Horan Capital Management

HCM News

Danforth Associates
An HCM Company

July 2015

New Client Portal & Reporting System Now Live

We are pleased to announce the successful transition to our new client portal and reporting system.

The new system now offers more robust reporting and easier access to information about your accounts through a new client portal. Also, all reports and statements will be securely stored in the client portal. We hope the new portal helps improve your client experience. If you have any questions or would like to provide feedback please let us know.

This quarter you will see a new billing statement which consolidates your information into a single, easy to understand report.

Contact your financial advisor today to get started with the portal or if you have any questions on the new statement.

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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How Important Is It to Complete Your Financial Plan?

Would you leave your future up to chance and hope everything works out the way you want? The easy answer is no but the hard part is taking time out of our busy everyday lives to plan for a future that still seems so far away. Our belief in the power and importance of financial planning is why we have been touting the value of financial planning as of late and yet it is still very much under-utilized. We often scratch our heads and ask ourselves why that is.

- Would you ever drive to a vacation spot you have never visited without a GPS or even a map?
- Have you ever tried to put together anything complicated like a gas grill or a piece of furniture without using the provided instructions?
- Would you throw a surprise party for a friend or family member without planning anything at all?

Most of us would answer no to all of these questions. Planning for your financial future is no different, and yet much more important in magnitude. We know the thought of financial planning can seem arduous and time-consuming and even the thought of what the analysis reveals may be intimidating.

Exactly how important is the importance of planning? We think the results of this Harvard study correlate very closely to the financial planning process.

In 1979, there was a study conducted on the Harvard MBA program where graduate students were asked if they had set clear, written goals for their future and made plans to accomplish them.

- Only 3% had written goals and plans.
- Another 13% had goals but they were not in writing.
- The other 84% had no goals at all.

Ten years later, the same group of students were interviewed again and the results are staggering:

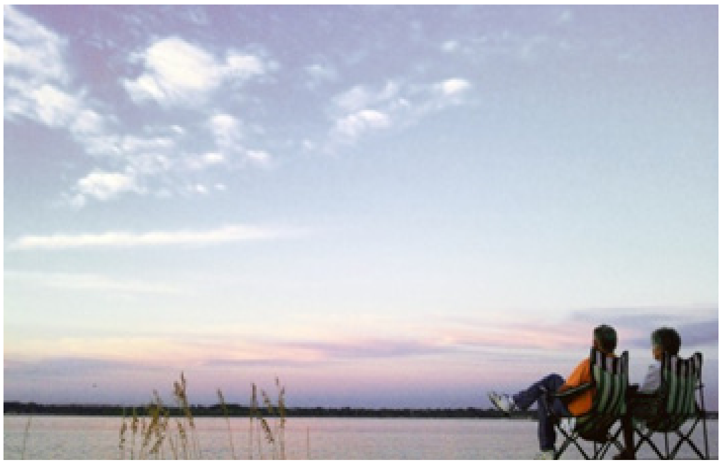
- The 13% who had goals but did not write them down were earning **twice** as much as the 84% who had no goals.
- **The 3% who had written goals were earning, on average, ten times as much as the other 97% of the class combined.**

We understand that financial earnings may not be the most important measure of success, but we do feel the results of planning for your goals are compelling nonetheless. The time spent writing your goals and building a clear, concise, and dynamic plan is crucial to your long term financial success. By investing a few hours of your time today, it could save you extra years of work or allow you to cross off extra items on your bucket list.

Let us help you get started down the path of your future financial success by planning for those goals today.

Timing Is Everything

By: Kevin Lutz



Although a lot of us may try to forget our age as the years go by, when it comes to reaping the financial rewards of getting older, we are wise to keep certain age-related milestones top of mind. As might be expected, the rules and regulations surrounding retirement withdrawals and government benefits can get complicated. It is important to understand what you need to do -- and when -- to help ensure you do not make a costly mistake and that you get all the economic benefits to which you are entitled.

Here is a checklist of the important age related milestones to keep in mind for 2015:

AGE 50: At the half-century mark, future retirees get some extra help in saving for retirement. They can make "catch-up" contributions to retirement accounts. For employer sponsored plans , such as 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan, the catch-up contribution is $6,000. For IRA accounts it is $1,000 per year extra.

AGE 55: If you have assets in an employer-sponsored qualified retirement plan such as a 401(k) and leave your job (called separation of service), you can take a distribution without paying the 10 percent penalty for early withdrawal. You will, however, pay ordinary income taxes on the money.

AGE 59½: You can take distributions from your qualified retirement plans or traditional IRA without penalty. Once again, you will pay ordinary income taxes on the earnings or any contributions that were previously tax deductible. If you have a Roth IRA and have held it for five years, you can withdraw earnings both penalty-free and tax-free.

