"Prepare for the unknown by studying how others in the past have coped with the unforeseeable and the unpredictable." -General George S. Patton

March 12, 2015

Dear Friends and Family,

In April 1997, Grand Forks, North Dakota was flooded and largely destroyed after the town's levees were overcome by the Red River of the North. Despite weeks of effort to safeguard the region, the citizens of Grand Forks had erroneously based their flood preparation on a National Weather Service report which stated that the Red River would crest to **49 feet.** Most residents felt secure because the city's floodwalls were designed to handle up to **51 feet.**

What was not mentioned in the National Weather Service's warning was that the margin for error was 49 feet **plus or minus 9 feet.** The Weather Service avoided communicating the full forecast because they were afraid the people of the town might become restless if there was uncertainty.

Investing and proper flood prevention both require the ability to analyze ALL available information and distill what's important. The best plans create a margin-of-safety. For the residents of Grand Forks, it was important to understand that there was a possibility that the Red River could crest to **58 feet** so that they could take the necessary precautions for a worst case scenario.

This letter reviews last year's investment climate and the implications of current low/negative interest rates around the world. Note that cash under your mattress currently produces more income than intermediate-term Swiss and German sovereign bonds, which have a negative yield to maturity.

We return to the concept of best and worst case scenarios to understand how your Advisor approaches uncertainty in investing and planning. To illustrate how a margin-of-safety can be achieved in the investment process, we will share our thoughts on a core holding, Berkshire Hathaway.

Thinking through different potential outcomes is also important for financial planning. We will walk through a hypothetical plan to demonstrate how we consider a full range of variables and results when advising our client families.

YEAR IN REVIEW

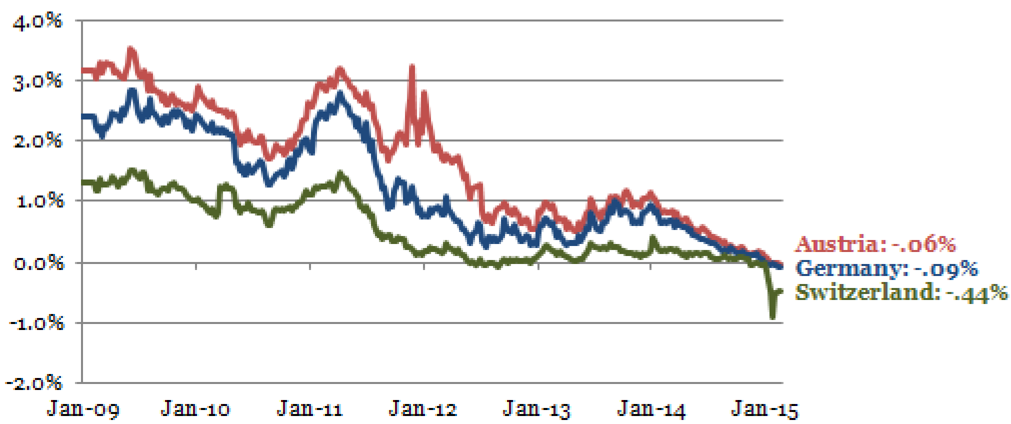
2014 was another constructive year for your investments. Our primary focus on quality, value based U.S. investments benefited from a strengthening domestic economy amidst a low inflation backdrop. The S&P 50o returned 13.8%.

Outside the U.S., economic conditions were challenging, with the MSCI Developed Markets Index of international stocks down 6.7% for the year. Europe continued to be plagued by deflationary forces. Japan fell back into recession, and China grew at its slowest rate since the

1990s. Slow economic growth around the world contributed to a plunge in commodity prices, with the level of oil dropping 50% between its peak in June and the end of the year.

Financial asset prices continue to be supported by ultra-low interest rates around the globe, spurred by unprecedented central bank intervention by the U.S. Federal Reserve, the Bank of Japan, and more recently, the European Central Bank (ECB). In January, the ECB announced a large stimulus program to purchase up to $1.1 trillion of government debt issued by European countries. As a result, bond yields in countries with healthy credit profiles turned negative which has helped borrowers and hurt lenders.

