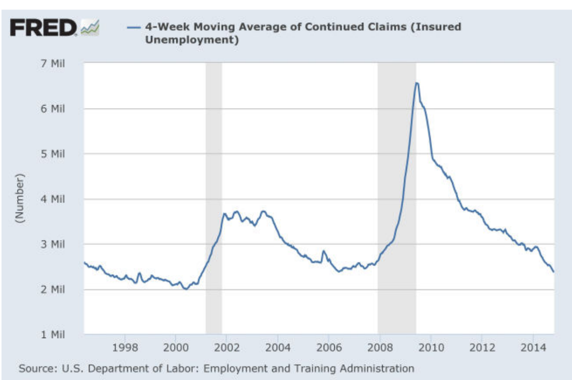
Economy & Market Valuation

The stock market in Q3 2014 touched an all time high and saw its first 5% correction in two years. The volatility in the market increased as the Federal Reserve ended its Quantitative Easing (QE) program and is getting closer to an interest rate hike. The US economy has added more than 200,000 jobs per month for the last 9 months and the unemployment rate has dropped to 5.8%. As the unemployment rate gets closer to the natural US unemployment rate of around 5%, inflation pressures will start building up. We are of the view that market volatility will increase in 2015 as compared to 2014, and that the stock market can see a correction, as inflation, especially wage inflation, increases at a faster pace resulting in market expectations of faster Fed interest rate hikes.

We track the 4 week moving average of weekly unemployment claims as one of the macro-economic metrics. As can be seen from the graph below, it is approaching the lows of previous economic expansions.



Investment philosophy and Examples

We at Oxford Chase, will invest in securities which can benefit from an increase in interest rates and have limited downside risk in case of a market correction. We think that banks will benefit from an interest rate increase and loan growth. Banks have not witnessed loan growth since the recovery began in 2009-2010. Banks did start seeing modest loan growth in Q3 2014. We believe we will see increased loan growth in the coming year as the economy expands. Loan growth is a big positive for banks and should be positive for our position in Bank of America. AIG which is another of our positions has shown a good quarterly result and is still trading at a discount to its book value. It has been improving its Return on Equity (ROE) and is moving to its target rate of 10% ROE. It is buying back its shares and has announced a further increase in its buyback program. We believe it has very low downside risk even if the stock market goes through a correction.