HORAN® CAPITAL ADVISORS

Investor *Letter*

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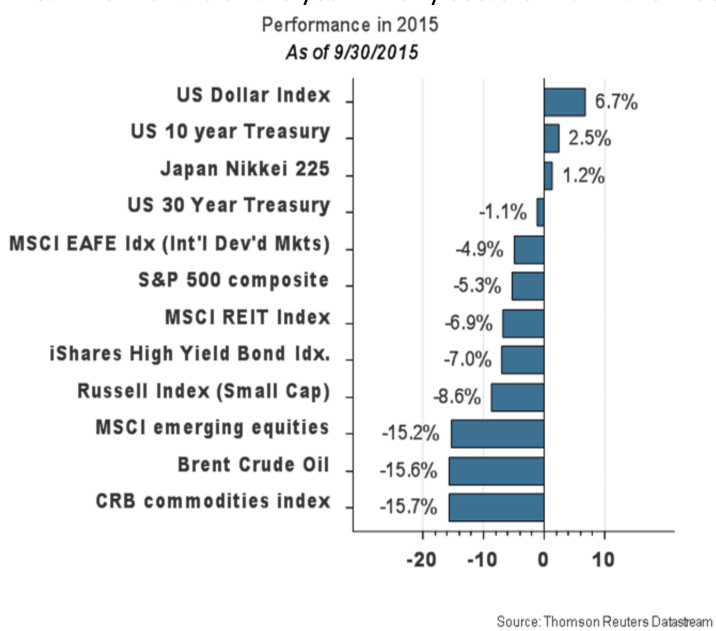
Adiós

The long awaited correction finally occurred. Prior to the market decline that began in May, the S&P 500 Index climbed higher for nearly four years without incurring a greater than 10% correction. The market fell 12.4% from mid-May to the end of August when it made an intra-year low; thus ending one of the least volatile periods experienced by the market in recent history.

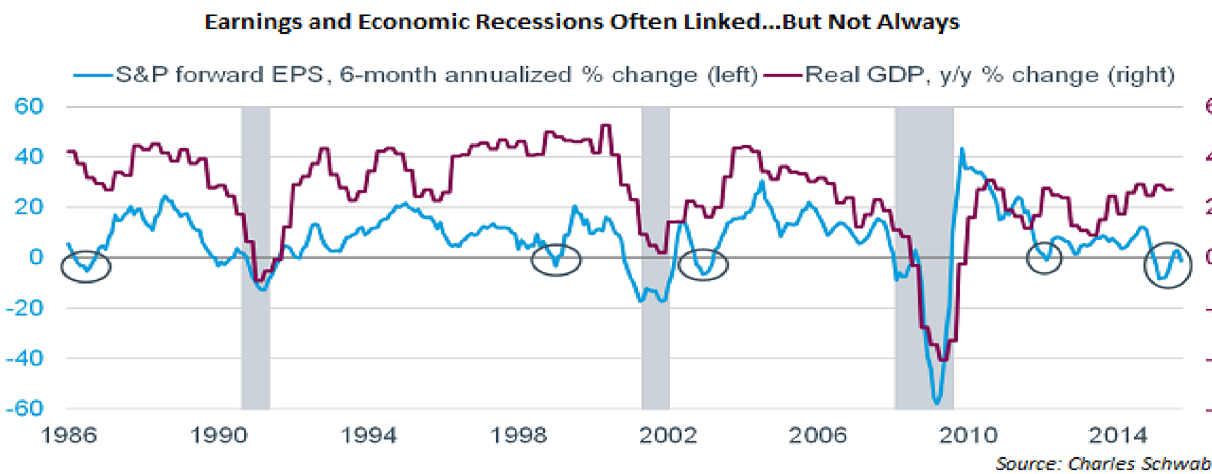
The third quarter erased gains for most markets. The S&P 500 Index ended the quarter down 6.44% which places the Index down 5.29% for the first nine months of the year. Many sectors within the Index experienced meaningful market declines during the quarter including Energy (-17.41%), Materials (-16.9%) and Health Care (-10.67%). Foreign markets and commodities fared worse as the MSCI Emerging Market Index was down 17.9% and the CRB Commodity Index was down 14.7%. The quarter's weakness can be attributed to China's economic slowdown, fears of a global slowdown, the Fed's interest rate decision and reports of weakening U.S. manufacturing and non-manufacturing data. The Federal Reserve validated concerns in regard to a global economic slowdown as they sighted "developments abroad" as a reason for not raising interest rates in September.



