HORAN CAPITAL MANAGEMENT

HCM News

April 2016

What's Inside

*As always, please call our client service team at **(800) 592-7534** if you have any questions.*

Our representatives can also provide you with up-to-date information about your holdings and discuss any changes in your personal financial situation.

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Market Review

By Tim Hai, CFA®, CAIA

Market Review *

•Equity markets generally underperformed fixed-income markets with the S&P 500 climbing 1.35% (including dividends) and the Barclay's Capital U.S. Aggregate Bond index increasing 3.03%.

•Small caps outperformed large cap stocks (S&P 500) as the S&P 600 Small Cap Index returned +2.66%.

•Growth underperformed value across all market capitalizations during the quarter.

•Non-U.S. markets generally underperformed U.S. equity markets, especially in local currency terms (MSCI EAFE**: -2.88% in USD; -6.40% in local currency).

•Emerging markets outperformed both non-U.S. developed markets (MSCI EAFE**) and U.S. equity markets (in both local currency and USD) as the MSCI Emerging Markets Index rose 5.75% in USD.

•Japan (-6.38%) and China (-4.80%) were notable based on their weak performance during the quarter. Brazil, Canada, and Russia were notable based on their strong gains during the quarter (28.58%, 11.49%, and 15.76%, respectively). (All quoted in USD).

•Most U.S. market sectors were positive during the quarter. Financials and Healthcare stocks were most distinguishable given their weakness (-5.06% and -5.50%, respectively). Notably, REITs, Utilities, and Telecommunications Services were strongest (6.31%, 15.56%, and 16.61%, respectively).

•The U.S. corporate bond sector rose 3.89% during the quarter. 10-Year U.S. Treasury yields fell from 2.28% at the beginning of the quarter to today's 1.79%. High yield bonds gained 3.25% during the quarter.

•The U.S. dollar rose 2.48% versus the British Pound, but fell versus both the Yen and the Euro (-6.57% and -4.90%, respectively).

* Unless otherwise noted, performances stated above reflect data provided by Standard and Poor's, Russell Investments, MSCI, and Barclay's Capital.

** The MSCI EAFE Index is a large capitalization, developed market benchmark that tracks non-U.S. or foreign equity markets.

Market Commentary

By Tim Hai, CFA®, CAIA

Tim Hai, CFA®, CAIA
Portfolio Manager

Macro events continued to dominate investment markets during the first quarter of 2016. Events including the December 2015 decision by the U.S. Federal Reserve (the "Fed") to increase its benchmark federal funds rate, a hiccupping Chinese economy, and plummeting oil prices helped ease the S&P 500 ("equity markets") into "correction" territory (when markets fall over 10% from their most recent highs) earlier on in the quarter. Higher interest rates generally strengthen the local currency and a stronger dollar weakens emerging market enthusiasm and lowers oil prices (which are priced in U.S. dollars). Equity markets responded to the new set of data by declining 10% through February 11th. And just as the situation seemed most dire, U.S. equity markets climbed back smartly to end the quarter (up 13% from its trough). Conspiracy theorists will charge that the major power brokers of the world (i.e. the central banks) colluded to promote the calm. They say that the falling stock market was relieved through unspoken coordination by central banks worldwide to walk back the Fed's earlier hawkish tone and weaken the U.S. dollar. Sure enough and fresh off its December decision, the Fed began to show its ambivalence in introducing further interest rate hikes. Hope became reality at the end of the quarter as the central bank displayed its dovishness by declining to raise interest rates for the immediate future. At this point, market implied data suggest expectations of only an additional interest rate hike this year (down from expectations of up to four increases).

