Market Commentary

4TH QUARTER 2015

Economic Summary

"It ain't over until the fat lady sings." Well, the fat lady might not be singing, but the FATMAN could be warming up. FATMAN is an acronym for six companies that have high-flying stock prices: Facebook, Amazon, Tesla, Microsoft, Alphabet (formerly known as google) and Netflix. These six stocks were up on average over 60% during 2015 and they carried the major indexes higher, albeit modestly. Each of these companies trades at a much higher multiple of earnings (p/e ratio) than the S&P 500 Index itself (chart 1). Excluding Tesla, which has no earnings, the other five stocks average P/E ratio is about 190! For reference, the S&P 500 as a whole trades at about 16 times estimates of 2016 earnings. The current valuations of FATMAN and other popular stocks is reminiscent of the internet bubble of 2000. Most investors will remember how that period ended – badly. Many FATMAN fanatics were not investors 15 years ago. When will these six stocks' prices come down from the stratosphere? No one knows for sure, but it seems like it could be coming to an end soon.

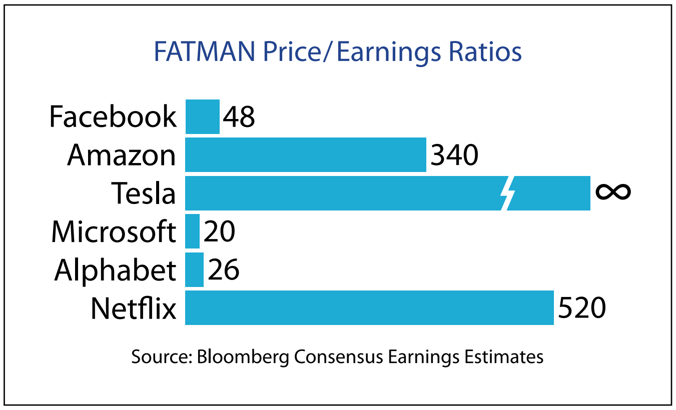

Chart 1

SOURCE: BLOOMBERG CONSENSUS EARNINGS ESTIMATES

Price/Earnings ratio (P/E ratio) is a valuation ratio of a company's current share price compared to its per-share earnings. P/E equals a company's market value per share divided by earnings per share. Forecasted P/E is not intended to be a forecast of the fund's future performance.

The stock market performance of 2015 was described by one strategist as "violently flat" with little to show for the year (chart 2). In fact, this overstates market performance. Without the upward price movement of a small number of names (including the six listed above), the indexes would have had dramatically lower overall performance. Excluding the ten largest companies from the S&P 500, the rest of the index was down 5%. Over 200 stocks in the index are down over 20% from their 52-week high. Sectors hit the hardest in 2015 were Materials (down 8.4% on average) and Energy (down 21.1% on average).

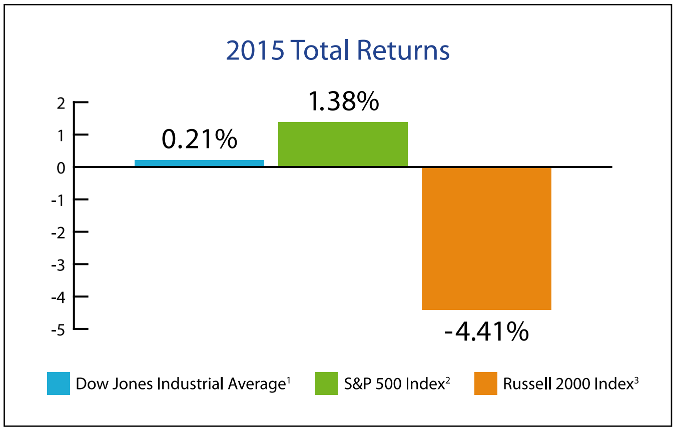

Chart 2

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

[1] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

[2] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

Economic Summary (continued)

Four of the factors weighing most heavily on the economy and the stock market right now are China, commodities, consumers, and confidence – the four C's.

China's economy is slowing down. The numbers put forth from the Communist regime are clearly cooked, but there is no doubt their rate of growth is declining. China could even be entering recession territory. This impacts U.S. markets in many ways. Most directly is the impact on commodities prices. Energy stocks have been punished severely. Oil, in particular, has been blasted. Other commodities have declined significantly, too, in large part because of decreases in global demand, specifically Chinese demand. Oil is also down because the U.S. has become the swing factor in global production, thanks to U.S.-developed fracking technology (chart 3). While predicting short-term movements in the price of oil is a fool's errand and it could go lower, the longer-term direction for oil prices is up. Oil in the $30's is unsustainable. Solid, well-run energy companies will make it through this period and likely be good long-term investments from current levels.

Consumers are positioned well with the drop in oil prices acting like a huge tax cut. Real disposable personal income is up almost 4% year over year, too (chart 4). Consumers continue to favor experiences (dining out, travel, etc.) over goods (chart 5).