The U.S. economy has experienced sustained, but slow positive economic growth since the end of the financial crisis in 2009. The Federal Reserve's numerous quantitative easing (QE) programs have been a tailwind to stimulating economic expansion and the Fed has been clear about the desire to begin normalizing interest rates; however, it has been unclear about the timing of an interest rate move. This anticipated change in U.S. policy, in conjunction with foreign central banks outside the U.S. pursuing QE strategies (stimulative), has resulted in the strengthening of the U.S. Dollar. Dollar strength could negatively impact emerging market economies as many countries supported their growth by taking on debt denominated in dollars. A strong dollar creates instability for these markets and makes it more costly for debt laden emerging market countries to repay their loans. For investors, emerging market stocks tend to underperform U.S. stocks in periods of dollar strength and importantly, currency moves tend to occur in long cycles of up to seven years or more.

Earnings/Dollar/Energy

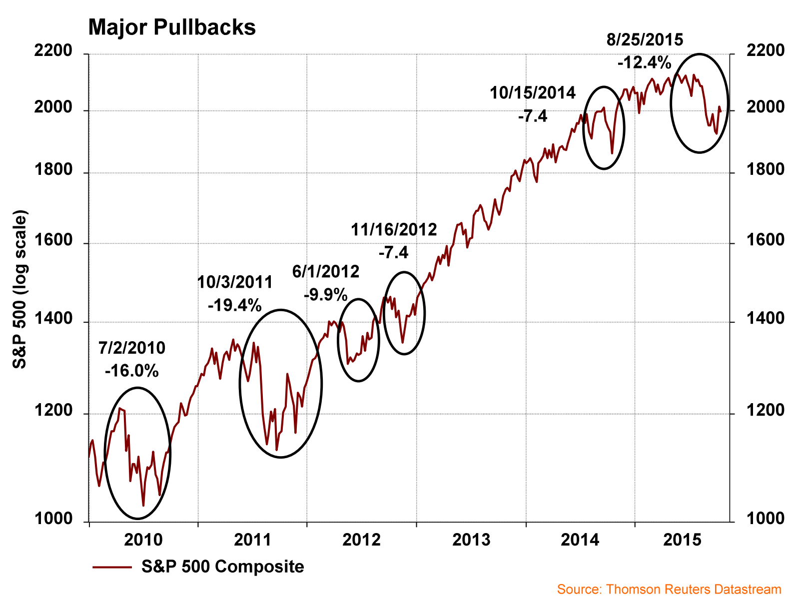
U.S. company earnings are expected to decline 4.8% in the third quarter compared to the third quarter of 2014. Excluding the expected 64% year-over-year decline in energy sector earnings, the balance of companies are anticipated to increase earnings about 2%. A decline in earnings is generally associated with the onset of recessions; however, as noted in a recent report from Charles Schwab this is not always the case. As the below chart shows, there are four time periods since 1986 where negative



forward earnings expectations were not accompanied by a recession. As is the case today, those four earlier economic periods were associated with falling oil prices and a strengthening U.S. dollar. The weak oil and strong dollar environment hurt multinational company earnings due to the negative impact of translating foreign revenues back into U.S. dollars. Although a strong dollar is a headwind for U.S. exporters, consumers benefit through the lower cost of imported goods. Schwab notes, "…exports represent only 13% of the US economy, while consumption represents 68%. Ultimately, given that the US economy is consumption-driven, weaker oil and other commodity prices are economic benefits. In other words, the hit comes first; while the offsetting economic positive…comes a bit later. As such, weakness in the export-oriented manufacturing sector must be viewed with an appropriately-tinted lens."

Opportunity to Upgrade

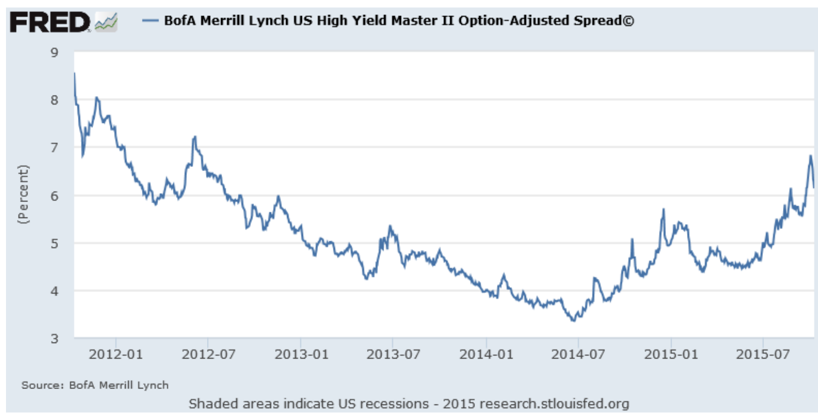
The recent market decline has provided investors with the opportunity to acquire attractively priced securities and to reposition portfolio investments. This has enabled us to minimize realized taxable capital gains in portfolios by recognizing capital losses where appropriate. We are taking this opportunity to acquire stocks we believe have attractive return prospects as we look out 12-18 months. One change we implemented for clients was selling BE Aerospace (BEAV) and investing



those proceeds in Boeing (BA). Both companies have exposure to the aircraft upgrade cycle, but the decline in Boeing's stock price provided an attractive entry point for a higher quality company.

