NEPSIS
CAPITAL MANAGEMENT

2ND QUARTER 2015 UPDATE

"MARKING TIME"

"KNOW WHAT YOU OWN **AND WHY YOU OWN IT."**

— Peter Lynch

As we continue to move through 2015, many of the thoughts we at Nepsis have had regarding investment expectations in 2015 continue to come true. To recap: We have been writing for about a year now that we felt 2014 and 2015 would not be tremendous years for investment returns.

There are several reasons for our beliefs. Some of them include: company valuations, economic and company growth rates, investor sentiment and lastly growing regulations on businesses.

That being said, as investors, I believe it is important to have realistic investment expectations and to "stick to the knitting" with a disciplined investment approach.

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“MARKING **TIME**” *Continued*

It was ONLY six years ago when many investors were reeling from the crash of the equity markets — many said it would take many years to recover.

Now, six years later, the economy and financial system continue to improve and the markets continue to move to new highs.

As I often say about the economy and the markets – “This too shall pass…”.

To be frank, as one who spends his days looking for great investment opportunities and listening to so-called experts on the “markets” and/or “investing”, it is mind boggling to hear some of the things they talk about!

When you think about it, the amount of variables in the markets over a short period of time is amazing. Many of these variables have had absolutely no impact on the long-term fundamentals of the businesses you own, yet they can influence investors to make poor investment decisions.

This is why we continually remind our clients, don’t focus on the “stock market” - Focus on the businesses you own. Well run businesses will continue to grow over time!

Let me close by saying this; Investing With Clarity is a powerful mantra. As the Peter Lynch quote on the previous page says, “Know what you own and why you own it.” In other words, have investment Clarity!

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“MARKING **TIME**” *Continued*

Be patient. **The malaise investors are feeling today will pass. Remember, as we often say, great returns come over long periods of time, not short-term. We continue to feel very good about the businesses we own and believe our clients’ portfolios are well positioned to provide investor success over time!**

Bottom line: **Markets and investments will continue to be volatile, but patience will rule the day. “Stick to the knitting” of owning great businesses and look forward to volatility for us to take advantage of continually investing in great businesses.**

Invest With Clarity™!

SYNOPSIS OF PORTFOLIO PERFORMANCE FOR THE SECOND QUARTER OF 2015

We are quite happy with the total return of all five of our portfolio models for the second quarter of 2015.

However, please don’t misconstrue our contentment with portfolio performance on a quarterly basis as being the end goal of our efforts. We remain committed to monitoring and investing in the companies we own in our portfolios for long-term performance.

More specifically, we continue to be very pleased with the portfolio allocations and the companies we own (I will discuss positions in greater detail later). Considering the tremendous performance we have seen by many of the companies we own over the last several years, they continue to keep us quite pleased.

NEPSIS CAPITAL MANAGEMENT

INVESTING WITH CLARITY™

STATE OF THE "MARKETS"

One of the interesting things about investing in businesses through the stock market is that 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. In other words, on a relative basis, the more expensive companies continue to get more expensive on a valuation basis.
2. "Value" stocks continue to be out of favor for "Growth" stocks.
3. Oil, natural gas, gold and other commodity stocks continue to get hurt as the U.S. dollar maintains strength against other currencies and oil reserves continue to be very strong.
4. Increased volatility in the markets and stock prices continue, making investors unsure of the future.
5. Emerging Markets remain weak as Europe continues to stabilize.
6. According to the AAII (American Association of Individual Investors), investor pessimism hit levels we haven't seen in 23 years. Remember that is a bullish indicator!
7. We continue to have some people make comments about a huge correction in the markets and that investors should be prepared. I find it interesting that many like to tell you a big correction is coming but never talk about the idea that it is extremely difficult to "time" the "market". They also don't ever talk about how historically, the markets come back eventually to new highs! *(see chart next page)*

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

Continue to Expect the Elusive 20% Market Correction!

