

**NO PAIN
GAIN**

**FINALLY! YES, FINALLY!
WE ARE NOW IN THE MIDST
OF THE MUCH ANTICIPATED
STOCK MARKET CORRECTION!**

I hate to sound like a broken record, but as I have continued to tell our clients over the last year, “Do not expect 2015 to be a good year for equity returns and be prepared for the much overdue correction in equity prices... it’s coming.”

As I have also discussed in previous updates, there are several reasons why the “stock market,” and more importantly, why a company’s value can and does fluctuate. However, regardless of the reasons why volatility and corrections happen in the investment process, the bottom line is... corrections are normal and healthy to the long-term success of an investor.

“No Pain, No Gain.” In other words, short-term pain is necessary for long-term gain. Corrections are essential because they provide long-term investors the opportunities to take advantage of continually investing in great businesses when they are on sale, over time, which of course, is exactly what we did and are continuing to do today!

cont. next page



“NO PAIN, NO GAIN” *Continued*

Successful investing requires both time and an appropriate mix of assets if you are to accomplish your financial goals. Therefore, as we move through this much anticipated and expected correction in asset prices, it is important to know that as the stewards of your resources, we continue to look for opportunities to invest in those great businesses.

Of course, a logical question one could ask is, “How long will this correction last?”



Although it may seem like a logical question, the fact of the matter is, no one really knows how long corrections last. What we do know is clear. Over time, corrections will fade into the sunset, while well-run businesses will continue to grow and stock market indexes will move to new highs.

That being said, we do continue to see pockets in the investment market where valuations are definitely expensive on a relative and absolute basis. However, overall, the S&P 500 is now trading at a discount to historical averages (assuming earnings estimates remain unchanged), including many of the companies currently owned in our clients’ portfolios.

It would not surprise us to see the majority of the correction coming to an end sometime in October. However, we remain vigilant in our efforts to identify any pullbacks that can provide us the opportunity to purchase more of the great companies we own today and sell weaker positions in favor of stronger positions for the long-term.

***Bottom line:* Although we don’t know how long the current correction and stock market sentiment will last, one thing we do know; quality, well-run businesses will continue to do well over time. Regardless of how long the correction lasts, we will continue to monitor and look for opportunities to buy more of the great companies on sale!**



SYNOPSIS OF PORTFOLIO PERFORMANCE FOR THE THIRD QUARTER OF 2015

Although volatility has increased and portfolio returns for many portfolios are down slightly year-to-date, we continue to be very confident with the companies owned.

During periods when volatility has increased and a correction is under way, we usually look to sell weaker companies in favor of stronger companies on sale. However, during this pullback, we have been less interested in adding new businesses to the portfolios and more interested in adding to the current positions we already own. This is because we are quite pleased with the businesses owned and want to continue to own them.

That being said, we have made a couple of minor changes to the portfolios, which we detail in the Portfolio Structure & Outlook section on page 14. Today, we believe the portfolios are well positioned, as we see the economies around the world continue to grow and we move further out of the recent correction.

Lastly, many investors like to use an Annual Report or Quarterly Update as a gauge that will help them determine how well their portfolio “performs.” It is important to remember that investing is a process that occurs over time. It is a process that does not care or associate emotion to what day of the year it is or what the value of a holding is on a particular day! Investing is a process that not only occurs over time, it benefits from it. We continue to be quite pleased with the businesses our clients own and remain very positive on the long-term prospects of the economy, despite the short-term noise!

“... during this pullback, we have been less interested in adding new businesses to the portfolios and more interested in adding to the current positions we already own.”



STATE OF THE “MARKETS”

One of the interesting things about investing in businesses through the stock market, there is very rarely a dull moment!

Several investment themes continue to be present in 2015 that keep things exciting!

