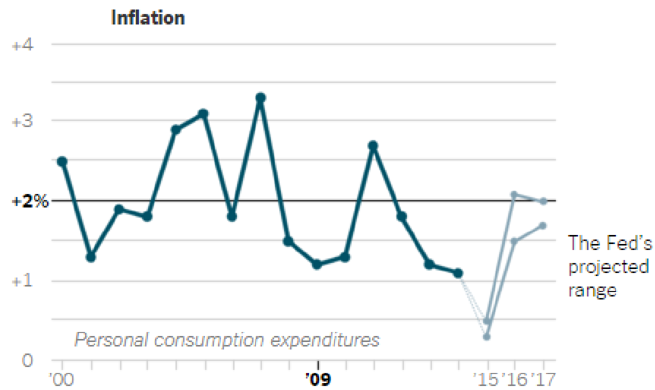
KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

FEDERAL RESERVE INCREASES RATES

Last month the Federal Reserve decided to raise short-term interest rates for the first time since 2006. It was a decision which had been expected for some time, with the Fed declaring that the economy was strong enough to keep moving forward with less assistance from the central bank.

Falling levels of unemployment was given as one of the key factors behind the rate increase. Despite sluggish levels of inflation, the Fed will be hoping that the increase will instigate greater economic growth.



On a more personal level, it is the start of higher saving rates and banks becoming far more amenable to customers in their lending.

What should we be aware of though when it comes to our portfolios? You can expect to see the prices of existing bonds to fall as newly issued bonds have higher yields. Research by the American College of Financial Services has also shown that when interest rates rise commodities perform dramatically better than they do in periods of falling rates.

The US equity market has typically shown growth in the twelfth months following an initial rate hike in a low interest rate environment (like we have now), and despite the market's poor start to 2016, we would expect (with history on our side) that the stock market changes to a positive trajectory sooner rather then later.

Volume 7, Issue 3

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January 18th, 2016

Did you know?

* The December Employment Report showed strength across the market: employment gains of 292,000, 2.4% wage growth, and a 5.0% employment rate.
* During the last five rate hike cycles, the federal funds rate was raised at an average pace of 2.5% per year.
* Outside of New Zealand and Australia, the 10-year U.S. Treasury is the highest yielding developed market sovereign bond.

Data from JP Morgan Asset Management

PROMETHEUS LAUNCHES

We were delighted to launch a new effort, Prometheus Investing, at the end of 2015.

Named after the figure in Greek mythology who stole fire from the gods and gave it to mankind so that they could prosper, through Prometheus we are able to offer the opportunity to begin investing to individuals who once wouldn't have been able to afford so.

Kruse Asset Management was founded to help level the playing field between Wall Street and everyday people saving for their retirement and other goals.

Our strategies are designed to *put the odds in your favor*.

We felt that Prometheus would be the next step going forward under that ethos, and offering greater access to the world of investing, and its potential, to everyone.

www.PrometheusInvesting.com

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Q4, 2015 QVP VS. THE IRRATIONAL MARKET

It was unfortunate that for 2015, QVP wasn't able to outperform the market for the seventh consecutive year since 2009.

The good news though is that QVP still continues to outperform on a long-term basis. Since inception, the cumulative return of the strategy has been 142.82%, compared to 68.82% by the S&P 500.

It was only the third time since 2005 that we have had an underperforming year with QVP; the other two years were 2007 and 2008.

Another time that QVP would have underperformed, prior to its inception, would have been the dot.com craze of the late nineties.

This was significant, as 2007, 2008 and 2015 can all be thought of as irrational years for the U.S. market.

2007 and 2008 were both years dominated by the fallout of the global credit crisis (to the extent that a major film on the subject has just come out: *The Big Short*), and consequently we had a market ravaged by fear and volatility.

2015 was also the first time since 2008 where the market showed negative growth, suffering from the end of summer onwards.

This volatile latter half of the year was also rooted in irrational reasoning: China's economic struggles, and the Federal Reserve's accommodative stance towards the economy.

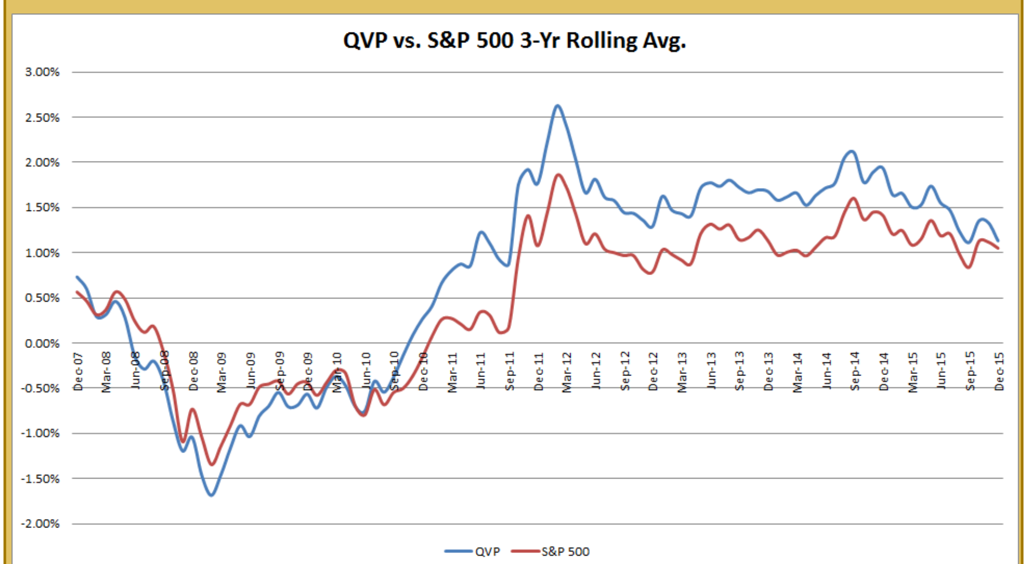
Despite similar woes in August, there was in fact very little correlation between the U.S., where the market had been remarkably stable, and China.

If the American and Chinese markets were so closely bound to one another, then why did the Shanghai surge in value by 42.57% from the start of 2015 to the end of May, and the S&P 500 only see modest growth of 2.36%?

Instead, it would be more accurate to suggest that Chinese volatility simply gave American investors the opportunity to sell off stocks which had become overvalued over the past six years and bring about a market correction (which we predicted in April).

One positive sign though is that with the Federal Reserve's decision to end quantitative easing and raise interest rates, the market should begin moving towards "normalcy."

While QVP has suffered occasionally during periods of irrationality, its track record of stable, long-term outperformance (seen in the graph below, post-2007) looks set to continue into the future, with QVP significantly outperforming the markets as they return to "rationality."



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Before making any investment decisions, consult with an investment professional about your particular situation.

Past performance is no guarantee of future results.