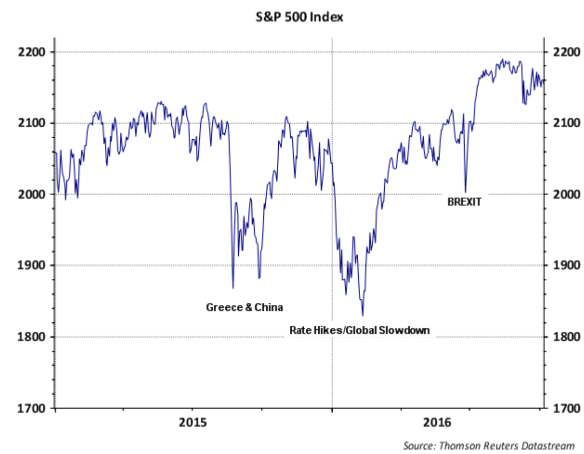
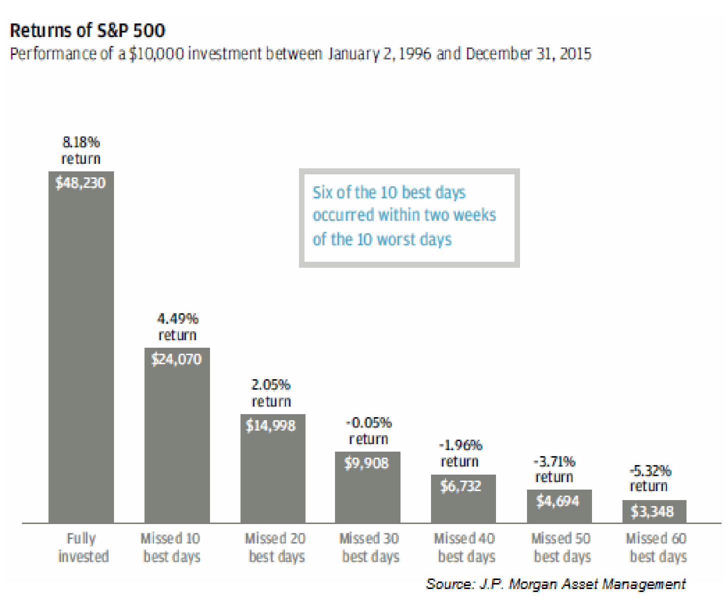
HORAN CAPITAL ADVISORS
Investor Letter

Time in the Market vs. Timing the Market



Emotions run high when the market experiences periods of significant declines followed by a rapid recovery, such as seen in the last eighteen months. During these times of market stress, emotions tend to drive investors to reduce their stock market exposure. The consequences of these decisions can be detrimental to long-term returns.

As the chart at right shows, the market succumbed to selling pressure during the summer of 2015 due to unrest in Greece, a Puerto Rican debt crisis and the rapid decline in Chinese equities. However, U.S. equity markets recovered nearly all that decline in the subsequent three months. The markets began 2016 with a sell-off, as the S&P 500 Index declined by more than 10% through mid-February. Sentiment abruptly changed and a March rebound brought the market back to its starting point for 2016. In late June, the Brexit vote in the UK sent markets sharply lower for two days only to recover quickly. Despite 43 straight trading days without a 1% move in either direction from July 11 to September 8, the S&P managed a 3.85% gain for the third quarter.

