



ALL EARS!!

The Litchfield Fund Weekly Newsletter

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



Litchfield

Yellowstone National Park! We prefer not to make recommendations, resolutions or predictions, but were we to, we would *recommend* our readers *resolve* to visit Yellowstone in 2016 & *predict* they will have a great time. No other place on Earth shares Yellowstone’s unique geology, flora & fauna! Where else can you see geysers bursting at regular intervals, azure-colored watered boiling from deep earth vents, mud pots of rich hues, awake to Bison sleeping on your porch or leisurely eat lunch watching a grizzly, moose or wolf? All this while not even realizing you’re on a *caldera*, the top of a super-volcano?

Volcanic Predictions: Scientists have debated for years the likelihood of a Yellowstone eruption. While they may disagree on whether or not it will happen, most agree to the magnitude of the devastation. Many, many times the size of Mt. St. Helens, Vesuvius, or Krakatau a Yellowstone eruption would flatten the eastern United States and cause *climatic* climate impacts across the globe for years. The Krakatau explosion created ash that darkened the Earth’s skies, spewed an enormous quantity of sulfur dioxide that reflected the sun’s rays, unleashed rains unrelated to El Nino activity that drenched Southern California and lowered the world’s temperature more than a degree for many years. When the mini ice age of the 14th century came about the world’s temperature had decreased a mere 1.2°! Think of what that slight cooling caused! Combined with over used farmland, an agricultural society moved to cities, causing poverty, crime, plague, merchants, a bourgeoisie, and eventually industrial & political revolution!

Yellowstone has exploded about once every 50,000 years. But it has not had a major eruption in more than 300,000 years! So 2016 might be a good year to visit Yellowstone & for **The Litchfield Fund** to avoid making any predictions or forecasts. After all, if Yellowstone were to blow its top, those predictions would be of no value! Instead, let’s just take a look at topics we will be interested in following in 2016 -- *at least until the volcano erupts!*

Oil, inflation, interest rates, etc.: The Fed raised rates in December with the intent of normalizing inflation near 2%. But a non-energy related bundle of goods is already seeing inflation of more than 1%. An eventual rebound in oil prices to a more normal \$75 or \$80 per barrel could cause a pop in inflation & hurt consumers, especially with this recovery’s weak income growth. We don’t see any reason for a big jump in 2016 oil prices, but a higher interest rate will reduce the value of future earnings streams perhaps impacting growth, consolidation activity & valuations. The strong dollar has hurt company earnings in 2015 & will continue to do so in 2016, limiting overseas revenue & growth.

Innovation: There will be more innovative products in 2016; unusual flavors, new superfoods & clever packaging. We look to follow the shift from the use of traditional ingredients -- dairy, eggs & wheat--to higher nutritional content ingredients such as nuts, beans, lentils & ancient grains. We will be excited to continue to follow the Ag & AgTech segment, rife with amazing new technology & ideas that could change the way organic farming prospers!

Probiotics, prebiotics & protein: Clearly, 2015 was the year of probiotics. Probiotics are reaching far beyond just yogurts & beverages. Food bars, snacks, frozen burritos & other products now feature probiotic strains. The health benefits of a well-functioning gut are undeniable & these innovative products provide an easy, tasty & nutritious path to a daily probiotic dose beyond remembering to swallow a daily supplement. Prebiotics could see a big jump in 2016. Prebiotics are the 'food' for probiotics, the nourishment for the healthy probiotic bacteria. Probiotics & prebiotics products could substantial shift consumers' eating habits. While everyone understands the benefits of a high protein diet most do not know that studies have shown that probiotics increase the body's absorption of protein!

Investment & Consolidation: Not a week passed in 2015 without the news of a big investment or the acquisition of a young company. Despite interest rates & economic growth, we see no reason for 2016 to be any different. Big Food recognizes their own deficiencies in understanding millennial tastes & creating innovation. So they will seek out young companies. It will be interesting to see if companies become attractive for purchase at an earlier stage -- so Big Food gets the upside of explosive growth -- or whether Big Food remains happy to invest, then purchase, at a more historically attractive revenue target.

Retail stores: Kroger is now the third largest retailer in the world; natural/organic is their fastest growing segment. Kroger is replacing Whole Foods as the 'king-maker' in the industry. With the power of nearly 3,000 stores & no plans to stop expanding, Kroger could become the make/break retailer for new products & companies. Walmart & Target continue to focus on natural, organic & sustainable. Whole Foods' new chain will debut amid quite uncertain financial & strategic plans. Chains such as Sprouts & Natural Grocers by Vitamin Cottage have found a consistent growth & pricing model, but smaller Fairway Market struggles & Fresh & Easy closed in 2015. We look for a rapid increase in Convenience Store (C-Store) natural/organic product acceptance & sales in 2016.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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