



Don't Push the PANIC Button

**"THE INDIVIDUAL INVESTOR SHOULD ACT
CONSISTENTLY AS AN INVESTOR AND NOT
AS A SPECULATOR." – Ben Graham**

Before I get into the 2015 year in review, let me begin by discussing the current stock market correction that has kicked off the new year. As I write this update, we have now officially had the worst start of the year in history and the eighth worst month in history!

That being said, as I have reminded our clients for over two years now, we should have expected a deep correction eventually. We believe this correction really got started last summer and we continue to believe that this correction will be short term in nature.

For the last couple of years, we have also been putting the adjacent chart in every update. Why have we done that? Simple. To help give our clients a better historical perspective on the market so they can better set their expectations. As the chart shows, the markets see a 20% correction every 5 years. However, we haven't seen a correction of 20% or more since the 2008-2009 financial crisis. **WE ARE DUE!**

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

cont. next page



“Don’t Push the Panic Button” *Continued*

Regardless of what the reason(s) may be as to why markets correct at any given time, the fact of the matter still remains, that THIS TOO SHALL PASS.

Although it seems like a logical question, the fact is, no one really knows how long corrections last. What we do know is that over time corrections fade into the sunset. Well-run businesses will continue to grow along with stock market indexes. But, more importantly well-run businesses will move to new highs.

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 me if this correction does end up being around 20% or so. As oil continues to move lower, China continues to figure out how to move from an industrial led economy to a more consumer led economy and the utilization of computer-based trading (Quantitative-based) increases, investors will continue to GUESS about what is going to happen. We are NOT in the guessing game and never will be! We are in the business of looking for great business brands, with great management, to own over time.

It’s important to note, that as much as we are really happy with the current businesses owned in our clients’ portfolios, that does not mean we will not continue to look for great businesses that have gone on sale or will go on sale during this latest correction.

We have trimmed a few positions, added a couple that have gone on sale, and will continue to monitor the environment and adjust accordingly.

Let me end with this; we often discuss what we call, “The Four Key Components To Successful Investing” with our clients. They are, the Investment Philosophy & Strategy, along with Flexibility & Transparency. We will continue to adhere to the keys of our Philosophy and Strategy, while taking advantage of the volatility to continually invest in great businesses over time that our Flexibility provides.

Of course, with Transparency you have the opportunity to see the great businesses you own in your portfolio, which should enable you to more easily “stick to the knitting”. Additionally, you can avoid periods of being stressed out... like what many investors are experiencing right now who don’t have Clarity in Investing.



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 FOURTH QUARTER OF 2015

Although volatility has increased and portfolio returns were down slightly for the year, we continue to be very confident in the companies owned. Remember, we look at the longer term performance of the businesses we own as opposed to a “calendar year” performance.

It should be no surprise that portfolio growth has been muted after such a big surge in 2013. We will have another big surge; more than likely, it will be sooner rather than later. However, it's during the more muted periods of performance that sticking to the proven investment process is imperative.

Chasing historical returns has only shown to be futile and cause sub par performance over time, whereas continued investment in great businesses over time has proven to be a successful form of capital investment.

There is now doubt that until Government Policy changes and it becomes more of a “pro-growth” format, we will continue to muddle around in slow economic growth.

Lastly, and maybe most importantly, our Investment Philosophy & Strategy call for portfolio diversification, NOT over-diversification (arguably, an inefficient form of investing). As Fiduciaries of our clients' assets, we must adhere to appropriate portfolio diversification and will continue to do so.

Therefore, despite the fact that 2015 did not bare out well once again for the Emerging Markets and many International Markets, we continue to firmly believe that our clients MUST be allocated in businesses around the world. Short-term that may bring sub par performance, but on a relative basis it will allow us to continue to exceed performance. However, to be prudent and appropriate in one's approach to investing, investors must view their portfolios as investment allocations in great businesses from around the world, not just the U.S.!

“... investors must view their portfolios as investment allocations in great businesses from around the world, not just the U.S.!”