AGE 62: This is the earliest date you can begin taking Social Security benefits (unless you are disabled or a widow), but if you do, your payout will be permanently reduced by approximately 25 percent. (If you are still working and earn beyond a certain limit, benefits are further reduced on a temporary basis.) Before you decide to take Social Security early, consider how much more you could receive over time by waiting.

AGE 65: You are eligible for Medicare -- a very significant milestone considering the high cost of health insurance and medical care. If you are already receiving Social Security, you are automatically enrolled in Parts A and B. There is nothing you need to do. If not, you can apply for both Social Security and Medicare at the same time. However, if you prefer to delay Social Security, you can apply for Medicare alone -- ideally, three months before the month you turn 65. You can enroll for Medicare online, in person or by phone. (Note: You can choose to delay Part B coverage if you are covered by an employer plan.) Also note that once you are on Medicare, you are no longer able to make contributions to a Health Savings Account.

AGES 66-67: This is when you reach what the Social Security Administration calls your "full retirement age," or the age you can begin receiving "full" benefits. For anyone born in 1943 or later, FRA ranges from 66-67 depending on the year you were born. It is important to note, however, that if you delay receiving Social Security beyond your FRA, your benefits will continue to increase by 8% per year until you reach age 70. When you are ready to apply, there is an online application at SSA.gov.

AGE 70: As mentioned above, Social Security benefits do not increase beyond this age, so if you have not done so already, file for your benefits now.

AGE 70½: This is the age when you are required to begin taking money from retirement plans such as a traditional IRA, 401(k), 403(b), SEP IRA, SIMPLE IRA or 457 plan. The minimum you must withdraw -- your Required Minimum

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Market Commentary

By Tim Hai, CFA®, CAIA

Market Review *

- Small cap stocks outperformed large cap stocks in the second quarter as the S&P 500 returned +0.28% (including dividends; up 1.23% YTD) while the Russell 2000 returned +0.42% (up 4.75% YTD).
- Growth outperformed value across all market capitalizations.
- Non-U.S. markets (MSCI EAFE: 0.84% in USD; up 5.88% YTD) generally outperformed U.S. equity markets.
- Brazil (7.02%), Russia (7.70%), China (6.21%), and Australia (-6.13%) were notable based on their extreme performance changes (all quoted in USD).
- U.S. markets were once again led by Consumer Discretionary (1.90%) and Health Care (2.80%) stocks. Utilities, Industrials, and Energy were the weakest sectors, falling 5.80%, 2.20%, and 1.90%, respectively. Though not an economic sector as listed by S&P, US REITs fell 10.40%.
- The Barclay's Capital U.S. Aggregate Bond index fell 1.80%. The index was particularly hampered by the U.S. corporate bond sector, which lagged other fixed-income markets (-3.10%). 10-Year U.S. Treasury yields rose from 1.93% at the beginning of the quarter to today's 2.3%.
- The U.S. dollar fell against most other currencies (-3.74% versus the Euro, -5.94% versus the British Pound) but rose versus the Yen (2.04%).

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

Market Commentary

It seems like only a few years ago that Greece surprised world markets with the revelation that its annual budget deficit was over twice as much as projected (12.6% versus 6% of GDP); and four times higher than the European Union membership requirement that they be below 3% of GDP. That year was 2009, and the revision would only be the first of many more (topping out at 15.4% of GDP). The announced budget deficits set off a chain reaction of credit downgrades, increasing the country's probability of credit default. After several bailouts and brief intermissions, this classical Greek tragedy appears near closure. As we pen this quarter's commentary, the Greek electorate voted no in a referendum on the most current European Union bailout offer and its requirement for severe austerity measures. At this point, a Greek exit from the European Union may be imminent.

...this classical Greek tragedy appears near closure.

The second quarter closed with a whimper (the S&P 500 fell 2.80% in the last week of June alone) as global markets braced for a conclusion to the European Union's Greek conundrum. Although the quarter closed with a slight gain (up 0.28%), the weak ending served notice to investors that U.S. equity markets have a fair chance of experiencing its first down year since 2008, pulled down as it were by the European malaise. As noted in last quarter's commentary, global markets in general have largely been driven by macro events. The U.S. began its own quantitative easing ("QE") program over five years ago (i.e. an attempt by central banks to spur the economy through lower interest rates and

Market Commentary

Continued

increases in the supply of money), and although the U.S. economy has been prone to fits and starts, it is alone among large, developed countries in being on the cusp of raising interest rates (a sign of economic normalization). Only recently has Europe and other developed nations begun their own QE programs.