Cynically, we here at Horan Capital Management ("Horan") sometimes wonder if the central banks themselves cause much of the problems they purport to resolve. This may have been on display this quarter as equity market volatility was the response to every Fed action. Equity markets sold off to begin the year soon after Fed action, and animal spirits were later released when the equity markets began to digest the signals that the Fed was increasingly unlikely to continue its tack in raising interest rates. Even a decision to remain neutral on rates (and not actually lower them) was enough to lower prevailing market interest rates, weaken the U.S. dollar, increase oil prices, and give a pop to equity markets. Risk seeking was on full display as small cap and value (driven generally by previously weakened telecom services and utilities, and downtrodden energy stocks) stocks still outperformed large caps and growth stocks. Corporate and high yield bond sectors both outpaced the safer Barclay's U.S. Aggregate Bond Index. Emerging market stocks rallied while most developed markets trailed. Energy-linked markets like Brazil, Canada, and Russia outperformed, while safe harbor countries like Japan faltered. However, despite the risk-on feeling since the trough, there were pockets of risk-aversion. Although equity markets rebounded to end the quarter, they still underperformed fixed-income. Developed non-U.S. markets trailed U.S. equity markets. China underperformed its emerging market peers. This suggests that some level of confusion still exists as central banks and macro-economic data continue to flash mixed signals.

Regardless of who or what is pulling the strings that are driving equity market volatility, we will continue to operate with business as usual. As we have mentioned in numerous past letters, we view the existence of volatility as opportunistic moments where we can find companies that are exceedingly well run, and whose stock prices are impacted non-fundamentally by adverse macro-economic conditions. In these cases, we will selectively invest in these fine new businesses that sell at a discount to our calculations of intrinsic value or increase investment in existing ones where we still have great conviction. This is the essence of value and active investing which will allow our clients to recover faster from market declines and experience better long-term investment returns (relative to general equity markets and our peers). We hope that everyone enjoys the warmer weather and can take a brief moment away from portfolio watching. We wish that everyone can take some time off to smell the proverbial roses and enjoy everything the Spring has to offer (cook-outs, strolls in the parks, playing with your children or grandchildren in the back yard, etc.). We understand that stock market volatility can fill you with stress and anxiety. However, we encourage you to not view it or react to it as such. Again, we consider volatility as a source of op-

We view the existence of volatility as opportunistic moments...

Market Commentary
Continued

portunity and short-term in nature. When we invest for clients our concern is not volatile equity market prices (which we welcome), but rather the permanent loss of capital. Permanent loss can happen when a company no longer operates as a going concern or files for bankruptcy. We view that possibility as intolerable and attempt to mitigate such cases by purchasing the stocks of well-financed, high quality businesses. Another way a loss can become permanent is when we are forced to sell a security too soon (usually due to client request). We attempt to avoid this through proper financial planning and appropriate portfolio construction in order to make sure the portfolio is aligned with long-term investment goals. Equities are long term investments and should only be treated as such. We will continue to monitor your portfolios for you with the goal of investing for the long-term. As always, please contact us at your convenience with any questions or concerns you may have. In the meantime, enjoy the Spring!

Department of Labor Fiduciary Rule Unveiled

By the time you read this, we expect that the Department of Labor (DOL) will have already unveiled a final version of the so-called Fiduciary Rule. In an article published on March 31st, the Wall Street Journal reported that the DOL would release the regulation at the Center for American Progress, a nonpartisan think tank, on Wednesday, April 6th. Investment News referred to it as, **"The rule, which is expected to be the most disruptive piece of regulation to come down the pike since the Employee Retirement Income Security Act of 1974,…"**

So what's in it, why is it so disruptive, and how will it affect you?

What's in it?

While there are any number of items expected in the rule, one in particular is getting the most discussion in financial circles, that is, the requirement for brokers, financial advisers or financial consultants to adhere to a "fiduciary" standard when making investment recommendations on retirement accounts. Today, broker dealers and some financial company representatives operate under a "suitability standard". Essentially, a suitability standard requires them to know their clients and their financial situation and recommend products that are suitable for their situation. Proponents of the new rule maintain that the suitability standard lends itself to the sale of expensive and sometimes inferior investment products.

On the other hand, Registered Investment Advisors (RIA) like Horan Capital Management or an ERISA appointed fiduciary must operate under a "fiduciary standard". This requires that we put the client's best interest first, act with prudence, not mislead clients, provide full and fair disclosure, and avoid conflicts of interest, including determining whether the fees are reasonable or not.

Why is it so disruptive?

As you can imagine, the biggest argument against most new government regulations, and this one is no exception, is that they are too complex and too costly to implement. Many brokers believe the rule will force them to abandon individuals with modest accounts, and will also make it more expensive for investors as the broker dealers will need to pass the additional regulatory costs on to the consumer.

How will it affect you?