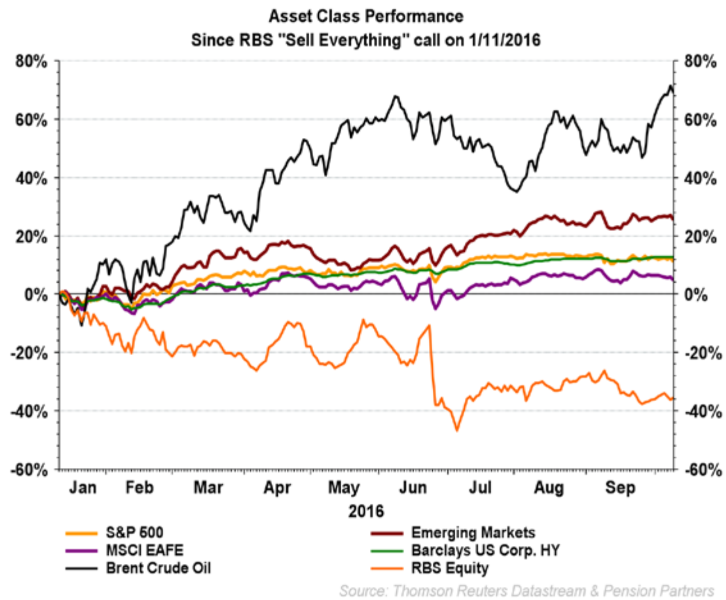


The chart at left highlights the risk of timing in and out of the market. Investors who remained fully invested from January 2, 1996 through December 31, 2015 received greater than 8% annualized returns. Investors who timed the market and missed the best 10 days during that period saw their return cut nearly in half to 4.49%. Miss the best 20 days and the return falls to 2% annualized.

The chart at the top of the next page demonstrates that even “experts” cannot effectively time the market. The chart shows the performance of various asset classes following Royal Bank of Scotland’s “sell everything” call on

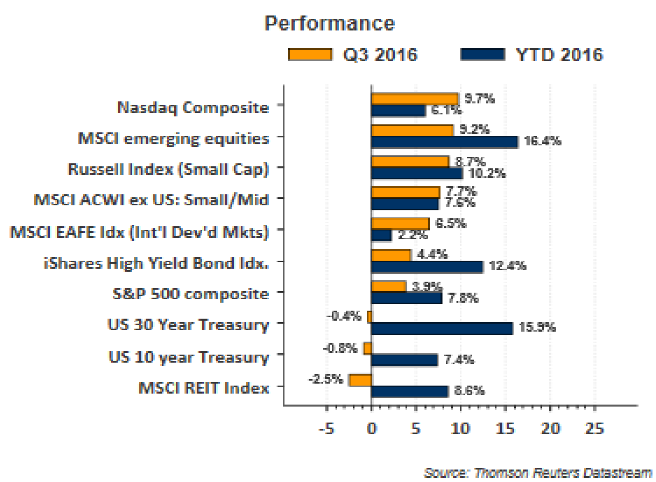
January 11, 2016. The market did decline by a small amount after RBS's sell call; however, February 11 was the low and the market has trended higher by double digits ever since. Investors tend to be the most bearish when markets are low and emotions are high.

A Market Rotation

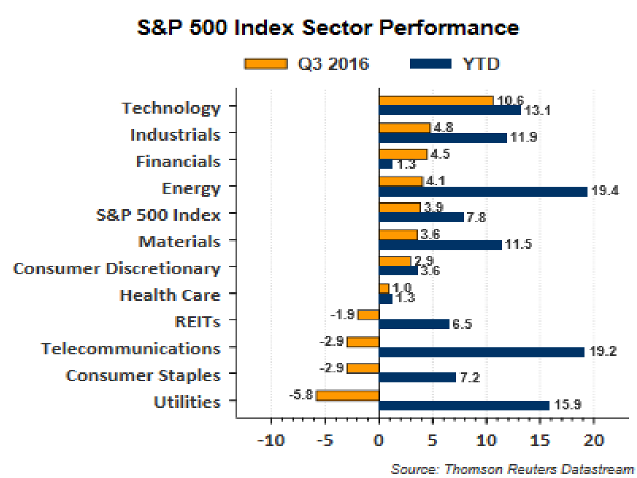


The best performing asset classes in the third quarter were ones favoring a "risk on" approach: the Nasdaq Composite Index, Emerging Markets, U.S. Small Cap and International Small Cap. The worst performing asset classes were interest rate-sensitive investments such as REITs and long-term bonds, which led the market returns earlier in the year.