Some of those themes include the following:

- 1. Investors continue to pay for growth. However, over the last quarter the bio-tech and healthcare sector has had a long needed, major pullback (over 20%). This of course has provided great buying opportunities for a few of the companies we do own.**
- 2. “Value” stocks continue to be out of favor for “Growth” stocks.**
- 3. Oil, natural gas, gold and other commodity stocks are now rebounding after a substantial pullback in the last year. There are various reasons for the rebound, which include them being over-sold short-term and the dollar weakening a bit. Bottom line is, we believe there are stronger sectors to invest in today than in energy and commodities for multiple reasons.**
- 4. After the Emerging Markets, and especially China, have taken a major beating this year, they are showing signs of the economy stabilizing. We continue to believe there are tremendous values in Europe and the EM for long term investors.**
- 5. With the correction, investor sentiment continues to be quite weak. Of course, we believe that is a very bullish indicator for long term investing. We have been very aggressive at continuing to invest in the companies we like and own during this pessimism.**
- 6. Although the correction and volatility have seemed to subside, no one really knows if the correction is over or not. This is why investors must have the ability to know what companies they own and why; it provides the Clarity needed for the investor to “stick to the knitting.”**
- 7. We do believe that the U.S. economy will continue to plug along while Europe and the EM will begin to improve. This should provide for continued growth in the values of the businesses we own over the next couple of years.**

cont. next page



STATE OF THE “MARKETS”

Continued

Are We Going To See the Elusive 20% market correction?!

Although we are in the midst of a correction, the reality is, this correction has been quite mild on a relative basis by many standards.

The S&P 500's peak to trough during this correction was approximately 13%, which in the grand scheme of long-term investing is not very much; especially when you consider the moves many investments have had since the market bottom in 2009.

Unfortunately, the International and Emerging Markets have not fared so well.

However, some sectors, including the biotech and energy sectors have seen their values get hit by 25% or more this year.

At the end of the day, corrections come and go. Obviously, during corrections many investors do become nervous because the future becomes more uncertain. However, it is important for our investors to remember that we are committed to “sticking to the knitting.” We will be continually investing in the great businesses we own, while maintaining the flexibility needed to take advantage of new opportunities presented to us when they are favorable.

Corrections in equity prices should be viewed as nothing more than unannounced sales on quality companies that investors should take advantage of!

Lastly, as many of our clients already know, we like to put the chart above in each Update. I believe it is a healthy reminder for investors to remember that corrections do happen. We just don't know when. Therefore, it is really a risky proposition to try and “guess” what is going to happen over short periods of time.

As we often say, investing is a marathon, not a sprint!

Magnitude of Market Decline	Frequency of Occurrence
>5%	Every Year
>10%	Every Two Years
>20%	Every Five Years
>30%	Every Ten Years
>40%	Every Twenty-five Years
>50%	Every Fifty Years

Source: Morningstar

2015 KEY PERFORMANCE

September 30, 2015

Key ETF Performance (%)

