ADKINS SEALE CAPITAL MANAGEMENT, LLC

Investment Commentary
January 7, 2016

Dear Clients:

2015 was a year with the “best of times and the worst of times”. The price of oil and natural gas dropped to lows not seen for many years, providing an income boost to most consumers and businesses except for those of us whose economies are tied to the oil patch. Likewise, heightened geo-political risks would seemed to have increased the demand for gold as a safe haven; however, as indicated by the total return on the SPDR Gold shares, the price of gold dropped by around 11% for 2015 and over 40% since 2012. The US equity markets overall took a breather for the year; however, looking at the US companies with market capitalization of at least $100 billion, one finds unusual divergence among the stocks with the best returns versus the stocks with the worst returns. Amazon.com stock experienced a total return of 117.78%, while Wal-Mart Stores stock has a negative total return of -26.34%. This comparison is made more curious by the fact that Wal-Mart generated roughly five times the level of annual sales and 45 times the level of net income produced by Amazon. The market, for some reason, places a nearly 50% premium on Amazon’s stock price compared to that of Wal-Mart. In another head-scratching comparison, Facebook stock was rewarded with 34.15% total return, while Oracle Corp stock produced a negative total return of -17.50%. Facebook’s market value was nearly twice that of Oracle despite generating less than half the annual revenues and less than a third of the annual net income of Oracle.

Interest rates provided another stark best versus worst comparison. Borrowers continued to benefit from historically low yields while savers and pension administrators suffered from the ballooning effect of rising pension obligations. Perhaps the recent modest increase in the target rate of over-night federal funds from 0.25% to 0.50% sets the stage for coming relief to those who have subsidized significant increases (possibly unwise) in borrowings to fund mergers & acquisitions, stock buy-backs at prices above intrinsic value, and deficit financing by governments around the world.

We would mention the current campaigns for US president; but we were unable to find an equivalent number of best and worst times examples for illustration. Alas, these turbulent times will no doubt settle out as they always seem to do, so while we wait for relative sanity to return to the capital markets, consider reading a good book; Charles Dickens may fit the bill.

Investment Market Returns as of December 31, 2015

The total return on the S&P 500 Index for the quarter and year ended 12-31-2015 were 7.0% and 1.4%, respectively. Returns for smaller US stocks were even lower as evidenced by a negative -4.4% full year return on the Russell 2000 Index. Non-US stocks also experienced weak returns as the MSCI-EAFE Index returned a negative -0.8% for the year, while the MSCI-Emerging Markets Index was down -14.9%. Both of the MSCI indices for foreign stocks were depressed by a continued strong USD for the third consecutive year. Concerns about revenue growth and profit margins have led to less generous pricing multiples for most stocks, with significant profit squeezes in the energy sector providing the largest price resets.

Total returns on the Barclays US Aggregate Bond Index were negative -0.6% for the fourth quarter and +0.5% for the full year. The Barclays US Municipal Bond Index generated total returns of 1.5% and 3.3%, respective, for the same periods. The yield-to-worst on these bonds averages between 2% and 2.5% at the moment, with average duration of about 6x. The returns earned for non-US bonds were negative -1.1% and -4.4%, respectively, reflecting the impact of a strong USD. In short, the upward trajectory of bond prices paused again in 2015 and may well confirm the end of the secular bull bond market begun in 1981.

The Alternative Investment segment was a mixed bag in 2015. The total return on the Wilshire US REIT Index continued its extended run of positive returns, registering 7.5% and 4.2% returns for the quarter and year respectively. Our firm's collection of hedge funds generated small negative returns for both periods. The broad Bloomberg Commodity Index was sharply negative for both periods, with weakness in the petroleum markets contributing most of a negative -24.7% return for the full year.

Our Look Forward

As we go to press, the US stock market is down 5% from year end and 9% below the 52 week high the June. In our view, stock prices are long overdue for a correction, and we hope the current trend continues until price multiples return to historical norms. We expect to keep our clients' portfolios under-weighted to equity segments until such time as price multiples become more attractive. We will keep your allocations to international equities since we feel these assets offer the highest relative return expectation albeit with higher possible price volatility. Where we see specific mis-pricing opportunities (the energy sector is an example), we will make modest tactical investments to enhance portfolio returns.

As to the fixed income segments, we believe a high quality, low duration strategy remains the most appropriate approach for our clients. The allocation to foreign bonds will probably remain the most volatile but we believe this segment has more attractive risk/reward characteristics versus the US bond market.

The Alternative segments, other than US REITs, are utilized to moderate the portfolio impact of price corrections and unforeseen events which can disrupt capital market functions. Such allocations seem appropriate for the current state of global capital markets.

In Closing

We look forward to visiting with each of you about your investment results and expectations for the future and to make sure your portfolios are aligned with your specific circumstances. We greatly appreciate the opportunity to serve as your investment adviser and pledge our best efforts to meeting your expectations.

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