Managed Asset Portfolios

MAP VIEWS
Third Quarter 2015

Most stock averages around the world finished the second quarter where they were three months prior. The S&P 500 dipped a tad in the quarter, halting a nine quarter winning streak, despite hitting an all-time record high during the quarter.

Index	Return	Return with Dividends Reinvested
S&P 500	-0.23%	0.28%
Dow Jones Industrial Average	-0.88%	-0.29%
MSCI ACWI	-0.29%	0.51%

During the quarter, investors speculated when, and to what degree, the U.S. Fed would begin to raise interest rates. Investors were also confronted with anemic corporate earnings growth, foreign currency swings and rising oil prices. In as much as the Fed would like to raise rates sooner rather than later, we believe they will likely move later and more slowly than many believe. In short, we do not believe the U.S. economy is strong enough to tolerate any sort of meaningful rate hikes. During the latter part of 2014 and the first quarter of 2015, the U.S. dollar soared versus many other of the world's currencies. The ascent of the dollar put pressure on U.S. corporations, with 349 of the 500 companies comprising the S&P 500 citing the strong dollar as a headwind for their revenues and earnings in the first quarter. Any move by the Fed to push rates higher would likely send the dollar higher, thereby hurting U.S. companies and their exporting businesses. During the quarter, the euro rose 3.6% against the dollar, marking its best quarterly performance in over 4 years as investors began to discount the likelihood of the Fed raising rates soon.

As the quarter wrapped up, investors were focusing on Greece as their financial "tragedy" continues to unfold. We believe that the matter is just as much political as it is financial at this juncture. There will likely be some sort of compromise that will keep Greece in the euro for now, as politicians continue to "kick the can." The fact remains, however, that Greece is grappling with an insurmountable about of debt and that some sort of restricting will eventually need to take place.

Central banks around the world are keeping interest rates historically low, which in turn is fostering a "risk-on" mentality in the investment world. Just a few months ago, much of Europe was actually experiencing negative interest rates. This defies all financial logic and common sense. Traditionally, bonds have been thought of as safe, conservative, "buy and hold" investments. Buying a bond with a negative yield is anything but safe or conservative. It was nothing more than a greater fool theory at work: Buy a bond with a negative yield hoping to find another investor down the road who will buy it at an even higher price (greater negative yield). The same risk-on mentality has found its way into the equity markets, whereby stocks with the highest valuations out-performed their lower valuation counterparts as the following chart shows:

S&P 500 (As of May 29th, 2015)

Valuation Metric	Bottom Quartile		Below Median		Above Median		Top Quartile	
	YTD Returns	*One Year Returns*	*YTD Returns*	*One Year Returns*	*YTD Returns*	*One Year Returns*	*YTD Returns*	*One Year Returns*
Price-to-Earnings	-2.35%	1.09%	-0.88%	5.11%	6.69%	18.29%	9.27%	21.71%
Price-to-Cash Flow	-1.89%	0.23%	-0.64%	3.16%	6.37%	19.20%	8.97%	23.45%
Price-to-Sales	0.46%	5.66%	0.58%	6.22%	5.45%	16.93%	8.01%	22.08%
Price-to-Book	-1.51%	1.07%	0.31%	4.98%	5.48%	17.86%	7.71%	22.68%

Russell 2000 (As of May 29th, 2015)

Valuation Metric	Bottom Quartile		Below Median		Above Median		Top Quartile	
	YTD Returns	*One Year Returns*	*YTD Returns*	*One Year Returns*	*YTD Returns*	*One Year Returns*	*YTD Returns*	*One Year Returns*
Price-to-Earnings	-4.36%	0.92%	-1.91%	4.44%	6.43%	18.90%	7.09%	18.90%
Price-to-Cash Flow	-5.66%	-9.41%	-2.41%	-0.24%	5.21%	18.61%	7.30%	24.46%
Price-to-Sales	-6.95%	-11.01%	-3.21%	-2.99%	6.17%	20.19%	9.29%	28.29%
Price-to-Book	-8.24%	-14.13%	-4.59%	-5.66%	8.23%	24.98%	13.81%	38.03%

There are pockets within the markets that look and feel awfully like the late 1990's. Recall that was a time when the dot coms where soaring and investors were talking about the new paradigm, whereby traditional means of stock valuation were "old school" and that investors needed to embrace the new valuation models. It took the NASDAQ Composite over 15 years to recover from those losses and many of the once highflyers never recovered.

A combination of historically low interest rates and corporations searching for growth, fueled merger and acquisition (M&A) activity during the first half of the year. In the U.S., M&A activity was up 60% to nearly $988 billion, making this the strongest first half since records started in 1980. Globally, M&A rose 38% compared with the first half of last year, to $2.18 trillion. This was the highest level since 2007. While such numbers are probably not sustainable over the long-term, we do believe conditions are favorable for them to continue a while longer. We believe interest rates will likely have an upward bias, but are likely to remain low, from an historical perspective. Additionally, after years of under-investment, companies are looking to grow their businesses. Many are finding it easier and quicker to purchase growth, as opposed to growing it organically. While this pace cannot continue indefinitely, we do believe a lower interest rate/slow growth environment is conducive for it to continue for a while longer.

Our decades of investment experience have taught us that the best values are rarely found on the surface. They are discovered through exhausting research and careful analysis of financial statements and valuation metrics. We continue to keep our eyes open for new investment ideas, anywhere they may appear; however, we will always carefully weigh the risks as well as the rewards before committing our clients' capital. Please know that we work diligently and ethically every day in an attempt to generate the best possible risk adjusted returns for our clients.

Kindest regards,

Michael S Dzialo
President & Chief Investment Officer