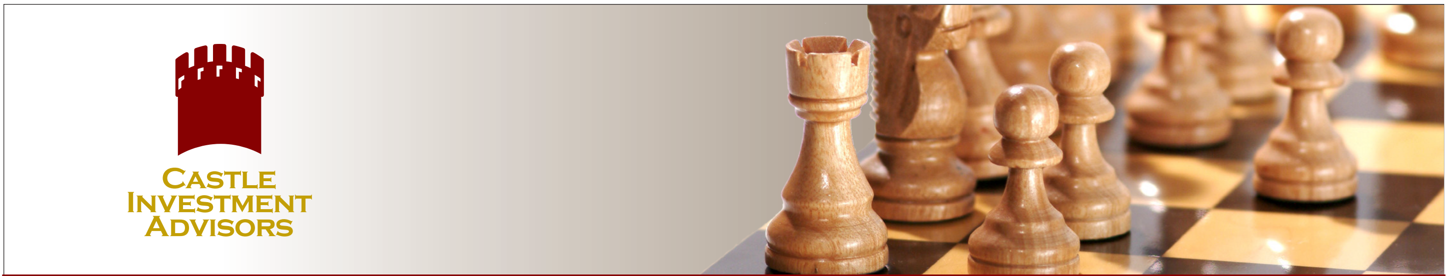

4th Quarter 2015 in Review

By Darren Nyce, CFA
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In looking over the myriad of "year in review" articles that came across my computer, the following headlines capture the tone of how the investing environment shaped up this past year:

2015 Was the Hardest Year to Make Money in 78 Years

The Year No One Made Money

2015 Was a Historically Tough Year for Diversified Investors

The Year That Nothing Worked

2015 Recap: A Year of Anxiety and Uncertainty

All-in-All, Bleh

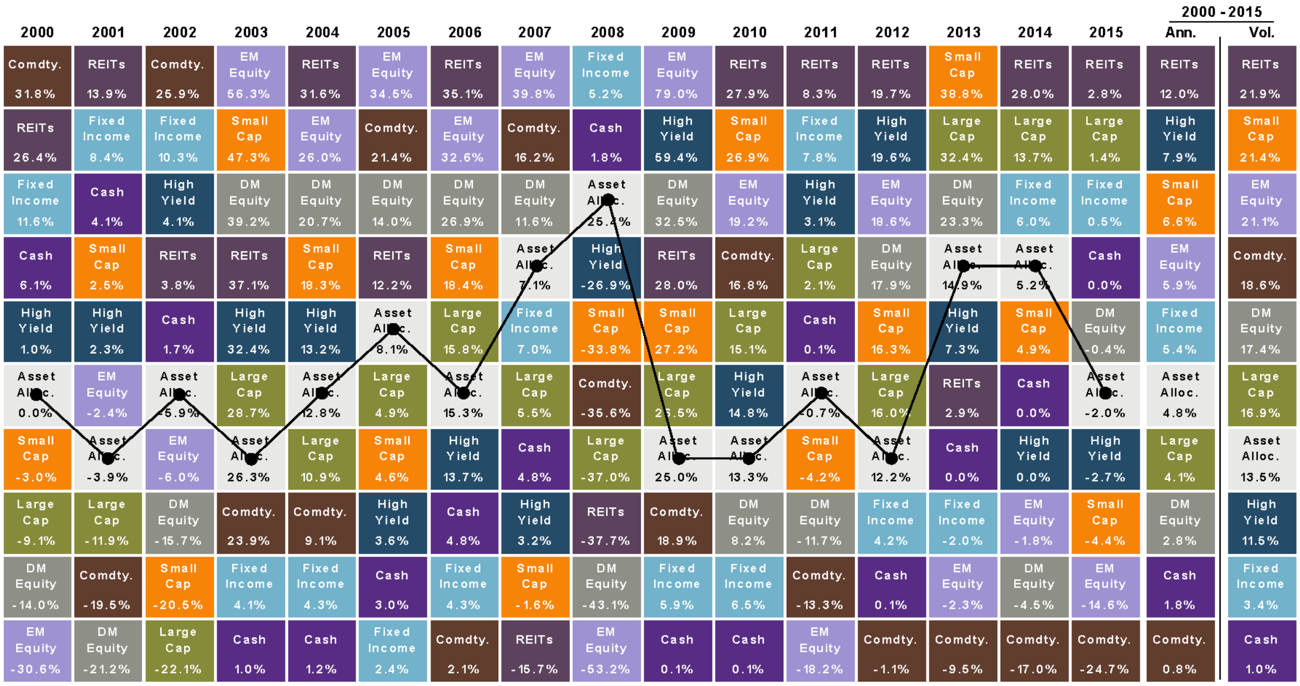
2015 Was a Stinker

The biggest factors behind this lackluster performance were the strength of the U.S. dollar, the weakness of oil prices, geopolitical chaos, and uncertainty surrounding the Federal Reserve Board's handling of interest rates. As a result, unless you had substantial positions in the "FANG" stocks (Facebook, Amazon, Netflix, and Google), your portfolio probably disappointed you in 2015. No one likes to see their accounts go down, but that is what the great majority of investors did. Even Berkshire Hathaway, the company run by the great Warren Buffet, saw its stock fall more than 11% last year.

The real question is, should you care.

For nearly all of Castle's clients, their investment horizon is significantly longer than one year and the corresponding investment portfolio is designed with that in mind. If the chief goal in a client's investment strategy was to increase in value solely in the 12 month period marked by calendar year 2015, then the makeup of the portfolio would look significantly different than the typical portfolio intended to increase wealth over decades.

The following chart shows how some of the various asset classes have performed in the calendar years since 2000. Notice the random shuffle from year to year and consider how unlikely it would be to choose only the asset classes on the top of the column in any given year, let alone consistently over years. For this reason, our investment philosophy recommends staying diversified across several of them. History tells us that this is the best way to avoid big losses and succeed in the long term.



Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.

Our advice would be to not let the results of one year determine your investment decisions. Make sure you have a plan, stick to it, and without being blithely indifferent, don't unduly emphasize the results of any particular year.

Index	4th Qtr 2015 Return	1 Year Return	3 Year Annualized Return	5 Year Annualized Return	10 Year Annualized Return
S&P 500	7%	1.4%	15.1%	12.6%	7.3%
Dow Jones Industrial Average	7.7%	0.2%	12.7%	11.3%	7.8%
Nasdaq Composite	8.7%	7%	19.8%	14.9%	9.7%
Russell 2000 – Smaller Companies	3.6%	-4.4%	11.7%	9.2%	6.8%
MSCI EAFE – International	4.7%	-0.8%	5%	3.6%	3%
Barclays US Aggregate Bond	-0.6%	0.6%	1.4%	3.3%	4.5%

Oil

One of the biggest headlines for the year was the continued drop in the price of oil. OPEC is less disciplined and coordinated than they have been in years past with big players like the Saudis, Iranians, and the Russians all pouring oil into the world's markets to meet their cash flow needs.

As you know, the price of anything is determined by the balance of supply and demand. The current price drop has been all about increased supply as the worldwide demand for oil has continued to grow right around its historical average rate of 1.3% per year (see charts on next page).

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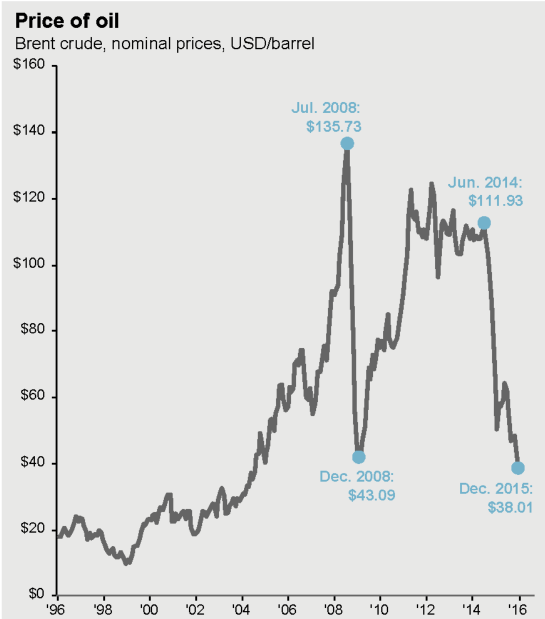