This "risk on" outperformance carried over into sector returns as well. As the bottom chart on the right shows, the best performing S&P 500 Index sectors in the third quarter were Technology, Industrials, Financials and Energy. Generally, these sectors are more economically exposed (cyclical) sectors of the market. The bottom performing sectors during the quarter were the more defensive or income oriented ones, which include Utilities, Staples and Telecommunications.



We had positioned client portfolios to take advantage of this market rotation by maintaining an overweight to cyclical sectors like Industrials and Financials and remaining out of expensive defensive sectors like Utilities. We continue to believe defensive sectors are expensive from a valuation perspective, and the recent outperformance of the cyclical sectors will continue.

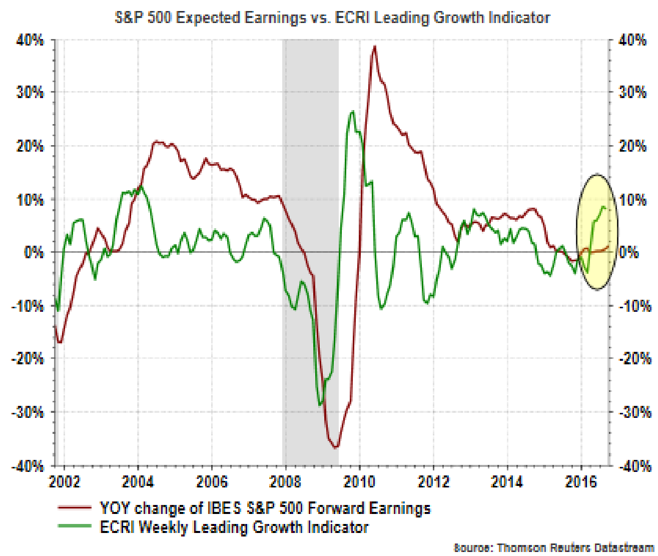


Resumption of Earnings Growth

In our Summer 2016 Investor Letter, we highlighted our positive view on U.S. equities, supported by an anticipated resumption in earnings growth for the second half of 2016 and into 2017. Although analysts expect companies in the S&P 500 Index to report a 1% drop in quarterly earnings, we believe reported earnings will turn positive in the quarter due to an improving Energy sector.

One maxim holding true is stock prices tend to follow earnings over time. The flat to down equity market returns in 2015 were reflective of the decline in earnings that occurred during the year. Two variables leading to earnings headwinds in 2015 were the strong U.S. Dollar and the contraction in oil prices. Brent Crude traded down to $36 per barrel at the end of 2015 and closed in September at $46 per barrel. While oil prices are likely to remain volatile, OPEC's recent announcement of a production cap reflects a desire to see some supply and demand balance. As a caution though, in the early 1980's, OPEC cut supply and then saw oil prices fall 40% as other producers increased supply in order to capture market share.

The current economic expansion that began in 2009 is one of the longest on record, but also the weakest expansion since World War II. We continue to see GDP growth below historical trends, but it is growth nonetheless. The Economic Cycle Research Institute publishes data known as the ECRI Weekly Leading Index. This index incorporates a large number of variables on stock prices, money supply and other factors. A variation of the weekly leading economic indicator, known as the Leading Growth Indicator (WLIg), turned positive in March as shown on the chart on the right. Importantly, earnings growth tends to follow changes in the WLIg and recent positive equity market returns may be anticipating this improvement in both the economy and in earnings growth.