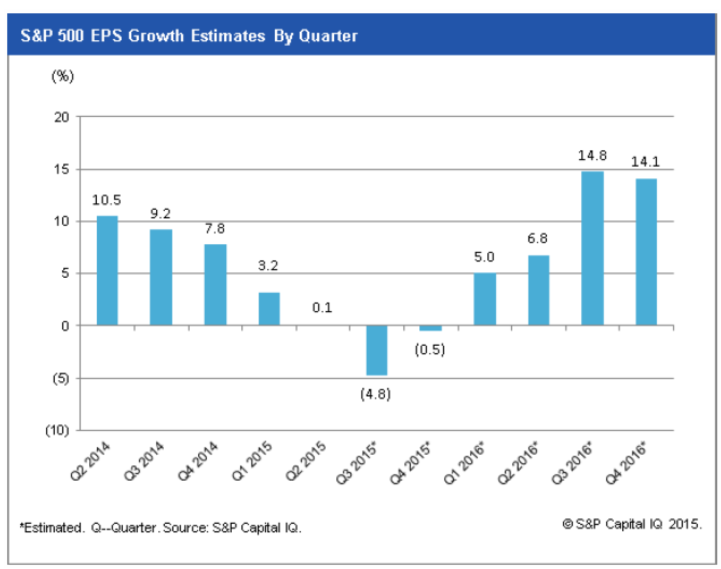
Another change we implemented during the third quarter was eliminating our exposure to international emerging market equities. We redeployed these funds in the developed international markets using both a currency hedged euro zone investment and a currency unhedged broader based developed market international investment. The combination of better economic data, earnings growth, and a European Central Bank stimulus program gives us confidence as to the prospects for developed market economies. From a strategy perspective we have been underweight both developed and emerging international markets for the past four years. Although we do believe long-term positive return prospects remain for emerging markets, there are potential near term issues that may cause the emerging markets to underperform the developed markets.

During the third quarter, we elected to divest our long-standing allocation to master limited partnerships (MLPs). The MLP space was negatively impacted by falling oil and gas prices, which raised concern about future profitability. The profitability issue generated uncertainty about the ability of some MLPs to access the credit necessary to fund their distribution growth. As evidence of this potential inability to access credit, high-yield bond spreads have widened significantly. A recent report from Standard & Poor's notes, "Sharp declines in demand for, and prices of, global raw materials and commodities have placed tremendous downward pressure on anticipated revenue, profitability, and in some cases the debt servicing capacity of energy and materials sector corporations." The energy and materials sector constitute 21% of the high-yield corporate bond segment. With future distributions potentially at risk, we made the decision to exit the space; however, we continue to evaluate the asset class.



Outlook

Although stock market risk was more apparent this past quarter, we continue to believe the bond market has considerable long-term risk in light of the Fed's desire to raise interest rates. Long-term bonds, such as a 10-year treasury currently yielding 2%, provide little ability to keep pace with even modest levels of inflation. For example, the cost of goods and services purchased by consumers would increase over five-fold during ones lifetime when inflation is at a 2% level.



Based on current price to earnings multiples, U.S. large company stocks are trading at average valuation levels compared to historical data. Additionally, it seems reasonable to believe recent earnings weakness is temporary and concentrated in the commodity and energy sectors. As the chart on the previous page shows, this earnings weakness is expected to be transitory with growth resuming in the first half of 2016 when year over year earnings comparisons to prior quarters become easier. S&P Capital IQ projects that operating earnings growth will accelerate as the year progresses with total growth in the 10% range in 2016. This positive earnings backdrop should be favorable for the equity markets as we look ahead.

While worldwide growth has slowed and the risk of a global recession is heightened, we believe a U.S. recession is unlikely at this time. However, investors should be prepared for a higher level of market volatility in this environment. While short-term volatility can rattle investor confidence, it is important to maintain a view of the horizon and the opportunities and rewards of longer term investing.

Thank you for your continued confidence In HORAN Capital Advisors. We welcome your questions and thoughts. Please visit our website and blog at www.horancapitaladvisors.com for updated information.

Warm regards,

HORAN Capital Advisors

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