Listed above is a chart we include in every Quarterly Update. I think it is important for investors to be reminded that corrections are normally a guarantee.

Of course, we are long overdue for a sizable correction (10%-20%).

The fact of the matter is, investors and experts have no idea when the next correction will be and how big it will be. This is another reason why Investing With Clarity™ is so important! Focus on the quality of the businesses you own and why you own them.

Corrections in equity prices are nothing more than unannounced sales that investors should take advantage of!

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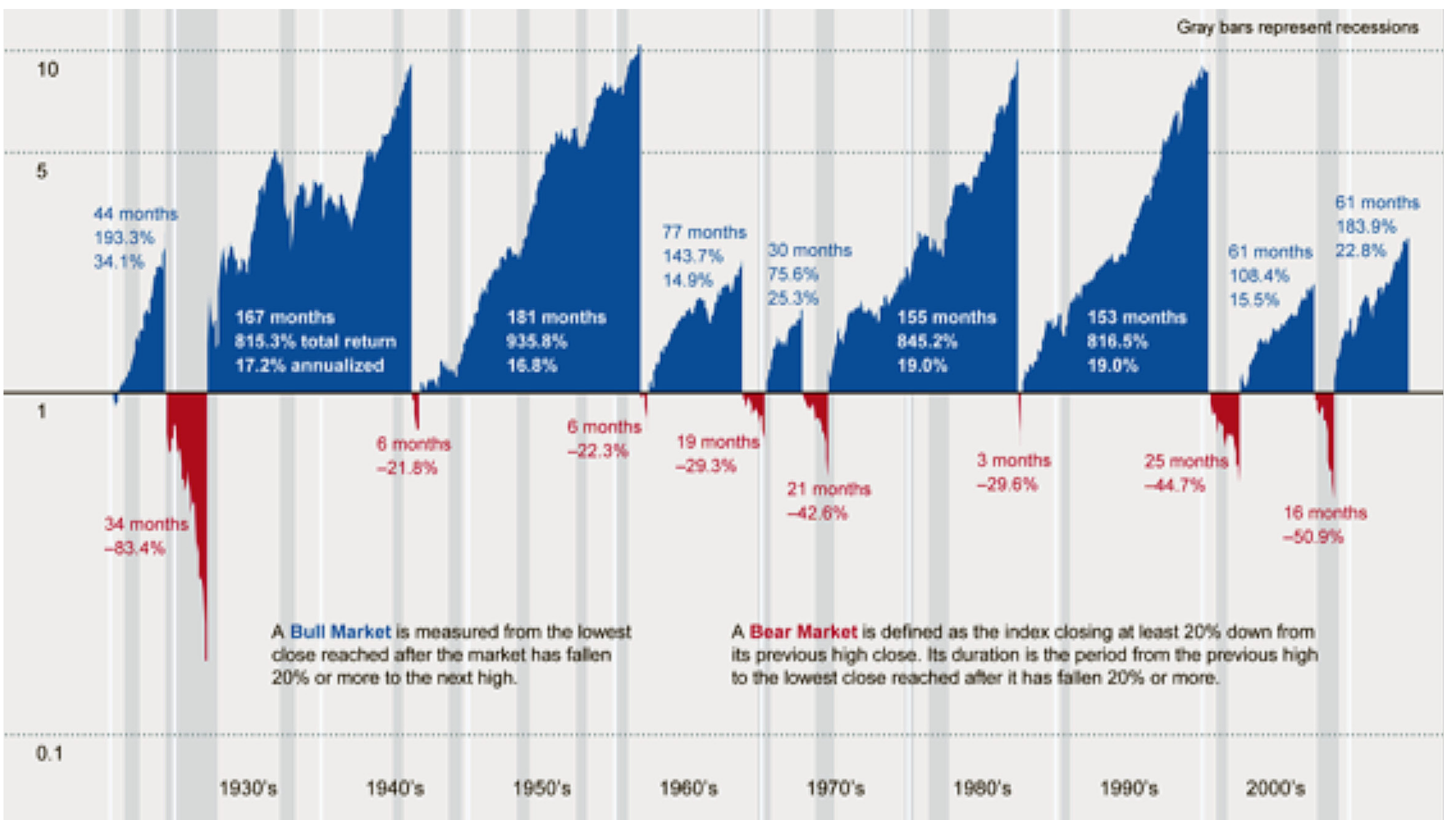
STATE OF THE "MARKETS"

