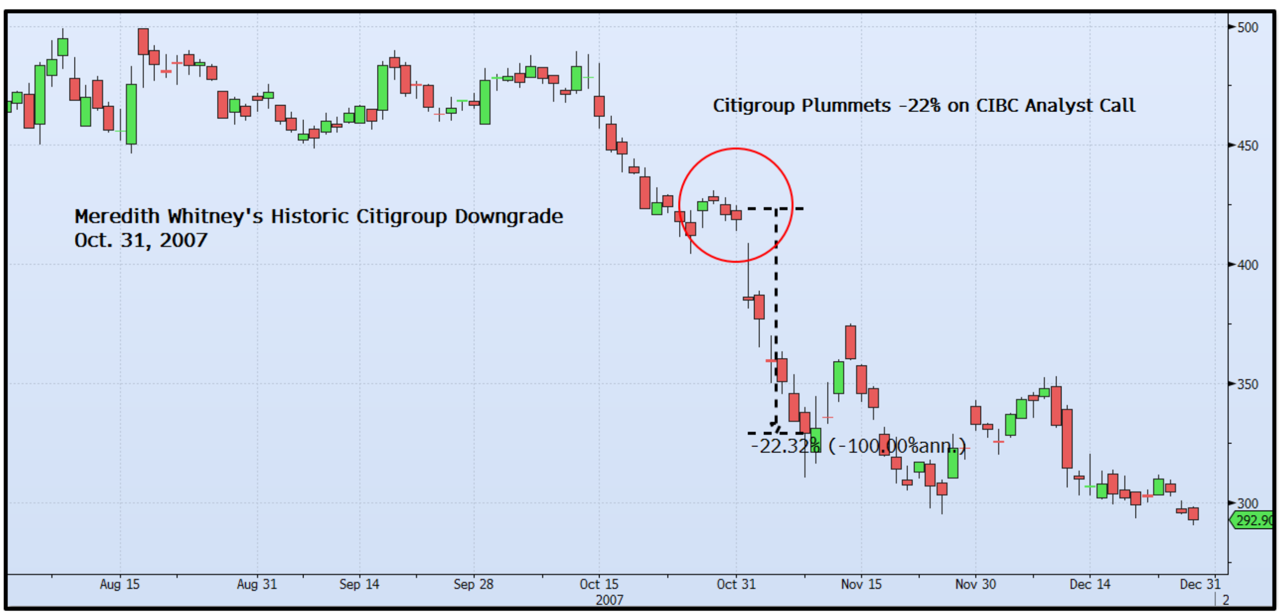
The O'Brahma Bull

2015 Letter to Investors

Michael Lewis, former Solomon bond trader and renowned author and journalist, penned the following article about the meteoric rise Meredith Whitney, banking analyst for *Bloomberg* news, on April 9th, 2008.

> *One of the rare inspirational subplots of our current financial panic has been the rise of Meredith Whitney. An obscure and little-noticed analyst of Wall Street banks, working for an obscure and little-noticed Wall Street bank (Oppenheimer & Co.), Whitney has become, in a matter of months, a woman who moves markets. It all started back on Oct. 31, 2007, when she published her now-legendary report on Citigroup Inc. In it, she pointed out that the company's dividend now exceeded its profits -- the bank was handing money back to its investors faster than it was taking it in from its customers. The U.S.'s biggest bank was being managed to ensure only its bankruptcy. Citigroup would need either to raise capital, sell assets or slash its dividend -- possibly all three.*

Meredith's call was prescient. Her Citigroup downgrade in Wall Street parlance was analogous to the "shot heard round the world." On that fateful Halloween Day, from the instant her research report hit the tape, Citigroup's stock plunged. During the course of the next week, the stock fell over 20 percent and subsequently, Citigroup became a poster child of Wall Street excess and failure. The bank survived only because of its $45 billion dollar U.S. government bailout. Its shareholders ultimately lost nearly 90% of their investment. Meredith became a star.



This time last year, market pundits were forecasting a cloudy picture for stocks in the year ahead. Goldman Sachs strategist David Kostin said**, "S&P 500 Valuation is lofty by almost any measure."** The Economist, MarketWatch and The Street.com collectively ran stories of the market's overbought status and its inflated value. 2014 was alleged to be a year of higher interest rates, shrinking corporate profit margins and escalating inflation pressures. Instead, the momentum of the *O'Brahma Bull* remained intact and *Mr. Market fooled 'em again*.

2014 was a bountiful year for domestic households. Perceived fears of global economic slowdown, Russian heavy-handedness, escalating terrorist threats and Ebola contagion jolted markets and raised investors' anxieties. In the past 12 months, there were five broad stock market pullbacks in the 5% to 10% range. Each of these retracements proved short lived, presenting profitable buying opportunities. In fact, the S&P rebounded to new highs after each selloff on average in 3 weeks.

