ASHDON
Investment Management

Market volatility has been felt by all investors year-to-date. The S&P 500 Index traded up +2.46% for the quarter. Other components of the US stock market (for example, smaller-cap stocks) also traded higher. International companies fell further – the EAFE index was down -1.46% (-4.42% YTD). The S&P 500 Index has continued to trade higher as we write this letter, moving to new all-time high levels after the release of positive jobs data in August. Confusingly, bonds are outperforming stocks again in 2016. The Barclays Aggregate index was up +2.21% for the quarter. Even with this strong rally and new highs, bonds continue to outperform stocks year-to-date (the S&P 500 Index has returned +3.84% YTD, while the Barclays US Aggregate Bond Index has returned +5.31% YTD). As noted in the commentary of a manager we follow, we live in the unusual time when investors chose bonds for price appreciation and stocks for income generation.

We discussed a "profits recession" in last quarter's commentary. As of the last reporting from Standard and Poor's, S&P 500 earnings have fallen for seven consecutive quarters. Since 1988, such a decline has always preceded a recession. At the same time, economic data show that important parts of the economy are slowing, and we also believe the US slowdown is beginning to impact other economies. Still, the US economy has considerable momentum – jobs are strong and consumption is growing. We are watching both of these areas closely.

There have been no changes to portfolio positions. Depending on how the economy and markets change ahead, we could shift to more conservative positioning in 2016. For new portfolios we are investing in US Treasury notes, as we wait for more compelling prices. We believe the allocation provides "dry powder" at low cost. Our conservative positioning so far has been inexpensive in an environment of bonds outperforming stocks.

We have the valuable benefit of working with skilled investment managers (our partner-managers) who invest in high quality companies, using time- and market-tested strategies, so we are confident in the long-term prospects. We continue to work with them and use our own research to develop timely allocations to those managers. With that said, we use our quarterly letter to share a boiled-down view of the results of our hours of work, because there are countless details behind the statements above. Rather than asking you to read a longer letter, this brief presentation will hopefully answer most of your questions. For investors who are interested in a deeper look at how we see economic and market data, please feel free to visit www.ashdon.com. More detailed commentary on economic data can be found on the *Communications/Economic Overview* tab. Our work on more focused investing topics can be found on the *Communications/Market Views* tab. As always, if you would like a deeper dive, feel free to reach out to us.

Thank you for your confidence.

214 East Grundy Street Tullahoma, TN 37388
Phone: 931 461-5733 Fax: 931 461-5735
INFO@ASHDON.COM