Continued

Another fact is, no one knows when the next big stock market correction will happen. Therefore, why worry about it if you know and realize you own great businesses and have a solid investment Philosophy and Strategy with great Flexibility and Transparency to guide you through your investment process?

When investing, we like to think like a business owner who does not sell their great business(es) in anticipation of a correction, but continues to invest in their business(es) over time.

We look forward to the next sale!



Source: Morningstar

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2015 KEY PERFORMANCE

July 31, 2015

Key ETF Performance (%)

Source: Bespoke

US Related

ETF	Description	June	Q2	YTD
SPY	S&P 500	-2.49	-0.26	0.17
DIA	Dow 30	-2.38	-0.99	-1.15
QQQ	Nasdaq 100	-2.71	1.39	3.70
IJH	S&P Midcap 400	-1.53	-1.32	3.58
IJR	S&P Smallcap 600	0.76	-0.13	3.35
IWB	Russell 1000	-1.89	0.16	1.23
IWM	Russell 2000	0.77	0.38	4.36
IWV	Russell 3000	-1.75	0.10	1.38
IVW	S&P 500 Growth	-2.30	-0.08	2.03
IJK	Midcap 400 Growth	-1.09	-1.17	6.16
IJT	Smallcap 600 Growth	1.44	0.65	7.03
IVE	S&P 500 Value	-2.47	-0.38	-1.66
IJJ	Midcap 400 Value	-2.15	-1.52	0.88
IJS	Smallcap 600 Value	0.12	-0.97	-0.15
DVY	DJ Dividend	-4.16	-3.61	-5.38
RSP	S&P 500 Equalweight	-2.65	-1.54	-0.31
FXB	British Pound	2.73	5.80	0.65
FXE	Euro	1.44	3.55	-8.12
FXY	Yen	1.41	-2.06	-2.29
XLY	Cons Disc	0.24	1.50	6.00
XLP	Cons Stap	-2.44	-2.34	-1.84
XLE	Energy	-4.12	-3.12	-5.05
XLF	Financials	-0.89	1.12	-1.42
XLV	Health Care	-0.69	2.65	8.83
XLI	Industrials	-3.08	-3.01	-4.40
XLB	Materials	-4.39	-0.80	-0.39
XLK	Technology	-4.54	-0.10	0.12
IYZ	Telecom	-2.53	-3.11	0.00
XLU	Utilities	-6.83	-6.68	-12.20

Global

ETF	Description	June	Q2	YTD
EWA	Australia	-6.70	-8.01	-5.14
EWZ	Brazil	1.55	4.46	-10.39
EWC	Canada	-4.00	-1.88	-7.59
FXI	China	-5.46	3.83	10.76
EWQ	France	-4.46	-0.96	4.38
EWG	Germany	-4.23	-6.57	1.71
EWH	Hong Kong	-4.73	2.87	9.83
INP	India	-0.65	-5.11	0.98
EWI	Italy	-4.31	0.61	9.49
EWJ	Japan	-1.84	2.23	13.97
EWW	Mexico	-2.39	-1.47	-3.84
EWP	Spain	-3.65	-3.54	-3.12
RSX	Russia	-3.54	7.34	24.95
EWU	UK	-5.59	1.33	1.22
EFA	EAFE	-4.73	-1.06	4.36
EEM	Emerging Mkts	-3.65	-1.27	0.84
IOO	Global 100	-4.93	-2.16	-1.26
EEB	BRIC	-2.10	3.60	3.85
DBC	Commodities	1.64	5.45	-2.44
USO	Oil	-2.12	18.05	-2.36
UNG	Nat. Gas	5.36	2.42	-8.19
GLD	Gold	-1.52	-1.13	-1.07
SLV	Silver	-6.00	-5.65	-0.20
SHY	1-3 Yr Treasuries	-0.01	-0.02	0.49
IEF	7-10 Yr Treasuries	-1.79	-3.12	-0.92
TLT	20+ Yr Treasuries	-4.22	-10.07	-6.66
AGG	Aggregate Bond	-1.26	-2.38	-1.22
BND	Total Bond Market	-1.31	-2.50	-1.35
TIP	T.I.P.S.	-1.02	-1.36	0.04