Bottom line: On relative basis, once again, our client portfolios performed extremely well relative to Global Portfolio metrics. We continue to be extremely proud of the long-term performance of our client portfolios. Portfolio theory mandates that appropriate diversification means allocating assets in international businesses and Emerging Markets businesses, along with owning U.S. businesses. Government policy continues to limit economic growth. Portfolio returns will continue to come in the form of inconsistent short-term performance. A long-term view will continue to be the best approach to successful investing.



STATE OF THE “MARKETS”

Although I addressed the current status regarding the markets earlier, below are additional points you should consider regarding the current investment climate. While the year has only just started, and trends for 2016 are too difficult to gather at this time, we see that several investment themes continue to be present that keep things exciting! [Some of those themes include the following:](#)

1. Investors continue to pay for “growth”. However, the biotech and healthcare sector has continued to be very weak. 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 and natural gas continue to be hit very hard. There continues to be an over supply of oil, NOT a decrease in demand (addressed by Chuck Etzweiler later in the Update). Most investors and pundits never imagined oil hitting \$30. However, we believed that \$30 was definitely a possibility well over a year ago. We had exited most, if not all, of our oil-related businesses early in 2015. Although we will own great oil companies in our portfolios again, we continue to see short-term risks in oil; as a result, this requires us to be patient in our investing in those businesses again.
4. Once again, 2015 was very rough for many of the Emerging Markets, especially the BRIC countries (Brazil, Russia, India & China). As noted in the returns for the different markets listed on the 2015 Key performance page, many great businesses have gotten a lot less expensive today. We continue to monitor the businesses we own, while looking for new companies we believe will perform very well in the foreseeable future. We also continue to believe that there are tremendous values in Europe and the EM for long-term investors.
5. With the correction that started in late summer, 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. As stated earlier, “This too shall pass”.
6. 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 continued growth in the values of the businesses we own over the next several years.

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.



STATE OF THE “MARKETS”

Continued

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

As discussed earlier, we continue to be in the midst of a very volatile correction that started last summer. Although we are in the midst of a correction, the reality is, this correction has been quite mild by many standards on a relative basis.

The S&P 500 from peak to trough in this correction was approximately 13%, which in the grand scheme of long-term investing is not very much, especially when you consider the move many investments have had since the market bottom in 2009. Unfortunately, the International and Emerging Markets have not fared so well.

Will we see the ever-elusive 20% correction that history tells us we should have? **Of course we will eventually see the 20% correction! When? Who knows.**

We are not in the business of speculating or guessing what an **irrational stock market** will do! However, we are in the business of investing in great businesses over time and taking advantage of the fear computer-based trading and volatility to continue to invest in those great businesses.

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

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” – **continually investing in the great businesses we own while having the flexibility to take advantage of new opportunities presented to us when they make sense.**

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



TOP 10 Stock Market PREDICTIONS FOR 2016

It's hard to believe that 2016 is here! Of course, just like every other year, the financial services industry is once again abuzz with their predictions on what is going to happen in 2016. It really does amaze me to see some of the predictions that are made each year! Of course, we always get the usual ones: Where will the S&P 500 end the year, where will interest rates be, what are going to be the hot sectors, etc.

The irony of investors being so interested in predictions is that even though investors love to read them and to some degree believe and/or follow them, no one bothers to validate their accuracy. I don't believe that I have ever heard of any investor or impartial third party grade or rank the authors of these predictions by their accuracy... ever. Additionally, these predictions by their nature really don't focus on identifying great businesses to invest in over time, which most investors know is one of the keys to successful investing.

I would not be surprised to find that if we went back and checked old predictions, we would find that they were wrong. Am I missing something? Why is it that the public listens to predictions? Behavior scientists and theorists would say that it is due to feeling the person experiences when they think they are getting insider intel. Everyone knows that magic crystal balls don't exist, but they suspend that disbelief to latch on to a silver bullet or quick fix solution instead of being disciplined with their investment Strategy.

So, in the spirit of joining the bandwagon, I will once again be making my bold predictions for 2016.

As I mentioned earlier, do investors really pay attention to see how accurate the experts' predictions are? No, of course not! Therefore, I am going to make it easy for you and let you know how we have fared in our predictions since we started providing them in 2012.

In the four years we have been making predictions, we are 4-4! That's right, we have been right on every single one! I realize that may be an absolute surprise for some. However, we have had a great track record because of the Investment Philosophy and Strategy we adhere to in helping investors be successful in accomplishing their investment goals.

