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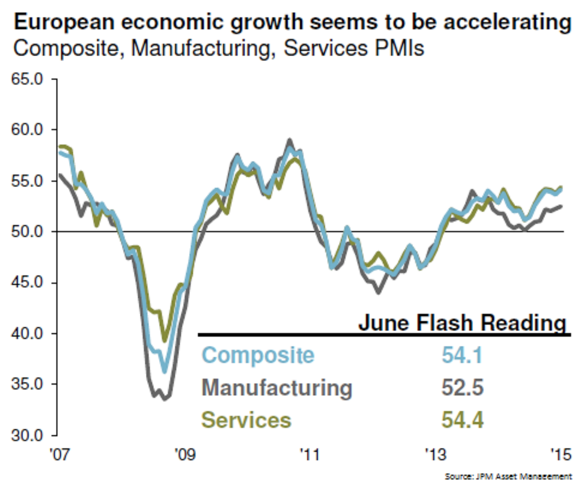
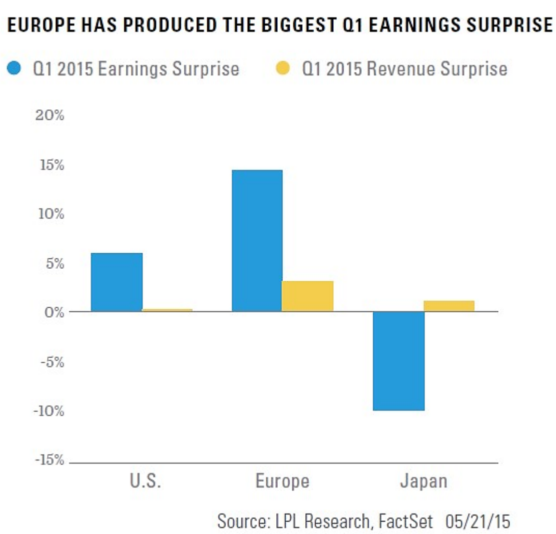
The market was influenced by significant global events during the second quarter of 2015. The overseas story was one of volatility created by fiscal and social unrest in Greece, the meteoric rise and rapid decline of Chinese equities and a Puerto Rican debt debacle. The domestic story, although maybe less interesting for news anchors, was one of investor skepticism surrounding the positive economic picture that continues to unfold in the U.S. pointing to a stronger second half of U.S. economic growth.



Greece and Europe in Perspective

Nearly five years ago, in our second quarter 2010 *Investor Letter*, we highlighted the negative impacts of the Greek debt crisis and a potential break-up of the European Union. The difficulties experienced by Greece and other EU member countries, such as Portugal, Spain, and Italy, is the fact the EU formation was solely a *monetary* union with a common Eurodollar currency. What is not a part of Europe's unification is a common *fiscal* union. As a result, countries such as Greece, that continue to have weak fiscal controls, were able to borrow inexpensively on the backs of stronger EU member countries like Germany. Therefore, weaker member countries have delayed taking the appropriate fiscal action to bring budgets into balance. Today, these debt obligations are maturing and countries like Greece are unable to repay the debt. Although Greek issues are causing equity market volatility, our client portfolios do not have direct exposure to Greek debt.



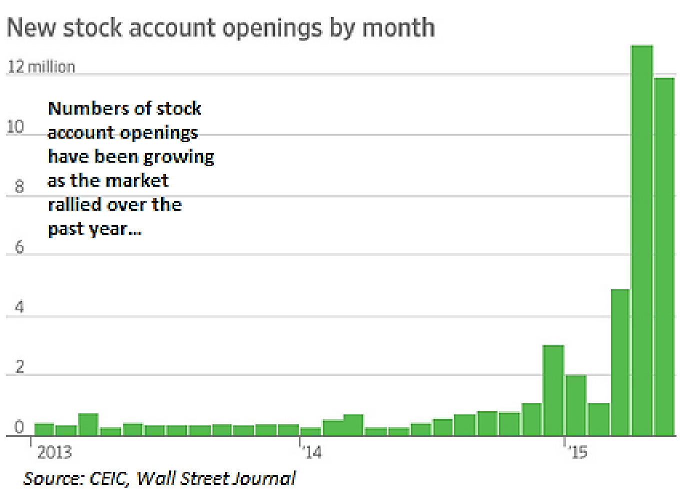
To provide more perspective, Greece accounts for just 1% of the European Union economy and 0.3% of the global economy. Greece's GDP and Apple's anticipated 2015 revenues are approximately the same at $250 billion. In other words, the Greek situation itself is not material. However, there could be additional risks (contagion) if other weaker EU countries also seek debt relief. We view this as low probability.

