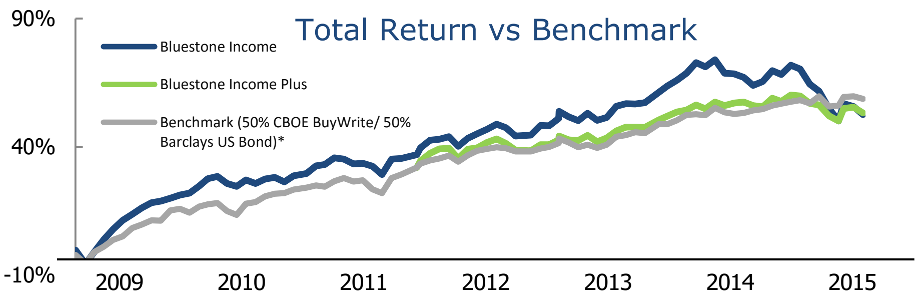
Bluestone
CAPITAL MANAGEMENT

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

Bluestone Income – 4th Quarter Commentary

Portfolio Managers: Lee A. Calfo
Brian C. Shevland



Strategy Statistics

	Income	Income Plus
Total Return (2015)	-6.95%	-2.31%
Beta (vs S&P 500)	0.37	0.52
Dividend Yield (2015)	5.85%	4.90%
Option Premium (2015)	--	1.86%
Total Yield (2015)	5.85%	6.76%
Standard Deviation	6.96%	6.08%

2015 is in the books and was a notable year for investors as it marked at least a pause in the multiyear equity bull market run, and possibly the beginning of a more volatile market environment. Equity returns were choppy all year and experienced large selloffs in the 3rd quarter of 2015, the magnitudes of which had not been seen for several years. For the full year the S&P 500 fell by 0.73%, compared to annual gains of 11.39% and 29.60% in 2014 and 2013 respectively. The Dow Jones Industrials average was also off, falling by 2.23% while the NASDAQ finished the year up 5.73%.

The Bluestone Income strategy primarily seeks three objectives. In order of importance:

- Current yield – The primary focus of the strategy is current yield, every single month. This means we must stay as invested in the market as possible and only use cash sparingly during major market declines and quickly seeking to become re-invested once major selloffs subside.
- Reduced volatility – The strategy maintains a diversified mix of equities, preferred securities and debt focused ETFs, which generally provide reduced volatility compared with all-equity portfolios.
- Total Return – When possible on individual portfolio positions, and when market conditions favor sectors where the strategy seeks yield, we try to capture as much price appreciation as we can for the strategy.

We met two of our objectives this year while the third objective proved difficult given market conditions as well as the performance of certain sectors where we seek dividends. The Bluestone Income and Income Plus strategies provided yields of 5.85% and 6.76% respectively and ended the year with total returns of -6.95% and -2.31%, respectively. While the strategy had a negative total return due to unrealized losses in the portfolio, income

* Portfolio Beta is measured against the S&P 500 Index
* Benchmark refers to the strategies' benchmark, which is 50% the CBOE S&P 500 Buy-Write Index and 50% Barclays US Aggregate Bond Market Index. Performance statistics sourced from Zephyr, Black Diamond, Morningstar, and SNL Financial.