Source: Bespoke

US Related				Global					
ETF	Description	Post Fed	MTD	YTD	ETF	Description	Post Fed	MTD	YTD
SPY	S&P 500	↓ -3.44	↓ -2.43	↓ -6.17	EWA	Australia	↓ -3.85	↓ -3.54	↓ -18.85
DIA	Dow 30	↓ -2.36	↓ -1.39	↓ -8.43	EWZ	Brazil	↓ -10.36	↓ -13.02	↓ -40.83
QQQ	Nasdaq 100	↓ -3.93	↓ -1.33	↓ -0.32	EWC	Canada	↓ -4.43	↓ -4.90	↓ -20.03
IJH	S&P Midcap 400	↓ -3.67	↓ -2.22	↓ -4.38	FXI	China	↓ -4.99	↓ -1.81	↓ -15.28
IJR	S&P Smallcap 600	↓ -3.25	↓ -1.97	↓ -4.74	EWQ	France	↓ -5.61	↓ -3.92	↓ -2.47
IWB	Russell 1000	↓ -3.53	↓ -2.49	↓ -5.89	EWG	Germany	↓ -7.63	↓ -6.23	↓ -9.89
IWM	Russell 2000	↓ -5.04	↓ -3.27	↓ -6.85	EWJ	Hong Kong	↓ -2.48	↓ -0.26	↓ -6.38
IWW	Russell 3000	↓ -3.71	↓ -2.51	↓ -6.04	INP	India	↓ -3.00	↓ -1.57	↓ -8.11
					EWI	Italy	↓ -6.21	↓ -4.12	↑ 4.34
IVW	S&P 500 Growth	↓ -3.52	↓ -1.89	↓ -2.58	EWJ	Japan	↓ -2.35	↓ -4.21	↑ 3.29
UK	Midcap 400 Growth	↓ -3.51	↓ -1.25	↑ 0.12	EWJ	Mexico	↓ -5.24	↓ -3.56	↓ -14.18
IUT	Smallcap 600 Growth	↓ -3.41	↓ -1.16	↑ 0.60	EWP	Spain	↓ -8.40	↓ -8.71	↓ -15.56
IVE	S&P 500 Value	↓ -3.34	↓ -3.08	↓ -10.06	RSX	Russia	↓ -6.18	↓ -7.02	↑ 6.90
IJJ	Midcap 400 Value	↓ -3.83	↓ -3.38	↓ -8.98	EWU	UK	↓ -4.19	↓ -3.52	↓ -8.71
IJS	Smallcap 600 Value	↓ -3.03	↓ -2.83	↓ -9.95					
DVY	DJ Dividend	↓ -2.10	↓ -1.16	↓ -8.53	EFA	EAFE	↓ -4.76	↓ -4.19	↓ -5.56
RSP	S&P 500 Equalweight	↓ -3.93	↓ -2.84	↓ -7.55	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
FXB	British Pound	↓ -2.66	↓ -1.10	↓ -2.84	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
FXE	Euro	↓ -2.06	↓ -0.15	↓ -7.77	IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
FXF	Yen	↓ -0.61	↑ 0.49	↓ -0.96	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
XLY	Cons Disc	↓ -2.95	↓ -0.37	↑ 3.53	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
XLP	Cons Stap	↓ -1.19	↑ 0.36	↓ -2.08	IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
XLE	Energy	↓ -4.46	↓ -6.11	↓ -21.21	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
XLF	Financials	↓ -1.77	↓ -2.65	↓ -7.76	IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
XLV	Health Care	↓ -7.46	↓ -5.12	↓ -2.19	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
XLI	Industrials	↓ -4.74	↓ -2.89	↓ -11.97	IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
XLB	Materials	↓ -6.56	↓ -7.29	↓ -17.25	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
XLK	Technology	↓ -2.35	↓ -1.04	↓ -3.72	IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
IYZ	Telecom	↓ -3.88	↓ -2.60	↓ -5.16	EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
XLU	Utilities	↓ -0.33	↑ 0.64	↓ -9.51	IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.64	↓ -9.12
					EEM	Emerging Mkts	↓ -6.01	↓ -4.26	↓ -17.54
					IOO	Global 100	↓ -3.44	↓ -2.	



GETTING A GAUGE ON THE SAGE

- From the desk of Chuck Etzweiler, MBA, CIMA®, CMT | Director of Global Research

It has been said that everyone loves a winner. It’s a quote that we think applies to Warren Buffett. His style of portfolio ownership is, without a doubt, the highest sought after and desired. Everyone wants to be like Warren. Without question, Buffett’s success speaks for itself. We have documented the chart below on many occasions... it clearly shows Berkshire’s complete trouncing of the S&P 500 over the past 50 years.

In addition to Buffett (aka The Oracle of Omaha or The Sage) being a highly respected money manager, he also has a strong, cult-like following. His following is, part in parcel, due to his wit, humility and his many quips. We believe the most profound fact about Mr. Buffet is the laundry list of quotes that can be attributed to him over the years. Many of us in the industry use these insightful quips on a regular basis and find them to be the academic equivalent of “Yogism’s”, the humorous quotes made by baseball hall of fame New York Yankee, Yogi Berra.

I recently came across an article listing more than 20 Buffett quotes and sought to put them to the test. Will Warren’s quotes be supported by empirical data and do they stand the test of time? We chose our Top Ten quotes and sought to find whether or not they truly “hold water.” “Getting a Gauge on the Sage” is our attempt to both measure the accuracy of Buffet’s quotes using research, which we display in chart form, and to have some fun. We hope you enjoy our review.