Listed above are portfolio returns of many of the popular ETF's in the market, which track indexes as of June 30, 2015.

The purpose of providing this chart each quarter is to give clients a snapshot of what is happening around the world. Please understand that although we provide this document for informational purposes, as a firm, we do not put any emphasis on these indexes. Why? Because they provide no Clarity in helping investors understand what businesses are owned and the associated long-term risks of owning such businesses!

Additionally, as I write this update, many of these returns have changed in light of recent news in the markets; none of which has us here at Nepsis concerned for long-term investors in the least.

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BUBBLE HERE… BUBBLE THERE…
BUBBLE EVERYWHERE

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

If one were to follow the financial press as keenly as we do on a daily basis, you would come to realize their strong penchant for the dramatic. Yes, news (a change in the status quo) reporting is vital to a free society and we support the Press' quest to inform the public who chooses to listen.

However, at least the Financial Press, in our estimation, has this insatiable appetite to get in front of any potential major story before it occurs so as to appear competent. Admittedly so, the Financial Press was left flatfooted in both the of the most recent major stock market drops in 2001 and 2008 and almost looks like they have to play "catch-up" in order to prove their worthiness. This catch-up comes in the form of looking under every rock to predict the next so-called "bubble." ***Hence, the title of our column, "Bubble Here… Bubble There… Bubble Everywhere."***

In our humble estimation, although with good intentions, the Financial Press is causing more harm than good by conjuring up unsubstantiated reporting of supposed equity price bubbles in every form and fashion. The headlines of every market website speaks of preparing one's self for the next bear market. Moreover, the advertising of these stories are financially supported by those who peddle books, DVD's and secret trading methodologies that insulate or eliminate the greatest money management tool for wealth creation: the mispricing of business valuations caused by volatility. And what is volatility caused by? None other than emotional reactions to the aforementioned headline stories. If the Press were to perform their actual duty they would come to realize that the major Bubble that exists in the marketplace today is not in stock prices but in pessimism. Yes we said pessimism. Because of the investor's increased appetite for solace and reason as to why the unexplainable (short-term market swings) occurs, they, like a lapdog, soak in the news, process it and make horrific decisions. This is why on a consistent basis since 1997, investors have been on the wrong side of history.