The Euro and British Pound strengthened in the second quarter relative to the U.S. dollar, largely due to the optimism in Europe over their QE programs. The Japanese Yen continued to fall relative to the U.S. dollar. Non-U.S. equities were generally mixed on a local currency basis. European stocks were hampered by the Greek affair, but still managed positive performance in U.S. dollar terms. Recall that European stocks were aided last quarter by news of QE, but had negative headwinds due to the U.S. dollar's strength. It was strange to see the U.S. dollar weaken in the quarter (relative to the Euro and British Pound) even as interest rates climbed in anticipation of an upward move in the Federal Reserves' federal funds rate (typically, higher interest rates are followed by stronger currency movements). The Euro and British Pound perhaps were more heavily influenced by Europe's QE programs, especially early on in the quarter. Most currencies retreated versus the U.S. dollar in the final week of the quarter in a flight to quality (as the Greek turmoil reasserted itself).

U.S. fixed-income markets fell in response to the climb in interest rates (recall that bond prices move inversely to interest rates). Utilities and U.S. REITs also severely underperformed due to rising interest rates. Also recall that these investments were quite popular as fixed-income alternatives due to their high dividend yields. The threat and evidence of rising interest rates have changed investor sentiment negatively.

HCM follows a value, bottoms up investment philosophy

We would again like to remind our clients that Horan Capital Management follows a value, bottoms up investment philosophy. This means that we do not make investment decisions based on headline or macroeconomic news. We comb the universe of stocks for high quality companies that have sustainable economic moats that ensure their viability and competitive edge. Once we find these companies, we wait for the market to price them to our satisfaction, allowing for an adequate margin of safety. And though we do not heed market noise and its temporary effect on our existing investments, we do take notice when the market irrationally, and temporarily misprices an investment we are interested in. We are price takers and market noise is what creates opportunities for us as investors. We believe that over the long-run, our clients' portfolios will benefit from this methodical strategy and will outperform. Horan Capital Management would like to thank you, our clients, for continuing to believe in us and our message. We hope the best for you and your family for the remainder of the year and beyond. As always, never hesitate to contact us should you have any questions or concerns.

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

American Express (AXP) American Express provides charge and credit payment card products and travel-related services to consumers and businesses worldwide. Recent setbacks with clients and partnerships pushed prices for the wide economic moat company into an attractive price range. The company offers a strong brand, affluent clientele focus, wide margins, and high returns on invested capital. The firm will benefit as global consumers continue to move away from all cash transactions (currently 85% of global transactions are still made with cash). We believe the company will rebound from its short-term issues and once again be the stalwart credit card processing firm we know it to be.

Union Pacific (UNP) Union Pacific Corporation, operates railroads in the United States and offers freight transportation services. Infrastructure changes made after the turn of the century have positively improved capacity and prices, lowered costs, and thereby widened industry margins for the long-term. Negative headlines due to high profile railcar accidents, business interruption due to the west coast port shutdown, 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.

ADDITIONS

Fastenal (FAST) Fastenal is a wholesale industrial distributor which distributes several types of industrial equipment including fasteners along with safety, plumbing, electrical and welding equipment. Fastenal has a wide moat stemming from a network effect and a cost advantage over smaller competitors. A combination of zero debt, a strong sales force, a large network of stores, same-day delivery services, and vending services enables Fastenal to earn high margins and very high, consistent returns on capital which has averaged 24% over the past 10 years. We continued to purchase shares for selected accounts.

General Electric (GE) The diversified manufacturer has positioned itself as a leader in all markets in which it competes. Since the financial crisis the company has improved its capitalization while working to pare non-core assets. With its global presence and rebuilt capital arm, we believe the company's future looks promising. We continued to purchase shares for selected accounts.

Google (GOOG) The search engine provider generates over 80% of its revenues through advertising or "clicks". Recent performances by GOOG have missed consensus expectations, resulting in share price declines. We view these declines as buying opportunities for GOOG as we believe that the market continues to underestimate the company's growth capabilities and intrinsic value. We continued to purchase shares for

Portfolio Activity
Continued

selected accounts.

Las Vegas Sands (LVS) Las Vegas Sands is the world's largest operator of fully integrated resorts featuring casino, hotel, entertainment, food and beverage, retail, and convention center operations. The company has a strong economic moat, thanks to its possession of one of only two licenses to operate casinos in Singapore and one of six licenses to operate casinos in China. We view the recent slowdown in Macau as a temporary phenomenon that has given us the opportunity to own one of the best-positioned global gaming companies at a significant discount to our estimate of intrinsic value. We continued to purchase shares for selected accounts.

Microsoft (MSFT) Microsoft Corporation develops, licenses, markets, and supports software, services, and devices worldwide. A recent pullback of MSFT stock offered an opportunistic moment to add shares to new accounts. The company is a core holding in HCM portfolios.