BERKSHIRE PERFORMANCE VS. S&P 500

1966	20.3	(3.4)	(11.7)
1967	11.0	13.3	30.9
1968	19.0	77.8	11.0
1969	16.2	19.4	(8.4)
1970	12.0	(4.6)	3.9
1971	16.4	80.5	14.6
1972	21.7	8.1	18.9
1973	4.7	(2.5)	(14.8)
1974	5.5	(48.7)	(26.4)
1975	21.9	2.5	37.2
1976	59.3	129.3	23.6
1977	31.9	46.8	(7.4)
1978	24.0	14.5	6.4
1979	35.7	102.5	18.2
1980	19.3	32.8	32.3
1981	31.4	31.8	(5.0)
1982	40.0	38.4	21.4
1983	32.3	69.0	22.4
1984	13.6	(2.7)	6.1
1985	48.2	93.7	31.6
1986	26.1	14.2	18.6
1987	19.5	4.6	5.1
1988	20.1	59.3	16.6
1989	44.4	84.6	31.7
1990	7.4	(23.1)	(3.1)
1991	39.6	35.6	30.5
1992	20.3	29.8	7.6
1993	14.3	38.9	10.1
1994	13.9	25.0	1.3
1995	43.1	57.4	37.6
1996	31.8	6.2	23.0
1997	34.1	34.9	33.4
1998	48.3	52.2	28.6
1999	0.5	(19.9)	21.0
2000	6.5	26.6	(9.1)
2001	(6.2)	6.5	(11.9)
2002	10.0	(3.8)	(22.1)
2003	21.0	15.8	28.7
2004	10.5	4.3	10.9
2005	6.4	0.8	4.9
2006	18.4	24.1	15.8
2007	11.0	28.7	5.5
2008	(9.6)	(31.8)	(37.0)
2009	19.8	2.7	26.5
2010	13.0	21.4	15.1
2011	4.6	(4.7)	2.1
2012	14.4	16.8	16.0
2013	18.2	32.7	32.4
2014	8.3	27.0	13.7
Compounded Annual Gain – 1965-2014	19.4%	21.6%	9.9%
Overall Gain – 1964-2014	751,113%	1,826,163%	11,196%

cont. next page

NEPSIS CAPITAL MANAGEMENT

(952) 746-2003 • Fax: (952) 746-2006

8674 Eagle Creek Circle, Minneapolis, MN 55378

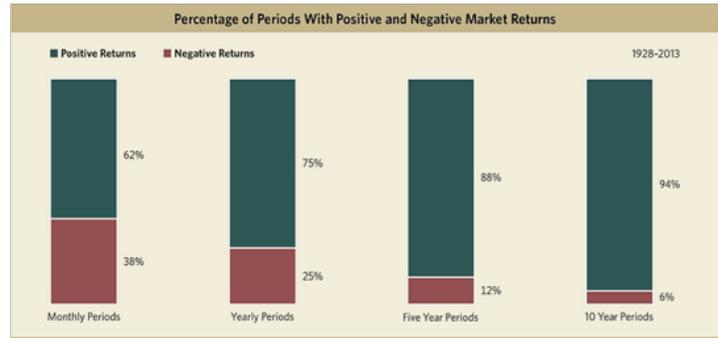
www.nepsiscapital.com | Blog: www.InvestingWithClarity.com | Radio: www.investingsuccessforyou.com

©Copyright 2017. Advisory services offered through Nepsis Capital Management, Inc.: An SEC Registered Investment Advisor.

GETTING A GAUGE ON THE SAGE

1

“What we learn from history is that people don’t learn from history.”



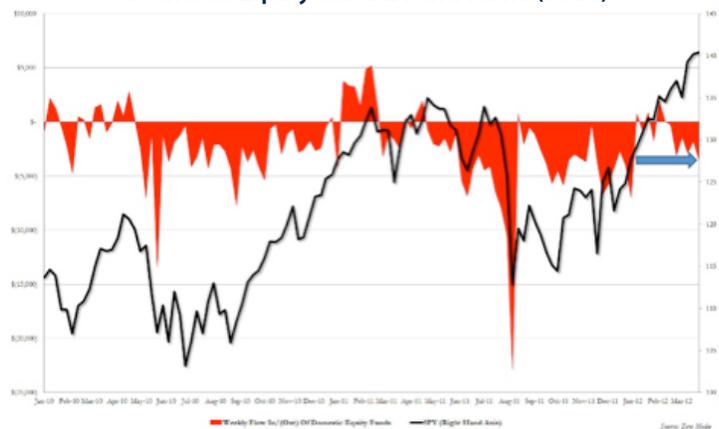
Buffett, in our estimation, nailed this one. Like a true business owner, Mr. Buffett sizes up the probability that he will be rewarded for his purchase when he decides to take ownership in a publically-traded company (i.e. buy its stock). He is well aware that business ownership is the greatest pathway to wealth creation, accumulation and distribution (he loves dividends and is not fond of bonds). The chart above is tattooed on Buffett’s forehead, in so much as he realizes it is time spent in the market, not timing the market, that works. Going to cash, buying put options and shorting stocks are not in Buffett’s lexicon. He simply analyzes the fundamentals, allows time to take its course and never forgets the historical relationship between prices and the probabilities of positive returns.