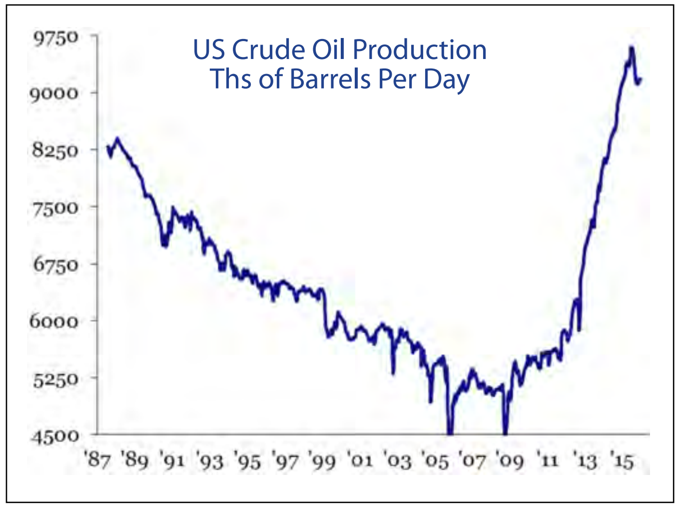

Chart 3

source: strategas research partners, "quarterly review in charts", january 4, 2016

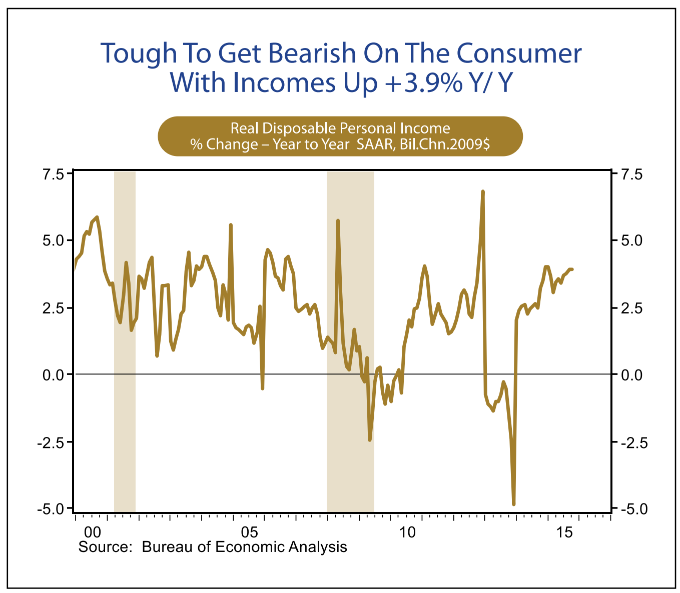

Chart 4

source: strategas research partners, "quarterly review in charts", january 4, 2016

Past performance does not guarantee future results.

Economic Summary (CONTINUED)

Confidence is key for so many decisions. Consumer and investor confidence is still weak and is limiting economic growth. CEOs are hesitant to increase capital expenditures or hire more workers without confidence that it's a productive use of resources. Lest we forget, 2016 is a presidential election year. As the election gets closer, we are becoming more optimistic. Regardless of the outcome, our country and the economy will be in better hands than under the current administration.

Our value style of investing and not owning the most popular and over-priced names (FATMAN AND OTHERS) resulted in underperformance as compared to the major indexes.

We are enthused about the long-term health of the U.S. economy – emphasis on long-term. The short-term could be more challenging, especially for the stock market in general. The exceptionally high quality companies in your portfolio should fare better than most, and will likely not cause you sleepless nights. We wouldn't say the same for the FATMAN issues.

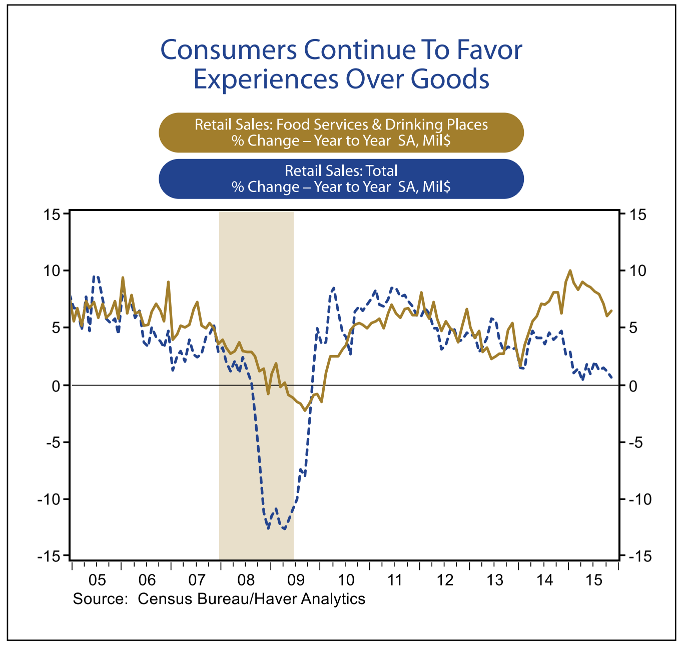

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS, "QUARTERLY REVIEW IN CHARTS", JANUARY 4, 2016

Past performance does not guarantee future results.

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