Our 2016 Stock Market Predictions!

- 1 Most predictions on where the S&P 500 will end in 2016 will be wrong with the potential consequence of investors missing out on great opportunities to buy great companies on sale!
- 2 Company stock prices, as well as the "stock market" will move up and down irrationally – as usual.
- 3 There will be opportunities for those investors that have Flexibility to invest in great companies on sale – as there always is.
- 4 Timing the market will continue to be very difficult with leaving some investors being wrong in their judgment – that's nothing new.
- 5 Focusing on short-term performance will distract investors from making intelligent long-term investment decisions – a tragedy for short-term thinkers.
- 6 Some investors will let their emotions get the best of them because they do not have investment Clarity – and thank goodness, it's what provides opportunities to buy quality businesses on sale!
- 7 Investors will buy stocks that were considered "top picks" and sell them too soon due to the absence of an investment strategy and by focusing on short-term returns – the same short-term mentality described in Prediction 5.
- 8 Investors will invest in mutual funds that are considered the top picks without even knowing what investments they own – unfortunately investing without Investment Clarity.
- 9 Stock market volatility will continue to scare investors, and in turn, create great opportunities – like they always do.
- 10 Investors will continue to focus on the experts as they continue to guess how different investments will perform in 2016 - like oil or interest rates – without understanding how it will affect their portfolio long-term.

As you can see, like years past, we don't really go out on a limb! While many people love hearing predictions and guessing what is going to happen, they don't help make a successful portfolio. It is the investment Philosophy & Strategy that assist in the process of investing for success.

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.

2016 KEY PERFORMANCE

December 31, 2015

Key ETF Performance (%)

