Horan Capital Management

HCM News

January 2016

Start Out 2016 On The Right Foot

Many of us start the new year with a lot of resolutions which unfortunately don't make it past January. One of the top resolutions we hear is working on personal finances and **getting your financial life in order.**

HCM wants to help you keep your financial resolutions this year and every year going forward. We offer **Financial Planning at no additional cost**. We do not charge for this service because we believe it is so important and cost should not stand in the way.

Many clients have taken advantage of this **FREE** service, but there are still many who have not. Contact your advisor today to get started on your own personalized financial plan or to update an existing plan.

*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 outperformed fixed-income markets with the S&P 500 climbing 7.04% (including dividends; 1.38% YTD) and the Barclay's Capital U.S. Aggregate Bond index falling 0.60% (up 0.58% YTD).

•Small caps underperformed large cap stocks (S&P 500) as the Russell 2000 returned +3.59% (down 4.41% YTD). Small cap stocks have also underperformed large cap stocks over the past three and five-year periods as well.

•Growth outperformed value across all market capitalizations and over most periods since the 2008 market decline (Qtr/YTD/1/3/5-year, etc.).

•Non-U.S. markets (MSCI EAFE**: 4.75% in USD; -0.39% YTD) generally underperformed U.S. equity markets. However, non-U.S. markets outperformed U.S. markets in local currency terms over the full-year period (+5.78%).

•Emerging markets underperformed developed markets (MSCI EAFE**) as the MSCI Emerging Markets Index rose 0.73% in USD (-14.62% YTD).

•Japan (+9.38%; +9.90% YTD) and Australia (+10.0%; -9.77% YTD) were notable based on their strong performance gains during the quarter. Brazil and Canada were notable based on their strong weakness during the full-year (-41.2% and -23.6%, respectively). (All quoted in USD).

•All U.S. market sectors were positive during the quarter. Energy and Utilities were most distinguishable given their relative weakness (+0.20% and +1.10%, respectively).

•The U.S. corporate bond sector fell 0.11% during the quarter, but rose 0.63% YTD. 10-Year U.S. Treasury yields rose from 2.06% at the beginning of the quarter to today's 2.28%. High yield bonds fell 0.95% during the quarter and -3.00% for the year.

•The U.S. dollar rose +2.7% (+5.47% YTD) versus the British Pound (as well as versus most other currencies); +0.44% (+0.33% YTD) versus the Yen; and +2.68% (+10.23% YTD) versus the Euro.

* 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

This year experienced significant volatility driven by...global economic uncertainty.

A strong quarterly gain (+7.0%) helped the S&P 500 post a slightly positive return of 1.38% for the year. This might seem rather meek considering recent history. Given the seven years of positive annual returns the market has notched since the 2008 Great Recession, you can perhaps forgive some for their lack of enthusiasm. This year's performance was the lowest of the previous seven years. However, if this is the worst of a post-bull market sell-off, we'll gladly accept it. The year experienced significant volatility driven by among other things, global economic uncertainty. As we have written throughout the past year, macro issues dominated the year and no region in the world was particularly immune. European/Japanese QE (the loosening of economic policy), falling oil/commodity prices, a slowing industrial economy in the U.S., rising U.S. interest rates, U.S. dollar strength, Greece capitulation, and tepid Chinese growth (did I miss any?) were some of the major headlines that helped sway markets. Also, falling gasoline prices failed to spark retail spending as domestic consumers chose to bank (deposit) their savings rather than spend it. Apparently, increasing interest rates (or at least the anticipation of it) was compelling enough to induce consumers to save. Or perhaps it was a lack of confidence in the overall economy or state of national politics? Weak foreign currencies forced many overseas consumers to stay home (or close to it) rather than travel to the U.S., spending their discretionary funds on cheaper products locally or in other countries (besides the U.S.).

