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February 1, 2016

Friends,

I put this together over the weekend in reflection. I started working within financial services in June 1980, 2 weeks after college. The U.S. prime rate soon hit 21%, annual inflation was running at 12%, 10 Yr. US Treasury Notes paid investors 14%, money market funds were yielding 12%, and the Dow Jones Industrial Average index traded at an average price of $900 for the year, a dividend yield of 5%, with a PE of 9!!

My reflection is this – amazingly our society has continued to become wealthier, despite the always present fears, dark clouds, and for sure the media - which has to create headlines to get attention. If stock prices bless us with an opportunity to buy more at lower prices, we will look back on the opportunity as either: wow - stocks of good companies were cheap and I am sure glad I bought more, or shoot - I should have bought stocks because those bonds only paid me 2%.

You, as an investor must be able to leave your capital at risk for long periods of time (10 years). And to do that you must have a financial plan in place that focuses on the answers of these three questions:

1) When do you plan on starting to withdraw monies from your savings?
2) How much monies are you planning on withdrawing when you start?
3) And for how long are you planning on withdrawing these monies?

These 3 questions are the rule for any investor - individuals, 401(k) retirees, Corporate Pension Funds, Endowments and even Governments.

If you are an MCF Client – you know we take a seven year cash cushion approach to your liquidity Plan (again doesn't matter whether you are an individual or a corporate entity). This seven year cushion provides time to allow the prices of growth assets to recover before the need of liquidity.

Don't misunderstand – I am not saying February 1, 2016 is the bottom of the current decline or that it is the most opportune time to purchase shares of good companies, but I am saying that if you have excess liquidity, you will make more investing in assets that have a history of growing compared to assets that you rent out i.e. bonds, demand notes, cash etc.

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"Courage is rightly esteemed the first of human qualities because it is the quality which guarantees all others." - Sir Winston Churchill

One of the core principles that all successful long-term investors must exercise on a regular basis is the principle of courage. Without courage you will achieve nothing in life worth having, personally or professionally. Volatility is the market's way of testing your level of commitment and courage. A Roman author in the 1st century BC captured this perfectly: "Anyone can hold the helm when the sea is calm."

The historically above-average returns of the stock market only come to those capable of exercising courage. Everyone else should simply park their assets down at the local bank, where an annual erosion of purchasing power is virtually guaranteed.

By the way, volatility does not equal loss, unless of course you sell! Author Nick Murray nicely summarizes this concept when he writes that "the ability to distinguish between volatility and loss is the first casualty of a bear market." Mr. Murray reminds us how the legendary buy-and-hold investor Warren Buffett handles volatility:

•Buffett suffered a "loss" (i.e., a paper loss) of $347,000,000 on October 19, 1987— but he didn't sell.

•In the 45 days between July 17 and August 31, 1998, he suffered a "loss" of $6.2 billion—but didn't sell.

•Finally, between the market peak of October 2007 and trough of March 2009, his "loss" totaled about $25 billion—yet, of course, he didn't sell even then.

•When asked by a CNBC host how it felt to have "lost" 40% of his lifetime accumulation of capital, he said it felt about the same as it had the previous three times it happened.

There is much we can learn from the "Oracle of Omaha," not least of which is the above!

By-the-way Mr. Buffett's answers to each of the questions referenced earlier to you are:

1) **Never**
2) **None**
3) **Not**

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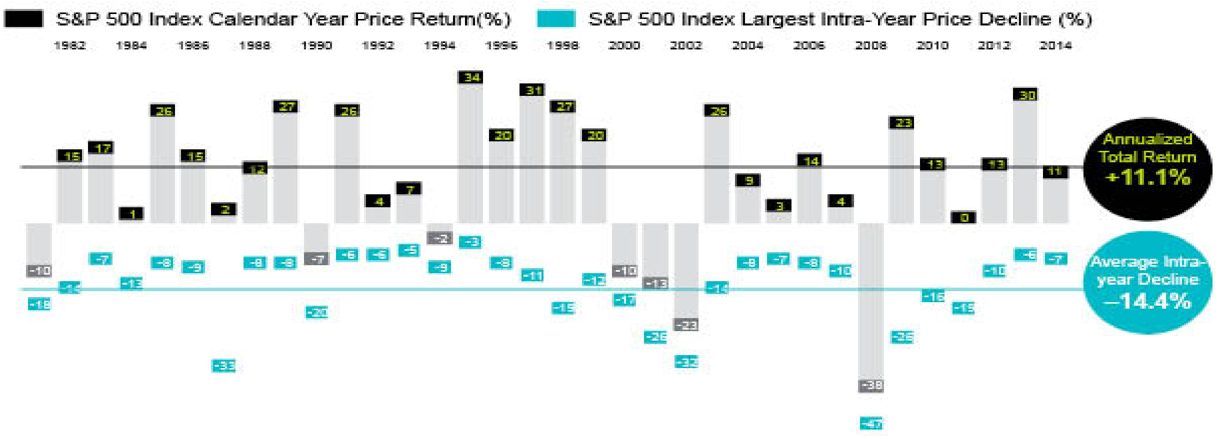
Market corrections happen often and even in good years, including fairly significant intra-year declines in recent years of strong returns, such as 2010 and 2012 (as seen in the chart below).

Volatility Does Not Equal Loss Unless You Sell

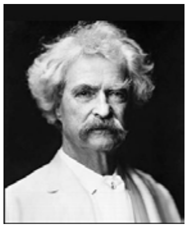


Source: Bloomberg as of August 25, 2015.

From 1981 to 2014, the S&P 500 Index, a broad-based measure of U.S. stock performance, has experienced at least a 5% intra-year decline in every year but one. <u>The average intra-year decline over the past 34 years has actually been 14.4%.</u>

But notice the following: Equities have still posted positive returns in 26 of those last 34 years with annualized total returns over that period of more than 11%.

Remember the bottom line: Market corrections do not equal financial loss…unless you sell.



"I've lived through some terrible things in my life, some of which have actually happened." - Mark Twain

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Sincerely,

Dave Harris

Senior Partner