January 15, 2016

Dear Friends and Family,

This past summer, we cautioned investors to "prepare themselves for the eventual return of market volatility." We tempered expectations, and also warned investors against market-timing strategies with their core portfolio.

By late summer, volatility returned and caught many investors off-guard. The third quarter of 2015 witnessed the largest quarterly drop in hedge fund assets since the financial crisis.

Prominent Hedge Fund Closings in the Second Half of 2015

- Bain Capital liquidated its $2.2 billion Absolute Return Capital hedge fund, citing a "challenging environment."
- Fortress Investment Group closed its flagship $2.3 billion macro fund and said it would return money to clients following losses.
- Renaissance Technologies closed its struggling $1 billion futures fund.
- The BlackRock Global Ascent fund (which as of two years ago managed over $4.6 billion) suffered significant losses and announced that it was returning money to investors.

Over time, Roundview Capital has successfully navigated uncertain short-term market movements by focusing on long-term asset values. Amby Burfoot, the winner of the 1968 Boston Marathon and editor of Runner's World, once observed: "The most important thing you need to know about running is the least well-known and least discussed: Running is a mental activity, not a physical activity. Set a goal and a program for yourself, and everything else will follow."

Like running, long-term success in capital allocation requires the consistent execution of a disciplined investment program. In our year-end letter, we analyze what happened in 2015 and discuss the importance of discipline in achieving investment returns over time. We then review our thoughts about the Federal Reserve, interest rates, and the current investment environment.

STILL WATERS RUN DEEP

As we write to you in early January, the S&P 500 has had its worst ever 2-week start to a year. The average U.S. stock is down by more than 27% from its 52-week high.

Many other measures of performance signal that equity markets have already entered bear market territory. While the major U.S. indices were relatively flat in 2015, there were major losses beneath the surface -- with small capitalization companies suffering more than their larger capitalization counterparts.

Table 1: Percentage of Stocks in Bear Market Territory in 2015

(Decline of 20% or more from highs)

S&P 500 (Large Cap)	30%
S&P 400 (Mid Cap)	37%
S&P 600 (Small Cap)	46%

Source: Barron's

In this environment, it is important to find an appropriate portfolio balance and to stay disciplined. There is a temptation to time the markets, but we strongly counsel against trying to pick entry and exit points with a core portfolio.

Roundview builds portfolios based on a client's specific risk tolerance -- constantly analyzing holdings and adjusting for different factors. For example:

- Value: An asset's intrinsic value is the primary determinant in the allocation process. We make adjustments based on relative values between asset classes, countries, sectors, and individual companies.
- Scaling: It is important to determine what percentage of capital to commit to each holding. We balance the urge to concentrate in our best ideas with the imperative to diversify.
- Tax Sensitivity: For taxable accounts, we seek to maintain efficiency by employing strategies like tax-loss harvesting to indirectly boost after-tax returns.

Discipline is critical because equity market gains are achieved through large, sudden jumps. As an example, a portfolio that was fully invested in the S&P 500 from 1990 to 2014 would have provided annualized returns of about 9.6%. However, if the 50 best days in the market over this period of time were missed, the returns would have been negative. For some perspective, 50 days over this period is equal to about 0.56% of all days.

Stock investors must be prepared to endure volatility to achieve greater expected returns over time. An extreme example can be seen in shares of Apple (AAPL). In the technology sector, the only way to stay relevant is to constantly innovate. Every product cycle is critical, which can lead to severe volatility. Furthermore, the emotional impulses of investors often cause the market price to overshoot and undershoot intrinsic value.

Since Apple's initial public offering (IPO) in December 1980, shares of the company have achieved a total return of over 34,000%. Notwithstanding these great numbers, there aren't many people who have had the foresight and stomach to continuously hold Apple stock over the past 35 years. Here are some interesting facts to consider:

- Shares of Apple have fallen more than 10% in a single day 26 times since its IPO.
- There have been 9 drops of 50% or more in the share price. The most recent sell-off occurred between September 2012 to April 2013 when the stock shed 44%.
- Its single worst day came on September 29, 2000 when the stock plunged almost 52%.
- On the day of the 1987 crash, Apple fell over 24%.

