Brick Financial Management
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May 1, 2016

Re: First Quarter 2016 Client Letter

Dear Partners, Clients and Friends

Core Portfolio Performance

In the first three months of 2016 the Core portfolio had a loss of -1.71% vs a gain of +1.35% for the S&P 500 (including the reinvestment of dividends).

	Annualized Returns as of 3/31/2016					Total
	3 month	YTD	1 Year	3 Year	5 Year	Since Inception
Core Portfolio	**-1.71%**	**-1.71%**	**24.91%**	**19.03%**	**20.23%**	**575.34%**
S&P 500 Total Return Index	1.35%	1.35%	1.78%	11.82%	11.58%	189.02%
All U.S. Equity Mutual Funds	-0.39%	-0.39%	-4.91%	7.79%	7.62%	160.88%
HFRI Equity Hedge Index	-1.72%	-1.72%	-4.54%	2.57%	1.74%	97.05%

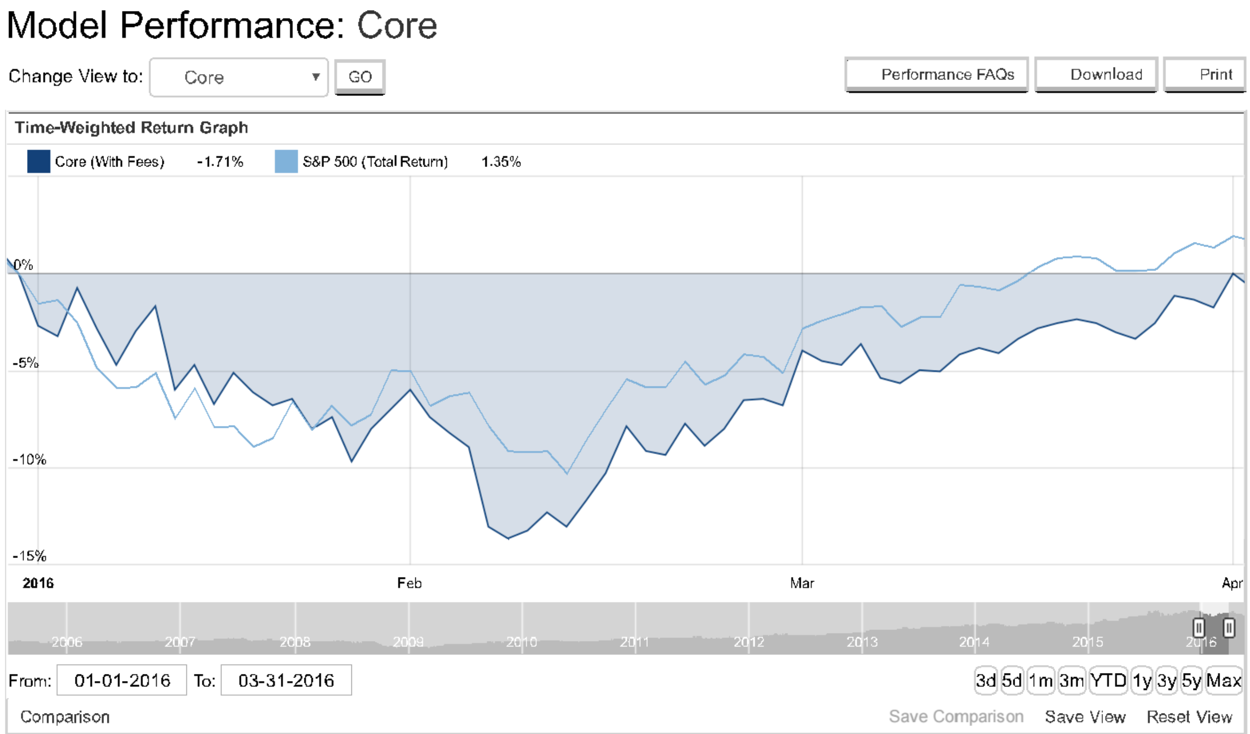
The stock market had a truly inauspicious start in 2016 (see chart next page). It felt like after a sub-par 2015 stocks were headed straight down. In fact, the lowest returns for the S&P 500 and the Core respectively were:

- S&P 500: -10.27% between 12/31/2015 and 2/11/2016
- Core: -13.69% between 12/31/2015 and 2/8/2016

But as quickly as stocks seemed to go in a negative direction, they did an about face, erasing all of those loses by quarter end. Our portfolio did not fair quite as well but it too managed to retrieve most of its loses by quarter end.