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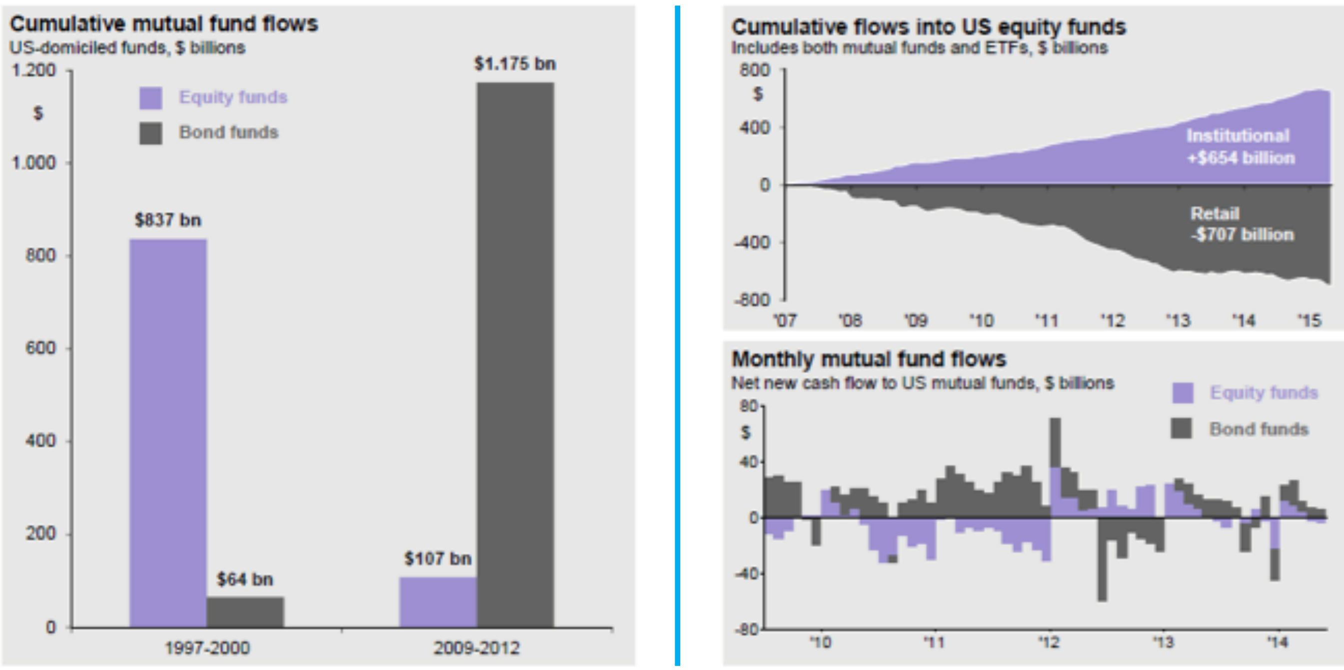

Source: FactSet, Strategic Insight, J.P. Morgan Asset Management. FactSet, Investment Company Institute, J.P. Morgan Asset Management, Guide to the Markets - Europe. Data as of 30 June 2015

As the chart by JP Morgan Asset Management shows, when stock prices were overvalued in the late 1990's investors were piling in—then when stock prices were deeply discounted in the late 2000's they were exiting stage left. Not only does the above chart show the ramifications of Bubble-watch mentality, but so does the famed Dalbar Study. In our estimation, no one does a better job of chronicling the demise of the investor and their emotional heartstrings to the Financial Press than Dalbar. Their 2014 QAIB (Qualitative Analysis of Investor Behavior) Study is out and the results are unfortunately as devastating for the retail investor as ever before. In summary, the study revealed the following:

- **The average equity mutual fund investor underperformed in 2014 relative to the S&P 500 by a margin of 8.19%.**
- **The average fixed income mutual fund investor underperformed in 2014 relative to the Barclays Aggregate Bond Index by a margin of 4.81%.**
- **In 2014, studies found that the average mutual fund investor dramatically underperformed the market in the long-term as their 20-year annualized return was only 5.19% , 4.66% lower than the 20-year annualized return of the S&P.**

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BUBBLE HERE... BUBBLE THERE... BUBBLE EVERYWHERE

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

The Causes of Poor Decision-Making in Investing

Dalbar added a component to its research this year that we thought was most compelling; that is why investors make erroneous decisions. In essence, Dalbar discovered that poor investor behavior is NOT simply buying and selling at the wrong time, but rather psychological traps, triggers, and misconceptions that cause investors to act irrationally.