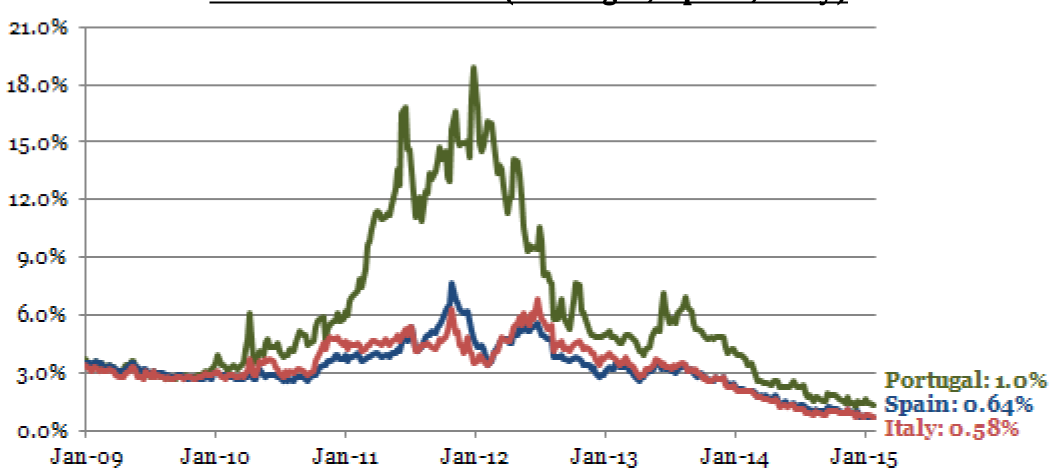
5-Year Bond Yields (Austria, Germany, Switzerland)



Source: Bloomberg

Low interest rates have migrated beyond these more credit-worthy European countries. In 2011, Spain, Italy and Portugal suffered through a debt crisis. With high levels of debt, stagnant economies, and backward political leadership, borrowing costs for these countries rose to unusually high levels. Despite ongoing issues, market participants are now willing to lend to these weaker players at near-zero interest rates.

5 Year Bond Yields (Portugal, Spain, Italy)



Source: Bloomberg

Closer to home, interest rates in the U.S. remain near all-time lows. The 5-year and 10-year US Treasuries yielded 1.5% and 2.0%, respectively as of February 27, 2015. In this environment, we have muted expectations for fixed income returns. However, we continue to invest selectively in corporate and municipal debt.

Low interest rates continue to enhance the relative attractiveness of equities. For example, 40% of stocks in the S&P 500 offer dividend yields above the 10-year US Treasury rate -- a rare circumstance. The average yield of shares in the S&P 500 is 1.9%. Many of the higher quality companies could grow their income payouts by 50% to 75% over the next decade. Conversely, the coupons on ten year bonds purchased today will be fixed. Over a long time horizon, we're inclined to assume the "risk" of stocks which meet our absolute valuation criteria.

WHAT WOULD 58 FEET OF WATER MEAN FOR BERKSHIRE HATHAWAY?

We have been longtime shareholders of Berkshire Hathaway. Warren Buffett has wisely allocated capital in different market environments, which has led to outsized gains in the shares over time. More recently, the three- and five-year returns have exceeded the broader market, with positive gains of 97% and 128%, respectively.

As we write to you, Berkshire's Class B Shares are priced at $145/share.

There are several ways to estimate the value of a complex company like Berkshire. By putting a valuation on Berkshire's Per-Share investments and Operating Businesses, we can calculate Berkshire's intrinsic value across a range of possible outcomes.

Berkshire owns significant interests in several public companies (e.g. Coca Cola, American Express, Wells Fargo) as well as a vast portfolio of fixed income securities. Berkshire also has a war-chest of over $60 billion in cash. We can easily value Berkshire's **Per-share Investments**, as they are outlined in Berkshire's public filings. Berkshire's investment portfolio is worth approximately $229 billion or **$93/share.**

More challenging to value are Berkshire's 71 **Operating Businesses**, which represent a wide variety of industries including railroads, utilities, energy, consumer goods, and financial services. Three of the largest businesses include Burlington Northern Santa Fe (railroads), Berkshire Hathaway Energy (power utility), and Lubrizol (specialty chemicals). Smaller companies include See's Candies, Netjets, Fruit of the Loom, and Benjamin Moore.