Recent economic data for Europe is encouraging as both European company earnings and economic reports continue to show improvement as illustrated within the two charts on the previous page. On past European weakness, we have added to European equity exposures and may continue to do so. We are mindful in regard to the challenges currency can play on investment returns however. The Euro/US Dollar exchange rate was 1.36 one year ago and now the conversion rate stands at 1.08. Eurodollar weakness is likely to continue as the European Central Bank expands its balance sheet (essentially printing Euros). We believe the Euro could drop to as low as $.90 relative to the U.S. dollar over the next 12-24 months.

<u>China</u>

The volatility in China's local stock markets proved to be another source of concern for investors as the second quarter came to a close. For most of the quarter, the Shanghai and Shenzhen markets continued their ascent that began in the latter half of 2014. For example, the Shanghai Composite, China's largest index, was up 60% for the year as of June 12th. After reaching a level not seen in over seven years, the Shanghai Composite then plunged 17% through the end of the quarter. This sharp reversal led some investors to worry about the impact the selloff could have on the Chinese economy and ultimately the global economy.

While not dismissing investor concerns, it is important to understand some unique attributes of China's local stock markets. First, China's markets are almost entirely closed to foreign investors. While China has started to allow more global participation, current estimates among some analysts suggest that only 1% of mainland shares are held by outside investors. Most U.S. investors gain exposure to China through Chinese companies listed on the Hong Kong stock exchange. During this period of volatility, shares of Chinese companies listed in Hong Kong have not been as volatile as their mainland counterparts.



One of the reasons for the disparity in volatility is attributable to the types of investors driving the trading. In China's local stock markets, individual investors account for nearly 80% of the trading volume. In fact, there has been a surge in the number of people looking to profit from the boom in the Chinese stock market. Individuals have been opening brokerage accounts in excess of 10 million per month for the past few months. The influence of the retail investor in China is a contrast to more established stock markets, such as Hong Kong, where institutional investors account for the majority of the trading. While institutional investors traditionally take a longer-term view, retail investors can be more short-term focused and therefore more active traders (speculators).

Puerto Rico

This U.S. territory came back into headlines at the very end of the second quarter when the acting governor warned that their debt is "not payable" and a complete restructuring is necessary. While Puerto Rico's fiscal issues have been known for some time, these statements were direct and imply a new approach to addressing the accumulated debt. While we do not have exposure to Puerto Rican debt for our clients, we believe the impact from a restructuring or default would be limited.

Quarterly Performance

June brought negative returns in almost every major market around the globe. A tough June broadly eliminated positive second quarter returns and muted returns for the first half of 2015. Through June 30, 2015, year-to-date returns and 1-year returns were as noted in the table.

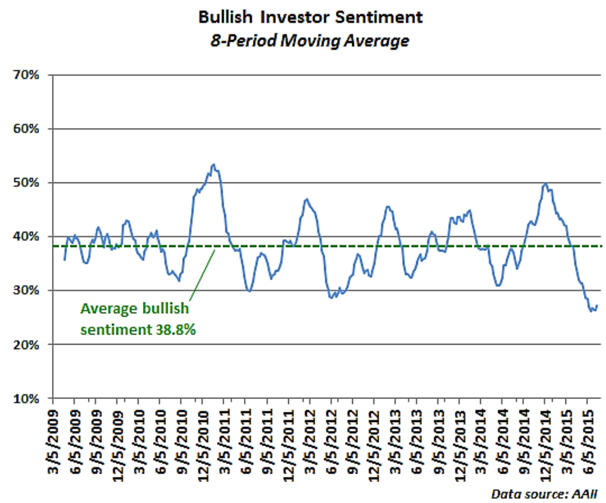
Index	Year to Date	1-Year
S&P 500 Index	1.23%	7.42%
S&P 400 Midcap Index	4.20%	6.40%
MSCI EAFE Index	5.53%	-4.22%
MSCI Emerging Markets Index	2.95%	-5.13%
Barclays Capital U.S. Aggregate Index	-0.10%	1.31%

