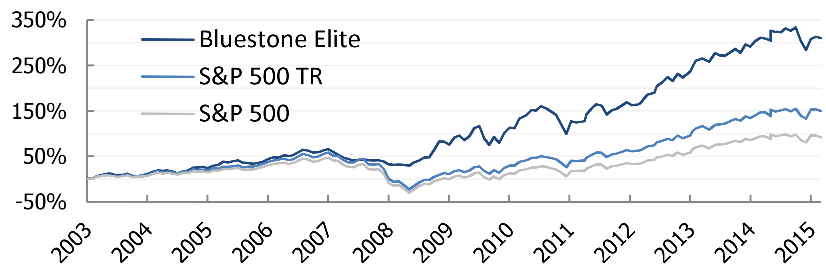
Bluestone CAPITAL MANAGEMENT

37 West Ave, Suite 201
Wayne, PA 19087
(610) 337-6500
www.bluestonecm.com
info@bluestonecm.com

# Bluestone Elite – 4th Quarter Commentary 2015

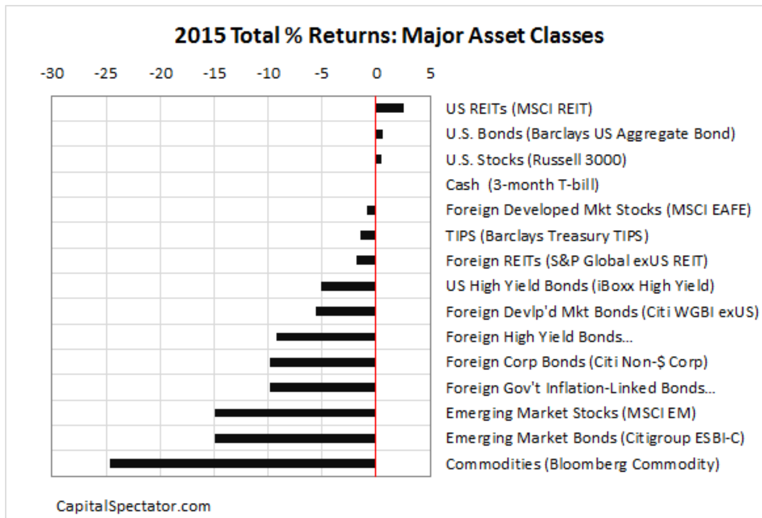
**Portfolio Managers:** Brian C. Shevland
Lee A. Calfo

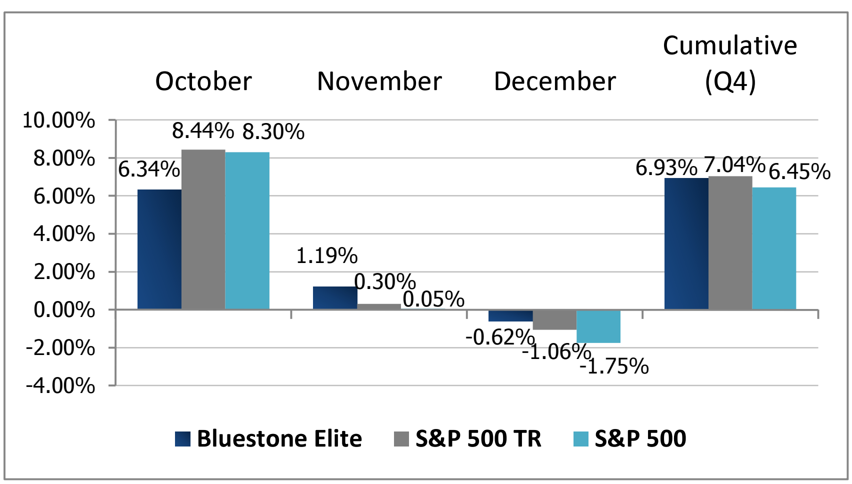



**Key Statistics** (Since Inception)

| | Elite | S&P 500 |
|---|---|---|
| Cumulative Return | 310.55% | 150.00% |
| Annualized Return | 12.31% | 7.82% |
| Alpha | 5.61% | - |
| Beta | 0.84 | - |
| Sharp Ratio | 0.77 | 0.46 |
| Sortino Ratio | 1.51 | 0.81 |

The 4th quarter of 2015 provided some much needed relief following the nerve-wracking 3rd quarter that saw the most dramatic sell-off since 2011. The S&P 500 index rebounded in October off of its September lows before losing momentum in November and December closing out the quarter with returns of 7.04% and closing out the year with a return of -1.38%. Overall, 2015 was a challenging year for money managers across the entire spectrum of investable assets. From fixed income, to equities (both international and domestic), to currencies and commodities, positive returns were incredibly challenging to achieve as positive traction was elusive. As you can see in the chart above, of the 15 identified major asset classes, only 3 finished the year in positive territory. Between the concerns of global deflationary pressures rising, the Chinese stock market bubble crashing, the severe and sustained decline in the price of crude oil, and the strongest US dollar in years, there were certainly a variety of headwinds to navigate throughout the year. In the end, Bluestone Elite finished the 4th quarter strongly with a return of 6.93% for the quarter and 0.25% for the year.