2

“Two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics will be unpredictable. ... We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.”

They don’t get any better than this one, which quite frankly may be the most ubiquitous of all the Buffett quotes. So, is it actually profitable to sell when the crowd is buying and buy when they are selling? The chart to the right, from Zero Hedge, would suggest the answer is an emphatic “Yes!!”

Domestic Equity Mutual Fund Flows (SMM)

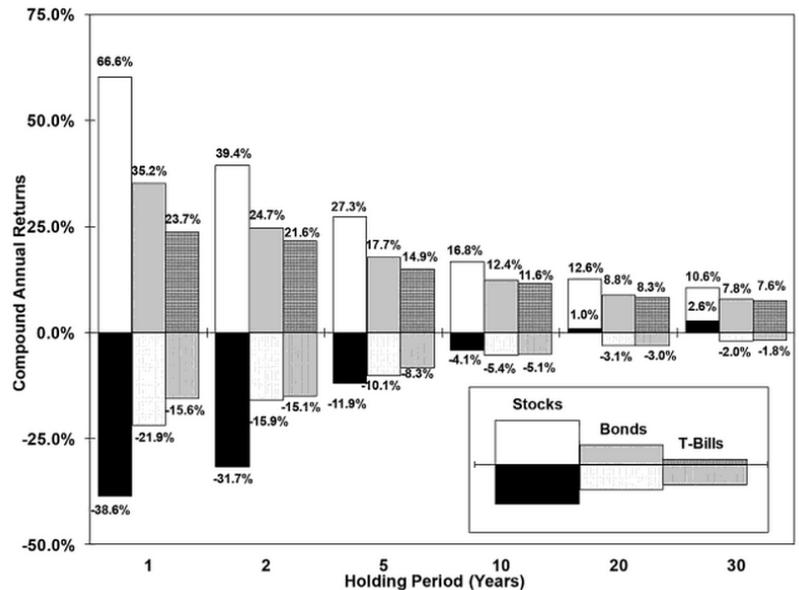


cont. next page

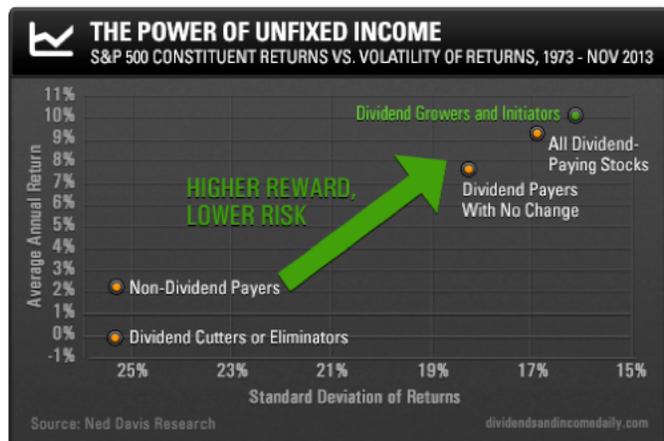
GETTING A GAUGE ON THE SAGE

3 "Our favorite holding period is forever."

Based on the adjacent chart, developed by Jeremy Siegel and found on: <http://www.bigfatpurse.com/2009/07/why-stocks/>, we can clearly see why Buffett's favorite holding period is "forever." On average, upon reaching a ten-year holding period, owning stocks do a better job of reducing risk than owning bonds. This is a common misconception, and one that highlights the power of owning quality businesses over time.