- S&P 500: +12.95% between 2/11/2016 and 3/31/2016
- Core: +13.87% between 2/8/2016 and 3/31/2016

Some of you expressed concern about the direction of the portfolio at the start of the year. Especially given the wide outperformance of the market we enjoyed in 2015. Your worry is understandable. No person likes to see the numbers in their monthly investment statements decrease. But I must as always urge you to see volatility to the downside, particularly in the short term, as a potential opportunity to buy undervalued securities and not necessarily an indicator you will lose or are losing money. Downward volatility is very different than the loss of capital. Which brings me to the topic of risk.



Risk Is Not Volatility, Risk Is The Potential Loss of Capital

In the 2011 Berkshire Hathaway Letter to Shareholders[1], Warren Buffett shares:

> *"…investing is forgoing consumption now in order to have the ability to consume more at a later date. From our definition there flows an important corollary: The riskiness of an investment is not measured by beta (a Wall Street term encompassing volatility and often used in measuring risk) but rather by the probability – the* reasoned *probability – of that investment causing its owner a loss of purchasing-power over his contemplated holding period. Assets can fluctuate greatly in price and not be risky as long as they are reasonably certain to deliver increased purchasing power over their holding period… a non-fluctuating asset can be laden with risk."*

[NOTE: In the following tables, I am using data as of 12/31/2015.]

Risk is an important consideration when putting your hard earned money to work in the market. As you may recall me saying I do not look at risk the same as is common in the financial advisory business. Risk is often equated to the volatility (as measured by standard deviation[2] or beta) of returns – the more your investment moves up and down, the riskier it is thought to be. The following table shows the Core's standard deviation/ volatility vs. the S&P 500 over different time periods as well as the average gain

[1] http://www.berkshirehathaway.com/letters/2011ltr.pdf

[2]Standard deviation is a measure that is used to quantify the amount of variation or dispersion of a set of data values. A low standard deviation indicates that the data points tend to be close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values. https://en.wikipedia.org/wiki/Standard_deviation

when the portfolio and market have gains and the average loss when the portfolio and market have losses.

	1 year			3 years			5 years			10 years		
	Std Dev	Avg Gain	Avg Loss	Std Dev	Avg Gain	Avg Loss	Std Dev	Avg Gain	Avg Loss	Std Dev	Avg Gain	Avg Loss
Core	19.2%	22.5%	-19.4%	10.1%	16.6%	-3.3%	8.0%	13.1%	-1.9%	1.1%	13.7%	na
S&P 500	16.6%	16.0%	-19.6%	9.9%	12.9%	-7.3%	7.4%	8.1%	-1.9%	0.5%	7.7%	na

In 1-year rolling periods, the Core portfolio's standard deviation is materially higher than that of the market's (19.2% vs. 16.6%). You should note however, that the average loss of the Core portfolio in 1-year periods is slightly *less* severe than it is for the market. On the other hand, the Core's average gain is much higher than that of the market's (22.5% vs. 16.0%).

The table demonstrates one of the many limitations in using volatility measures like standard deviation as a benchmark for risk in a portfolio. The Core is seen as riskier because the standard deviation is higher. However, the higher standard deviation produced by the Core is entirely due to its *gains*, not its losses. In this case the volatility produced is all good.

If we look at 3, 5 and 10-year periods the difference in standard deviation between the Core and the S&P 500 all but disappears. What remains is the Core's advantage in returns – higher gains and less severe loses.

Although standard deviation is a poor tool in measuring risk, portfolio fluctuation can have a real and often detrimental effect on investor behavior particularly if fluctuations compel the investor to sell or withdraw funds at the exact time he should not. As Warren Buffett's advice to shareholders in 2011 suggests, answering the question of 'what is the volatility of the portfolio' does not in turn answer the question 'will the investor lose money'. I employ mental safeguards to assist me in avoiding the tragic and all-to common mistake of selling at inopportune times, which would ensure the permanent loss of my clients' capital. They are:

1. Always recognize short term negative fluctuations are unavoidable.
2. Does the portfolio have fewer losing periods relative to the market over 3 to 5-year periods?
3. Are losses in the portfolio greater than or less than losses in the market? To what degree?
4. Have I limited the magnitude of "peak-to-trough" drops (maximum drawdown) in value to 25% or less and drops greater than 25% to fewer than once in a business cycle (~10 years)?