Interest Rates

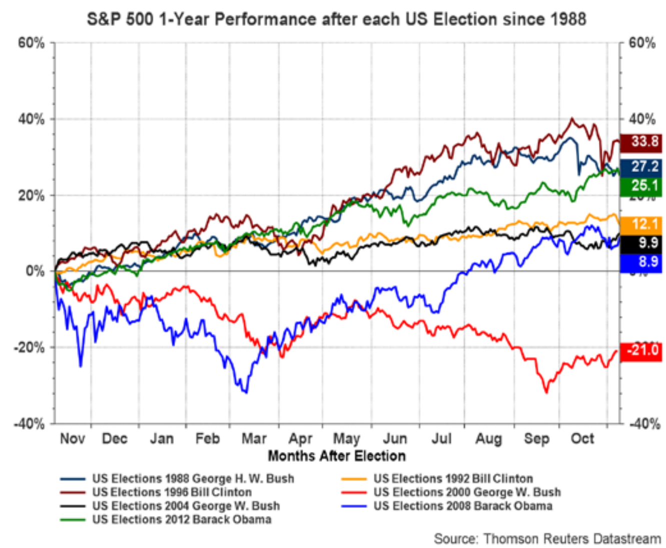
Probability of Fed Rate Hike		
Meeting Date	**Expected Policy Rate**	**Probability of Hike**
November 2, 2016	0.3996	10%
December 14, 2016	0.5445	62%
February 1, 2017	0.5738	67%
March 15, 2017	0.6285	74%
May 3, 2017	0.6451	76%
June 14, 2017	0.6956	81%
* Data Provided by Thomson Reuters Eikon as of 10/11/2016		

Global monetary policy will likely be a key focus for equity market participants in the coming months. The Fed has held rates steady since increasing interest rates for the first time in almost nine years in December 2015. The Fed's messaging changed in the latter part of the third quarter and seemed to be preparing investors for near-term rate hikes. The Fed cited that the labor market "has continued to strengthen" and that growth "picked up from the modest pace seen in the first half of this year." Additionally, the Fed meeting in September saw an increase in the number of committee members dissenting from the decision to keep rates unchanged. The Fed has two more opportunities to raise rates this year – early November and mid-December. With the pending election, the latest Fed Funds' futures prices suggest December is the more likely month for a rate hike.

The expected path for short-term interest rates in the U.S. is upward. However, deflationary forces around the world and the inflow of foreign capital investment in the U.S. could keep a lid on longer-term interest rates. With one-third of global interest rates in negative territory, foreign money will likely continue to flow to the U.S. Treasury market. In this case, demand outweighs supply and interest rates could very well stay low. As the Fed continues on its path to higher interest rates, we remain cautious about the interest rate risk (duration) in the fixed income portion of client portfolios.

<u>Markets and the Election</u>

Absent an election year, equity markets generally trend higher until the seasonally weak September/October months. However, during an election year, equity market weakness tends to occur during the summer months and subside as the November election draws near. Historically, markets then rally into year-end. The market has followed this pattern so far this election year. When reviewing each November election dating back to 1988, we note the S&P 500 Index's performance for the following 1-year is positive 7 out of 8 times. The only negative period was during the bursting of the tech bubble in 2001.



Recently, we have received a number of questions in regards to the election. This election year certainly seems to be a very polarizing one. The newly elected President will need to tackle many policy issues: foreign policy, foreign trade, U.S. deficits, student loans, health care, global terrorism and defense, immigration, individual and corporate tax reform. We would, however, reiterate what we wrote in our Spring 2016 newsletter. We believe a President can exert significant influence over a specific industry (the Obama presidency and the impact on health care and coal), but, he/she has limited influence on the overall direction of the broader market.

The economy appears to us to be in the early part of the late cycle stage; however, "late" does not mean "over." This expansion period likely continues with economic data supporting it. Growth surprises do not appear to be priced into the market and therefore could lead to decent returns when least expected.

Thank you for your continued confidence in HORAN Capital Advisors. Please be sure to visit us at www.horancapitaladvisors.com.

Warm regards,

HORAN Capital Advisors

* HORAN Capital Advisors, LLC is an SEC Registered Investment Advisor.

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