Performance in U.S. equities was perhaps even dimmer considering it was helped in large part by a few social media or tech-related companies (i.e. the FANA or formerly FANG stocks: Facebook, Amazon, Netflix, and Alphabet (formerly known as "Google")). Without these stalwarts, investors would have even less to cheer about as safety won out over risk. This was evident as small cap stocks trailed large caps and growth trumped value. Indeed, both trends have been in play generally since 2008, as interest rates have been low and oil/commodity prices have fallen into bear markets (affecting the bank and energy stocks in the indices and in many "value" investors' portfolios). More recently, utilities stocks (typically favored by value managers or investors interested in higher yields) have also been negatively affected by rising interest rates. As such, U.S. equity markets barely beat fixed-income (bond) investing which returned 0.58% in 2015. Fixed-income markets also exhibited considerable risk-aversion during the year as the spread (difference) in performance between U.S. Treasuries and high yield bonds was over 350 basis points (in favor of U.S. Treasuries). "Junk bonds" from companies in the energy patch were particularly poor performers during the year for obvious reasons. International equity markets held up surprisingly well in local currency returns, considering the numerous negative headlines experienced. These markets generally underperformed U.S. equities in U.S. dollar terms (due to the U.S. dollar's strength) but outperformed in local currency terms. This was perhaps driven by optimism regarding the success of the aforementioned loosening of economic policies in several economic blocs globally.

We view market volatility and dislocations as opportunities...

2015 was a very difficult year for investors. And, by the time our clients read this Market Review and Commentary, they will know that the start to 2016 has been equally challenging. However, we cannot think of a better time to remind you of our value investment philosophy or to impress upon you our dedication to long-term investing. Our investment philosophy and time horizon combined, allow us to protect our clients versus volatility, and more importantly, the permanent loss of capital. We view market volatility and dislocations as opportunities to be capitalized upon. As fear enters the market, it compels some investors to make irrational decisions. They sell into a falling market for reasons not fundamental to the investment, but based on emotions. We will make the best of a sub-optimal situation by being opportunistic. Clients that have extra funds set aside or were already thinking to add to their portfolios, may wish to use the poor start to the year by doing so now. Also, we would like to remind our clients that we would welcome the occasion to meet and discuss our services with any family or friends that may have interest. Please do not hesitate to share us with them. We are optimistic in this New Year but will continue to be vigilant in our task. We wish all of our clients the best, and hope that the year ahead is both rewarding and prosperous.

2016 SSA and IRS Tax Limits and Exemptions

For tax year 2016, the Internal Revenue Service announced annual inflation adjustments for more than 50 tax provisions, including the tax rate schedules, and other tax changes. The tax items for tax year 2016 of greatest interest to most taxpayers include the following dollar amounts:

IRS Tax Limits and Exemptions

Basic Standard Deduction

•The standard deduction amounts for 2016 remain as they were for 2015: $6,300 for singles and married persons filing separate returns and $12,600 for married couples filing jointly.

Personal Exemption

•The personal exemption for tax year 2016 rises $50 to $4,050, up from the 2015 exemption of $4,000. However, the exemption is subject to a phase-out that begins with adjusted gross incomes of $259,400 ($311,300 for married couples filing jointly). It phases out completely at $381,900 ($433,800 for married couples filing jointly).

AMT Exemptions

•The Alternative Minimum Tax exemption amount for tax year 2016 is $53,900 and begins to phase out at $119,700 ($83,800, for married couples filing jointly for whom the exemption begins to phase out at $159,700). The 2015 exemption amount was $53,600 ($83,400 for married couples filing jointly).

Medical Savings Account

•For tax year 2016, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than $2,250, up from $2,200 for tax year 2015; but not more than $3,350, up from $3,300 for tax year 2015. For self-only coverage, the maximum out of pocket expense amount remains at $4,450. For tax year 2016 participants with family coverage, the floor for the annual deductible remains as it was in 2015 -- $4,450, however the deductible cannot be more than $6,700, up $50 from the limit for tax year 2015. For family coverage, the out of pocket expense limit remains at $8,150 for tax year 2016 as it was for tax year 2015.

Kiddie Tax

•For 2016, the first $1,050 of unearned income a child or college student earns will be offset by the $1,050 standard deduction (assuming the child has no earned income), and the next $1,050 of such unearned income will be taxed at the child's tax rate. All of the child's unearned income in excess of $2,100 is taxed at the parent's tax rate.

Estate Tax Exemption

•Estates of decedents who die during 2016 have a basic exclusion amount of $5,450,000, up from a total of $5,430,000 for estates of decedents who died in 2015.

Dollar Limitations on Retirement Plans

IRA

•For 2016, the Traditional and Roth IRA contribution limits remain unchanged from 2015 at $5,500. The catch up limit for those 50 and older is $1,000.

Simple IRA

•For 2016, the Simple IRA contribution limits all remain unchanged. The elective deferral limit is $12,500. The Catch-Up limit for those 50 and older is $3,000. Maximum employer match is $12,500.

