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CAPITAL

January 11, 2016

We have closed the books on the financial markets for 2015 which means it's time to look back to see how the year turned out for investors before we move onto 2016. For the year ahead we believe much of what we experienced in the past 12 months will affect how your portfolio will perform in the days and months to come.

The chart below reports the 2015 returns for the major asset classes impacting most investors.

S&P 500 US Stock Index	1.38
MSCI ACWI Global Stock Index	-2.22
MSCI Emerging Markets Stock Index	-16.18
US Bond Market (iShares Core AGG)	0.48
2-Year Treasury Total Return	0.59
10-Year Treasury Total Return	2.09
Gold	-10.67

(Source: Morningstar)

From this chart, it's obvious that 2015 was a very disappointing year for most investors especially those invested in stocks and gold. Bond investors fared a bit better because they were able to eke out marginally positive total returns as interest payments offset a slight erosion in the underlying principal value of their fixed income holdings.

Foreign stocks (MSCI EAFE) turned in negative returns with the emerging markets (MSCI Emerging Markets) down by more than a whopping 16 percent primarily because of the dependence of their commodity driven economies on exports and a stronger dollar. The US continued to be the best house on a bad block showing a slight positive total return (for the S&P 500) of just over one percent for the year.

Gold continued to struggle declining more than 10 percent in 2015 despite continued money printing and overt currency devaluation policies by the world's central banks. We found this particularly unusual because gold has historically been viewed as a preferred alternative investment when there is easy global monetary policy and the world's financial system is currently flush with liquidity.

What's going on?

It's not great news but the big headline is that we are in a slow-to-no-growth world. You can disregard anything else the mainstream media is saying about what's driving returns especially the lack of any positive momentum. It's simply that growth is hard to come by. That's it.

It's because we are in a slow-to-no-growth world that stocks have struggled to advance and oil prices collapsed in 2015.

And without growth, the world can't make any meaningful economic progress which means stocks will be facing a stiff head wind as they attempt to move forward from their current levels. But (and this is a big "but"), stocks can maintain their current levels and possibly make some advances if mid- to long-term interest rates remain low and it's our view that they will.

3 Factors Determine Stock Market Returns

Taking a step back (and clearing one's mind) there are just three factors that determine the returns for individual stocks and the overall stock market.

These three factors are:

(1) Beginning Dividend yield

(2) Earnings growth rate (Annual % change in Earnings-Per-Share)

(3) Revaluation or change in P/E multiple (Annual % change in Price-to-Earnings Ratio)

All three factors are expressed as a percentage and all you have to do is add them together to find the total return.

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Stock Market Returns in 2015

Now, let’s use the model to review what happened in the US stock market for 2015.

Components of S&P 500 2015 Return

Dividends	1.92%
Earnings Growth	-3.46%
Change in P/E Ratio	2.92%
TOTAL RETURN	1.38%

(Sources: www.Multpl.com, Earnings estimates based on Yardini.com)

Looking at this chart, it’s obvious that the largest component of stock returns for 2015 came from revaluation. This means the reason that stocks were able to show a slight gain in 2015 was simply because investors were willing to pay more for a dollar of earnings at the end of 2015 than they were at the beginning of the year.

For financial markets, that’s a bit concerning. Why?

It’s because the experimental easy-money policies of the world’s central banks continue to push investors into stocks -- despite the lack of any underlying earnings growth -- since the yield on other investments – primarily bonds -- are so low.

What’s more, investors’ moods can swing dramatically and currently the overriding mood is one of “cautious complacency.” But if sentiments do change from smugness to concern, then the revaluation component for stocks will flip-flop causing this element of stock market returns to turn negative and stock prices to erode quickly. We saw that happen in September of last year and we expect that there will be more severe mood swings in 2016.

In this environment, what should an investor do?!

To earn enduring profits in a slow-growth world and to hedge from changes in investor temperament, we recommend focusing on the two sustainable components of stock returns: dividends and growth. These are the essential elements that— should propel your portfolio higher over time and provide the ultimate hedge to protect your nest egg in times of fear.

That's why a carefully selected group of growth stocks should form the core of your portfolio. Companies with high earnings growth rates that when purchased at the right price can provide a real boost to your portfolio.

At Plimsoll, we use individual stocks and mutual fund managers such as Jensen and Tweedy Browne as key portfolio components to provide the growth element to your portfolio. Both are highly rated and have established portfolio management teams. We also use exchange traded funds such as the iShares Morningstar Large-Cap Growth ETF (JKE) and the iShares Russell Mid-Cap Growth ETF (IWP) as a cost effective way to emphasize growth.

At Pimsoll, we do our homework, remain selective and do our best to maintain the discipline to buy at the right price so you can feel comfortable holding your positions when the market dips or even falls substantially.

By investing in high-quality growth companies in which we have conviction, we hope that you can sleep well at night knowing that the high-quality companies in your portfolio are grinding away, growing their earnings day-after-day, month-after-month and year-after-year. The compounding effect of this earnings growth is truly amazing.

We are in a uniquely unusual investment environment that's been driven by central bank monetary policies since the collapse of Lehman brothers in 2008. This may seem like old news but consider this: The US monetary base is almost four times as large as it was in 2009 and we've experienced subpar economic growth over the entire time period! (Source: Federal Reserve Bank of St. Louis)

That's why we believe asset allocation – in the current environment - must be approached on an individual basis taking into consideration each individual's personal financial profile. It is not the time for a cookie cutter or one size fits all approach and why not all of our portfolios contain the same investment elements. They are structured to suit each individual client's needs.

For 2016, we see volatile market conditions continuing in the form of dramatic swings between fear and greed. To profit in these markets, investors will need the resolve to put their heads down and ignore the mainstream headlines knowing that Plimsoll has a disciplined plan in place for your portfolio that's structured around quality long term holdings that fit your financial profile and focuses on growth. We will use market pull backs as opportunities to buy growth at cheaper prices and market advances to rebalance positions. In addition, we are always in search of risk-appropriate yield in client bond portfolios.

All in all, 2015 was a challenging year for investors and we see more of the same ahead. In the end however, with the right combination of patience, discipline and appropriate rebalancing, an emphasis on growth will prevail – even in the current slow-growth world.

We hope this finds you well and please be in touch if you would like to discuss our summary or any other topic as we enter into the New Year.

Our very best,

The Plimsoll Team

And

Plimsoll Global Allocation Committee

S&P 500 - A broad-based market index, comprised of 500 large-cap companies, generally considered representative of the stock market as a whole.

Dividend Yield: A financial ratio that indicates how much a company pays out in dividends year relative to its share price.

Earnings Per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock, which serves as an indicator of a company's profitability.

Price-Earnings Ratio (P/E Ratio): A valuation ratio of a company's current share price compared to its earnings per-share. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.