As we said earlier, Horan Capital Management is already held to a fiduciary standard as a fee only investment advisory firm. We do not sell products or earn commissions. As a fiduciary, from the beginning, we have always had to act in our client's best interest. We believe the fee-only relationship inspires a more objective and collaborative working partnership with our clients. Unlike firms that market financial products or sell insurance, our financial advisors and investment management team can freely concentrate on finding solutions that help our clients meet their complex and varied needs.

John G. Heinlein –
Chief Executive Officer and
Chief Investment Officer

The following discussion mentions stocks that are widely — but not universally — held by clients of Horan Capital Management. Client portfolios are customized, so this commentary may or may not be directly applicable to any given client or account. Our intention is to provide general insight into portfolio holdings and into our overall approach and to highlight situations of interest, both positive and negative. The mention of any stock is neither advice nor a solicitation to buy or sell any particular investment and our opinions regarding securities are subject to change without notice. Investing involves risk of loss. See the legal disclosures at the end of this publication and on our website for more information.

Portfolio Activity

By John G. Heinlein

NEW PURCHASES

Apple, Inc. (AAPL) Apple Inc. designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players to consumers, small and mid-sized businesses, education, and enterprise and government customers worldwide. The company also sells related software, services, accessories, networking solutions, and third-party digital content and applications. Shares of the company had fallen considerably after its inclusion into the Dow Jones Industrial Average index. The company's challenges include high competition, a lull in its new iPhone introduction cycle, strong foreign exchange headwinds, and slowing growth prospects. Despite these challenges, we believe shares of the company had fallen to a point well below our estimate of intrinsic value which normalizes the company's future earnings power. As such, we believe that the market has over-punished the company.

American Express Company (AXP) American Express offers products and services, including charge and credit payment card products and travel-related services to consumers and businesses around the world. American Express looks to benefit as consumers around the world migrate towards digital payments (and away from cash; 85% of global transactions are still made in cash). The company will also benefit from tailwinds in rebounding global economies, the migration of emerging economies into developed ones, and a corresponding increase in middle class consumers globally. Recent headwinds for the company include negative headline news regarding interchange fees, increased competition from other payment processors and their banking partners, the increased use of several digital payment technologies, foreign currency exposure (30% of revenues are generated overseas), and the loss of Costco as a partner/client (8% of billed revenues). Despite these challenges, we believe recent contraction in shares offer a compelling entry point in one of the world's premier companies and marketing brands.

Gilead Sciences, Inc. (GILD) Gilead Sciences is a biopharmaceutical (bio-tech) company that discovers, develops, and commercializes medicines in areas of unmet medical need in North America, South America, Europe, and the Asia-Pacific. The company's main products offer treatment for HIV and Hepatitis-C. Gilead's stock has been under pressure recently based on competition within its core HIV and Hepatitis-C franchises. Particularly in the Hepatitis-C space, the company faces new and competing products available from Abbvie and Merck. These new-to-market drugs have been offered at cheaper price points than Gilead's, heightening price competition and quickening the pace of the company's discounting. Also, drug companies have received numerous negative headline news

Portfolio Activity
Continued

regarding industry drug pricing methods. These issues have caused the company's stock to decline significantly from its highs and seem more than fully priced into the company's stock. We believe that the company's products are superior to the competition in terms of manner of ingestion and potential for negative side effects. We also discount the chance that the negative headlines will grow beyond general chatter. The company generates significant free cash flow, margins, and returns, and is building on its current family of drugs with a strong pipeline and offer potential for future acquisitions. As such, we believe the company trades at an attractive discount to our estimate of intrinsic value which more than compensates us for the underlying risks inherent to the company.

Monsanto Company (MON) Monsanto Co. produces seeds, herbicides, and develops biotechnology traits that assist farmers in controlling insects and weeds. The company also provides other seed companies with genetic material and biotechnology traits for their seed brands. Recent headwinds for the company have come from its foreign currency exposure (46% of revenues are generated overseas), the global economic slowdown, and more specifically the faltering Chinese economy. The company has also been bombarded by negative publicity over the company's use of biotechnology to genetically manipulate crops. The "anti-GMO" trend has increased government scrutiny of the company's products, resulting in more regulation, litigation, and investigation (and a more hostile EU in particular). Current prices are at a level which we believe more than fully compensate us for the risks inherent to the stock. We believe the company has a strong economic moat and strong demographic tailwinds worldwide. As such, we believe the current slowdown in global growth, increased foreign currency volatility, and short-term imbalances in the supply/demand for agricultural products have created an opportunity for share ownership.