Change in production and consumption of oil

Production, consumption and inventories, millions of barrels per day

	2013	2014	2015*	2016*	Growth since 2013
Production					
U.S.	12.4	14.1	14.9	14.7	19.0%
OPEC	36.4	36.4	37.4	38.1	4.5%
Global	**90.9**	**93.3**	**95.5**	**95.8**	**5.4%**
Consumption					
U.S.	19.0	19.1	19.4	19.6	3.2%
China	10.5	10.9	11.2	11.5	9.7%
Global	**91.3**	**92.5**	**93.8**	**95.2**	**4.3%**
Inventory Change	-0.4	0.8	1.7	0.6	

U.S. Dollar

We also mentioned the strength of the U.S. Dollar as a large factor in 2015. Here is a chart that shows how the Dollar has performed compared to a basket of other major currencies:

Source: J.P. Morgan Asset Management, Federal Reserve, Factset

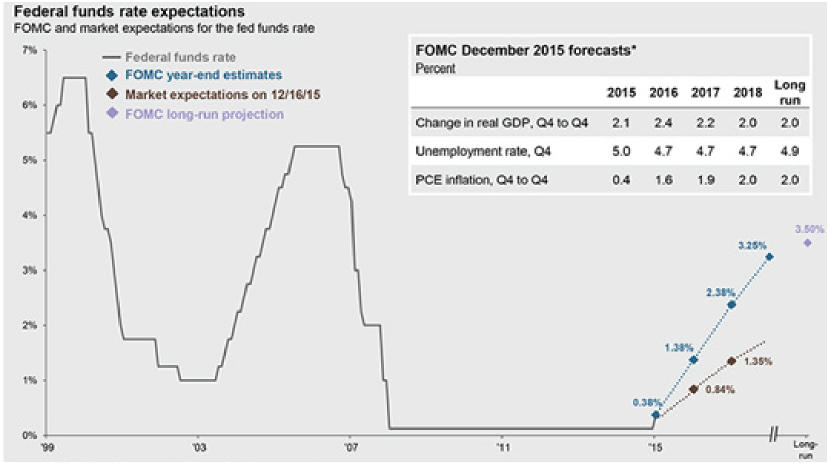
Geopolitical

Among the worldwide issues that have been causing concern are:

- Stalled global economic growth combined with rising deficits and debt levels
- The ability of the European Union to remain intact
- Political turmoil in Russia, the Middle East, and Africa leading to large numbers of migrants and refugees
- The rise of religious zealotry and terrorism
- Weakness in the Chinese economy

Interest Rates

After years of uncertainty and much anticipation, the Federal Reserve made the move in December to raise interest rates by 0.25%, ending a seven year policy of 0% rates, officially ushering in a new era of a rising interest rate environment. The pace at which additional hikes come will be a big determining factor as to how the economy handles this new paradigm. The Fed has indicated that future rate increases will be measured, data dependent, and gradual, but the more uncertain markets are about the pace, the more volatility we will see (see chart on next page).



	2015	2016	2017	2018	Long run
Change in real GDP, Q4 to Q4	2.1	2.4	2.2	2.0	2.0
Unemployment rate, Q4	5.0	4.7	4.7	4.7	4.9
PCE inflation, Q4 to Q4	0.4	1.6	1.9	2.0	2.0

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.

Optimism

This letter has highlighted several things to be concerned about, but despite the gloom and doom that abounds, there certainly are reasons to be optimistic.

- The U.S. economy continues to grow. We expect the final numbers to show that GDP grew by about 2.4% in 2015 and most predictions are for continued growth of about 2.5% in 2016.
- 3 million new jobs were created last year.
- The Unemployment Rate has dropped to 5% in the U.S. and has shown signs of dropping around the world.
- Corporate balance sheets (outside of Energy and Materials) are still looking decent.
- Consumer balance sheets are improved with rising home equity values.
- Consumers around the world are receiving a boost from lower oil prices.
- With either a stabilization in oil prices or a halting of the rise of the Dollar, overall company earnings should improve.
- Diseases are becoming eliminated. This year rubella was eliminated in the Americas and for the first time there were no new cases of polio in Africa.
- Poverty is being reduced. According to a World Bank report, the number of people living in extreme poverty will drop below 10%, down from over 35% in 1990.

Our concluding encouragement is this, while there have been some dim spots lately, the future does indeed look bright. Don't let the inevitable swings of the market determine your quality of life. Be diversified, stay the course, and enjoy life. Thanks for letting us partner with you on your financial journey.

Sincerely,

The Castle Investment Team

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