Collectively, this set of businesses generated over $17 billion of pre-tax operating profits in the last twelve months. Using various assumptions, we can estimate the intrinsic value of this important part of Berkshire's worth.

Base Case: Buffett has implied that he believes a conservative valuation multiple to pre-tax operating profit is 12x. This leads to a valuation of **$85/share** for the Operating Businesses. Adding Per-Share investments to the value of the Operating Businesses yields an estimated intrinsic value for Berkshire of about $175-180/share, implying that Berkshire shares are undervalued by 15% in the base case.

Berkshire Hathaway: Base Case Valuation

Per-Share Investments	Total Investment Assets (Stocks, Bonds, Cash)	$229 billion
	Investments Per Class B Share	**$93/share**
Value of Operating Company Earnings	Operating Earnings (Last 12 Months)	$17.4 billion
	Earnings Multiplier	12x
	Total Base Case Value	$209 billion
	Value of Operating Company Earnings Per Class B Share	**$85/share**
Total	**Estimated Intrinsic Value Per Class B Share**	**$178/share**

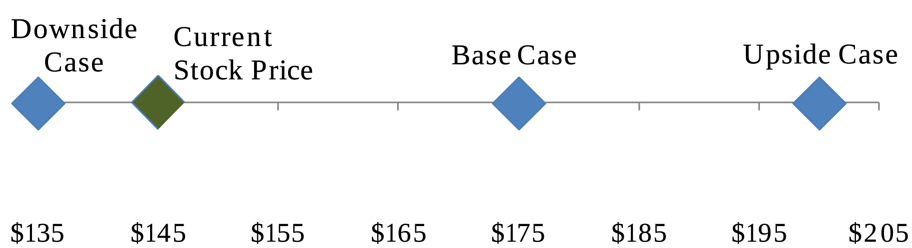
Source: Berkshire Hathaway SEC filings

Downside Case: Assuming that Berkshire's Per-Share Investments and Operating Business Profits decline 25%, our estimate of Berkshire's value falls to $135/share, a 10% decline from the current stock price. While a temporary deterioration in financial results would be a disappointing result, Berkshire shareholders should sleep well at night knowing that Berkshire currently has $60 billion in cash, and that total continues to grow. In previous periods when market prices declined, Buffett quickly and aggressively deployed cash to productive investments.

For example, in 2009, while the economy was mired in a recession and asset prices were depressed, Berkshire purchased Burlington Northern Santa Fe Railway (BNSF), one of the largest freight railroad operators in the United States, for $26.5 billion. After less than five years of full ownership, BNSF has already returned $15 billion in dividends to Berkshire shareholders and should generate cash equal to the remainder of the purchase price in the next four years.

Optimistic Case: Publicly traded, comparable companies to Berkshire's operating businesses trade at 15x pre-tax operating income. If this market multiple is applied to Berkshire's businesses, our estimate of intrinsic value exceeds $200 per share. Your Advisor does not feel this is an unreasonable assumption, as Berkshire's businesses have an impressive history of delivering significantly above-average financial results.

Berkshire Hathaway Range of Per Share Estimated Values



Thus, based on the current stock price of $145/share, Berkshire offers the opportunity for capital appreciation with relatively muted risk. Of course, future price action can deviate, at times significantly, from intrinsic value. Nevertheless, Berkshire offers the kind of asymmetric risk-reward profile that we seek.

Market pundits have speculated that Berkshire could sell off once Buffett, who is 84 years old, is no longer CEO. Our Berkshire analysis suggests that the current business valuation is easily justifiable.