Polaris Industries, Inc. (PII) Polaris engineers, manufactures, and markets off-road vehicles, snowmobiles, motorcycles, and small vehicles primarily in North America, Australia, and Europe. Polaris shares have come under pressure of late as the company has seen its margins compress and revenue growth slow. The company has cited greater price competition as peers have attempted to clear inventories, increased capital expenditures in recent years to expand capacity, general economic weakness abroad, and foreign exchange headwinds (25% of revenues are international). We view the issues that have stymied Polaris as cyclical and non-fundamental in nature (not company specific). As such, we believe any weakness in the company as temporary. We believe current prices largely punish the company for factors out of its control. We are impressed with the company's strong management, diversity in products, quality brand, and scale.

ADDITIONS

Berkshire Hathaway, Inc. (BRK.B) Berkshire Hathaway is a holding company owning subsidiaries engaged in various business activities. The Company conducts insurance businesses on both a primary basis and a reinsurance basis, a freight rail transportation business, and a group of utility, energy generation, and distribution businesses. Shares of Berkshire Hathaway were added in selected new accounts. Berkshire Hathaway is a core holding in HCM portfolios.

Citigroup, Inc. (C) Citigroup is a global financial services holding company that engages in the provision of financial products and services to consumers, corporations, governments, and institutions. Shares of Citigroup traded at very attractive valuations during the early part of the quarter and were added in selected new accounts.

Cummins, Inc. (CMI) Cummins designs, manufactures, distributes, and services diesel and natural gas engines, and engine-related components. It operates in four segments: Engine, Distribution, Components, and Power Generation. We believe shares of Cummins are undervalued today and that growth will return to the company as normalization occurs in oil-gas markets, FX/foreign currency, and the global economy. Shares of Cummins were added in selected new accounts.

Emerson Electric Co. (EMR) Emerson Electric provides technology and engineering solutions to industrial, commercial, and consumer markets worldwide. We believe shares of Emerson are undervalued today and that growth will return to the company as normalization occurs in oil-gas markets, FX/foreign currency, and the global economy. Shares of Emerson Electric were added in selected new accounts.

Express Scripts Holding Co. (ESRX) Express Scripts provides retail drug card programs, specialty disease management,

Portfolio Activity

Continued

and prescription drugs throughout its retail network. It also provides pharmaceutical products directly to patients and physicians. The potential loss of a prominent client and questions regarding its stand-alone business model have recently impacted shares. We continue to have conviction in Express Scripts and have added to our existing holdings.

Fastenal Company (FAST) Fastenal engages in the business of wholesale and retail distribution of industrial and construction supplies including threaded fasteners, such as bolts, nuts, screws, studs and related washers. Shares of Fastenal traded at very attractive valuations during the early part of the quarter and were added in selected new accounts.

Merck & Co., Inc. (MRK) Merck provides health care solutions worldwide. Merck's economic moat is based on the strength of its portfolio of branded and patent-protected drugs (which also enable it to have scale in manufacturing, distribution, and R&D). We believe shares of Merck are attractive on an absolute level and on a relative basis versus peers and the company's own distinguished history. Shares of Merck were added in selected new accounts.

Pfizer, Inc. (PFE) Pfizer is a research-based, global biopharmaceutical company, which engages in the manufacture of vaccines and injectable biologic medicines. Shares of Pfizer traded at very attractive valuations during the early part of the quarter and were added in selected new accounts. Pfizer is a core holding in HCM portfolios.

Qualcomm, Inc. (QCOM) Qualcomm engages in the development, design, manufacture, and marketing of digital telecommunications products and services. Shares of Qualcomm traded at very attractive valuations during the quarter and were added in selected new accounts.

Union Pacific Corp. (UNP) Union Pacific operates railroads in the United States and offers freight transportation services. A slowing domestic industrial/manufacturing economy and forecasts for lower oil and coal railcar traffic have caused shares to weaken. Prices are currently attractive, allowing an opportunity to invest in a dominant and efficient railcar company. Shares of Union Pacific were added in selected new accounts.

