KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

HAPPY INDEPENDENCE DAY!

Part of the text of the Declaration of Independence reads, "whenever any form of Government become destructive of these ends [unalienable Rights], it is the Right of the People to alter or to abolish it, and to institute new Government…" If we were to replace "Government" with "Investment Firm" and "unalienable Rights" with "Improving your Portfolio" the same thing could also be said about your investments.

In general, the big established banks, mutual fund houses and investment firms have "become destructive" to "improving your portfolio" as seen by annual independent studies that show:

- 60-80% of the portfolio managers underperform their benchmark,
- Analysts' estimates are generally no better than statistical noise and
- Analysts' rating systems are backwards ("sells" outperform "holds," which outperform "buys.")

Kruse Asset Management is an Independent firm, that was formed to combat these oppressive practices by large investment firms that, in effect, are unfairly taxing their clients through fees, marketing costs, management expenses and underperformance. KAM is not a "brokerage" firm, and does not "broker" investments, so we do not take a commissions from companies selling us product to invest our clients' money. Unlike banks and brokerage firms, KAM is a fiduciary and is held to a higher legal standard — we must place our clients' needs ahead of our own (a brokerage firm need **only** to **disclose** risk.)

KAM's flagship product, QVP, has outperformed eight of 10 years and has doubled the returns of the S&P 500 since inception (net of all fees and costs).

We believe that through Independence, Kruse Asset Management has created a better investment firm: one that adds value to your portfolio and does the right thing for our clients.

Volume 7, Issue 1

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July 10th, 2015

Did you know?

* The S&P 500 is up over 200% from the March lows of 2009.
* The stock market is positively correlated to rising interest rates, provided the rates start below 5% .
* Debt payments as a percentage of disposable personal income is at a 35+ year low of 9.9%.
* The Government sector is still down 600,000 jobs since 2010 (all other major sectors have added jobs.)

RELATIONSHIP SPOTLIGHT

Kruse Asset Management makes it a point to reach out to a variety of professionals and develop relationships that might ultimately be beneficial to our clients. If you are looking for a recommendation, please ask for a referral as there is a good chance that we've already vetted a variety of candidates.

This quarter, I would like to highlight one area: the Chicago Commercial Real Estate Market. Regardless of whether you might be looking to renew your lease or find completely new space that is within budget, we would like to recommend Cathriona McGuire at Avison Young.

Learn more about optimizing your current and future lease terms by working with a tenant representation broker who can provide you with the market knowledge and leverage you need to negotiate your next lease.

Cathriona can be reached at 312-273-4513 or cathriona.mcguire@avisonyoung.com.

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Principles that Outperform!

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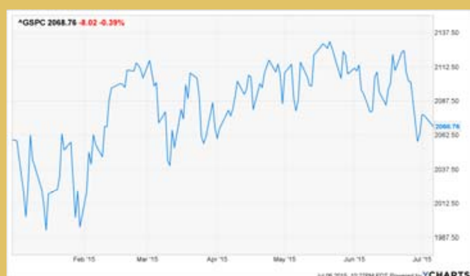
Are you gambling with your Risk Score?
Go to Riskalyze and check it out!

Q2, 2015 WHAT'S UP?

In the beginning of the year, KAM suggested that the markets might begin a pull-back sometime in May…one that could be in the double-digits.

It has been seven years since we've seen any such pull-back, but prior to that, such declines were normal…average even.

The S&P 500 peaked May 21st and is now approximately 3% below its high-water mark. Additionally, the S&P 500 formed a "lower high" on June 23th and pulled back again…technically, this might suggest further decline. Additionally, a potential "head and shoulders" pattern might be forming, which also suggests an additional down-leg to come (see chart below).



Now let's toss in a catalyst: Greece. As far as the U.S.'s productivity and profitability (the items that are directly related to stock prices and market levels long-term) is concerned, all of Greece's output is not even a rounding error to the U.S.'s GDP.

So why do we care about Greece? Well, we shouldn't — not with respect to evaluating where the stock market is going anyway.

However, the markets have historically looked for excuses, reasons and catalysts to reverse trends and momentum.

It is fairly well-known that the P/E ratio of the S&P 500 is currently above historical norms, suggesting the markets might be a little expensive right now. Of course, that doesn't mean the markets can't continue to rise — and without a reason — momentum often dictates the future direction.

However, throw in Greece, China's recent double-digit decline and Puerto Rico's new-found potential insolvency, and we have a plethora of excuses for the stock market to reverse.

While we couldn't have predicted any of the above specific reasons, we feel that we can identify when the markets might be looking for an excuse to reverse given historical metrics that have tended to have predictive value.

To that end, at KAM we have been systematically moving our clients out of equities for months and into more protective investments. Given that the total scope of the potential downturn could be 15-20%, we feel that there could still be much more to come and that it would be prudent to continue to play defense with our client's portfolios.

— J. Stuart Kruse, CFA