Share prices were boosted by increased earnings, share repurchases, benign inflationary pressures and accommodating monetary policy; on Capitol Hill, Dramacans and Dramacrats remained in gridlock leaving stocks to their own devices. Today's secular bull market began back on March 9th, 2009, making it 69-months old. December 29th, the S&P 500 achieved its 53rd record of the year. It has registered a total of 98 new highs in this bull market. There are two types of bull markets, "cyclical" and "secular." According to Sam Stovall, S&P's Chief Equity Strategist, cyclical bull markets are shorter in duration lasting on average 48 months, while secular bulls are longer averaging 64 months, with 55 months the mean average of all bull markets since World War II.

A Look At The Economy

Gross Domestic Product (the broadest measure of economic activity) expanded at a 5.0% growth rate in the third quarter raising spirits of market players and economists alike. As a rule, when GDP growth rate exceeds inflation, standards of living rise.

Household Net Worth advanced $2.5 trillion in the past 12 months to a record high $81.3 trillion; median and mean net worth per household surpassed $81,000 and $534,000 respectively.

Unemployment dropped to 5.8% from 6.7% in 2014 and job growth averaged 241,000 new hires per month. Unemployment peaked at 10.0% in '09; since then, the U.S. economy has added 10.3 million jobs.

Corporate Profits on an after tax basis swelled to an annualized rate of $1.89 trillion in the third quarter, up from $1.80 trillion in the same period a year ago. S&P 500 operating profit margins baffled analysts climbing to a record 10.1%. Productivity enhancements, cheap borrowing rates and exemplary execution all contributed to margin expansion.

Stock Prices worldwide as reported by S&P's Global Broad Market Index (BMI) appreciated +2.85%, ending the year with a total market valuation of $44.87 trillion dollars. U.S. equities increased 11.87%. The BMI performance excluding the U.S. actually lost - 5.29%.

Home Values registered +4.6% year-over-year gains, according to the Case-Shiller Home Price Index. The current supply of housing inventory is 5.8 months, below the historical average of 6.1 months. Nonresidential Construction activity from Nov. '13 to Nov. '14 improved 4.2%.

U.S. Dollar reasserted itself as the world's reserve currency vaulted by renewed foreign investment. Faltering global demand, eurozone weakness, Middle East conflict and Eastern Europe tension coupled with improving U.S. economic prospects are at the forefront of the currency's strength.

Commodities had a rough year with each of the three leading sectors, energy, metals and agriculture, ending lower. Bloomberg's broad basket commodity index lost 17.0% for the year led lower by crude oil -44%, cotton -29% and silver -21%.

Inflation as reported by the Consumer Price Index rose a scant +1.3%. Food prices and all items excluding energy increased +3.2% and +1.7% respectively. Energy fell -4.8%, with gasoline tumbling down -10.5%; commodities slipped -.5%. The CPI growth rate continues to trend below the Federal Open Market Committee's target of 2%.

Interest Rates on U.S. treasuries for 1, 5, 10 and 30 year maturities are .22%, 1.61%, 2.12% and 2.69% respectively. Last year the yields on intermediate and long term durations declined approximately one percent. Bond yields have fallen uncharacteristically in contrast to an improving economy; decreasing bond yields are typically reflective of an economic slowdown or contraction.

Federal Government consumption expenditures and gross investment accelerated to 4.4% in the most recent GDP report; defense spending showed the largest increase. The budget deficit has rebounded from double digit recession lows to a manageable -2.8%, in proximity of its -2.7% historical average.