U.S. Bancorp (USB) U.S. Bancorp operates as a bank holding company, which through its subsidiary provides banking and financial services, including lending and depository services, cash management, foreign exchange and trust and investment management services. Shares of U.S. Bancorp traded at very attractive valuations during the early part of the quarter and were added in selected new accounts. U.S. Bancorp is a core holding in HCM portfolios.

Wells Fargo & Company (WFC) Wells Fargo is a diversified financial services and bank holding company, providing banking, insurance, investments, mortgage, and consumer and commercial finance services and products. Shares of Wells Fargo traded at very attractive valuations during the early part of the quarter and were added in selected new accounts. Wells Fargo is a core holding in HCM portfolios.

POSITIONS SOLD

Clorox Company (CLX) Clorox manufactures and markets consumer products including its ubiquitous namesake brand of bleach products, charcoal, pet supplies, and plastic bags, wraps and container products. Shares of the company were sold during the quarter due to extremely high valuations and its proceeds have been used to fund other portfolio purchases.

E.I. Dupont de Nemours and Company (DD) Dupont provides science-based products and services through six segments; Agriculture, Electronics & Communications, Industrial Biosciences, Nutrition & Health, Performance Materials, Safety and Protection. The company recently agreed to a merger with Dow Chemicals. Shares of the company were sold during the quarter to fund more attractive investment ideas.

Lowe's Companies, Inc. (LOW) Lowe's engages in the retail sale of home improvement products. Shares of Lowe's were sold in selected accounts based on price performance. Shares of the company were sold during the quarter due to extremely high valuations and its proceeds have been used to fund other portfolio purchases.

McDonald's Corp. (MCD) McDonald's engages in the provision of retail fast food services. Shares of the company were sold in selected non-taxable accounts during the quarter due to extremely high valuations and its proceeds have been used to fund other portfolio purchases.

Praxair, Inc. (PX) Praxair is an industrial gas supplier in North and South America. It designs, engineers, manufactures and operates facilities that produce and distribute industrial gases. Shares of the company were sold during the quarter due to extremely high valuations and its proceeds have been used to fund other portfolio purchases.

Portfolio Activity
Continued

National Oilwell Varco (NOV) National Oilwell Varco provides equipment and components that are used in oil and gas drilling and production operations, oilfield services, and supply chain integration services to the upstream oil and gas industry. Shares of the company were sold during the quarter to fund more attractive investment ideas.

REDUCTIONS OF EXISTING POSITIONS

Alphabet, Inc. (GOOG/GOOGL) Shares of Alphabet were trimmed in selected accounts based on price performance and an over-weighted position. Proceeds from the sale were redistributed to other portfolio holdings. Shares of Alphabet continue to look attractive as a core holding in HCM portfolios.

General Electric Co. (GE) Shares of General Electric were trimmed in selected accounts based on price performance and an over-weighted position. Proceeds from the sale were redistributed to other portfolio holdings. Shares of General Electric continue to look attractive as a core holding in HCM portfolios.

Microsoft Corp. (MSFT) Shares of Microsoft were trimmed in selected accounts based on price performance and an over-weighted position. Proceeds from the sale were redistributed to other portfolio holdings. Shares of Microsoft continue to look attractive as a core holding in HCM portfolios.

PepsiCo, Inc. (PEP) Shares of PepsiCo were trimmed in selected accounts based on price performance and an over-weighted position. Proceeds from the sale were redistributed to other portfolio holdings. Shares of PepsiCo continue to look attractive as a core holding in HCM portfolios.

We Want More Great Clients Like You !!!

Do you know anyone who can benefit from our financial planning and asset management services? Horan is currently accepting new clients and we want more great clients just like you. Please contact your advisor today if you have a friend or family member who would be a good fit for our firm. We'll be happy to talk to them about their current situation and provide a complimentary financial consultation.

One of the greatest compliments you can give us is the referral of a friend or family member.

Charitable Giving Update

As the 2016 tax season becomes a memory, you may look back and wish you had more charitable deductions. Nevertheless, if a recent figure remains true, at least 80% of taxpayers had some amount of charitable deductions. As rewarding as donating to charity can be, it can also be very complex and even daunting at times. There are so many ways to give and so many good causes to which to give.

