Five Mile River Investment Management, LLC April 14, 2016

Quarterly Letter

1st Quarter 2016

PERFORMANCE

	FMR *Taxable*	FMR *Retirement*	MLP Weighted Benchmark*	Russell 1000 Value	Dow Jones	S&P 500 Dividends**
1Q2016	2.91%	0.01%	-0.87%	1.64%	0.36%	1.34%

After a flat year of stock market returns and heightened volatility, this year opened with sudden downside price pressure. After the first week of 2016, the market was down 6% (S&P 500), the worst start in history. At the peak of anxiety caused by macro "doom and gloom" issues, the stock market was down 10% on Thursday, February 11th, 42 days into the New Year. Then suddenly and without obvious explanation, the selling stopped.

What happened that day to change this bearish market sentiment? It did not appear to be earthshaking at the time, but there was one brave, well known executive who stepped up and bought $25 million dollars of his own company's stock on Thursday, February 11th. His name is Jamie Dimon, Chairman, President and CEO of JP Morgan Chase (JPM), the largest and highest quality banking institution in the U.S. with $2.4 trillion of assets. Probably more significant, but initially ignored, two weeks earlier on January 27th, it became clear to anybody who listened to Janet Yellen, Federal Reserve Chairman, that the Fed was **NOT** going to raise the federal funds interest rate again anytime soon. Coincidently, the price of oil also bottomed on Thursday, February 11th at $26.11/barrel, after having already declined 30% in 2015. Taken together, these events provided market conditions that once again gave the market a glimmer of optimism.

First Quarter Results (March 31, 2016)

The S&P 500 ended the first quarter **unchanged** from the start of 2016, as all market indices rallied from the February 11th low to the end of the March 31st close. The price of oil rallied 47% to $38.34 on March 31st presaging the bottoming of this important worldwide commodity as the global supply/demand balance moves from a surplus into at deficit positon in 2016. Oil demand continues to rise above expectations while non-OPEC production continues to decline.

Calm, not panic, and a focus on company fundamentals remain central guideposts for Five Mile River's (FMR) investment strategy, particularly in the current volatile market conditions. FMR taxable and qualified accounts were roughly flat to up 3% for the quarter. Dividend stocks outperformed non-dividend payers in the first quarter of 2016. FMR portfolios benefited from four holdings in the best performing sectors of this volatile quarter: utilities, telecommunications, consumer, and gold. FMR Master Limited Partnerships (MLPs) in the energy sector bounced coincident with the price of oil. The highest quality MLP names were up over 20% from their February lows.

Our market expectations continue to be for a positive 6% to 8% return for the year 2016, and our approach is *not* to manage the short-term market value of FMR portfolios. Instead, FMR Value/dividend strategy is to invest in companies that can grow their dividends at a rate higher than the market, and thereby increase your total annualized income each year. Companies that sustain this long-term growth typically provide superior capital appreciation and less price volatility. This strategy is designed to grow current income to either re-invest to meet future family needs, education costs, estate planning objectives, or to support for your lifestyle in retirement. Long-term investing or retirement investing is not about either short-term speculation or the day-to-day or month-to-month value of your portfolio relative to any broad index. The short-term performance "game" is a well-documented losing strategy over the long haul.

Growth Stock Strategies verses Value/Dividend Strategy

Growth stock investing is more typically practiced by hedge funds and momentum investors. Growth stock investors have to be right not only on the fundamentals but also on short-term charting, quarterly earnings surprises, and the price earnings multiple (P/E ratio) expansion/contraction to achieve performance success. Growth has outperformed Value/dividend investing for much of the last ten years. Growth can be a rewarding and worthwhile strategy for clients with infinite timeframes and an appropriate risk profile that can withstand greater volatility. Consequently, Growth strategies are more difficult to implement on a sustained long-term basis.

There has been mention in the media over the last several months that Value/dividend investing may return to be the dominant strategy for growing assets. After close to ten years of Growth stock investing out-performance, there is now evidence that Value/dividend investing will provide superior price performance that will also throw off growing cash income. Value/dividend investing outperformed Growth in the first quarter of 2016. Why? After nearly five years, the dollar has started a decline coincident with the market's February bottom. The dollar has been a significant headwind affecting all multi-national companies, but now a declining dollar appears to be a potential tailwind that can lift earnings expectations significantly. Also, commodity prices have endured a three year bear market and seem to have put in lows, again concurrently with the February market bottom. Any stability or possible lift in commodity prices will be a significant positive for the energy and financial sectors.

Since inception in 2003, Five Mile River has adhered to its Value/dividend discipline for investing, and over the past thirteen years has demonstrated an 8%+ annual compound rate of return. An 8%+ annual compound rate of return doubles asset value in approximately nine years. FMR client assets have on average a yield of 3.5% to 4% which gives them a head start in achieving an 8% annual return. FMR has had only two down years in the past thirteen: 2008 and 2015. Five Mile River's style of investing is designed to reduce volatility and to generate relative consistency of investment performance and growing dividend income.

The Search for Yield Will Continue in 2016

FMR invests in companies with pricing power, productive research and product development, strong balance sheets, and companies typically in #1 or #2 positions in their competitive peer groups. Why do we invest in these companies? We prefer to focus on companies that generate substantial "free cash flow," a more reliable measure of value than net income. Free cash flow is cash left over after what is needed to run a business. With cash, these companies have more options to increase shareholder value, and typically raise their dividends as well as buy back shares which have a positive impact on the stock price.

Companies that do not have free cash flow typically have much larger debt and have to continue borrowing in order to grow. A good example is Tesla, a company we do not own. It is a very exciting, speculative fast growing electric car company with huge capital expenditure demands in a highly capital intensive competitive business. In order to continue this growth, Tesla will have to borrow billions of dollars either from issuing more debt, or by selling more equity, thereby diluting the share price. Tesla currently has no earnings, negative free cash flow of $2.2 billion, NO dividend, and an infinite valuation. The stock is volatile in both directions – not FMR's investment style.

Highly profitable dominant companies that generate above average dividend growth can enjoy far stronger sustained share-price appreciation over the long-term than just a higher-yielding company with a stagnant dividend. Companies that pay above average dividends that grow at a rate higher than inflation generally have lower volatility.

We welcome any questions about Five Mile River investment strategy and we encourage you contact us at any time.

Sincerely,

Lee Todd Martha

**Five Mile River's investment strategy for taxable accounts, with its emphasis on value investing which includes MLPs, is best compared with a blend of a value style index, the Russell 1000 Value Index (weighted 70%) and the Alerian MLP ETF Index (weighted 30%). Comparing FMR's performance in taxable accounts with this blended index provides a more accurate benchmark.*

***The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weight it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies.*