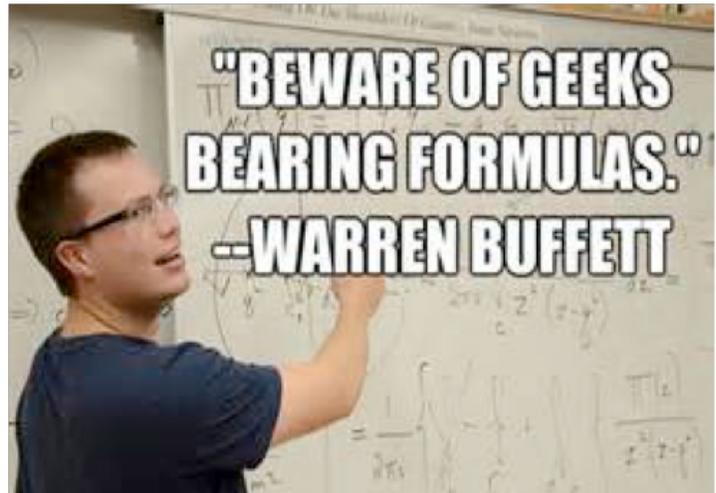
4 "Never invest in a business you cannot understand."



Buffett's method of analyzing businesses is simple, yet profound. He loves businesses that make solid, high quality products or services, deliver a high return on capital, pay a dividend and grow that dividend over time. The charts above demonstrate the correlation between historic returns and a business's commitment to paying dividends. The more transparent a business is, i.e. one that returns capital to shareholders and grows the dividend stream over the long haul, the more worthy of ownership the business.

GETTING A GAUGE ON THE SAGE

5 "What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know."



If there were anyone who is worthy of pounding his own chest in a show of pride, it would be Buffett. However, he refuses to stoop to that level; rather, he warns us to be very leery of those who claim to be "know-it-alls."

6 "Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

Investment Strategies that Focus on Consistency and Quality Perform Well Around Market Corrections



Capital Markets Investment Strategy Group, FactSet, CompuStat, IBES.

BMO Capital Markets

After each correction, and there have been eight of them over the last 25 years, it is quality businesses that have rebounded the quickest and shot-up the highest. The chart above speaks very mightily to this point.

GETTING A GAUGE ON THE SAGE

7 "We have long felt that the only value of stock forecasters is to make fortune-tellers look good."

I'm amazed at how many investors take market forecasters seriously, even when they have no credible track record of success. Very simply, can you name one individual who is able to accurately predict the future? I think you get our point, and Mr. Buffett's as well.

QUOTE OF THE DAY

STOP
TRYING TO
PREDICT
THE DIRECTION
OF THE
STOCK MARKET,
THE ECONOMY
OR
ELECTIONS.

- Warren Buffett

8 "You shouldn't own common stocks if a 50% decrease in their value in a short period of time would cause you acute distress."



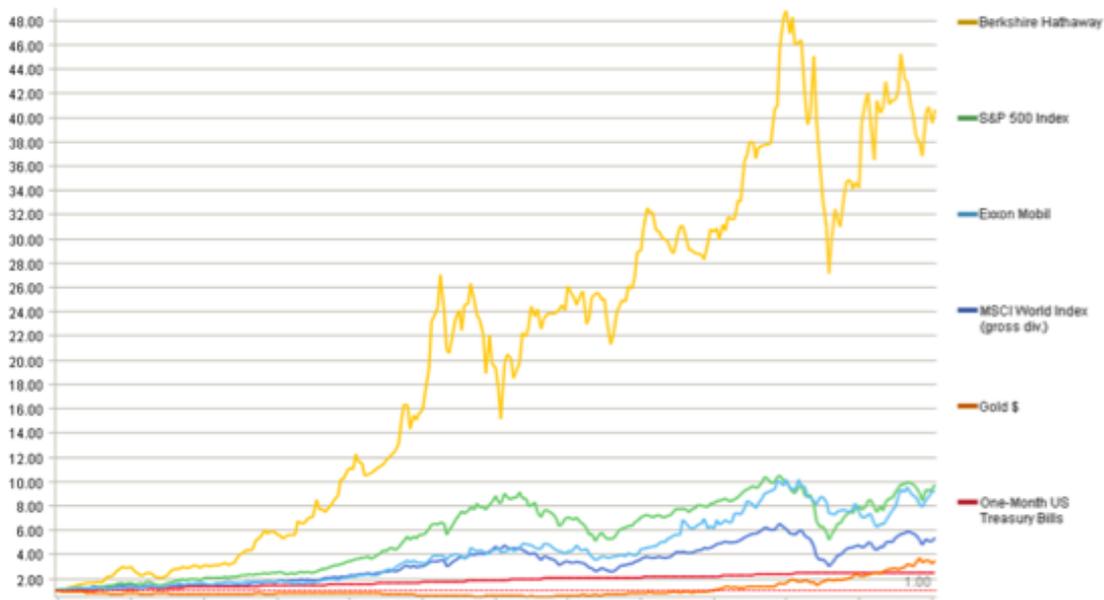
The uniqueness of Buffett is that he prays for stocks to drop in value... the more the merrier. He acutely understands the chart above... when there is fear in the streets; bring your buying list and checkbook!