With so many options of charitable organizations to contribute to today, more and more donors are turning to resources available to research potential gift recipients. One of the more popular websites is Charity Navigator (www.charitynavigator.org). There you can search for charities who support causes you are passionate about such as arts and culture, community development, education, the environment, health and religion, just to name a few.

Once you have decided which charity to give to, what is the best way for you to donate? Let us briefly look at the main options and instruments available.

Gifts can be made outright while you are alive through giving cash or appreciated securities directly to a charity or directing part or all of your required minimum distributions to a charitable organization. Additionally, you can partner with your favorite charities through the use of donor advised funds, charitable gift annuities, and charitable remainder trusts.

Retirement plans allow for easy gifts to charity and it's a great way to often save on income and estate taxes. By naming a charity as a beneficiary of your plan, you can avoid potential double taxation from estate and income taxes which can occur by naming family members as beneficiaries. During your lifetime you can still take withdrawals, you retain control of the assets, and the ability to change the beneficiary. Once you reach age 70.5 you have the opportunity to direct up to $100,000 per year from your required minimum distribution directly to a charitable organization and not have to claim the distribution as taxable income.

Appreciated stock is a favorite among investors in giving which allows for the avoidance of capital gains taxes. The donor may get to deduct the value of the gift from their taxable income now for the fair market value of the stock and capital gains taxes are avoided by both the donor and the charity.

In addition, there are ways to donate to charities which not only result in a charitable deduction, but also provide an income stream back to the donor either for a fixed period of time or for the remainder of their lives, or even the ability to transfer assets to non-charitable beneficiaries after a fixed term of years. This can be accomplished through the use of charitable gift annuities, charitable remainder trusts or charitable lead trusts.

Another lesser known option is often available later in life. If you have paid-up life insurance and it is no longer needed, you can transfer the policy to a charity or just have a charity listed as beneficiary.

After you pass away you can give outright to charities through beneficiary designations on investment, bank, retirement or life insurance assets. Wills and simple trusts are also a convenient way to gift to charities at passing. They are easy to implement, often tax deductible to your estate, you retain complete control of the assets during your lifetime, and you can usually modify the investment instruments.

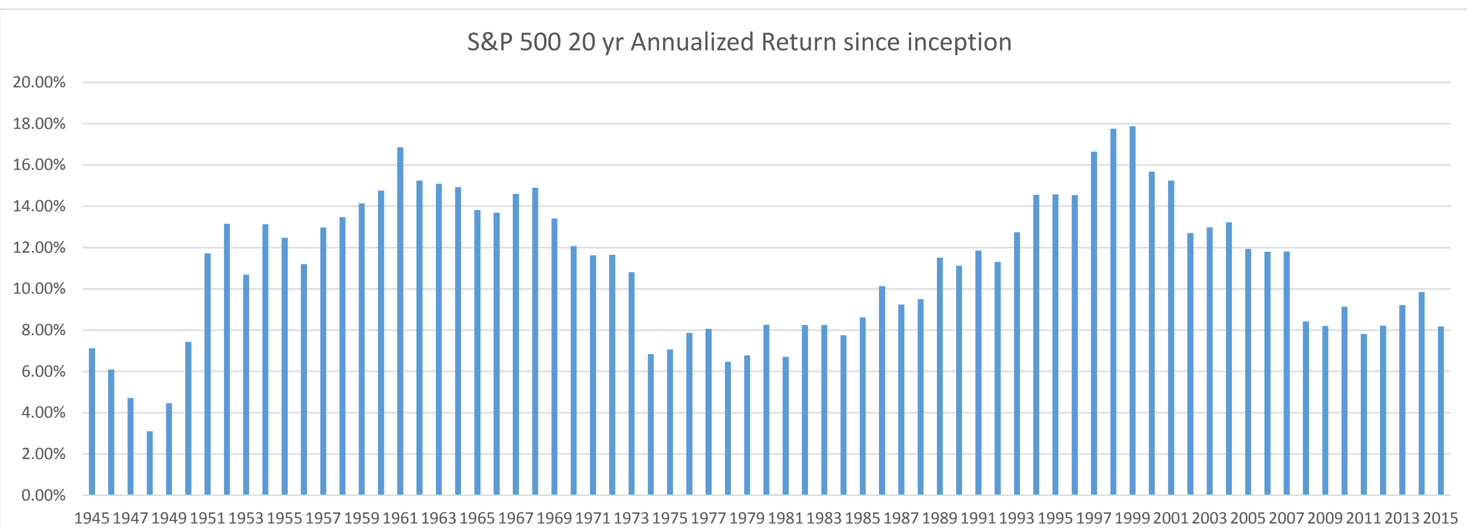
Any and all of these are tools you might use not only to benefit the charities you care about, but also to benefit you and your loved ones as well. If philanthropy is increasingly on your mind, let us help you navigate the charitable waters.