Source: Bespoke

Key ETF Performance (%)									
US Related					Global				
ETF	Description	Dec.	Q4	2015	ETF	Description	Dec.	Q4	2015
SPY	S&P 500	↓ -2.31	↑ 6.39	↓ -0.81	EWA	Australia	↓ -0.68	↑ 5.80	↓ -14.48
DIA	Dow 30	↓ -1.83	↑ 6.99	↓ -2.19	EWZ	Brazil	↓ -8.17	↓ -5.79	↓ -43.45
QQQ	Nasdaq 100	↓ -1.89	↑ 9.93	↑ 8.34	EWC	Canada	↓ -7.61	↓ -6.52	↓ -25.50
IJH	S&P Midcap 400	↓ -4.68	↑ 1.98	↓ -3.78	FXI	China	↓ -5.77	↓ -0.51	↓ -15.21
IJR	S&P Smallcap 600	↓ -5.16	↑ 3.32	↓ -3.46	EWQ	France	↓ -3.89	↑ 0.58	↓ -1.78
IWB	Russell 1000	↓ -2.49	↑ 5.85	↓ -1.15	EWG	Germany	↓ -3.89	↑ 5.86	↓ -4.45
IWM	Russell 2000	↓ -5.44	↑ 3.13	↓ -5.85	EWH	Hong Kong	↓ -1.34	↑ 3.66	↓ -3.51
IWV	Russell 3000	↓ -2.73	↑ 5.64	↓ -1.62	INP	India	↑ 1.00	↓ -3.43	↓ -8.24
					EWI	Italy	↓ -4.52	↓ -4.05	↑ 1.03
IWV	S&P 500 Growth	↓ -2.02	↑ 7.42	↑ 3.76	EWJ	Japan	↓ -2.10	↑ 6.04	↑ 7.83
IJK	Midcap 400 Growth	↓ -3.72	↑ 2.46	↑ 0.81	EWW	Mexico	↓ -7.02	↓ -3.36	↓ -16.10
IJT	Smallcap 600 Growth	↓ -4.75	↑ 3.48	↑ 1.57	EWP	Spain	↓ -7.16	↓ -4.69	↓ -18.37
IVE	S&P 500 Value	↓ -2.44	↑ 5.36	↓ -5.59	RSX	Russia	↓ -12.22	↓ -6.69	↑ 0.14
IJJ	Midcap 400 Value	↓ -5.62	↑ 1.61	↓ -8.32	EWU	UK	↓ -6.05	↓ -1.53	↓ -10.48
IJS	Smallcap 600 Value	↓ -5.48	↑ 3.22	↓ -8.29					
DVY	DJ Dividend	↓ -2.34	↑ 3.30	↓ -5.35	EFA	EAFE	↓ -3.18	↑ 2.44	↓ -3.48
RSP	S&P 500 Equalweight	↓ -2.91	↑ 4.19	↓ -4.26	EEM	Emerging Mkts	↓ -5.30	↓ -1.80	↓ -18.07
					IOO	Global 100	↓ -3.16	↑ 5.26	↓ -4.45
FXB	British Pound	↓ -2.15	↓ -2.62	↓ -5.71	EEB	BRIC	↓ -6.38	↑ 3.09	↓ -14.81
FXE	Euro	↑ 2.81	↓ -2.90	↓ -10.69					
FXJ	Yen	↑ 2.40	↓ -0.25	↓ -0.71	DBC	Commodities	↓ -5.85	↓ -11.82	↓ -27.59
					USO	Oil	↓ -14.93	↓ -25.07	↓ -45.97
XLY	Cons Disc	↓ -3.24	↑ 5.25	↑ 8.33	UNG	Nat. Gas	↓ -0.57	↓ -25.32	↓ -41.30
XLP	Cons Stap	↑ 2.17	↑ 6.99	↑ 4.12	GLD	Gold	↓ -0.45	↓ -5.05	↓ -10.67
XLE	Energy	↓ -11.32	↓ -1.44	↓ -23.80	SLV	Silver	↓ -1.86	↓ -4.90	↓ -12.42
XLF	Financials	↓ -2.97	↑ 5.16	↓ -3.64					
XLV	Health Care	↑ 1.29	↑ 8.76	↑ 5.34	SHY	1-3 Yr Treasuries	↓ -0.25	↓ -0.74	↓ -0.11
XLI	Industrials	↓ -3.16	↑ 6.25	↓ -6.31	IEF	7-10 Yr Treasuries	↓ -0.76	↓ -2.11	↓ -0.38
XLB	Materials	↓ -5.05	↑ 8.77	↓ -10.62	TLT	20+ Yr Treasuries	↓ -0.72	↓ -2.40	↓ -4.24
XLK	Technology	↓ -2.57	↑ 8.43	↑ 3.58	AGG	Aggregate Bond	↓ -0.59	↓ -1.29	↓ -1.77
IYZ	Telecom	↓ -3.00	↑ 6.63	↓ -1.67	BND	Total Bond Market	↓ -0.60	↓ -1.36	↓ -1.86
XLU	Utilities	↑ 1.07	↓ -0.02	↓ -8.34	TIP	T.I.P.S.	↓ -1.01	↓ -0.91	↓ -2.08

Listed above are portfolio returns of many of the popular ETF's in the market which track indexes as of December 31, 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 risks long-term of owning such businesses!

As you can see by the numbers above, we have seen some fairly strong corrections in many of the sectors and in many countries. Additionally, in general, we have seen negative returns for fixed income.

HOW MANY TIMES CAN THEY CRY WOLF?

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

Most of us are certainly familiar with the Aesop Fable, “The Boy Who Cried Wolf”. According to Wikipedia, the tale concerns a shepherd boy who repeatedly tricks nearby villagers into thinking a wolf is attacking his flock. When a wolf actually does appear and the boy again calls for help, the villagers believe that it is another false alarm and the sheep (and the boy) are eaten by the wolf. The moral stated at the end of the Greek version is, “this shows how liars are rewarded: even if they tell the truth, no one believes them.” In our article, we will attempt to make the claim that the Financial Press via sensational journalism (the use of exciting or shocking stories or language at the expense of accuracy, in order to provoke public interest or excitement) is obsessed with creating viewership by stoking fear and desperation on the part of the retail investor.