There are several behaviors that plague investors:

- **Loss Aversion:** Investors often expect to earn high returns while incurring little to no risk. Such an assumption is far from reality in the market as investors must take a calculated risk to receive higher returns.
- **Herding:** Even as data and various indicators warn against a specific investing behavior, investors herd around commonalities in the market and continue to copy one another in the face of unfavorable outcomes.
- **Regret:** The average investor will continue to regret the decisions they made previously rather than focus on the decisions they are not making.

The one that caught our eye this time around was a new one to the list:

- **Media Response:** The average investor will bask in his addiction to the news from various media sources without reasonably examining any of the headlines that are presented.

This component of the report capsulizes our thoughts about the Media's fondness to predict the next bubble and the unhealthy relationship it has with its followers. Our opinion of the Press aside, the results are profoundly devastating to the average retail investor. No doubt, the Dalbar QAIB Study proves this on an annual basis.

In closing, the recent poor analysis of the news is the Financial Press' irresponsible handling of the imminent decision of the FOMC to raise the Overnight Lending rate from an average of 0.00-0.25% to a higher percentage. Everywhere we look we see interviews of so-called experts being asked, "What do you think is going to happen to the Stock Market when the Fed raises rates?" Talk about an irresponsible question. Why not ask the question what happened to the "Stock Market" the last time the Fed raised rates. As a matter of fact, let's go back to 1971 when the US was officially taken off of the Gold Standard as our point of reference. If one studies the chart below, we can come to the conclusion that the "stock market" acts no different in the six, twelve and eighteen months following the initial Fed rate hike. It does not always take this course of action in all periods but on average it certainly does.

Date of Initial Hike	Six Months	12 Months	18 Months
7/16/1971	4.1%	7.6%	19.3%
8/16/1977	-9.5%	5.8%	0.6%
10/21/1980	2.1%	-9.3%	-12.9%
3/27/1984	6.1%	13.9%	15.7%
12/16/1986	22.1%	-2.2%	10.6%
3/29/1988	4.3%	13.0%	35.1%
2/4/1994	-4.0%	-0.4%	16.2%
6/30/1999	8.3%	6.7%	-2.3%
6/30/2004	6.8%	5.6%	10.4%
Average	4.5%	4.5%	10.3%
Median	4.3%	5.8%	10.6%

Not in one instance have we seen this chart referenced or its contents discussed. Instead, we hear of soothsayers with great confidence citing their forecasting capabilities and in the meantime leaving the retail investor in the dust. *It is only when one views the investment world through a lens of Clarity will they make the appropriate decisions.*

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EMBRACE THE FEAR!

By Mark Pearson on June 4, 2015 from InvestingWithClarity.com Blog

"Bull-markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."
– Sir John Templeton

I know… I know… fear sells. It really is unfortunate. I mean, can't we find more pleasant things to think about when it comes to getting investors engaged in investing ideas? Nope… Fear Sells.

It continues to amaze me. Even now, 6 years after the stock market began to improve, investors are still fearful and concerned for the next big crash while the U.S. markets and many well-run companies' values continue to move to all time highs!

Frankly, who cares if there is a correction or crash? I mean, isn't it true that EVERY time we have had a correction, crash or financial crisis, the stock market, and more importantly, great BUSINESSES, have continued to grow?

It is really unfortunate that so many investors are being continually bombarded with negativity and scare tactics about investing in the "stock market" and focusing on all of the negativity around the world! Truth is, the same bad things have been happening around the world for forever. Nothing has changed!

As one that follows the business news on a daily basis, I continue to be absolutely baffled and just plain amused by some of the things I see and hear regarding the next big correction or crash, as well as the things that are said to generate a "fear factor" in investors.

When will it happen? Why will it happen? How much will the market go down? **Who really knows and who cares!**

After all, if you have appropriately diversified your portfolio and have the appropriate allocation of stocks, bonds and cash, even if you're retired, you should be in a strong position to ride out a short-term pull-back in the economy or "stock market" – and yes, 3 years is short-term!