When evaluating our performance during the quarter from a macro perspective, we are pleased with the outcome. In the end, we achieved a quarterly return of 6.93% while the market returned 7.04%, but that only tells a fraction of the story. Based on our increasing level of fear of market direction, we felt it prudent to maintain our 16% cash position throughout the quarter. Although the increased cash position did not help our returns in what turned out to be a significantly positive

Returns are presented net of 50 bps fee as well as trading costs. The track record shown is for a composite of accounts assigned to the Elite strategy managed at Bluestone Capital Management and at firms that the portfolio managers were previously affiliated before the founding of Bluestone in 2010. The S&P 500 is a market capitalization weighted index designed to measure equity performance of US based large capitalization companies.

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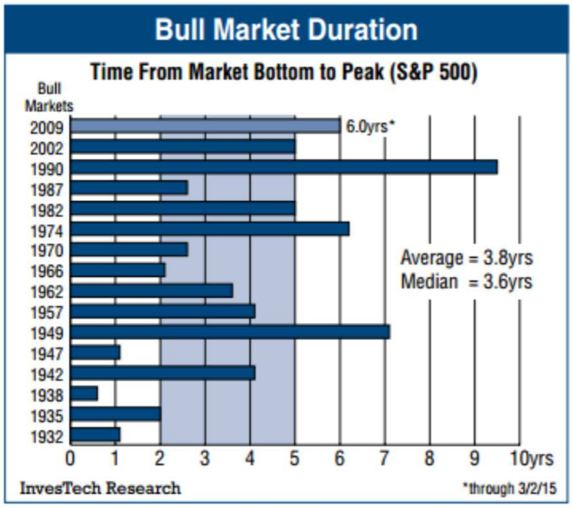
quarter, it did reduce our volatility rather significantly and we still managed to participate in 98.4% of the upside with only 84% of the allocation invested in the equity market. This supports the view that our sector analysis and decision making added alpha for our investors. It is also worth noting that we have continued to maintain our overweight cash position through this writing which has certainly helped reduce volatility thus far in 2016.

As we moved through the 4th quarter, we were constantly evaluating opportunities to deploy cash, by either building new positions or strengthening current positions. However, after significant analysis of market condition, investor sentiment, and economic trends, our attitude on the market remained relatively neutral to slightly bearish. As of year-end 2015, we continue to maintain our 16% cash position for a few key reasons:

- <u>S&P earnings estimates and revisions continue to trend downward:</u> The strong dollar continues to make things difficult for companies with significant international exposure. According to data compiled by S&P Dow Jones Indices, as of 2014, only 52.2% of the earnings of the S&P 500 index are generated domestically. The remaining 47.8% is generated internationally. This earnings exposure has the potential to mitigate any continued strengthening of the US economy and may contribute to low earnings growth and returns for equities.
- <u>We have concerns about the price of oil as a catalyst for driving earnings lower:</u> Historically, low oil prices have been a boon for the US consumer as well as US manufacturing. While many consumers as well as corporations with significant energy expenses will benefit, many others will suffer. The US production of crude oil has skyrocketed since 2008 from a monthly low of 3.98M barrels per day in September 2008 to well over 9M barrels per day through 2015. This production has provided an enormous boost to job growth and economic output which may be at risk if the price of oil continues to remain depressed relative to its recent historical averages.
- <u>Rising rates are likely to limit corporate borrowing which would negatively impact share repurchases:</u> After the Federal Reserve historically raised rates for the first time in nearly 10 years this December, we're left with a strong likelihood that there will be more rate hikes in 2016. Even though volatility in the markets has increased, the inflation and employment data points that are the cornerstone of Fed thinking continue to point toward monetary policy tightening throughout the year.

Looking ahead into 2016, we see a challenging market environment with heightened volatility and multiple headwinds that will require consistent examination. Expecting anything different might be considered naïve when taking into account that we are rapidly approaching the 7-year anniversary of this bullish cycle. We don't necessarily view volatility as a bad thing, tremendous opportunities can arise during times of heightened volatility, specifically for prudent financial investors. We continue to monitor the underlying economics of the market in close conjunction with any apparent shifts in investor sentiment to attempt to identify opportunities with greater conviction.




*The current stock bull market is more than 2 years longer than the average bull. (Chart: InvesTech Research)*