We cite three specific examples of these tactics:

- 1** Granting credence to “so-called” financial experts who consistently make grandiose and bombastic market predictions about a pending financial collapse and never holding them accountable when they are repeatedly wrong. Moreover, they never suggest what one should do once the bear market ends, which history would purport is the most opportune time to invest.
- 2** Supporting the notion that market sell-offs, when they do happen, are to be viewed as major mishaps. In doing so, the Press is also suggesting that “trillions of dollars of market wealth has evaporated”; when in fact, the Press should be touting and proclaiming the investment opportunities that drops in equity prices have historically provided.
- 3** Crafting the conversation with guests in a manner that seeks to solicit their opinion on subject matter as opposed to directing the discussion toward historical analysis. An example would be consistently asking guests, “What they believe stocks would do once the Fed raised rates”, as opposed to asking what does the research show actually happened the last several times the Fed raised rates. We refer to this phenomenon as “Addiction to Prediction.”



cont. next page

HOW MANY TIMES CAN THEY CRY WOLF?

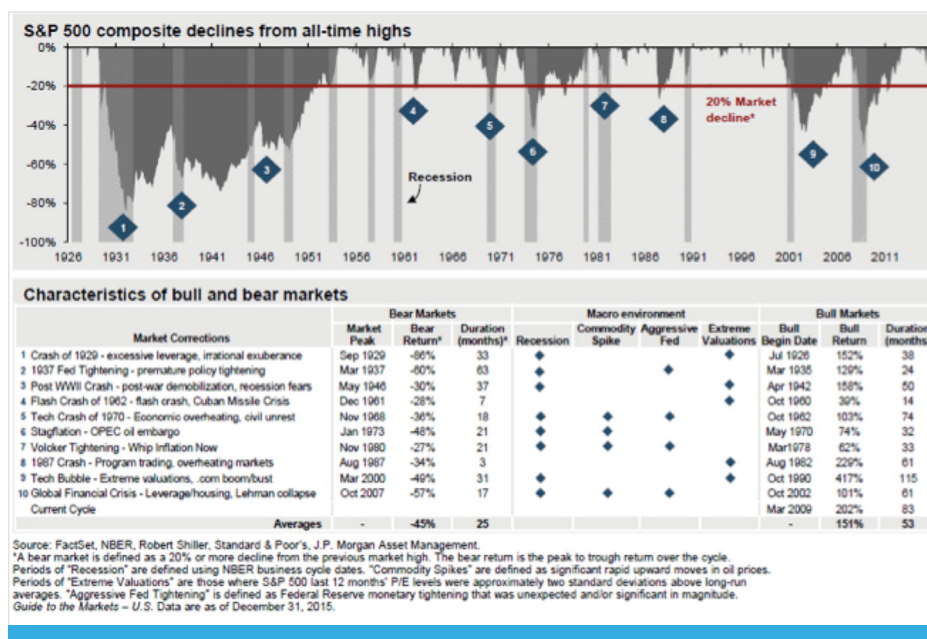
We address the three points on the prior page by using historical analysis in proving our point of view. Furthermore, we suggest that our charge against the Financial Press and their obsession with falsely sounding the alarm at every minor pullback will, at some point, be met with distrust and dismissal (appearance of “crying wolf”) that they will be forced to change their style of reporting. In closing, we will suggest that when investors reach a conscience state of Clarity that, not only do they disregard the hollow cries of the Press, they recoil at their folly.

1 Are Bear Markets Really Bad?

Typically Bear Markets are defined as a broad-based market sell-off that goes deeper than 20% and lasts for three months. The financial media, and every pundit, is suggesting we are going there. With that forecast in mind, what type of symptoms are associated with a Bear Market? The chart below highlights the “10 Biggies” and provides us with insight into the corresponding underpinnings of the major bear markets, which include... #1 an Economic Recession, #2 a Commodity Spike, #3 an Aggressive Federal Reserve, and #4 Extreme Valuations.

All Bear Markets over the last 85 years have met at least two of the criteria (most three) except for the seven month “Cuban Missile Flash Crash” of 1962. There simply is no suggestion of an Economic Recession in the U.S. or globally for that matter. Commodity prices have dropped dramatically, the Fed, although having raised rates once, is nowhere near as aggressive, and as we showed in points #1 and #2, the market is at worst, fairly valued. If this market moves into a bear market (and it surely could), it would be an extreme outlier by not meeting any of the hallmark symptoms.

By the way, those of you who are opportunistic would only pray for a bear market, because what follows is always a prolonged bull market three times the growth and twice the length. The proverbial gold at the end of the rainbow.



