June 30, 2016 Quarterly Report

We hope you had a safe and happy 4th of July holiday weekend.

2016 fluctuations continue

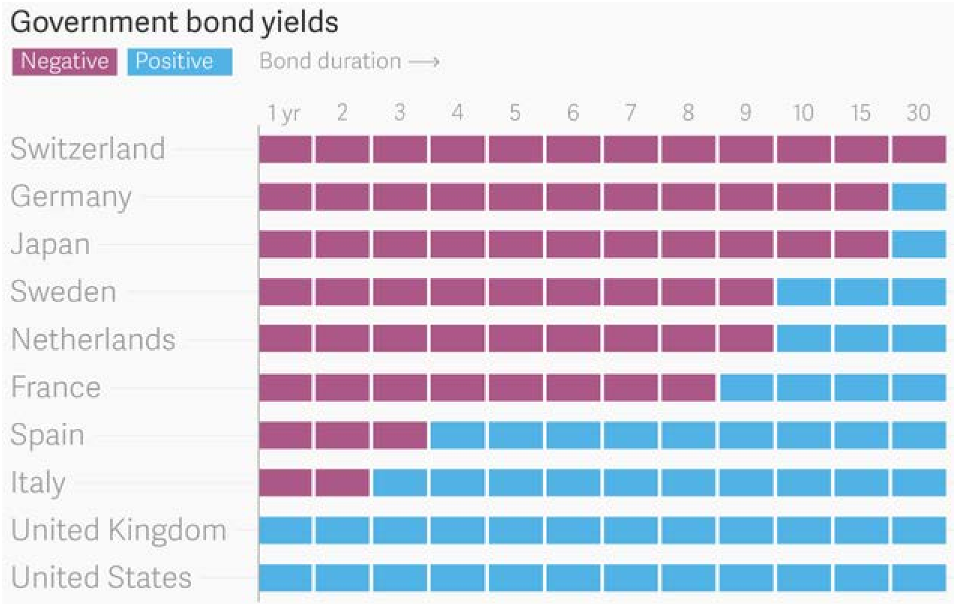
We started the year with headlines about the possibility of a hard landing in China as concerns about that country's growth caused global indexes to decline. The S&P 500 declined over 10% in the first six weeks of the year. Over the next several weeks, the S&P 500 was able to recover and by the beginning of the 2nd quarter had regained all of the losses.

During the latter half of the 2nd quarter the upward trend in the US equity markets continued until a couple of weeks ago when the UK voted on a referendum to exit the EU…the Brexit. The decision by UK voters to leave the European Union came as a surprise to most of the world and a sharp selloff in equities occurred on all major global equity markets. This is reflected in the sell off shown on the right side of the 1 year S&P 500 chart below.

An important aspect to consider from the chart above is that the price action over the last couple of weeks represents the third time within one year we had a sharp increase in volatility and associated decline in equity markets. Two of the declines were attributed to concerns about China's growth prospects and the latest one was due to the Brexit vote. While the reasons for the declines may differ, one aspect that is similar is that the index recovered to prior prices within a short amount of time. Another aspect that is similar is that on each of these three occasions we used some of our available cash holdings to invest in equity positions at cheaper prices. This decision, to buy on these dips, has helped to produce positive returns this year in an otherwise very difficult market climate.

Investing Environment Going Forward

Global central policy makers continue to conduct a near Zero Interest Rate Policy for many countries and a Negative Interest Rate Policy for others.



This chart above, from qz.com, shows which countries currently have negative interest rate bonds at various maturities. Switzerland leads the way with all of their maturity dates yielding negative interest rates (including a recently issued 50 year bond not indicated above). What this means is that if you bought any Swiss bond, your rate of return in Swiss Francs would be negative. You would lose money buying a highly rated government bond.

There are many problems associated with this type of policy when it is implemented by many of the Global policy makers. Primarily, the financial institutions relying on the spread between rates at which they lend and the rates at which they borrow have been suffering. We are seeing generational lows in European Bank stocks such as Deutsche bank, whose stock traded at over $135 in 2007, before dropping to a low of $19 in 2009 amidst the 2008-09 global recession, that is now trading below $13.

Even in the United States, the low interest rate policy has made it difficult to invest. The rates of return on fixed income securities are anemic given their risk profiles and, as we have seen over the last year, the volatility in the equity markets cause large price swings due to investor anxiety. It is almost a lose/lose situation for investors: Buy our negative interest rate government bonds or subject yourself to the gyrations of the equity markets. However, there are ways to invest in this environment prudently.

We have been managing this cycle by trying to be opportunistic when we buy (buy when selling volatility is high) and buying assets considered safe havens (e.g. buying Gold/Silver related investments). Additionally, oil prices have rebounded from the lows of 2015. Our oil related assets have continued their path towards outperforming other asset classes. These decisions have helped in navigating the current, difficult investing environment and in our opinion will be a source of positive returns to our investments in the coming months.

Index Returns

Index	Q2 2016	Q1 2016	Q4 2015	Q3 2015	5 Year Annualized
*MSCI ACWI ex-US	-1.75%	-1.03%	2.88%	-12.71%	-3.06%
S&P 500	2.46%	1.35%	7.04%	-6.44%	11.80%
Russell 2000	3.79%	-1.52%	3.59%	-11.92%	7.81%
Barclay's US Agg	2.21%	3.03%	-0.57%	-1.23%	3.82%

Data provided by MorningStar Office
*MSCI ACWI ex-USA PR USD is the Price Return of the Morgan Stanley Capital International Index excluding US based companies

Current US Economic Indicators:

- Consumer Confidence up 5.6 pts
- Employment Trends Index down 1.34%
- Help Wanted OnLine down 226,700
- Leading Economic Index up 0.1%
- Measure of CEO Confidence up 2.0 pts

Conclusion

Continued volatility and historically low interest yields does not imbue feelings of comfort to investors. We always try to take emotion out of the equation and look at investing in a rational light, however difficult that may be. In a world of limited opportunities, we are most optimistic about the health of the United States economy for investing. However, we recognize that opportunities also arise when asset prices decline in other parts of the world.

We are trying to make good investments for months or years into the future within a world that is changing daily. It makes our job both rewarding and frustrating, sometimes within the same day. However, we continue to be passionate about the investment management world and remain optimistic that future prices will result in future gains.

Thank you for your continued confidence in us.

Should you have any questions please feel free to call me directly at 314-726-550 or email at bgrunzinger@chrysalisim.com.

Sincerely,

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