Northstar
INVESTMENT ADVISORS, LLC

First Quarter Review 2015

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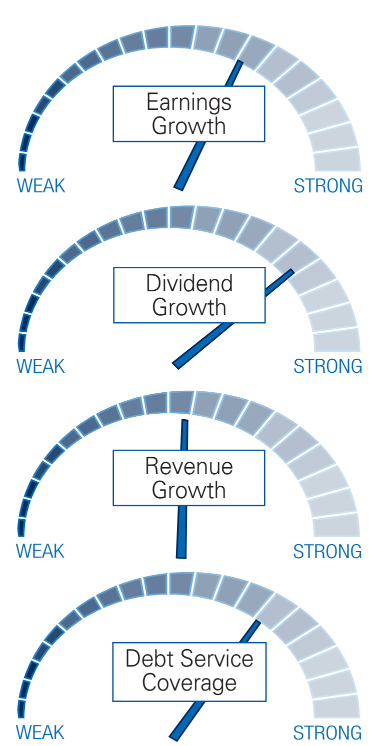

Market Summary

The first quarter ended where it began – with a lot of volatility. Concerns about exactly when the Federal Reserve will start raising short-term interest rates had high frequency traders and hedge funds alternating between making what are known as risk on and risk off trades. This simply means that when they thought the market would rise, they bought stocks and when the news was negative, they sold stocks. Some experts have predicted that the average holding period for a stock traded on the New York Stock Exchange today is only 22 seconds. In 1960, it was eight years. There is certainly a short-term traders mentality to the markets.

Every day this past month, the market seemed to be up or down over 100 points. When investors think the Fed won't raise interest rates soon, investors gravitate towards bonds and growth stocks. When stronger than expected economic reports emerge, investors get nervous and sell because they think the Fed will raise interest rates as soon as June.

Last month's strong non-farm payroll number and lower than expected unemployment report was a perfect example of the mercurial behavior of this trading mentality. The unemployment rate fell to 5.5 percent from 5.7 percent and non-farm payroll

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Business Performance Dashboard

For this quarter's newsletter, we have made some adjustments to our Dashboard feature on the front page. While we follow economic developments closely, we also want to mix in periodic updates on the general business conditions of the companies in our model portfolio. Regardless of how the economy performs, ultimately an investor's ability to build wealth depends on the performance of the businesses in which he or she invests.

Business metrics like earnings, dividend and revenue growth are important to understanding how companies are performing. Thus, we have ranked those metrics from "weak" to "strong" to give you a quick snapshot of our opinion on business performance. We have also added a chart on Debt Service Coverage. This characteristic is important in times of economic stress. Companies with more flexibility to handle their interest payments and debt maturity schedules generally are in a stronger position to weather a recession.

While these metrics can't be positive every year for every company, on average over full business cycles they should be. We hope the alternating updates on both the economy and the business fundamentals will help you better understand the financial markets and your own portfolio.

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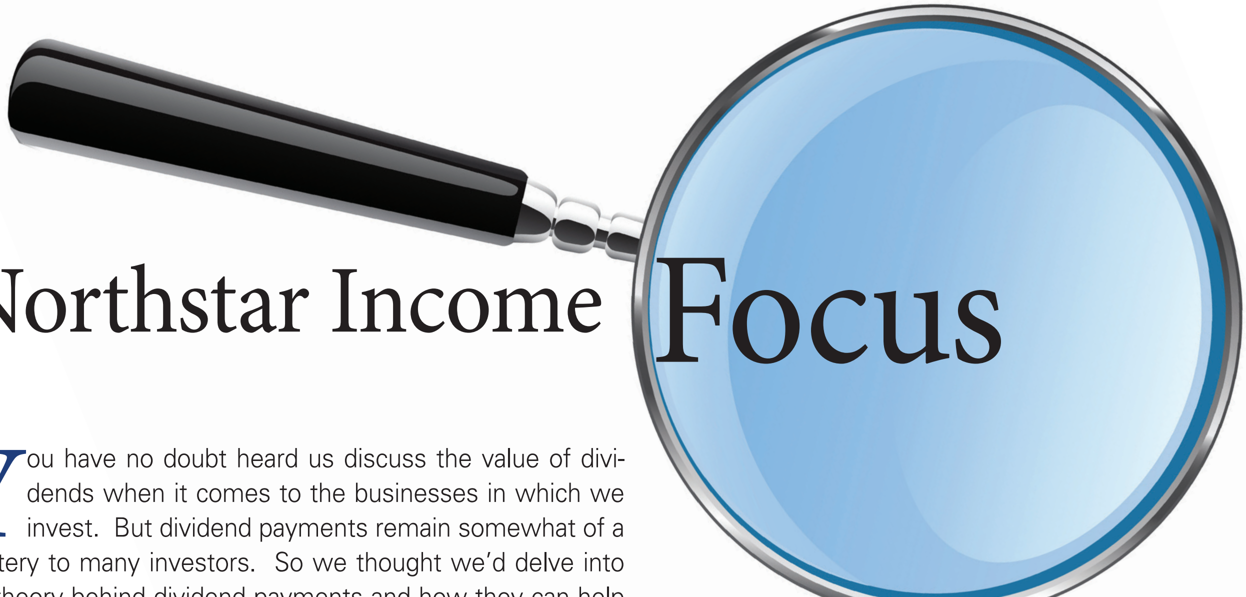

Northstar Income Focus

You have no doubt heard us discuss the value of dividends when it comes to the businesses in which we invest. But dividend payments remain somewhat of a mystery to many investors. So we thought we'd delve into the theory behind dividend payments and how they can help you both build and live off your wealth.