The following tables, with the ones already presented, provide a more thorough picture of the risk profile of the Core portfolio. These are the results of the Core portfolio in the context of the four risk safeguards mentioned above:

	1 year			3 years			5 years			10 years		
	Total Periods	Total Losing Periods	Losing Periods as %	Total Periods	Total Losing Periods	Losing Periods as %	Total Periods	Total Losing Periods	Losing Periods as %	Total Periods	Total Losing Periods	Losing Periods as %
Core	146	18	12.3%	122	14	11.5%	98	2	2.0%	38	0	0.0%
S&P 500	146	23	15.8%	122	28	23.0%	98	16	16.3%	38	0	0.0%

	Maximum Drawdown		"Penultimate" Drawdown	
	Loss Magnitude	Months to High Water Mark	Loss Magnitude	Months to High Water Mark
Core	-47.6%	20	-11.4%	3
S&P 500	-51.0%	37	-9.7%	3

- Since inception the Core Portfolio has had 53 losing months out of 157 (41%). Short term downward fluctuations are unavoidable.
- Since inception the Core portfolio has had 122 rolling 3-year periods (month to month). During that time 28 periods (23%) have produced negative returns for the S&P 500. On the other hand, only 14 periods (11%) of the 3 year periods produced negative returns for the Core[3].
- We have had 98 rolling 5-year periods during which the S&P 500 had 16 periods (16%) with losses. The Core had only 2 losing periods (2%)[4].
- Neither the Core nor the S&P 500 lost value over any 10-year rolling period.
- The average loss in every period for the Core portfolio was less severe than the average loss for the S&P 500 for the corresponding time period.
- Since inception the Core portfolio had one peak-to-trough loss greater than 25% during the worldwide financial crisis of October 2007 to March 2009. However, the Core returned to previous highs in about half the time it took the S&P 500 (20 months vs. 37 months).
- Excluding the above period, the worst peak-to-trough loss for the Core portfolio was -11.4% in which it returned to previous highs within three (3) months.

The Balanced portfolio had similar and, over most time frames, better results to the Core relative to its benchmark:

	1 year			3 years			5 years		
	Std Dev	Avg Gain	Avg Loss	Std Dev	Avg Gain	Avg Loss	Std Dev	Avg Gain	Avg Loss
Balanced	11.0%	14.1%	-11.2%	5.5%	10.7%	-2.6%	3.4%	10.9%	NA
Composite	11.6%	11.6%	-13.9%	6.2%	9.8%	-1.9%	3.9%	8.1%	NA
S&P 500	18.6%	17.0%	-19.6%	11.2%	14.4%	-7.2%	7.5%	9.6%	-0.6%

	1 year			3 years			5 years		
	Total Periods	Total Losing Periods	Losing Periods as %	Total Periods	Total Losing Periods	Losing Periods as %	Total Periods	Total Losing Periods	Losing Periods as %
Balanced	108	15	13.9%	84	3	3.6%	60	0	0%
Composite	108	17	15.7%	84	18	21.4%	60	0	0%
S&P 500	108	23	21.3%	84	25	29.8%	60	4	6.7%

The results above are summarized below:

[3] Over the last 50 years, 1966 to 2015, the S&P 500 (with dividends reinvested) had negative returns over 3 year periods (only calendar years measured) 16% of the time.
[4] Over the last 50 years the S&P 500 had negative returns over 5 year periods 12% of the time.

- Over periods of 1, 3 and 5 years (and since inception, not shown) the Balanced portfolio had a lower standard deviation than the Composite index.
- Over periods of 1, 3 and 5 years the Balanced portfolio had greater gains than the Composite during periods in which the portfolio had gains and less severe losses during periods in which the portfolio had losses.
- Over periods of 1, 3 and 5 years the Balanced portfolio had far fewer total losing periods than the Composite index.
- The Balanced portfolio had no losses over periods of 5 years or more.

Balanced Portfolio Performance

In the first quarter of 2016 the Balanced portfolio increased +0.89% vs +1.88% for the Composite Balanced Index and +0.95% for the all balanced mutual funds.