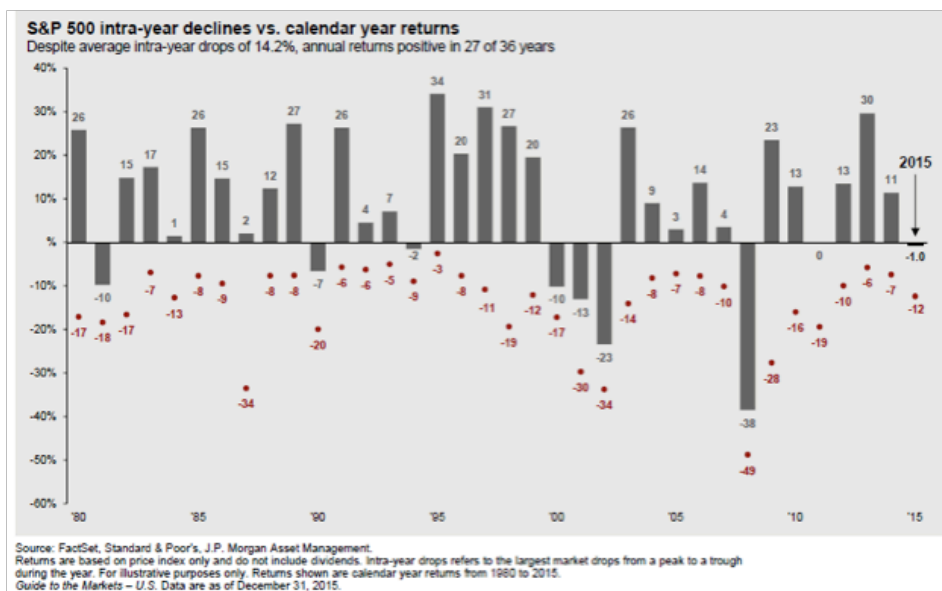
cont. next page

HOW MANY TIMES CAN THEY CRY WOLF?

2 Aren't All of These Recent Market Drops Unusual?

Actually no, and the adjacent chart points to the fact that these types of downdrafts happen at least on an annual basis. This chart suggests that the average peak-to-trough drop on an annual basis going back 35 years to 1980 are 14.2% on average. Investors panicked last year when we had a 12.5% drop. We believe the 24-hour news cycle and the doom-and-gloom sentiment perpetuates any drop as being the next cataclysmic episode.

The second chart indicates that these market drops are normal, healthy and to be not only expected, they are also to be taken advantage of.



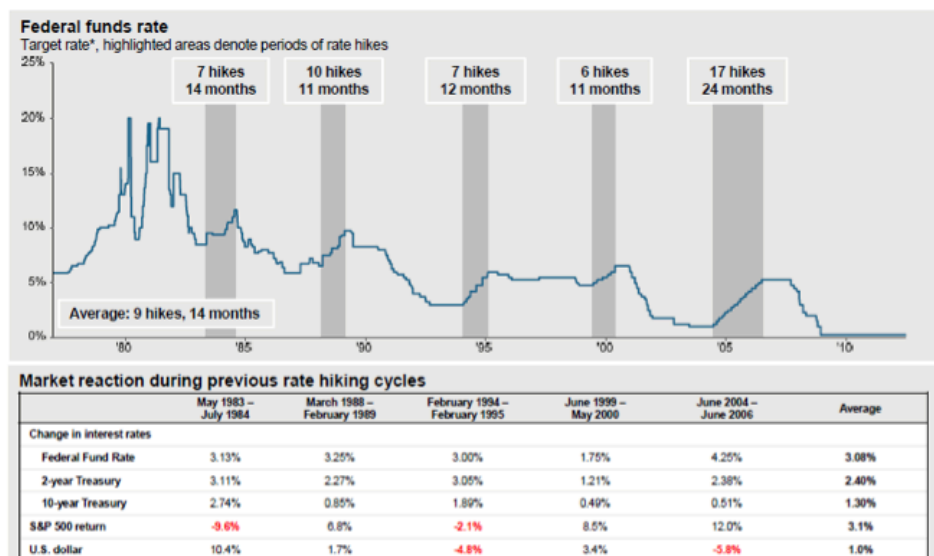
cont. next page

HOW MANY TIMES CAN THEY CRY WOLF?