First, a little background on dividends is helpful. Dividends are basically paid from company profits. For example, if a company earns $100 in profits, the question for management is what to do with that money. Should they keep it and reinvest in the business? Or should they pay those profits to the shareholders, who are the owners of the business?

A good way to think about this is to think in terms of owning a private business. Let's say you owned an ice cream shop and hired an experienced manager to run the shop for you. At the end of the year, the manager reported to you that the shop had $100,000 of profits. As the owner of the business, what do you think the manager should do with that money?

Well, the manager might come to you and say he'd like to spend $20,000 to improve the outdoor deck area and then another $20,000 to remodel the inside of the store. As the owner, you'd want to know if these improvements will help bring in more than $100,000 of profits next year. If not, then why spend the money?

Let's assume the manager convinces you that the investments are needed, as he thinks he can improve sales with these investments. So now you've invested $40,000 back into the business. But what about the other $60,000. How should those funds be handled?

As the owner, you would naturally say that money should be paid to you as a dividend. It would be unlikely for you to tell the manager he can keep it and spend it on whatever he wants.

This is the same way that shareholders of public companies should think about their right to receive dividends each year. They should expect to receive a dividend equal to the excess funds not needed to improve the profitability of the company.

If a profitable company doesn't pay a dividend, or doesn't pay much of a dividend, then the shareholders should wonder why they aren't getting their share of the profits. While there are rare exceptions, most profitable and mature businesses should be returning funds to shareholders each year.

Unfortunately, too often management retains more of the profits than can be justified by reinvesting back in the business. Sometimes they get into empire building with your money and invest in things (like buying other companies) that are less profitable than the core business they are running. Sometimes they just like to have all that money sitting around as a cushion, which makes their jobs easier, but doesn't necessarily enrich your financial well-being.

Fortunately, there are many companies where management understands that it's their role to only retain the profits needed to improve the business and then return the rest of the money to shareholders via dividends. This type of approach generally strikes a good balance between appropriate reinvestment and the need to focus on returns to shareholders.

One of our roles as your investment advisor is to research and study a company's approach to its retention of profits and its payment of dividends. Different industries and different market cycles will impact dividend payment policies. We work to invest your money in companies where we think management understands that its role is to only reinvest earnings needed to improve profitability and then return the remainder of the cash to you as the owner.

Once the dividend is paid to you in your portfolio, then there are a number of ways we can deploy those funds. Often, we use those dividends to buy more shares in that same business, so you have a larger percentage of the profits next year, or we buy shares in other companies. And many clients choose to have those funds distributed to them to help meet their lifestyle expenses.

Either way, the payment of dividends is an important component of building your wealth and ultimately figuring out how to live off it.

The Fiduciary Standard – *A Case of Mistaken Identity?*

Thanks to Washington's newly discovered concern that small investors are being mistreated by Wall Street, the hot topic of the day is the fiduciary standard. So what is the fiduciary standard, what other standards are there and why is the distinction important to investors?

Before deciding whether it's a good idea to hold all providers of financial services to a fiduciary standard, some background may be helpful. Fee-based advisors and brokers were once easy to tell apart because brokers earned a commission for executing trades that clients directed them to make for their own account. By contrast, investment advisors earn an annual fee to help clients design and build investment portfolios and make decisions with regard to investment strategies and managing assets to meet financial goals.

Because of the type of advice they provide, advisors assume a fiduciary role in client relationships. This fiduciary duty is governed by a higher standard of care and responsibility – the fiduciary standard. Fiduciary advisors have a duty of loyalty to the client and are legally bound to act with the prudence, skill, care, diligence and good judgment of a professional; to provide full and fair disclosure of all important facts, while avoiding conflicts of interest, and disclosing and managing, in the client's favor, unavoidable conflicts. In short, a fiduciary advisor must put a client's interests above their own.

Historically, brokers work for broker-dealer firms that are set up to help connect investors to individual investments. The key role of these financial intermediaries is to enhance market liquidity and efficiency by linking capital with investment products that range from common stocks, mutual funds and other investment vehicles such as annuities, futures and options. A broker works as an agent for the client and makes recommendations to the client – who may choose to act on the recommendation or not. Generally, a broker is only paid a commission if a trade is transacted. Brokers are held to what is known as the suitability standard - which requires the broker to make suitable recommendations according to a reasonable understanding of a client's financial needs, time horizon and experience.