A Moment to Reflect

There were several teachable moments that arose during the first quarter. First, the whipsaw quarter showed inherent inefficiency. Efficiency connotes low volatility and the first quarter was anything but low in volatility. We have heard some people describe the market as at times certain or clear or having clarity in moments of upward progress – and vice versa (i.e. murky or opaque in less than ideal circumstances). Generally, we do not find equity markets efficient or clear in the short-term, in either up or down markets. We do believe that equity markets are more efficient over the longer-term. This short-term inefficiency is the source of the value that can be added through value and active investing. If it were so always efficient, there would be no opportunities to find value and no compelling reason to be active investors.

We do believe that equity markets are more efficient over the longer-term.

A second learning opportunity suggests that the correction we experienced is not such an extraordinary event at all (supporting the case that markets are inefficient). Recent data from Morningstar (using S&P 500 data) shows that the probability of an equity market correction (when markets fall over 10% from their most recent highs) or a bear market (when markets fall over 20% from their most recent highs) increases with time. In any given year, there is a 39% and 11% probability that either a correction or bear market will transpire, respectively. Over a five-year time frame, there is a 96% and 58% probability that either a correction or bear market will transpire, respectively. Over 10-years, there is a 100% probability that a correction will occur and near certainty that a bear will rear its ugly head (86% certainty). So, from time to time, we do know that they occur with some regularity. However, we also know that after any such decline, there is an inevitable rebound or reversal. The Morningstar data also shows that the historical chances of experiencing negative equity market returns diminishes through the passage of time. This suggests an eventual rebound in equity markets and that there is generally a tendency to trend upwards. The data shows that in any given year, investors can expect a 22% chance of experiencing negative equity market returns. Over a 5-year period, investors can expect a much lower 8% chance of experiencing negative equity market returns. However, with near certainty (again, based on historical data), investors can expect a 3% chance of experiencing negative equity market returns over 10-years, and 0% (no chance) over 20-years. (See chart below for annualized returns of S&P 500 over 20 year periods since inception.)



Source: Tamarac Inc. & HCM

So, although the timing may vary, every correction or bear market is inevitably followed by a rebound. And, as one stays invested and the longer they are so, their accounts recoup their losses and then some. The market crash of 2008 (which actually encompassed October 2007 through March 2009), is a prime example of this. One of the greatest equity market losses (-56.6% from peak to trough) ever was followed by a strong rebound that was fully complete by 2013 (all losses from the previous bear market decline were recovered) and has since climbed another 42% (and is very near its all-time highs). Knowing this very important

A Moment to Reflect

Continued

market characteristic can help us benefit over the long-term. The lesson is, if you have a long-term time horizon, any setback caused by market volatility, is erased through time by eventual equity market growth.

Market timing is not a worthwhile endeavor...it's a very difficult, if not impossible strategy to win...

