

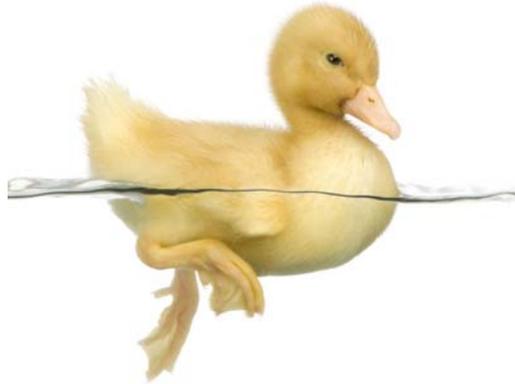
*Marble Harbor Investment Counsel, LLC
Excerpt from
Fourth Quarter, 2015 Letter*

We are pleased to send an excerpt from our fourth quarter client letter that discusses our current thinking. We welcome your thoughts.

Sincerely,

Paul Davis, L.J. Harrington, Eric Robb and Daniel Rosenblatt

Dear Client:



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Though markets swung dramatically during 2015, in the end the stock market was little changed giving a total return of 1.38% while bonds delivered a modest 1.07%. This result reminds us of a duck swimming on a lake – below placid waters, there is a lot of activity. For example, during the year the market was up as much as 4% and down 10%. Looking under the hood, some sectors were up a few percent for the year while others, like energy, were down significantly. For bonds, as recently as October, 3 month Treasury Bills yielded *zero* percent interest, while 1 month Treasury Bills had a *negative* yield. Today they yield .2% and .13% respectively. This is 20x and 13x as high a rate of interest as they yielded one year ago.

Our constant companion uncertainty is responsible for all this Sturm und Drang. We have discussed with you the waiting game over the Federal Reserve's decision to raise rates – a quarter of a point it was, and markets have calmed considerably since that action. Other sources of worry remain the same – slow global economic growth, volatile geo-politics, terror threats, financial instability. None of these are likely to disappear any time soon; however, they all are facts of our investing life. As we look at your investments, we persist in wanting to own businesses that can prosper without the need for a strong economic tailwind. As well, we remain careful about the valuation of those companies. As we look out over the coming years, we still expect relatively low and volatile returns to stocks ~ 5-7% per year over the long term seems reasonable. This should outpace inflation; however, it pales in comparison to the 10-15% returns stocks delivered in the '80s and the '90s. In contrast, the long-term return to bonds looks meaningfully worse:



perhaps on the order of 2-3.5% over the next 7 to10 years. We come to this in a straight-forward way, which recently has been proven through some academic research: the long-term return on bonds is approximately equal to the yield at the time of purchase. While there is not much magic in this “formula,” this is one instance where the academy has settled on a guidepost that makes eminent sense!

Your portfolio was well positioned for these conditions and remains so. You have a well-valued group of companies that have good growth prospects both in the U.S. and abroad. The yield on your portfolio is competitive with the market’s, so that we will receive a higher proportion of our total investment return in the form of cash dividends – market fluctuations can’t take those away. While we will certainly enjoy having companies bought from us for nice premiums, we are not relying on that as our investment thesis – your companies are good businesses that we want to own.

As a final note, one of our founders and partners, Suzanne Coleman, retired at the end of the year. Many of you came to know Sue over the past several decades. When it came to clients, her caring nature shone through in myriad ways. She was as fine a partner as we could hope for – thoughtful, hard-working, team-oriented and fun. Happily, we won’t be entirely losing Sue’s counsel and spirit. As part of her long-planned transition, Sue will remain a member of Marble Harbor and will be joining our Advisory Board, joining Brad Perry (former Chairman of David L. Babson & Company) and Michael Thaman (Chairman and CEO of Owens Corning), providing perspective, depth and counsel to the issues of running an investment management firm. Sue’s perspective will be valuable and welcomed. While we wish Sue “Bon Voyage” on her coming journeys, we are glad that she will still consider Marble Harbor as a home port of call.

Our best wishes to you for a peaceful and prosperous New Year.

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