In general, the distinction between advisors and brokers used to be reasonably clear. But after the brokerage industry was deregulated in 1975, commissions were no longer fixed at a high level and traditional brokerage revenues plummeted as a result of competitive pressure from discount brokerage firms and the internet. Our own Charles Schwab was one of the pioneers of the discount brokerage industry. In the early 1990s, the major brokerage houses such as Merrill Lynch, Goldman Sachs and Morgan Stanley to name a few, stopped calling their salespeople "brokers" and started calling them "advisors." That's why knowing who an investment advisor works for and how she is paid is important. Today, there is justified confusion among consumers around the various roles and legal obligations of brokers and investment advisors. Brokers, who ideally work as financial intermediaries, and advisors, who fulfil a fiduciary role for clients, are both critical in distinct ways to the efficient and equitable functioning of our securities markets.

In a perfect world, consumers of investment management services should expect to have their assets managed by someone who is knowledgeable and trustworthy. The fiduciary standard helps to ensure that such managers are beholden only to the clients they serve and are paid accordingly, without conflicts of interest. The investment advisory industry has grown in size and importance because of the demand for fair and reliable investment advice.

Lawmakers and regulators are not misguided in their efforts to create rules of conduct in order to maintain fairness and transparency for consumers. Unfortunately, by applying a uniform standard to these distinctive business models, the roles of each are blurred and the consumer ultimately comes up short.

Market Summary *(Continued from page 1)*

jobs grew by 295,000, which was much stronger than expected, so both the stock and bond markets sold off on the fear of higher interest rates. The very next day the markets rallied because of positive earnings reports and analyst upgrades which were totally unrelated to the Fed.

All this volatility makes it hard to be an investor, but this noise is exactly why our Income First Total Return investment strategy works; it simply doesn't matter what the markets are doing day to day. What is important is the cash that your investments produce every month, quarter, and year. Cash in your account is always positive and never negative.

We have all heard or read about the tremendous impact compounding has on growing wealth. If you own operating companies that pay dividends and increase their dividends, eventually over time the stock price will go up. This is our investment mantra at Northstar - collect meaningful dividends and dividend increases as a way to hedge inflation. Last year, the dividend increases for our Northstar companies averaged 8.5 percent, not bad when you consider inflation was less than 2 percent.

Cybersecurity Update

Last year, we wrote about cybersecurity and offered tips about how to protect your personal information. Meanwhile, hackers have become even more sophisticated, brazen and successful. Major security breaches have affected millions of customers at Target, Anthem, Home Depot and others. The Anthem Healthcare breach is especially significant because it is believed that the breach allowed hackers to access the health care records of more than 80 million customers and employees.

At Northstar, we take the security of your personal and financial information very seriously. Our staff is trained to follow specific protocols when sending and storing your information. We work closely with financial custodians and vendors to safeguard your information when establishing accounts and responding to service requests. Northstar utilizes an IT consulting firm that is network-certified and able to monitor our systems, email server and firewalls for weakness and/or breaches.

The best prevention against cybersecurity threats is awareness and common sense. Here are a few things that you can do daily to protect your sensitive information:

1. **Passwords:** Even after many years and much progress in other areas of Internet technology, passwords are still the first line of defense. Change them often and make them complex but memorable – try inserting symbols or numbers into a word or phrase that has meaning to you. This includes passwords for email accounts as well as bank and brokerage accounts.
2. **Email:** Be suspicious of links or attachments within emails sent from unsolicited or unknown sources. Many viruses are spread through links or attachments. If you are unsure, try calling the sender to verify.
3. **Encryption:** Please take every opportunity to encrypt files that you send us electronically. Below the signature line of every email that we send there is a link that says: ***click here*** to send me files securely – please use it.
4. **Internet access using public or 'free' networks:** When using Wi-Fi, be sure that you are on a password-protected network if you are accessing bank, brokerage or sensitive information. In general, public Wi-Fi is less secure, so opt for cellular if you have a choice between the two.

Over the years, most of our clients have worked with Cindy Sack, who has been with Northstar since the company's founding. Well, we want to congratulate Cindy on her recent marriage to John Otte! We also would like to let clients know that Cindy is changing her name to Cynthia Otte, and her new email is cmsotte@northstarinvest.com.
So if you find yourself working with Cindy Otte, it's the same Cindy you've known for the last 20 years.

From All of Us at Northstar:

Standing left-to-right: *Jackie Mendoza, Scott Myers, Cindy Otte, Dan McGilvray and Rachel Kibble;*
Seated: *Charlie Farrell, Fred Taylor and Bob Van Wetter*

We're proud to mark 20 years in business this July. We hope you will join us for a 20th anniversary celebration on September 17, 2015. You will be receiving a Save the Date for the event in May.

Disclosure: The material in this newsletter is for general information and education purposes only. It does not constitute individual investment, tax or legal advice. Consult your individual advisors for investment, tax or legal advice specific to your circumstances. Past performance is no guarantee of future returns, and investing involves multiple risks, including, but not limited to, the risk of permanent losses.