GETTING A GAUGE ON THE SAGE

9 “I will say this about gold. If you took all the gold in the world, it would roughly make a cube 67 feet on a side... for that same cube of gold, it would be worth at today’s market prices about \$7 trillion — that’s probably about a third of the value of all the stocks in the United States. For \$7 trillion, you could have all the farmland in the United States, you could have about seven Exxon Mobil Corporations plus a trillion dollars of walking-around money. ... If you offered me the choice of looking at some 67-foot cube of gold all day, call me crazy, but I’ll take the farmland and the Exxon Mobil Corporations.”

Growth of Wealth | Monthly: 12/1987 - 01/2012; Default Currency; USD



Yes, our chart is slightly dated, but the time frame from 1987 - 2012 supports Mr. Buffett opinion on Gold. Despite all of the hoopla surrounding Gold, it really does not perform very well over time compared to owning quality businesses over time. Buffett understands that the pathway to wealth accumulation and preservation is business ownership!

NEPSIS CAPITAL MANAGEMENT

(952) 746-2003 • Fax: (952) 746-2006

8674 Eagle Creek Circle, Minneapolis, MN 55378

www.nepsiscapital.com | Blog: www.InvestingWithClarity.com | Radio: www.investingsuccessforyou.com

©Copyright 2017. Advisory services offered through Nepsis Capital Management, Inc.: An SEC Registered Investment Advisor.



GETTING A GAUGE ON THE SAGE

10
"You only have to do a very few things right in your life so long as you don't do too many things wrong."

A simple, four-component investment strategy, that encompasses the following, is what Buffett does best:

- **Philosophy** – buying high quality businesses when they are on sale.
- **Strategy** – using volatility to both reduce ownership when prices are elevated and increase ownership when prices are deflated.
- **Flexibility** – ignoring benchmarking, style boxes, peer groups and other manager constraints that fetter sound decision-making.
- **Transparency** – like Buffett's famous annual shareholder's meetings in Omaha, being open, honest and up-front with your investors on a regular basis regarding what they own and why they own it is paramount to earning the trust and honor of your clients.

Summary – You would be hard pressed, whether in the investment field or any other field, to find someone who vehemently disagrees with the idea that Warren Buffett is the greatest investor of his time. In fact, there are a large number of financial professionals who use his quotes in exposing investment theory, as well as those who attempt to replicate his ingenious and unique, yet simplistic, style of asset management. What we find to be profound about Buffet is not that there are many who seek to be like him, but rather, is the fact that even those investors who end up being dismissive of his investing rules, still hold him in the highest regard and call him a genius. We encourage you to reflect on your investing rules and think about the following statements:

- **I believe that Buffett's approach of owning a select group of "top businesses" is the optimal way to approach investing, yet, as an investor, I have thousands of "stocks" in my portfolio.**
- **I believe, like Buffett, that economic forecasting and numerical predictions are folly, yet, as an investor, I constantly ask my advisor questions about what is going to happen in the "markets."**
- **I believe, like Buffett, that buying stock in great companies when others are fearful (and when the price is low), is better than buying at elevated prices. Yet, as an investor, I move my portfolio to cash when the market appears to be falling and miss out on the opportunities (and the lower prices) that the market fear creates.**

We believe that if you want to be like Buffett, you have to do more than recite his truisms, you must put them into practice — walk the talk. At Nepsis, we work with our investors to help them develop an understanding of their investments so they gain the comfort needed to take advantage of opportunities the market provides.

It's an idea we call... Investing With Clarity™.

NEPSIS CAPITAL MANAGEMENT

(952) 746-2003 • Fax: (952) 746-2006

8674 Eagle Creek Circle, Minneapolis, MN 55378

www.nepsiscapital.com | Blog: www.InvestingWithClarity.com | Radio: www.investingsuccessforyou.com

©Copyright 2017. Advisory services offered through Nepsis Capital Management, Inc.: An SEC Registered Investment Advisor.