FINANCIAL PLANNING FOR A 30-YEAR FLOOD

"The health of the eye seems to demand a horizon. We are never tired, so long as we can see far enough." -Ralph Waldo Emerson

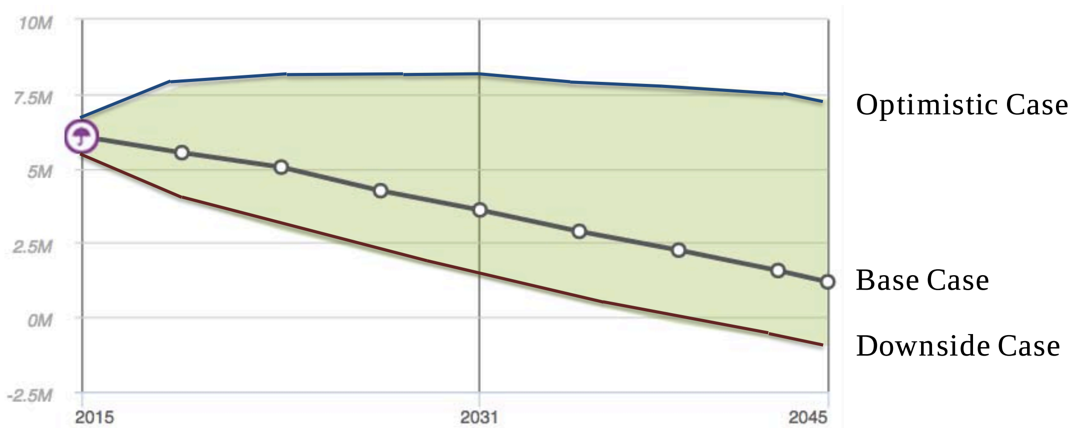
The most challenging aspect of creating plans is that they must be built to last over time. By way of example, consider a healthy 65-year old husband and wife considering a retirement plan. With average life expectancy on the rise, the most prudent course of action for this couple is to plan for their assets to last through age 90, if not longer.

In creating plans for client families, your Advisor takes into account several considerations including the following:

- Spending Goals - Retirement lifestyle spending, education expenses, and gifting.
- Financial Resources - Financial assets, future income (W-2, pension, or Social Security), inheritance, insurance proceeds
- Uncertain Factors - Market returns, tax rates, life expectancy

Incorporating these three elements, we can analyze a wide variety of results by running thousands of simulations of different investment outcomes to test the robustness of a family's financial profile. In other words, if you lived thousands of lifetimes, how many times would your money outlive you? A sample output of this type of analysis is provided below.

Sample Simulation Output: Financial Net Worth in Retirement



Looking closer at this illustration, it is clear that there is a drastic difference between the optimistic, base case, and downside case scenarios. In the base case scenario, this family will retire comfortably, even when planning through age 95. The optimistic scenario would provide an opportunity for the family to fund future generational gifts or charitable goals. However, in a downside case scenario, as represented by the red line, the couple could exhaust their financial assets by the age of 85.

The objective in considering a full range of possible investment outcomes is that reasonable and sustainable financial goals can be set, monitored regularly, and adjusted according to different circumstances.

CONCLUSION

"Wealth is often the result of a lifestyle of hard work, perseverance, planning, and, most of all, self-discipline." -Thomas J. Stanley, The Millionaire Next Door

2014 marked the sixth consecutive year of gains for U.S. equities, and stock indices are hovering near all-time highs. Furthermore, as discussed, it is virtually a mathematical certainty that most government bonds will provide unattractive returns in the intermediate to long-term.

Yet, while short-term market movements are unpredictable, your Advisor has full confidence that the formula of "90% perspiration, and 10% inspiration" will serve our clients well in both building wealth and creating a margin of safety for future financial challenges.

In other words, financial success can be achieved with the combination of consistent saving, reasonable spending, risk management, and prudent investing. In all areas, your Advisor strives to provide the proper planning and execution. Working together, we are confident we can help you achieve your financial goals.

Roundview Capital continues to bolster our team. Recently, we welcomed Beth Coulton as an Operations Associate. Beth is a published author, photographer, and a mother of three. She works closely with clients and brings both a high degree of organization and a sunny disposition to her work with the firm's day-to-day operations.

We are also pleased to announce that Andrew Lieu has been promoted to Principal.

Very truly yours,

Howard Alter Stephen Shueh Andrew Lieu Matthew Wallack