Asian markets also struggled as economies in those regions stagnated. The following provides 2014 total returns for some equity indices not included in your portfolio report:

Russell U.S. 2500	7.1%	Russell Europe	-6.4%	Russell Asia Pacific	0.9%

One of the year's surprises was the attractive return provided by high quality bonds in a period when the Federal Reserve was expected to lift interest rates. As it turns out global economic weakness and overseas Central Bank's easing combined with the Federal Reserve's go slow approach to raising rates actually led to interest rates declining, helping performance for fixed income investors. The exception was the minimal return provided by U.S. High Yield bonds, which were held back by exposure to the energy sector. Below are 2014 total returns for some additional fixed income indices:

U.S. Corporate Bonds	7.5%	Global Gov't Bonds	8.5%	U.S. High Yield Bonds	2.7%

There are a couple of disquieting signs that in the past have been associated with stock market trials. The yield curve is flattening and, as mentioned above, small stocks and junk bonds are trailing safer and higher quality investments while cyclical industry sectors are underperforming. There is bubble in startup tech media business prices and stock market valuations are elevated by many historic standards.

I do not expect much of an interest rate increase in the upcoming year as U.S. rates are higher than in many other developed countries and the Federal Reserve has demonstrated that any excuse for not raising rates will do. Hence, quality bond investments may not provide much return but likely have minimal downside.

I have been parking funds not currently deployed longer-term in U.S. Treasury bonds maturing in 1-5 years. It is not the 0.25%-2.00% returns, but the safety, liquidity and better than nothing attributes that I find attractive. The next market disruption will be a novel experience as in the past interest rates have been cut to stabilize investment markets which is not possible now as rates are still at zero. In fact, U.S. banks are charging large customers a fee to hold funds and numerous Global Government bonds have negative yields. I am not forecasting trouble, just trying to be prepared in advance if some develops.

Enclosed please find your portfolio report for the year with performance records for prior periods. Included are schedules of realized gains and management fees for the year, if applicable. Please note that the aging market advance and stock price volatility during the year gave rise to increased realized gains in taxable portfolios as compared to previous periods. I am always aware of the tax implications of my investment decisions but do not put tax considerations ahead sound investing. I look forward to talking with you in the New Year.

Best regards,

Peter V. Hedberg