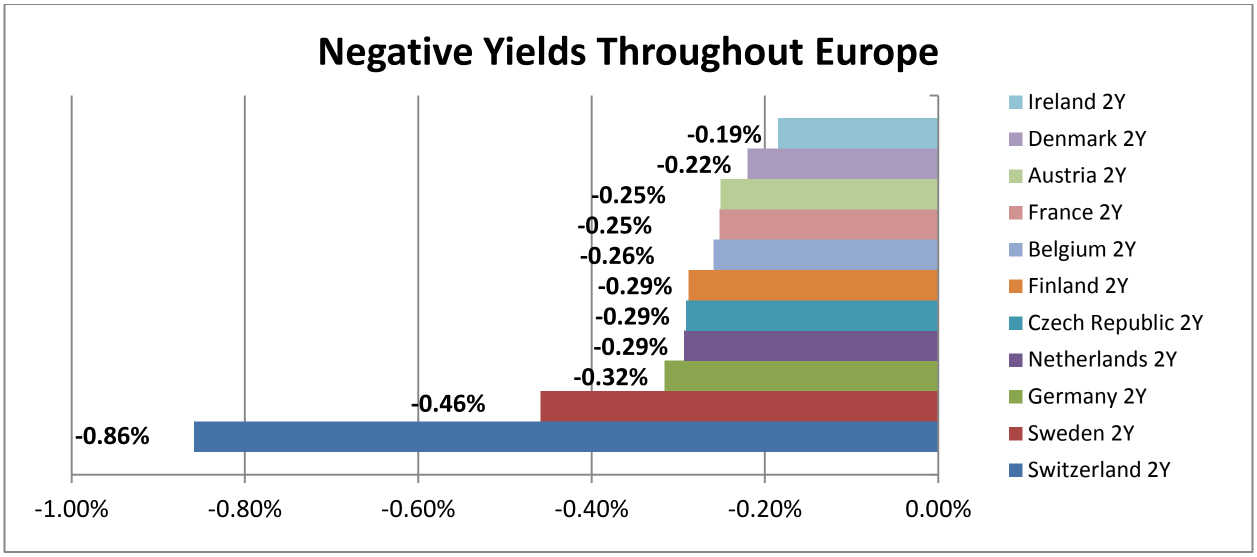
MANAGED ASSET PORTFOLIOS

MAP Views
Fourth Quarter 2015

We are excited to announce the launch of our new MAP website which includes information about our management philosophy, process and strategies. It also provides links to educational resources and MAP team member biographies. Please visit us at www.managedassetportfolios.com

The third quarter of 2015 proved to be a challenging one for the world's financial markets. In the U.S. all three major indices fell, posting their worst quarterly performance since 2011. The Dow Jones Industrials fell 7.4%, marking its third consecutive quarter of declines (the first time this has happened since 2009). The S&P 500 was off 7% and the Nasdaq Composite fell 7.4%, ending its 10 quarter winning streak. All three of the U.S. indices finished in correction territory (off more than 10% from their peaks). Virtually all segments of the market were impacted - large caps, small caps, once high flyers and even those already beaten down. Many of the foreign markets fared far worse with countries such as China, Russia, Brazil and Argentina all finishing in bear market territories with declines greater than 20% from their peaks. The MSCI ACWI was off 15% from its peak just 5 months ago. It should be noted, however, that since the start of the fourth quarter the broader markets have rallied nicely off their lows.

As the third quarter began, many investors were speculating that the Fed would finally begin to move interest rates higher. As the quarter unfolded, the Chinese stock market tumbled, China's economy weakened, commodity prices fell and the U.S. economy appeared to lose a bit of momentum. The confluence of events forced the Fed to leave rates unchanged. There is a mounting consensus that the Fed may not raise rates until 2016; recall that MAP published a research piece this past summer stating our belief that that Fed would not raise rates until the middle of 2016. Over the past several weeks, multiple Fed members have discussed the possibility of negative interest rates. While many European countries have had negative rates for a good part of the year, most Americans have dismissed this as a "European phenomenon." Could we really see negative rates in the U.S.? The concept may not be as far-fetched as once believed. Over the past several weeks, the U.S. Treasury sold bills at an interest rate of 0.00%. Some borrowers in Denmark are actually enjoying negative mortgage rates! Such events defy all financial models and even logic! Why would an investor lend money, knowing they were going to receive less money back at maturity?



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Should negative rates become more common, we believe that could create a powerful motivation for investors to buy stocks. Let's use Nestle as a case in point. This is a stock that we have owned for a long time in both our Balanced and Global Equity accounts. The company carries a AAA credit rating by S&P (actually a higher credit rating than the U.S. government) and its shares provide nearly a 3% dividend yield. Certainly, stocks carry risks and the markets may be prone to a pull back at any time for any reason (most recent quarter as a case in point); however, we believe the company's defensive characteristics, with a stable and broadly diversified product line, are positives in these uncertain times. We view the dividend yield as compelling versus the paltry yields prevalent in the bond market.

While we believe rates will have a longer-term upward bias, we also believe that rates will remain low from a historical perspective for quite some time. In short, the global economy is not strong enough to handle materially higher interest rates. Until rates begin to move appreciably higher, we believe the bull market can continue, but with volatility.

The markets are constantly changing, but our priorities remain the same: to work diligently and ethically every day in the attempt to provide our clients with outstanding risk adjusted performance. We sincerely appreciate the trust you have placed in us by allowing us to serve as your investment adviser.

Kindest regards,

Michael S Dzialo

Michael S Dzialo
President & Chief Investment Officer