VAN HULZEN ASSET MANAGEMENT

INVESTMENT COMMENTARY: Q4 2015

January | 2016

The Battle between Value & Growth

The S&P 500 gained 1.4% and the Dow gained 0.2% in 2015. This may sound uneventful, but the number does not begin to tell the whole story. It was a wildly volatile year, and one of the key themes for 2015 was dispersion. Market dispersion represents the variability of individual stock returns within the broader market. This means that, despite most broad stock markets ending the year relatively unchanged, there were many winners and many losers. For example, consumer discretionary stocks gained 8.9% on average (led by Netflix and Amazon at more than 100% each), while weak commodity prices dragged on performance in the energy and materials sectors (-23.5% and -9.9%, respectively).

And while the most widely followed market index (the S&P 500) gained 1.4% on the year, making a simple adjustment to "equal weight" the index (so a few of the largest companies don't sway the returns) the average stock returned -4.1%. That's a difference of 5.5%! Even more alarming is that growth stocks, which usually do not pay dividends, out-performed value stocks by a whopping 8.8%! This is an unusually large dispersion that history suggests will normalize itself at some point.

It's no wonder some of the smartest investment managers had a difficult year. World renowned value investor Warren Buffet had one of his worst years on record (his holding company Berkshire Hathaway lost 12%), while the average hedge fund manager lost more than 3%.

The top 100 performing stocks in the S&P 500 averaged a 32% return in 2015, while the bottom 100 averaged -35%. That's an incredibly wide range. The top five performers in the S&P were Netflix (+134%), Amazon (+118%), Activision Blizzard (+94%), Nvidia (+67%) and Cablevision (+58%). Some of these stocks were in the news all year. What may surprise people, however, is some of the top losers for the year. While the energy sector is well represented, there is no shortage of blue chips and brand names amongst the losers. Here is a broad sampling:

Growth/Value Spread Widest Since Tech Bubble

Source: Bloomberg

SAMPLING OF WORST PERFORMING STOCKS IN 2015

Wynn Resorts	-52%	Whole Foods	-33%
Staples	-46%	Yahoo	-33%
Ralph Lauren	-39%	Qualcomm	-31%
Alcoa	-37%	Harley Davidson	-30%
Nordstrom	-31%	WalMart	-27%

Dispersion is often interpreted as a measure of the degree of uncertainty in the market. We enter 2016 with the same key factors that drove 2015 volatility, namely the prospect of the Fed raising rates, a strong US dollar, weak China, and a commodity slowdown. We are maintaining a high priority on owning the highest quality companies knowing that history suggests that value will again have its day, and in the meantime we will collect dividends and call option income.

This is not to say that we are predicting a precipitous decline from current levels. We do, however, recognize that the recent market weakness is justified given the headwinds facing the global economy and that a business cycle has both growth and contraction periods. We expect that businesses will adjust to the new economic climate and work to increase shareholder value over time.

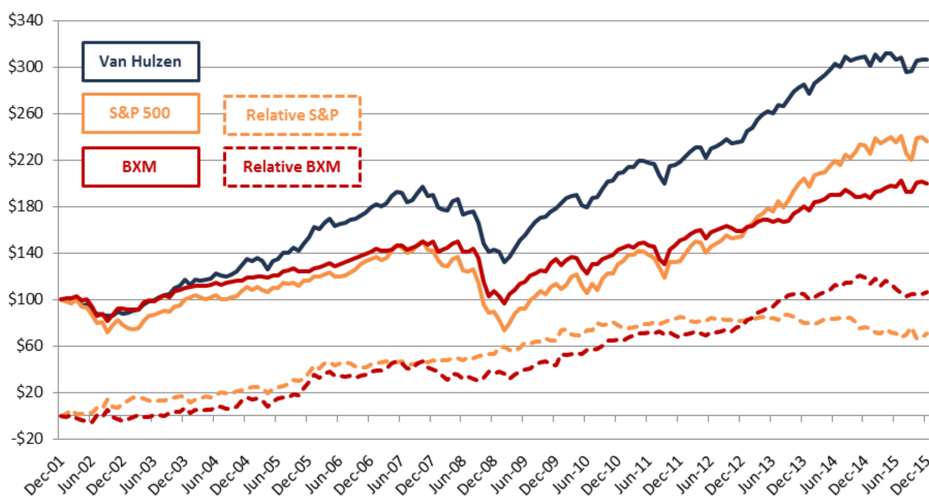
Covered Call Strategy in Review and Outlook

The defensive nature of the Strategy became very visible in Q3 & Q4. The S&P 500 index went down 1.9% since July 31st ((right before the market drop), while the Strategy was down 0.5%. Volatility, as measured by the VIX Index, spiked as the market corrected in mid-August. It reached as high as over 50 a level last seen in 2011. Although the VIX compressed again in Q4, we stick to our process.

The above mentioned are realities as we entered the new year. The market is not necessarily cheap (Shiller's adjusted S&P P/E (CAPE) is at 25 or at the 3rd highest level in history), China is slowing, and US earnings are likely to come under pressure from the strong US dollar and possibly from rising rates. We may see further selling from leveraged speculators. But in the end we believe, an investor with a long range plan and a diversified portfolio of quality assets can, with the help of good advice, stay the course, ignore the actions of others and ultimately succeed in achieving investment goals.

Our Covered Call approach in the Fund is to find believed undervalued high quality stocks and sell call options to get a good total return on the position. We believe that equity markets will continue to be more volatile than over the past few years. As covered call investors we welcome back this higher volatility since it makes the total return performance less dependent on price appreciation only due to the higher income received on the options.

It is not easy to buy low, or to sell high. Emotions can get in the way. But if we have the proper allocations and right level of cash and liquidity, as covered call investors we can use market volatility to our advantage.



Returns (annualized)*	Dec 2015	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	0.0%	3.3%	0.0%	-0.8%	-0.8%	9.0%	8.0%	11.5%	7.2%	8.3%
Van Hulzen (Net)	-0.1%	2.9%	-0.8%	-2.1%	-2.1%	7.6%	6.5%	10.1%	6.0%	7.1%
BXM	-0.8%	4.0%	1.5%	5.2%	5.2%	8.0%	7.0%	9.3%	4.9%	5.1%
Difference (VAM-BXM)	0.8%	-0.7%	-1.6%	-6.0%	-6.0%	1.1%	1.0%	2.2%	2.3%	3.3%
S&P 500	-1.6%	7.0%	0.2%	1.4%	1.4%	15.1%	12.6%	14.8%	7.3%	6.3%

Note: There is no assurance that the Strategy will achieve its investment objectives. Writing call options can result in an option exercise and may cause shares to be "called away" and sold. The use of covered call strategies does not ensure profits or guarantee against losses. Past performance may not be indicative of future results. See page 18 for complete performance. Risk is measured by standard deviation; standard deviation is a statistical measurement of volatility risk based on historical returns.

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