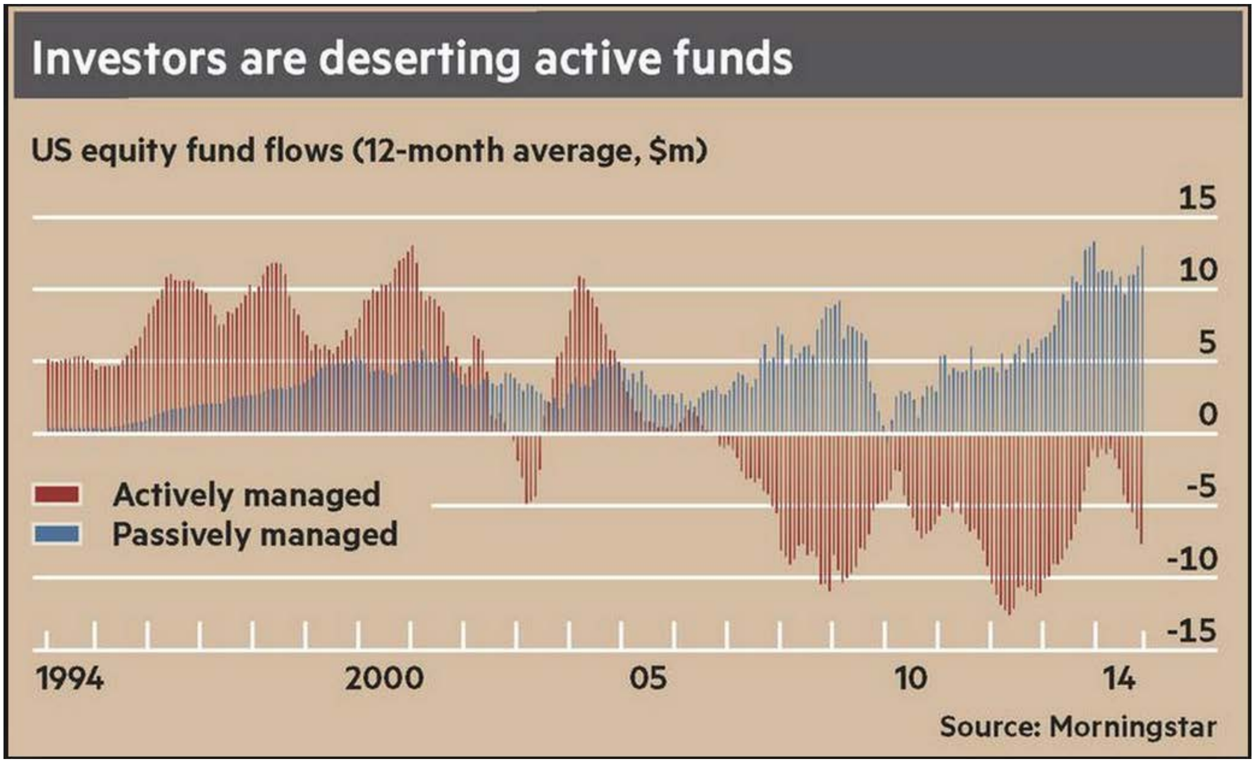
Third Quarter 2015 Client Letter

For us, there is only the trying. The rest is not our business. ~T.S. Eliot

Staples' iconic red plastic "easy button" hit stores in late 2005. When pressed, the button would announce to listeners, "That was easy!" That's it. That's all it did. We all loved it, and to this day we throw the saying around in our offices and our homes. The button provides a psychological dream come true, that with the mere push of a button things in our lives, in fact, can be easy.

The debate over passive versus active investing continues to dominate the investment universe. Passive investing with index funds and exchange-traded funds (ETFs) continue to outperform active managed mutual funds. ETFs outpolled mutual funds for net inflows 130-to-1 in the last 12 months. Passively managed funds (including ETFs) pulled in $484 billion in net new money over the past year. While actively managed funds (almost exclusively mutual funds) lost $97 billion in flows. A staggering 86% of active large-cap mutual funds failed to beat their respective benchmarks in 2014.