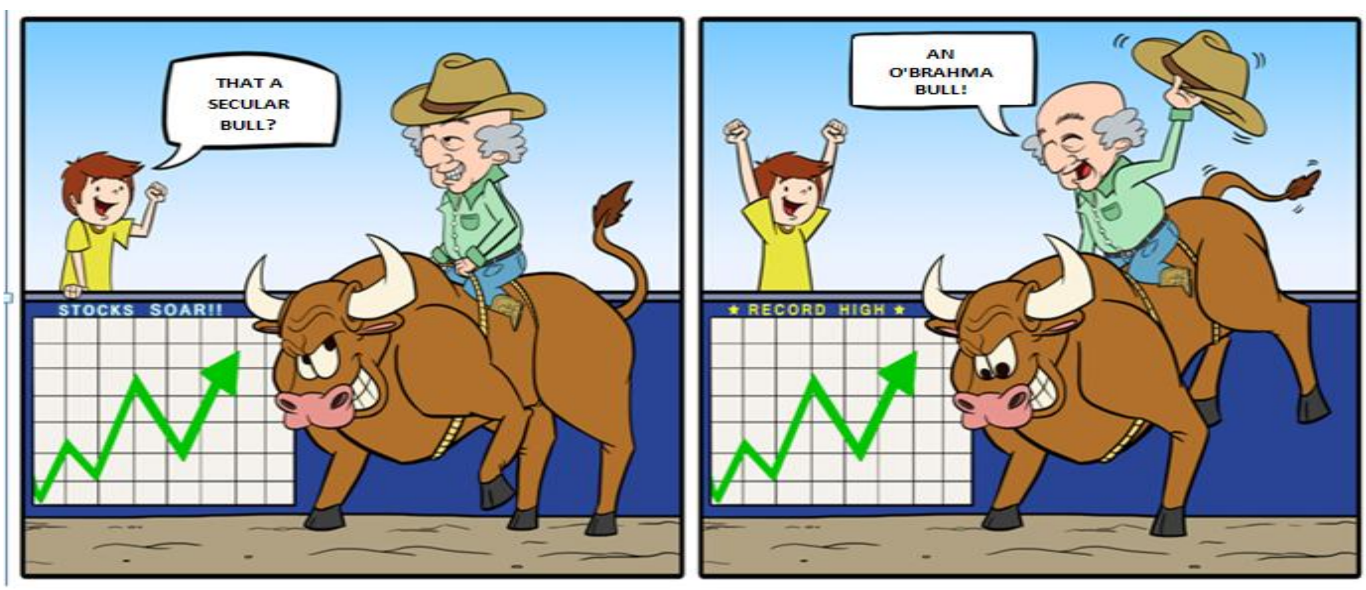
Gasoline prices at the pump are fast becoming a welcome tailwind for consumers. Nationwide, the average cost of regular fuel has fallen back to 2005 levels, $2.22 per gallon. It is estimated that for every one cent reduction in the price of gasoline $1.3 billion is added to the economy. Gas prices hit their peak in April 2014 at around $3.64 per gallon; if today's prices hold that equates to an infusion of roughly $190 billion in foreseen economic activity. As a comparison, that's more than the total revenue of Target, Lowes and Disney combined.

In Summary

The employment situation picked up steam throughout the year, adding 2.7 million jobs. Home prices appreciated moderately raising asset values and lowering debt-to-equity ratios. 10-year Treasury note yields declined from 3.0% to 2.1%; considering the fact that the economy improved on most fronts the drop in rates was a variant view. The dollar and consumer confidence shot up on improving current business, employment conditions and falling fuel costs. Domestic energy production is now satisfying 84% of its demand, furthering America's quest for energy independence. Total population in the states hit 320 million people, increasing 2.3 million or 6,300 per day. Last year's population increase would equate to our nation's 4th largest city.

Let's get back to Meredith Whitney. After the legendary Citigroup call, Whitney used her stature and fame to launch her own hedge fund aptly named the *American Revival Fund*. Last month, Bloomberg reported that Ms. Whitney's fund was down -11% year-to-date and that a large investor is taking legal action. Hedge Funds whose main purpose is to raise and grow capital reported average gains of 3.5% as of early December. It goes to show that picking tops and bottoms is an allusive endeavor for even the most famous investment professionals. The life of "money" is full of ups and downs. It is full of questions, some that go unanswered. "How much risk should I take?" "Am I doing the right thing?" "Do I save more?" "Should I spend less?" "Which are the best investments: stocks, bonds, real estate, gold, silver, annuities, life insurance or fine wine?" "Is now the best time to start my own business?" Is there a lesson to be learned from all this? Perhaps. The answer to each of these questions is, "It depends." It depends on who you are, where you are, and where you want to go. Money is a mosaic. Its value means something different to each and every one of us. Pope Francis lived a vow of poverty; Donald Trump is the polar opposite; most people fall somewhere in between.

I believe that more people are going to rise out of poverty, medical science will make new life saving discoveries, increases in internet access will connect a million new users, technology breakthroughs will enhance individual productivity and people will learn more, do more, give more and care more. I believe that society will achieve more, reach higher, dream bigger, eat healthier, run further, live longer and be happier. I have a hunch that 2015 is going to be the best year ever!



So what's going to happen if the Fed starts raising interest rates this year? Well, then I'd say tighten your grip on the reigns and squeeze in on the stirrups; it's about to get bumpy in the saddle, so hold on tight cause this isn't your garden-variety bull. This is an O'Brahma Bull!

Respectfully,

William "Chip" Corley, MBA, RFC