Sep IRA

•The Maximum SEP IRA contribution for 2016 is $53,000.

401k, SARSEP, 403(B), and Gov't 457(b)

•The Elective deferral limit remains $18,000 and the catch up limit for those 50 and older is $6,000.

Social Security Changes

Social Security Taxable Wage Base

•The Social Security Taxable Wage base for 2016 remains at $118,500. The maximum earnings for individuals under normal retirement age before Social Security Benefits are reduced is $15,720 ($1,310/month). One dollar in benefits will be reduced for every $2 in earnings above the limit. The Maximum Social Security Benefit for a worker retiring at Full Retirement age is $2,639/month.

Cost of Living Adjustment (COLA)

•Social Security benefits will not automatically increase in 2016 as there was no increase in the Consumer Price Index (CPI).

Tax Rates

•Employee (7.65%) and Self Employed (15.30%). The 7.65% is the combined rate for SS and Medicare. The SS portion is 6.2% and Medicare is 1.45%. Also, as of January 2013, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9% in Medicare taxes. These rates do not include the 0.9%.

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

Cummins, Inc. (CMI) Cummins Inc. 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. The company's fortunes have worsened due to tepid U.S. economic conditions, poor international markets (emerging markets and China in particular), and falling energy prices. Too, the company's financials have also been temporarily impaired by the strong U.S. dollar which has reduced its revenue potential and translated profitability (foreign revenues make up 52% of the total). The diesel engine manufacturer has a strong economic moat which has allowed it a nearly 40% market share (including 40% of the heavy duty and 73% of the medium duty engine markets). The company's economic moat is based on its strong brand and reputation for quality built products, scale/low cost advantages, and high barriers to entry driven by government emission requirements. Shares of Cummins have fallen 47% from their record highs reached in 2014. The company has an excellent balance sheet (zero net debt), almost $2 billion in cash on hand, a great 4.10% yield, and an aggressive share repurchase plan. At current prices, Cummins trades at a considerable margin of safety to our estimate of intrinsic value. We view the headwinds that the company currently face as cyclical factors that do not affect its fundamental earnings power. As such, we have initiated a position in the company.

Express Scripts Holding Co. (ESRX) Express Scripts Holding Company provides retail drug card programs, specialty disease management, and prescription drugs throughout its retail network. It also provides biopharmaceutical products directly to patients and physicians. The company has tremendous scale as the largest PBM in the US with over 1.3 billion adjusted claims processed in 2014. This gives the firm unparalleled supplier pricing power through the ability to negotiate favorable drug prices. The industry has strong secular tailwinds because of rising pharmaceutical spending and an aging demographic. The rise of specialty drugs and the increase in generic drugs will also be a driver of growth. Generic drugs in particular offer the company leverage in demanding even greater discounts from manufacturers. While the stock is not extraordinarily cheap, we think it is attractively priced given the company's leadership in the PBM market, its strong economic moat, and beneficial secular tailwinds.

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

Portfolio Activity
Continued

distribution businesses. Shares of Berkshire Hathaway were added in selected new accounts. Berkshire Hathaway is a core holding in HCM portfolios.

CH Robinson Worldwide (CHRW) C.H. Robinson Worldwide, Inc., a third party logistics company, provides freight transportation services and logistics solutions to companies in various industries worldwide. As a logistics provider, it matches companies with potential shipping partners. Shares of the company have fallen in-line with the weak global economy and sagging domestic industrial/manufacturing economy. This has given us an opportunity to acquire shares of a very profitable, asset-lite company.

Emerson Electric Co. (EMR) Emerson Electric Co. 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.

Fossil Group, Inc. (FOSL) Fossil Group is best known for the company's watches which are most commonly sold in partnership with strong consumer brands such as Burberry or Michael Kors. The company's stock price has been impacted of late as the investment community parses the impact of smartwatches on the company. We view this as an excellent opportunity to purchase a very well-run company at a significant discount to intrinsic value.

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.

Proctor & Gamble Co. (PG) Procter & Gamble Company manufactures and sells branded consumer packaged products worldwide. The company is going through some challenges as it tries to right-size its brand mix. We like the company's portfolio of leading brands that are essential for retailers to drive traffic in their stores. The valuation is attractive in our view and we have used the opportunity to buy positions for selected accounts.

Union Pacific Corp. (UNP) Union Pacific Corporation, 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.