The third lesson is that market timing is not a worthwhile endeavor and that it is not necessary if we understand the long-term nature of equity markets (that it goes up generally over time and that corrections and bear markets are always followed by rebounds). Market timing is a very difficult, if not impossible strategy to win at and win at consistently over time. One-time success is not easily replicable. As mentioned previously, the market is not clear in the short-term and it does not clearly signal when buying or selling opportunities exist. If it did, everyone would always succeed in their investments, no matter the market direction (we know this intuitively not to be true). Market timing depends on making two decisions correctly. The first decision is when to exit the market. This decision is relatively easier than the second decision because you can see market prices fall around you. The timing between when prices actually began to fall, when you first notice the falling prices, and when you finally act upon it (make the sale) determines your success. But, you may never get the timing exactly correct as you will either be too early or too late (there is a lot of room in between). The second decision to re-enter the market is perhaps most difficult and likely the more damaging to your overall portfolio should you get it wrong. It is extremely difficult to determine when you are in a sustainable rebound. As the first quarter correction and rebound shows, both correction and rebound can happen quite quickly. In most market timing schemes, even if the first decision is timed perfectly (which it usually isn't), it usually fails in successfully timing the second. More often than not, these strategies are late in re-investing in the market because they were slow to pick-up on the "all-clear" market signals, or because their investment strategy takes time to reinvest. Also, most of the profits to be had are made well before the "all-clear" moment is felt or before the aforementioned and illusive moment of clarity comes to pass. All-the-while, the investor experiences severe transaction costs, possible tax implications, opportunity costs, and in many cases, real and tangible losses.

Horan Capital Management practices what is widely considered a long-term and high quality value investment philosophy. That is, we invest in what we consider to be high quality companies with demonstrably sustainable economic moats or competitive advantages. Being value investors, we purchase these companies at a discount to our assessment of intrinsic value. We believe these companies have a natural buoyancy in times of market volatility given their existing discount, allowing them (collectively) to outperform in poor markets. Our value discipline also dictates that we be opportunistic in times of difficulty or market volatility by selectively investing further in our current holdings or in new ideas that have been punished unfairly for non-fundamental reasons (i.e. non-company specific). We believe this is the more appropriate strategy, and by far easier to sort out strategy than market timing (which reminds us of a guessing game). Long-term value investing is more structured and science than the art of market timing. A market timer who might have been lucky by getting out of the markets early on last quarter, would have been hard pressed to have fully re-invested in time to benefit from the second half rebound. The time period or window of opportunity closed very quickly. As such, we believe the proper course of action is and has always been to buy low and sell high. If markets continue to fall, buy even lower while adhering to your long-term investment goals. If markets correct for non-fundamental or macro-economic reasons, this suggests or signals a buying opportunity.

We turn volatility on its head and treat it as an opportunity rather than a nightmare.

We believe this investment strategy allows our investors to benefit from short-term market dislocations, recoup their losses sooner than otherwise, and thus leading to long-term excess returns. We turn volatility on its head and treat it as an opportunity rather than a nightmare. This is because we believe the biggest threat to investors is not volatility, but failure by investors to properly assess their needs and time horizon. Volatility is a risk, but it is not the most important one. It is short-term in nature and can be mitigated through adhering to your long-term goals. Understanding the correction and rebound cycle within volatility and utilizing the knowledge that the tendency or probability for negative performance in equity markets decreases with time allows us to focus on more important challenges. We believe that the more important measure of risk is that of a permanent loss of capital. A permanent loss of capital can occur when a company no longer operates as a going concern (i.e. is in permanent decline) or a stock position is sold prematurely at

A Moment to Reflect

Continued

a loss. Our investment strategy seeks long-term positions in high quality businesses that we believe are a going concern (i.e. can operate in perpetuity), so the risk of this type of a permanent loss of capital is somewhat mitigated. We typically do not sell positions prematurely (at least we try not to). If we do, it is usually due to client request. We strive to develop an appropriate financial plan for our clients that is aligned with their long-term investment goals so as not to incur a permanent loss of capital (through the premature sale of an investment position). The more acute and painful threat to investors is the potential failure in not achieving their long-term investment and retirement goals. This is not generally caused by equity market volatility but through a failure of financial planning. Investment time horizons are different for every investor, but generally speaking, they are long-term in nature for most people. We would also argue that most people underestimate their needs and investment time horizons given dual threats (ironically and perversely) from a longer lifespan and threats to our public safety nets, which were once thought to be infallible (a topical idea for future articles). Short-term equity market volatility can give you headaches if you lose sight of your longer-term goals. However, if you make it work in your favor and maintain commitment to a long-term strategy, you will most assuredly benefit from a rebounding market. We encourage you to meet or speak with our financial advisors regularly to determine and assess your financial plans. Please contact us if you have any questions regarding your financial plan or investments.

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