3 The Fed Just Raised Rates - Is That Not Bad For Stocks?

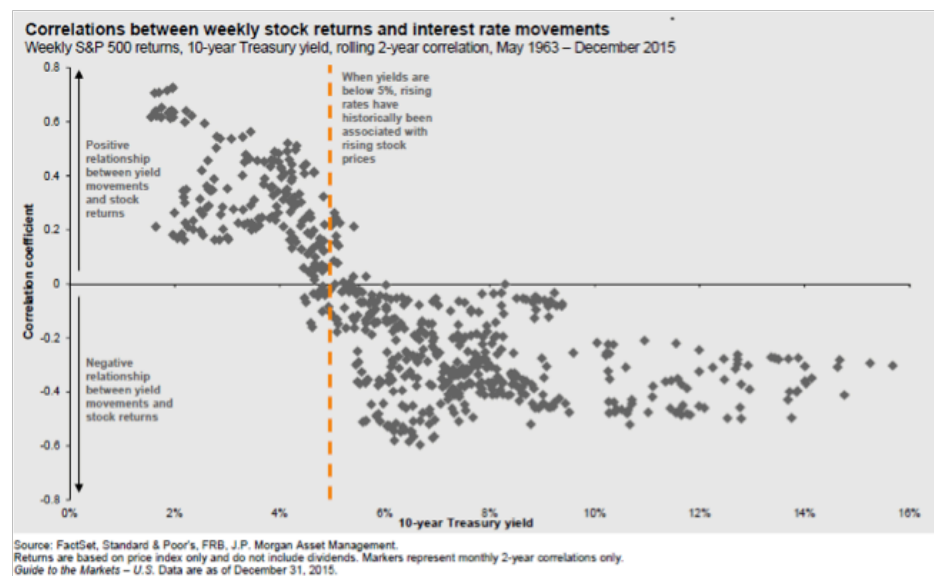
According to the data displayed on the adjacent chart, when the Fed raise interest rates just the opposite is the case... it is good for stocks. The last five times that the Fed raised interest rates the S&P 500 was up 3.1%. And, if one does not include the 1983-84 outlier, the S&P 500 was up on average 6%!

Even more compelling the case, is the information contained in the adjacent chart below, which suggests that if rates on the 10-yr Treasury Note stay below 5%, that rising rates have been historically associated with rising stock prices.



Source: FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
S&P 500 returns are price returns and do not include reinvestment of dividends. ¹Between 1979 and 1982, the FOMC changed its approach to monetary policy, focusing on the money supply, rather than the federal funds rate. In the fall of 1982, however, the Federal Reserve shifted back to its approach of targeting the "price" rather than the "quantity" of money. Thus, because the federal funds rate was not the FOMC's key policy tool, we exclude increases in the federal funds rate between 1979 to 1982 in our analysis of rate hike cycles.
Guide to the Markets – U.S. Data are as of December 31, 2015.

J.P.Morgan
Asset Management



cont. next page



HOW MANY TIMES CAN THEY CRY WOLF?

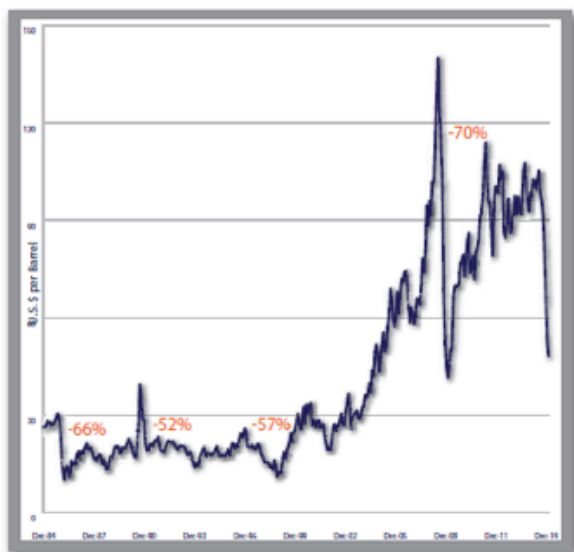
4 Low Oil Prices are Bad for Stocks

Not according to history and the facts presented in the chart below. As a matter of fact, the complete opposite is true, and when we view the four times since 1980 that Crude Oil has declined greater than 50%, it brought on an S&P 500 market increase ranging from 16-33%. Of even greater note is the correlation between the greater drop in Oil Prices and the greater increase in stock prices. Let's stop asking every analyst under the sun about whether low oil prices are good for stock prices and take a look at what history has to say about it!