I have included a graph showing the rise of the passive investing vs. active on the next page. This graph includes both passive mutual fund along with ETFs).



The tsunami of dollars racing towards this idea of "easy" investing begs the question: Can it be that easy? Can the great work created by Benjamin Graham, and the investing philosophy of Warren Buffet be out of date? If all we have to do is push an "easy button," and we can outperform 86% of all money managers then Staples really had it right.

At Sheppard Wealth, we've emphasized our belief in buying companies that are relatively cheap, and then selling them when they are relatively expensive (buy low/sell high). The current trend of passive investing seems to disregard traditional metrics like putting a reasonable price on cash flow and asset values. While not "easy," following a few simple rules have proven to be successful over time. So let's take a quick look at past performance of a few managers that have not chosen the "easy" path, and they stuck to their disciplined value investing methodology.

Company	Claim to Fame	Performance	Dow Jones (DJIA)	S&P 500	Time Frame	Comments	YTD - 10/31/2015
Ragen MacKenzie	Buy & Hold Value	19.60%	10.70%		01/02/1974 - 09/30/2010	Compound rate of return is almost double over 36 years	N/A
Berkshire Hathaway	Warren Buffet	19.40%		9.90%	1965 - 2014	Compound rate of return is over double for 49 years	-13.20%

I have two comments from this chart: First, 36 years and 49 years is a long time managing money. I can assure you that both of these companies underperformed in certain years, which brings me to my second comment. Berkshire Hathaway is down -13.20 year-to-date for 2015. I have reviewed Berkshire's 49 positions and there is not one exchange traded fund in his mix. I would bet you won't see one anytime soon either.

Market in Review

Volatility returned to the stock market in force during the third quarter as major U.S. stock indices erased all their gains. Trends from the first half of the year reversed during the third quarter with the hardest hit occurring in August. Growth stocks continued to outperform value stocks. During the third quarter the large-cap Russell 1000 Growth index returned -5.29% compared to that of the Russell 2000 Value index returning -10.73%. With fears of China's economy, and their market collapsing -28% during the quarter, investors are on high alert of a global slowdown.

Year-end Planning

As we quickly approach year-end, it's a good time to take a deeper look at your wealth planning needs, taxes, and overall allocation. As a reminder, each family's tax situation is unique. So please reach out to me if you would like to review any questions or concerns. Below is a brief checklist I recommend you consider:

- Harvest capital losses to offset gains and rebalance your taxable investment accounts
- Review charitable contributions to maximize income tax deductions
- Consider donating appreciated capital gain assets that have been held for more than one year
- Maximize your retirement contributions
- Fully fund your Health Savings Accounts (HSAs)

Changes to Your Quarterly Reports

You may notice we have made a change to your quarterly reports by updating the comparable indices. This change was made to better align our overall allocation. While each of our clients have varying overall allocations, it is unrealistic to benchmark a balanced portfolio to that of 100% stock or bond portfolio.

In Closing

James and I are committed to our value-investing principles. We will continue to search for companies that we believe are relative discounts and avoid those we believe are relatively overpriced. We will continue to use some form of passive investments as placeholders or in areas we are not able to currently add value. In closing, I leave you with an excerpt from Charles Brandes book *Value Investing Today*, "When it comes to investing, typically there are no guarantees. But I am almost certain about one thing for value investors: If you strictly adhere to value-investing principles, you will likely question the merit of this approach at some point. You likely will second-guess your decisions. You will have doubts. By investing in out-of-favor stocks, you may look foolish in the short term. Your portfolio may decline when the rest of the market is surging. You may read negative comments about your portfolio holdings in the financial press and wonder why you have ever purchased them. I'm telling you this now to prepare you."

Thank you for your continued trust.

Sincerely,

John Swanson, AAMS