Berkshire Hathaway (BRK) is a more diversified company that has also provided investors with favorable returns over time. Since Roundview started managing money in 1992, Berkshire has returned 10% annually for a cumulative gain of over 500%. Even BRK has had its share of ups and downs. The company has underperformed the S&P 500 in 33% of the years during this period and declined in market value by over 50% twice (once in 1999 and once in 2008-2009).

DISCIPLINE - DON'T OVERREACH (OR DRILL) FOR RETURNS

"The man who wishes to keep at the problem long enough to really learn anything positively must not take dangerous risks." - Wilbur Wright, Inventor and Aviator

In the current low interest rate environment, many investors have moved up the risk ladder in a search for returns. Some have been lured by "bond-alternative" vehicles that promise a higher level of income. Unfortunately, many have not understood the risks associated with these investments.

From 2011 to 2014, for instance, Master Limited Partnerships (MLPs) and their general partners were boosted by income-seeking retail investors since many had stated yields between 4 and 8%. MLPs are tax-advantaged, publicly traded limited partnerships that must derive over 90% of their cash flows from real estate, natural resources, and commodities. These companies are designed to offer investors a higher yield because they are required to distribute the bulk of their cash flow to their investors.

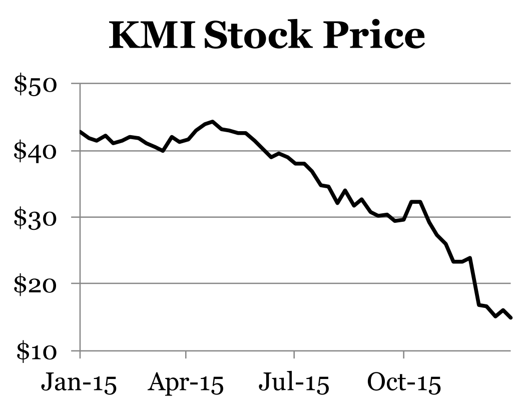
The push towards bond-alternatives like MLPs reached a crescendo in 2014. Kinder Morgan (KMI) -- an energy pipeline and storage company -- has long been considered one of the top MLP general partners. From 2012 to 2014, KMI shareholders enjoyed an average 4.0% yield.

In 2014, KMI's CEO Richard Kinder was crowned by Fortune Magazine as the "energy boom's mighty middleman," and the company's strategy was lauded by shareholders as it steadily increased dividend payments. Since KMI supported much of the energy infrastructure of the United States, market participants believed that KMI was a shining example of stability.

MLPs were regarded by many retail investors and brokers as a safe, bond alternative for those who needed steady income. At the end of 2014, Barron's magazine featured one of its "top advisors" (who is also located in Princeton). Barron's proclaimed, "His secret with clients: an easy manner and a conservative bent." The article noted that MLPs "...can constitute up to 20% of client portfolios."

In 2015, sentiment towards MLPs shifted with plunging oil and commodities prices.

Once companies like KMI were no longer able to cheaply raise capital, they were forced to slash dividend payments to shareholders. As a result, the MLP sector experienced average losses exceeding 30%, paced by KMI's decline of over 63%. Investors who thought they were being conservative by investing large parts of their portfolio in MLPs were punished over the past twelve months.

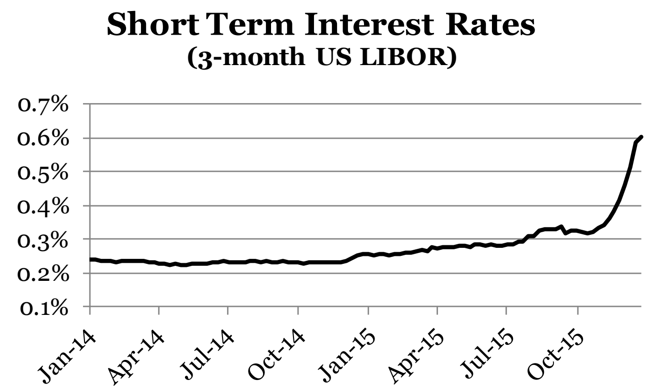


Source: Bloomberg

RATES ON THE MOVE

In December 2015, the Federal Reserve's Open Market Committee raised short-term interest rates for the first time since the 2008 financial crisis. The increase to a new range between 0.25-0.50% is the next step toward a normalized interest rate environment after several years of aggressive stimulus programs.

