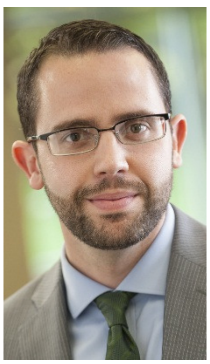
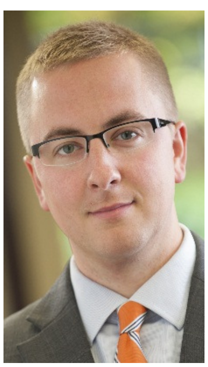
AMI INVESTMENT MANAGEMENT
Registered Investment Advisor

Quarterly Investment Commentary

Fourth Quarter **January 2016**


Michael D. Axel, CFA


Jacob D. Benedict, CFA


Ryan A. Kay

U.S. stocks and bonds finished 2015 just slightly better than flat. The S&P 500 returned 1.4% after a 7% rally in the fourth quarter and bonds returned just north of 1% for the year. Stock markets in international developed countries were down slightly while emerging markets fell nearly 15% on the year.[1]

The headline number for U.S. stocks belies much more turbulent undercurrents. Segments of the market, such as energy and commodity stocks or leveraged companies, had a horrific year. So-called growth stocks have been on a tear over the last several years relative to value stocks, contrary to longer-term historical norms. The S&P 500 Growth Index was up over 5% on the year while the S&P 500 Value Index actually fell over 3%, the second largest gap over the past decade. Five large tech stocks – Facebook, Netflix, Amazon, Google and Microsoft – accounted for over 100% of the stock market's 2015 gains. They were up an average of approximately 70%. The other 495 stocks in the S&P 500 were down for the year.[2] Small-cap stocks, as measured by the Russell 2000, were down over 4%. Even Warren Buffett had a tough year, as shares of Berkshire Hathaway trailed the S&P 500 by over 13%, the conglomerate's worst relative showing during a flat to down year for the broader stock market since 1990. Some of these divergences may have been exacerbated by tax-loss selling heading into year-end and investors chasing returns in growth stocks.

These figures have caused some commentators to compare the current market environment to the dot-com bubble of the late 1990s. It's not clear to us that the comparison is apt, as 2015's five big winners have legitimate businesses that aren't reminiscent of some of the revenue-less dot-com darlings. But the valuations of some growth stocks do appear stretched. Of course, one year is too short of a time frame to draw any material conclusions, but history suggests value stocks will eventually swing back into favor and the most loved market darlings will fall on hard times.

Underlying all of the market's jitters is a global economy that can't seem to get out of stall speed. Just as the domestic economy seemed poised to take-off, with auto sales testing previous highs and home starts reaching a more normalized level, emerging economies – and with them, commodity prices – fell off of a cliff. This has impacted our domestic economy more than it might have in years past, as the oil shale boom made energy and commodities production a more integral part of our economy. Oil at $35 and a very strong U.S. dollar has pressured a lot of domestic companies, even those outside the energy markets.

We don't have any crystal ball that tells us where oil prices, interest rates or stock markets are headed in 2016. Instead, we think investors are best served by sticking to the following New Year's resolutions:

- Keep expenses modest. You can't spend your way to great investment returns.
- Choose a long-term mix between stocks and bonds that is right for your own circumstances and goals, and stick to it through thick and thin.
- Invest in things you understand, and don't cut corners – avoid excessive leverage, chasing returns, businesses or investment strategies you can't explain and managers you don't trust.

[1] As measured by the S&P 500, the Citigroup 1-10 Year Government Bond Index, and the relevant MSCI international indices.
[2] Calculated by AMI.

www.AMIinvestment.com
(260) 347-1281

2016 left the gates with a limp, as stocks sold off during the first few days of trading, more than erasing the gains from 2015. Should investors sell stocks because of recent volatility? Let us be clear: stock prices could fall, and they could fall a lot. This is always true. But we have seen few investors find success trying to jump into and out of the stock market. If we thought stocks were dangerously overpriced, we might reconsider our position. But as we survey the valuations for domestic stocks, we don't find enough reason to panic. That being said, long-term investors need to be comfortable with their allocation to stocks and willing to ride out the inevitable bumps and bruises. We wish there was a way to deliver the good without the bad, but alas, there is no magic elixir. As Warren Buffett counseled in his 2012 letter to shareholders:

> American business will do fine over time. And stocks will do well just as certainly, since their fate is tied to business performance. Periodic setbacks will occur, yes, but investors and managers are in a game that is heavily stacked in their favor. (The Dow Jones Industrials advanced from 66 to 11,497 in the 20th Century, a staggering 17,320% increase that materialized despite four costly wars, a Great Depression and many recessions. And don't forget that shareholders received substantial dividends throughout the century as well.)
>
> Since the basic game is so favorable, Charlie and I believe it's a terrible mistake to try to dance in and out of it based upon the turn of tarot cards, the predictions of "experts," or the ebb and flow of business activity. The risks of being out of the game are huge compared to the risks of being in it.

We thank you for your continued confidence and wish you a Happy New Year.

Sincerely,

Michael D. Axel, CFA
Jacob D. Benedict, CFA
Ryan A. Kay