Wal-Mart Stores, Inc. (WMT) Wal-Mart operates retail stores in various formats worldwide including its namesake Walmart U.S. and International stores, and Sam's Club. With over $475 billion in annual global sales, Walmart has tremendous scale and pricing power which should drive long-term earnings power. The largest retailer in the world has seen its shares lag over the recent past, placing its valuation at an attractive level in our opinion. We have purchased the stock for selected accounts.

POSITIONS SOLD

Coach, Inc. (COH) Shares of Coach were recently sold in taxable accounts. This was done primarily to generate tax losses to help offset some of the gains that we have taken so far this year in client accounts. Shares in non-taxable accounts were kept. We still have conviction in Coach and its ability to re-invent itself in the face of macro-economic headwinds. Shares of Coach remain undervalued and may be reintroduced into portfolios at a later date.

Qualcomm, Inc. (QCOM) Shares of Qualcomm were recently sold in taxable accounts. This was done primarily to generate tax losses to help offset some of the gains that we have taken so far this year in client accounts. Shares in non-taxable accounts were kept. We still have conviction in Qualcomm and the strength in its portfolio of patents and technology. Shares of Qualcomm remain undervalued and may be reintroduced into portfolios at a later date.

Las Vegas Sands Corp. (LVS) Shares of Las Vegas Sands were recently sold in taxable accounts. This was done primarily to generate tax losses to help offset some of the gains that we have taken so far this year in client accounts. Shares in non-taxable accounts were kept. We still have conviction in Las Vegas Sands and its ability to withstand strong macro-economic headwinds. Shares of Las Vegas Sands remain undervalued and may be reintroduced into portfolios at a later date.

Viacom, Inc. (VIA.B) Shares of Viacom were recently sold in taxable accounts. This was done primarily to generate tax losses to help offset some of the gains that we have taken so far

Portfolio Activity
Continued

this year in client accounts. Shares in non-taxable accounts were kept. We still have conviction in Viacom and its portfolio of network media channels and film studio. Shares of Viacom remain undervalued and may be reintroduced into portfolios at a later date.

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.

Berkshire Hathaway, Inc. (BRK.B) Shares of Berkshire Hathaway 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 Berkshire Hathaway 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.

Visa, Inc. (V) Shares of Visa 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 Visa continue to look attractive as a core holding in HCM portfolios.

Horan Capital Management

Horan Capital Management Privacy Policy

We hold all personal information provided to our firm in the strictest confidence. This includes all personal information that we collect from you in connection with any of the services provided by HCM, including—but not limited to—asset management, tax preparation and planning, and any financial planning services.

We do not disclose information to nonaffiliated third parties, except as permitted by law, and we do not anticipate doing so in the future. If we were to anticipate such a change in firm policy, we would be prohibited under the law from doing so without advising you first.

As you know, we may use health and financial information that you provide to us to help you meet your personal financial goals while guarding against any real or perceived infringements of your rights of privacy.

We limit employee and agent access to information only to those who have a business or professional reason for knowing, and only to nonaffiliated parties as permitted by law. (For example, federal regulations permit us to share a limited amount of information about you with a brokerage firm in order to execute securities transactions on your behalf, or so that our firm can discuss your financial situation with your accountant or lawyer.)

Additionally, brokerage firm custodians have their own client privacy policies, which they administer separately from HCM.

We maintain a secure office, filing system, and computer network to ensure that your information is not placed at unreasonable risk.

The categories of nonpublic personal information that we collect from each client depend on the scope of the client's engagement. These include information about your personal finances, health (to the extent that it is needed for the planning process), and transactions between you and third parties, and it may include information from consumer reporting agencies.

For unaffiliated third parties that require access to your personal information (including financial service companies, consultants, and auditors) we also require strict confidentiality in our agreements with them, mandating that they also keep your personal information private.

We do not release any personal information to third-party providers unless the client specifically authorizes us to do so.

Personally identifiable information about you will be maintained during the time you are a client and for the time thereafter that such records are mandated to be maintained by federal and state securities laws and also consistent with the CFP Code of Ethics and Professional Responsibility. After this required period of record retention, all such information will be destroyed.

Federal and state regulators also may review firm records as permitted under law.

Should you have any questions, comments, or concerns you may contact John Heinlein, CEO at: 20 Wight Avenue, Suite 155, Hunt Valley, MD 21030; 410-494-4387 or 800-592-7534.

We take your right to privacy seriously and will do all that we can to ensure it. As always, we appreciate your trust and confidence and the opportunity to provide you with our services.

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