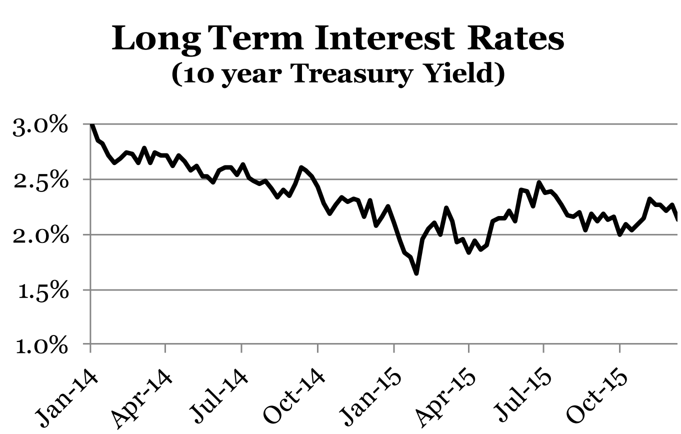
A 2-year chart of 3-month US LIBOR (the interest rate banks charge other banks, which is an important benchmark for consumer and commercial rates) shows the extent that short-term rates have moved in the last few months of 2015. At the beginning of 2015, the rate was at 0.25% and it more than doubled by the end of the year to finish at just over 0.61%.



Source: Bloomberg

Although inflation still remains weak, the Fed expects prices to start rising more rapidly. Federal Reserve Vice Chairman Stanley Fischer has stated that there will be four rate hikes in 2016, and San Francisco Fed President John Williams believes that the Fed could raise interest rates as many as five times.

The Fed's view on inflation is at odds with the market. We believe the Fed is waging an inflation fight in their own minds. This is our nice way of saying "Don't pay attention to excessive jawboning from Fed officials." Despite the move in short-term rates, the 10-year US Treasury yield, which is not controlled by the Fed, has stayed largely within a range of between 2.0% and 2.5% over the past year, signaling that the market does not believe longer term inflation is an issue.



Source: Bloomberg

The rise in short-term interest rates coupled with static long-term rates has led to a flattening yield curve. This phenomenon negatively impacts banks, which make money by borrowing at short-term rates and lending at long-term rates. Since banks are a critical component of economic growth, this is often an early sign of economic uncertainty.

On the other hand, low bond yields make equities relatively more attractive. The current dividend yield on the S&P 500 is 2.34%, exceeding the yield on the 10-year US Treasury of 2.04%. As 2016 unfolds, we are keeping a close eye on the curve as we monitor our portfolios.

CONCLUSION

Roundview Capital is happy to welcome Kerri Martin as an Analyst to our team. She works with client families on their financial planning as well as with special projects. In addition, she helps with the firm's day-to-day operations.

We were introduced to Kerri while she was working towards her PhD in Biological Sciences from the University of Notre Dame. She developed an interest in business by becoming one of the first science graduate students invited to join Business on the Frontlines, a program through the Mendoza College of Business.

As with several other members of the operations team at Roundview, Kerri does not have a formal business or finance background. We are always looking to bring in honest, hardworking individuals who provide different life experiences and points of view. Having team members who studied geophysics, published a children's book, and researched vesper sparrow nesting in Montana adds to a rich and interesting office environment.

The extended Roundview family also continues to grow. We are happy to share that Andrew and his wife Bonnie welcomed Micah Lieu into the world in 2015. He seems like a chip off the old block. According to Andrew, Micah now "yells at the top of his lungs if he has finished his food and wants more, or if there aren't enough toys in his reach." In addition, Micah loves eating, napping, and playing with his 3-year-old sister Samantha's toys.

Finally, we thank you for your confidence in us, and we work hard every day to honor your trust. Please contact us directly if you need to talk or if there are any changes to your financial situation or investment objectives. We wish you a healthy, happy 2016.

Very truly yours,

Howard Alter Stephen Shueh Andrew Lieu Matthew Wallack