National Oilwell Varco, Inc. (NOV) National Oilwell Varco, Inc. designs, manufactures, and sells equipment and components used in oil and gas drilling, completion, and production; and provides oilfield services to the upstream oil and gas industry worldwide. The company had encountered extreme volatility over the past year due to falling oil prices. The company has a dominant position as a supplier of equipment and services to the drilling industry. Recent weakness in the stock offered an opportunistic moment to add shares to new accounts.

Proctor & Gamble (PG) The global products company is going through some challenges as it tries to right-size its brand mix. We like the 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.

Viacom (VIAB) Viacom is a global media company with several leading cable properties (Media Networks 73% of revenues) and a film studio, Paramount pictures (Filmed Entertainment 27% of revenues). Shares have been under pressure recently due to lower advertising revenues. Also, concerns of a shift in viewers from cable to digital TV services such as Netflix, Hulu and Amazon Prime have affected shares. We believe that despite this long term issue, Viacom's video content value will continue to increase even as distribution markets change.

Walmart (WMT) 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.

ExxonMobil (XOM) ExxonMobil is not only the largest publicly traded producer of oil and natural gas, it is one of the largest companies by market capitalization. The company's ability to allocate capital and operate vertically integrated businesses within the energy sector is virtually unmatched. If there is any company within the highly competitive oil and gas market with an economic moat (typically considered an oxymoron), this is it. The company boasts quality assets and economies of scale that enable it to achieve high industry level profit margins and high returns on equity and capital (ROE/ROIC). The company's ability to generate tremendous levels of free cash flows reflects its great balance sheet. Current market pricing of the company's shares signals an opportune time to invest in a great company at a good price.

POSITIONS SOLD

Applied Materials, Inc. (AMAT) Shares of AMAT were recently sold in selected accounts as they have fallen cyclically out of favor. The position had performed well since our initial purchase. However, given the highly cyclical nature of the semiconductor industry, we believed that shares were fairly valued. Proceeds from the sale have funded new portfolio purchases or have been redistributed to other portfolio holdings.

Canadian Natural Resources Ltd. (CNQ) Shares of CNQ were recently sold in selected accounts as shares have fallen cyclically out of favor. Although companies dependent on oil prices have encountered extreme volatility over the past year, we continue to have confidence in the viability of CNQ long-term. We will continue to monitor this stock and continue to leave open the option that we may re-invest in it.

REDUCTIONS OF EXISTING POSITIONS

Amazon.com (AMZN) Shares of Amazon.com 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 Amazon.com continue to look attractive as a core holding in HCM portfolios.

Bank of America (BAC) Shares of Bank of America were trimmed in selected accounts based on valuation reasons and due to an over-weighted position in financial sector banks. Proceeds from the sale were redistributed to other portfolio holdings. Shares of Bank of America continue to look attractive as a core holding in HCM portfolios.

Cisco Systems (CSCO) Shares of Cisco Systems were trimmed in selected accounts based on valuation reasons and an over-

Portfolio Activity

Continued

weighted position. Proceeds from the sale were redistributed to other portfolio holdings. Shares of Cisco continue to look attractive as a core holding in HCM portfolios.

PepsiCo (PEP) Shares of PepsiCo were trimmed in selected accounts based on valuation reasons. Proceeds from the sale were redistributed to other portfolio holdings. Shares of PepsiCo continue to look attractive as a core holding in HCM portfolios.

Sysco (SYY) Shares of SYY were recently sold in selected accounts based on valuations and despite the company's failed acquisition of U.S. foods (the company's shares were elevated largely based on the prospects of the acquisition). Proceeds from the sale have funded new portfolio purchases or have been redistributed to other portfolio holdings.

Wells Fargo (WFC) Shares of Wells Fargo were trimmed in selected accounts based on valuation reasons and due to an over-weighted position in financial sector banks. Proceeds from the sale were redistributed to other portfolio holdings. Shares of Wells Fargo continue to look attractive as a core holding in HCM portfolios.

Timing is Everything...Continued from Page 2

Distribution or RMD -- is determined by a formula based on life expectancy and the amount you have in retirement accounts. Your tax professional can help you determine your RMD. You absolutely must take your first RMD by April 1st of the year after you turn 70½ or face a hefty 50 percent PENALTY! And if you wait until that date, you must then take your second RMD by December 31st of that same year. It is really important to pay attention to this deadline. On the plus side, you do not have to take an RMD from a 401(k) if you are still working, and never from a Roth IRA or Roth 401(k).

Being mindful of age-related dates and deadlines is only part of the picture. You also need to sit down and review your own financial picture -- retirement accounts, Social Security benefits, other sources of income -- and create a retirement budget and withdrawal strategy. It is not only about missing something, it is about taking every opportunity to secure your financial future.

Please contact your Horan Capital Management Financial Advisor if you have any questions.

You absolutely must take your first RMD by April 1st of the year after you turn 70½ or face a hefty 50 percent PENALTY!