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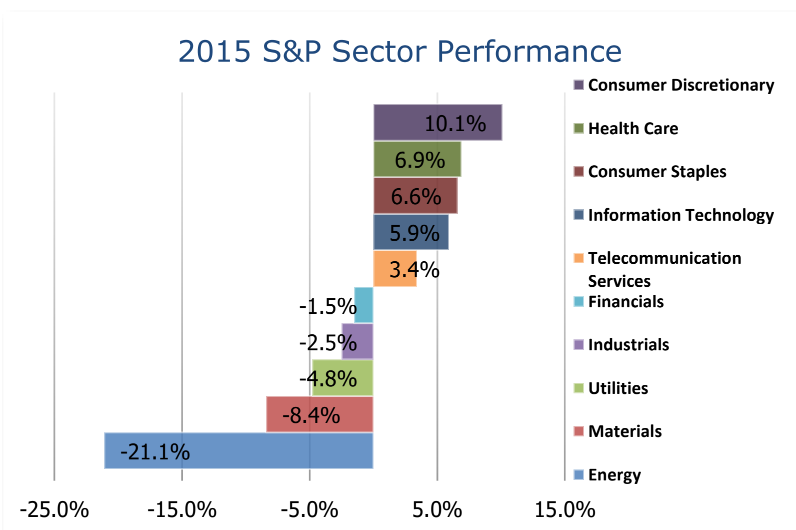
generation was ahead of our goals of 5% for Income and 6.5% for Income Plus respectively. Going forward, we expect much better performance from our sector exposures relative to the S&P 500 next year.

2015 Key Points

The fourth quarter of 2015 was dominated by macro events and investor speculation over when the Federal Reserve would raise the federal funds rate. In addition, fears of global deflation, slumping commodity prices, and mixed domestic economic growth data provided investors with plenty of cause for concern. The fourth quarter stands in stark contrast to the third quarter, which saw large sell-offs in August and September. The S&P 500 rebounded strongly in October before stalling in November and falling off slightly in December to end the year. Volatility remained historically low throughout the first half of the year before spiking to levels not seen since 2011 in mid-August and remained high through year-end. Both the VIX and the 50 day SMA on the VIX moved dramatically higher and remained at elevated levels for virtually the entire 4th quarter. This increase in volatility was indicative of declining investor sentiment both domestically and internationally. We suspect there may be more of the same in store in 2016 given the current geopolitical and economic outlook.



On a sector basis, energy was far and away the worst performing sector in 2015. While the Bluestone Income strategy was underweight energy during last year, the magnitude of the selloff in that sector still had a significant impact on the strategy's return in 2015. We also maintain an overweight to the financial services sector which is a great source of dividends but also underperformed the market last year. Some bright spots in the portfolio from a total return standpoint were technology and consumer equities, which increased in value during the year.

While we always strive to achieve positive total returns our mandate remains generating high current income for our clients. In order to consistently generate high levels of income for investors in the form of dividends and interest, we must maintain some exposure to sectors and securities where we can find that yield. We feel that

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conditions will be more favorable in 2016 for the Income and Income Plus strategies to provide a more attractive relative return to the overall equity market while still meeting their yield goals.

Future Outlook

Rising interest rates are finally upon us and while we feel the transition to higher rates will be slow, we positioned the income portfolios for the rise in interest rates by reducing the weightings of our preferred stock allocations and reducing the duration of our debt holdings (ETFs). Based on our outlook we decided to add a little bit of equity exposure to minimize the impact of potential drawdowns in our interest rate sensitive investments. While we can't be certain that changes to the Federal Funds rate will cause large losses in interest rate sensitive instruments, we remember the "Taper Tantrum" of 2011 where many income producing assets saw large losses in excess of 10% in less than a month. As it turned out, by December the market had fully priced in a rate hike and many of these income producing assets had recovered and did not suffer further when the Fed actually did raise rates.

Looking forward into 2016, we strongly believe that the Income and Income Plus strategies are extremely well positioned to meet their stated goals of income generation and capital protection. We've structured the portfolios to capture as much upside potential as possible, while limiting broad based and single stock downside risk. We've fine-tuned the yield characteristics of the portfolios to minimize duration and interest rate risk in the event of subsequent rate hikes by the Federal Reserve. We're maintaining our current 10% cash position to provide both volatility reduction as well as "dry powder" to deploy should we see compelling opportunities. However, we remain neutral in our outlook for next year as a number of factors including modest wage growth, a strong dollar, weakening manufacturing and inventory data, and potential weakness in the high-yield credit space have the potential moderate economic growth. On the other hand, a combination of low inflation, low interest rates, cheap oil, low commodity prices and an improving labor market make it likely that recent economic growth will be sustained next year and that the economy will likely keep growing at similar levels to 2015.