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Bluestone CAPITAL MANAGEMENT

Bluestone Elite - Strategy Commentary

March 31, 2015

Portfolio Manager:
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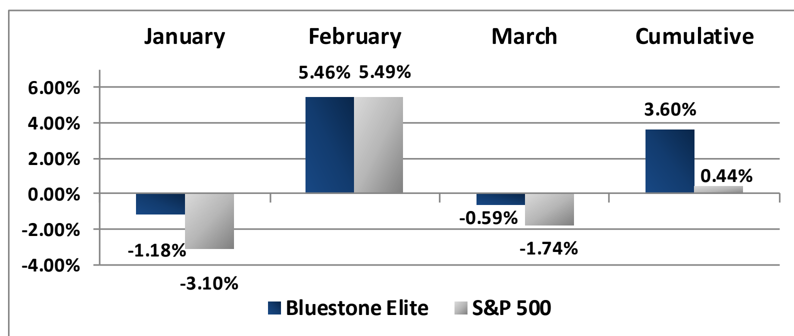
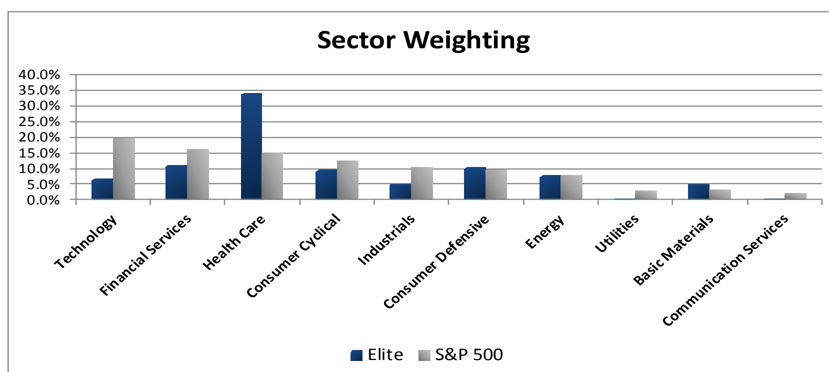
As we close out the first quarter of 2015, we are very pleased with the performance of the Elite strategy in both an absolute and risk adjusted basis. For the purposes of our quarterly updates, we are going to have to do the exact two things we consistently request that investors avoid when evaluating the Elite strategy – compare us to a benchmark like the S&P 500, and evaluate our returns in a period of time shorter than a full market cycle. It is understood that both of these methods of analyzing our returns are difficult to avoid so below we offer our analysis to help investors better understand the strategy.



Through the end of March, Bluestone Elite has returned 3.60% compared to the S&P 500 which has returned only 0.44%. Almost more importantly, we have accomplished this significant outperformance with approximately 16% less risk than the S&P 500, reflected in the Elite strategy beta of 0.84. One of the reasons I always say that we are not designed simply to be compared against the S&P 500 is because if we were, we could move the entire portfolio into SPY (An ETF commonly used to replicate the S&P 500) and guarantee ourselves another year of outperformance for 2015. However, we believe in our process and the ability to generate superior risk adjusted returns throughout a full market cycle and will continue to execute that process to the best of our ability to accomplish this goal.

As you can see from the chart, which breaks out the monthly performance numbers through the 1st quarter, we managed to provide significant protection on the downside during each of the negative months of January and March by only participating in 36.01% of the downside while participating in 99.49% of the upside of the market.



Once again, we attribute much of the outperformance to our sector selection and weighting process which currently prioritizes up-capture/down-capture ratios along with steadily increasing recurring EPS growth rates. We've maintained our overweight allocation to the

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healthcare sector which has provided the strategy with outperformance in up markets, but more importantly has improved the down capture of the portfolio.

We've maintained our underweighting of international markets through the first quarter, as we believe there are still significant fundamental headwinds in the form of currency risk and political risk. International markets have been a bit of a mixed bag this year, with certain markets dramatically outperforming or underperforming their "peer" markets. As you can see in the graph, the distribution of returns from select emerging and developed international markets has been extremely volatile and with significant variance. While the returns in some of these markets have been impressive in Q1, we remain skeptical of their ability to continue this trend throughout the rest of the year without taking on more risk than we feel is appropriate at this stage of the market cycle.

Moving into the second quarter of 2015, we are constantly evaluating where the next opportunities for growth will come from. Energy is one of the sectors we've been closely monitoring on an ongoing basis for the opportunity to increase exposure. Even after posting significant gains through the first half of the year, 2014 was a rough year for Energy. The latter half of 2014 saw a steep and persistent decline in the price of crude oil that negatively impacted the forward earnings projections for the energy sector as a whole and caused an industry-wide sell-off. We believe that multiple contractions, in conjunction with the recent indicators pointing to a bottoming of crude prices, has created an opportunity for prudent investments in energy companies with strong balance sheets and significant marginal cost of production advantages. Looking forward into the second half of 2015, we see a likely rebound in the price of crude due to the dramatic decline in the domestic active rig count numbers and an increase in demand stability in Asia, if not Europe.

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Performance statistics sourced from Zephyr, Black Diamond, Morningstar, and SNL Financial.