Investment Report Summary for CMA – prepared by John Howle

1. Portfolio Value:*

   12/31/15: $661,398
   12/31/16: $696,996

2. 2016 Returns:*

   - CMA: 9.20%

   - Index Returns 2016:
     - Bloomberg Barclays Agg Bond Index: 2.30%
     - US Corporate Bond Index: 5.81%
     - BOFML US High Yield Master II Index: 17.49%
     - MSCI World Index: 8.18%
     - S&P 500: 12%

3. Income & Cash Flow: 2016

   - Income YTD: $45,727

   - Distributions YTD: $37,083 (this is the same number as last month as income coming in during December gets disbursed in January)

   - December Income: $9,074.51

   - December Distribution: $0 (there was no distribution for December)

   - Fees YTD: $6,920.06

4. CMA Performance:

   - 2016: 9.20%
   - 2015: <10.80%)
   - 2014: 8.72%
   - 2013: 12.61%
   - 2012: 15.98%

5. Allocation:

   - Fixed Income: 69%
   - Equities: 23%
   - Alternatives: 5%
   - Cash: 3%

6. Activity:

There were no buys or sells for the month of December.

7. 2016 Return Attributes:

- Bonds: 2016 was a year of increased volatility in the bond markets beginning with a big down draft in prices of high yield bonds and other credit related bonds due to a global recession concern. That fear never materialized and we were able to take advantage of the sell-off. Our current holdings in the high yield category returned an average of 26.70% for the year with GOF (Guggenheim Strategic Opportunities) returning 31.60% for 2016. Our holdings in other 'taxable bonds' returned an average of 12.50%. We have a broad diversification in the bond portfolio currently with high yield, high quality corporates, high quality taxable municipals, Treasury Inflation Linked TIPs and floating rate funds.

- Equities: Equities also offered a wild ride with a big sell-off in January and February where we had a 10% pullback to be followed by a late year-end rally of 8.29%. So you can see that the other 6 months of the year we traded in a narrow range with only a 4.77% gain from the beginning of the year until the election. Our holding in FDSAX (SunAmerica Focused Dividend Fund) once again provided us with high returns of 15.40%. Additionally, our holding in the AQR Long/Short Equity Fund (QLEIX) produced a return of 12.30% with a standard deviation that was 20% less than the S&P and yet the fund still outperformed the long only S&P 500.

8. Strategy:

Although I think we could see higher rates going forward if for no other reason because they are artificially low today I do not expect to see 'substantially' higher rates. If we have GDP growth in the 2%+ range and we see inflation come back to the 2% range then we could see the 10yr Treasury move from its current level of 2.45% to 3.50%-4.00%. Given the expectation of somewhat higher rates I expect to reduce the overall holdings in fixed income as well as shortening the durations profile of the remaining fixed income holdings. On the equity side I continue to look for both growth oriented investments as well as long/short defensive equity holdings. The long/short funds that I use including our current holding of QLEIX have produced very good returns relative to long only funds and have done so with a reduced level of risk. I am a bit fearful of the recent 'Trump' rally as the markets have seemed to extrapolate all of his campaign rhetoric into reality. Relying on campaign promises is a bit over optimistic in my opinion.

*All data taken from BlackDiamond reports, Bloomberg data and USCA monthly statements