I think many investors spend more time focusing on volatility, or the next correction or crash that may come rather than trying to understand what businesses they own in their portfolio and why they own them in the first place.

Why? Because besides the fact they do not have any CLARITY in their portfolio, they are subjected to an "asset allocation" strategy that is opaque at best, and does not provide the Flexibility and Transparency that allows an investor to *"stick to the knitting"* when it comes to successful investing in businesses over time.

Do business owners run their businesses without knowing what they own or why they own them? Of course not!

Now, I realize many investors don't have the time, or don't want to know all of the details around their portfolio. They just expect the portfolio to do well because that's what they pay their Financial Advisor to do. Although I can appreciate an investor's position on not wanting to have the details, it is then incumbent upon them to fully understand the Investment Philosophy and Strategy of their portfolio.

Bottom line: Invest like a business owner. Why? Because if you own equities, you are a part owner of a business! Embrace fear as the opportunity to take advantage of volatility by having great Flexibility and Transparency in your portfolio. It will allow you to take advantage of opportunities just like a business owner would.

Appropriately allocate stocks, bonds & cash based on your financial needs.

How do I know that we are not even close to the end of this secular bull market? The answer to this question is because we are not even close to euphoria in the markets. Therefore, "EMBRACE The Fear" and hope it continues for a long, long time! — **Invest With Clarity.**

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PORTFOLIO STRUCTURE AND OUTLOOK

We are often asked by investors why we don't publish returns or compare our portfolios to a specific index. It's a legitimate question considering that most other firms publish their returns and the associated benchmarks. The reason we don't is simple. *We believe that the publishing of indexes and returns is the exact problem that causes many investors to be unsuccessful.*

There are a multitude of reasons why this is the case, many of which we discuss on a quarterly basis. However, simply put, the key to successful investing has always been, and will always be, investing in great businesses and having the Flexibility to continually invest in those businesses over time.

Below are the changes that occurred in the portfolios during the second quarter & why those changes were made:

1. We continued to take profits in companies we want to continue to own. We have had several companies we own provide tremendous performance over the last couple of years. However, we would still like to continue to own those companies. So, selling some to lock in profits is prudent. A few of the names include, AET, AIG, CELG AND QIHU along with a few others. Selling some profit and raising cash for new ideas is always a prudent move.
2. 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.
3. Despite the valuations in the market, we did add several new positions in the first quarter. They include YNDX, ENH and ACE . We did not make many macro changes in the portfolio as we are quite pleased with the long term prospects of the companies we own.
4. We have also done some selling of other positions besides the energy companies. In the second quarter we eliminated WPZ, SO and EXC (in Growth and G&I Portfolios), LSCC, ISIS and CSCO . The major reason why these positions were eliminated was because we saw opportunities in several of the names listed above where we thought there was greater opportunity long term. Additionally, in selling WPZ, we wanted to eliminate our exposure at this point to the energy sector. So far, we are very pleased with most of the companies we purchased in the second quarter!

Please remember, we have four sell disciplines we adhere to in our investment process. If you would like more information on what they are, please feel free to contact our office and we will happily provide it to you.

As we continually say, a portfolio has a lot of moving parts. Because of 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 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 available opportunities.

Presently, we continue to believe that on a general basis, there continues to be better opportunities in Europe and the Emerging Markets. However, because we invest globally, we continue to look for great businesses we want to own over time, no matter what country they are in.

Remember, U.S. markets continue to be relatively fairly valued. A 10% to 20% correction could be very healthy and provide a great opportunity for investors to take advantage of and increase the quality of their portfolio.

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THE STATUS OF FIXED INCOME

As we have been saying for a couple of years, owning bonds can be a risky proposition, depending on the bonds you own.

Many experts believe the Federal Reserve is very close to instituting its first rate hike in many years. Although, some believe this would be negative for the economy and markets, we believe longer term, this is extremely positive and well overdue!

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.

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.

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 & CIO
Nepsis Capital Management, Inc.

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