PORTFOLIO STRUCTURE AND OUTLOOK

Listed below are changes that took place, in a general manner, in our portfolios during the third quarter, as well as the reasons why those changes were made.

1. As I mentioned earlier, we are quite happy with the companies we own in our client portfolios. However, during periods of volatility, there will usually be opportunities to potentially improve portfolios by selling weaker companies in favor of stronger companies. This last quarter was no different.
2. We continued to take profits in the companies we want to continue to own, as we balance percentages of the companies we own within our portfolios; raising cash for new opportunities or income needs.
3. We sold several companies last quarter for various reasons. Whether it was the long-term fundamentals had changed or another more appealing opportunity presented itself, we sold out of the following positions in favor of new ones: WPZ, LSCC and DOW. We also increased our Strategic Cost Averaging™ into current holdings — we added to the portfolios: ACE, CYBR and FOSL.
4. In light of the overall valuations of publically traded companies, we continue to be very selective and patient with opportunities we see in the marketplace. Because many companies currently sell for higher valuations than they have in the past, we are happy to be patient and picky.
5. This last quarter's correction was particularly hard on our Emerging Markets and International holdings. Some of those holdings include: BIDU, BABA, SAN, SIEGY, YNDX and MBT. However, we continue to be very comfortable owning those companies and did continue to add to those positions during the quarter.
6. On a relative and absolute basis, the valuations of client portfolios, as a whole, do trade at a discount to the overall markets. I believe we are well positioned for future growth as we continue to move further away from the financial crisis in 2009.

Please remember, we have four sell disciplines that we adhere to in our investment process:

1. Selling a company when the long-term fundamentals are in jeopardy or have changed.
2. Selling a part of a position to lock in profits to raise cash for other opportunities or cash needs.
3. Selling a weaker company in favor of a stronger, less expensive company. This happens most often during corrections of the market or the sector that the company belongs to.
4. Selling positions to take a loss to offset future gains (Tax-Loss Harvesting).

As we continually say, a portfolio has a lot of moving parts. Due to the way our portfolios are structured, there is not any one position that will make or break a portfolio and its long-term performance.

Every position in our portfolios is owned for a specific reason. As we continue to watch the markets and valuations, we continue to look at our current companies and new opportunities that are available.

NEPSIS CAPITAL MANAGEMENT

(952) 746-2003 • Fax: (952) 746-2006

8674 Eagle Creek Circle, Minneapolis, MN 55378

www.nepsiscapital.com | Blog: www.InvestingWithClarity.com | Radio: www.investingsuccessforyou.com

©Copyright 2017. Advisory services offered through Nepsis Capital Management, Inc.: An SEC Registered Investment Advisor.



THE STATUS OF **FIXED INCOME**



It should be no surprise to our clients that owning fixed income investments is very difficult in today's investment climate.

Why are fixed income investments tough to own? There are several reasons.

First, as we continue to move through a historically low interest rate environment, many investors and experts are trying to predict what is going to happen to interest rates in the short-term. From our perspective, we don't care what they will do short-term, we care what they will do long-term.

It is important for investors to understand how owning bonds impacts their portfolios both in the short-term and in the long-term. Additionally, many investors do not realize that as interest rates rise, the value of bonds held will more than likely move lower in price. Of course, as they get closer to maturity, the price should move back to par. However, investors must understand the impact of rising interest rates to their portfolio, short-term and long-term.

As for our allocation, we continue to be extremely selective on what bonds we want to own for our clients. In this low interest rate environment, we continue to believe that the risks of owning

intermediate and longer term bonds have too much risk associated with owning them today — downside risk compared to long-term return on your investment.

Therefore, we continue to favor solid dividend producing companies with long standing businesses to continue to provide income opportunities for our clients and continue to hold cash as we look for opportunities that have an appropriate risk compared to the potential reward.

As Nepsis Capital continues to grow, we appreciate your continued confidence and support. We believe successful investing requires Investing With Clarity™ in your portfolio. We look forward to continually providing you with the Clarity needed to be a successful long-term investor.



Respectfully,

Mark Pearson
President, Founder & CIO
Nepsis Capital Management, Inc.