Stock Market Returns After Significant Oil Price Declines*

The recent 54% decline in crude oil prices from 2014 to January 2015 has led investors to wonder how markets have performed historically in the aftermath of similar steep declines. The chart below tracks U.S. crude oil price performance from December 31, 1985 through January 30, 2015 and shows four periods of price drops of more than 50%. The table highlights the 12-month upswing of the S&P 500 Index (S&P) during the one-year period following oil price declines.*

WTI Crude Oil Price History



Time Span	Oil Price Drop	S&P Total Return 1 Year After Price Decline
Oct. '85 – Mar. '86	-66%	26%
Sept. '90 – Feb. '91	-52%	16%
Dec. '96 – Nov. '98	-57%	21%
Jun. '08 – Jan. '09	-70%	33%

S&P Average Gain After Crude Oil Price Drop of More Than 50%: 24%

Source: Bloomberg. Past performance is no guarantee of future results. All references are for illustrative purposes only and not a recommendation to purchase any security. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. These returns were the result of certain market factors and events which may not be repeated in the future.

* First Trust Portfolios L.P.

Summary

In closing, although we continue to be sickened by tactics of the Financial Press and their penchant for the hyperbolic, we firmly believe that the truth always wins albeit it sometimes takes a long time to play itself out. Clarity in life and specifically as it pertains to investing is paramount in fighting the strong desire of investors to follow reporters whose sole desire is to stoke fear and thus create eyeballs to their content.

- From the desk of

Chuck Etzweiler, MBA, CIMA®, CMT | VP of Global Research

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 fourth quarter, as well as the reasons why those changes were made.

1. We continue to be very happy with the companies we own in client portfolios. However, during periods of volatility, there are usually 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 companies we want to continue to own as we balance the percentage owned in the businesses while raising cash for new opportunities or income needs.
3. We have had several companies we sold 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: CYBR, FOSL, and IVZ. Along with increasing or Strategic Cost Averaging into current holdings, we added to portfolios, VIPS, WMT and VTR.
4. In light of the overall valuations of publicly 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, VIPS, 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 and I believe 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. For the most part, fixed income investments ended 2015 in negative territory once again (see chart below).

As I have stated for several years, investing in fixed income investments will not provide the types of returns they have historically? In light of the Federal Reserve finally making a move to normalize interest rates, more than likely we are in the beginning stages of a long-term trend to higher interest rates.

Of course, like any type of investment, higher interest rates will not happen overnight. It will take time. However, like any good investment, we like to look at what we call, "Risk Adjusted Return".

Key ETF Performance (%)

SHY	1-3 Yr Treasuries	↓ -0.25	↓ -0.74	↓ -0.11
IEF	7-10 Yr Treasuries	↓ -0.76	↓ -2.11	↓ -0.38
TLT	20+ Yr Treasuries	↓ -0.72	↓ -2.40	↓ -4.24
AGG	Aggregate Bond	↓ -0.59	↓ -1.29	↓ -1.77
BND	Total Bond Market	↓ -0.60	↓ -1.36	↓ -1.86
TIP	T.I.P.S.	↓ -1.01	↓ -0.91	↓ -2.08

Source: Bespoke

What is risk adjusted return? It is level of risk taken for the associated investment return on the investment. Bonds do not warrant the associated risk for the potential associated return. However, we continue to believe that the only way to own bonds is to have shorter duration bonds (1-5 years at most), and they should be viewed as investments to help reduce portfolio volatility and not provide much of any assistance in overall portfolio return.

As for our target allocations, particularly in the more "conservative" portfolios, we continue to be extremely selective and patient on what bonds we want to own for our clients.

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 vs. 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.

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.