There has been a rotation of stock leadership in the first half of this year where sectors that outperformed in 2014 are now underperforming. These include utilities and REITs which tend to be interest rate sensitive. At the end of the quarter, the 10-year Treasury yield was up 40% from the February 2nd low (1.68% to 2.35%). Bonds and bond substitutes will continue to feel pressure as interest rates increase. This increase in market interest rates is occurring as many strategists expect the Fed to initiate its first rate hike before the end of 2015. An interest rate hike this year would be the first in 9 years!

Another notable market trend has been the weakness in "high-quality" or dividend paying U.S. stocks. This recent weakness may again be attributable to rising interest rates and investors adjusting their portfolios in anticipation of a Fed rate increase. S&P 500 Growth stocks are 3.25% ahead of S&P 500 Value stocks year to date, while widely followed indexes such as the S&P Dividend Aristocrats and Dow Jones Select Dividend Index generated returns of -1.94% and -3.57% on a year-to-date basis. Our core individual equity positions have growth and value characteristics with a foundation in higher quality stocks, which has historically served clients well over longer-term market cycles. As noted in a recent report by Fiduciary Management Inc., "You would never know the economy was so choppy by looking at the stock market, particularly areas of the market that are showing classic signs of speculative fever. Stocks of companies with low-to-no earnings, low-to-no dividends, and high valuations are outperforming stocks with the opposite characteristics."

Outlook

With U.S. equity markets continuing to trade in a fairly narrow range and with 1-year trailing returns falling into mid-single digit territory, the market may be experiencing a "sideways" correction. This lull may provide the necessary time for earnings growth to reduce stock market valuations. At some point, equity markets will find enough news and a fundamental backdrop to break in one direction or another. As the following chart shows, individual investor bullish sentiment is fairly negative which frequently can be a bullish sign for stocks.



A look at company earnings this year is the tale of two stories: S&P 500 earnings and S&P 500 earnings absent of energy stocks (ex-energy). Due to the sharp decline in crude oil prices in the second half of 2014, energy company earnings have followed suit. Consensus expectations for S&P 500 earnings in the second quarter are negative 3%. Excluding energy however, earnings are expected to be positive 5%. Retail sales have perked up recently after being stagnant at the beginning of the year. Wage growth, which has been muted over a decade, yet matching inflation, is estimated to have grown at a low single-digit annual rate in the second quarter. Job openings are growing while new hires have continued to lag. This data seems to provide some hope that both employment and wages are poised for stronger growth.

Despite the May setback in durable goods, there has been a slight improvement in capital investment year-to-date, as well as with research and development (R&D) spending. These two elements are important to improving long-term organic growth. However, as noted by A. Gary Shilling in a recent Bloomberg article, "The argument that growth is stymied because companies have cut capital spending may also be missing a larger trend. Much of the spending to build new tech and social-media companies, such as Google and Facebook, isn't counted as capital outlays. The brains of the entrepreneurs and developers substitute for capital spending. A high-tech startup in a garage or a college dorm doesn't register in government data the way a new auto plant does. Many successful startups didn't need much more than a laptop, and most of the money they raised went to advertising and marketing, not building factories."

The U.S. economy looks well positioned for further economic expansion after exhibiting weakness in the first half of 2015. We just experienced the 57th consecutive month of job growth. The unemployment rate now stands at 5.3%. U.S. manufacturing numbers strengthened in June as did car sales, housing starts and retail sales. Homebuilding and the consumer are two key drivers to broad economic growth as new home building creates a chain reaction in retail (consumer) spending. In addition, the economy just may be in the early stages of seeing the flow through of lower gasoline prices from the first half of this year.

Cincinnati just proudly and admirably hosted the 2015 All Star Game. In baseball terms, U.S. economic expansion may be in the late middle innings of a baseball game. We wish everyone a great remainder of the summer. 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

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