	Annualized Returns as of 3/31/2016					Total
	3 month	YTD	1 Year	3 Year	5 Year	Since Inception
Balanced Portfolio	**1.30%**	**1.30%**	**11.41%**	**10.87%**	**11.73%**	**153.06%**
Composite Balanced Index	1.88%	1.88%	0.76%	7.78%	8.25%	90.03%
Balanced Mutual Funds	0.95%	0.95%	-2.25%	5.13%	5.68%	na

Improvements in Communication

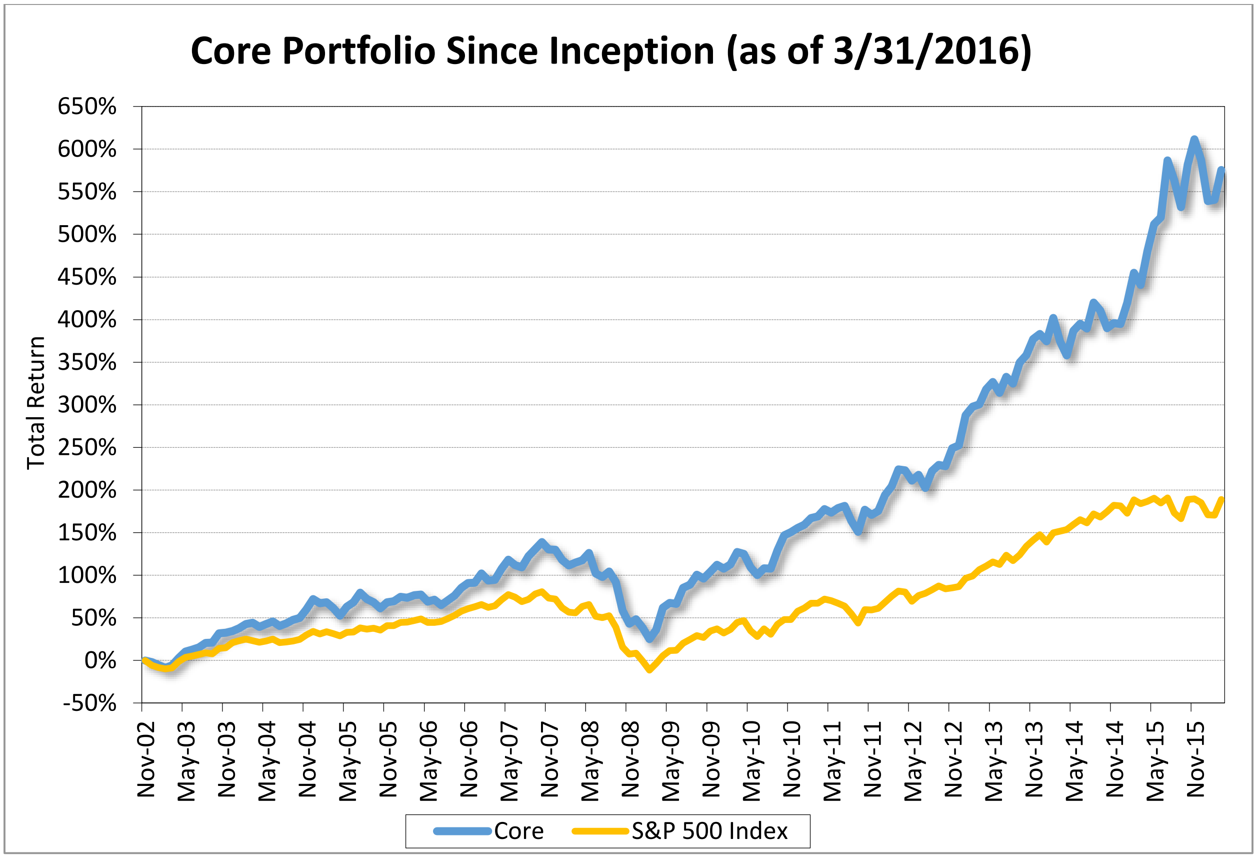
Over the years, I have admittedly done a poor job on one of the Guiding Principles of Brick Financial which is to communicate with you with as much openness and candor as possible. Do not get me wrong. *When* I have communicated with you, I have met this standard to the best of my ability. However, I have not kept up with both the frequency with which I first intended or with the tools by which to do it. Social media has exploded as a means of communication across the world. Berkshire Hathaway's annual meeting was live streamed over Yahoo, the President of the United States podcasts and tweets, and babies know how to manipulate a smart phone.

I too use these tools as a part of my everyday life. I have however, failed to incorporate them in my communications with you. My intention is to, slowly, begin to do so.

As always, I ask you to keep a long term outlook. If you have any questions or concerns or know of anyone who might be able to benefit from my services, please feel free to contact me.

Sincerely,

Ben Taylor


Core Portfolio Since Inception (as of 3/31/2016)
650%
600%
550%
500%
450%
400%
350%
300%
250%
200%
150%
100%
50%
0%
-50%
Total Return
Nov-02
May-03
Nov-03
May-04
Nov-04
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
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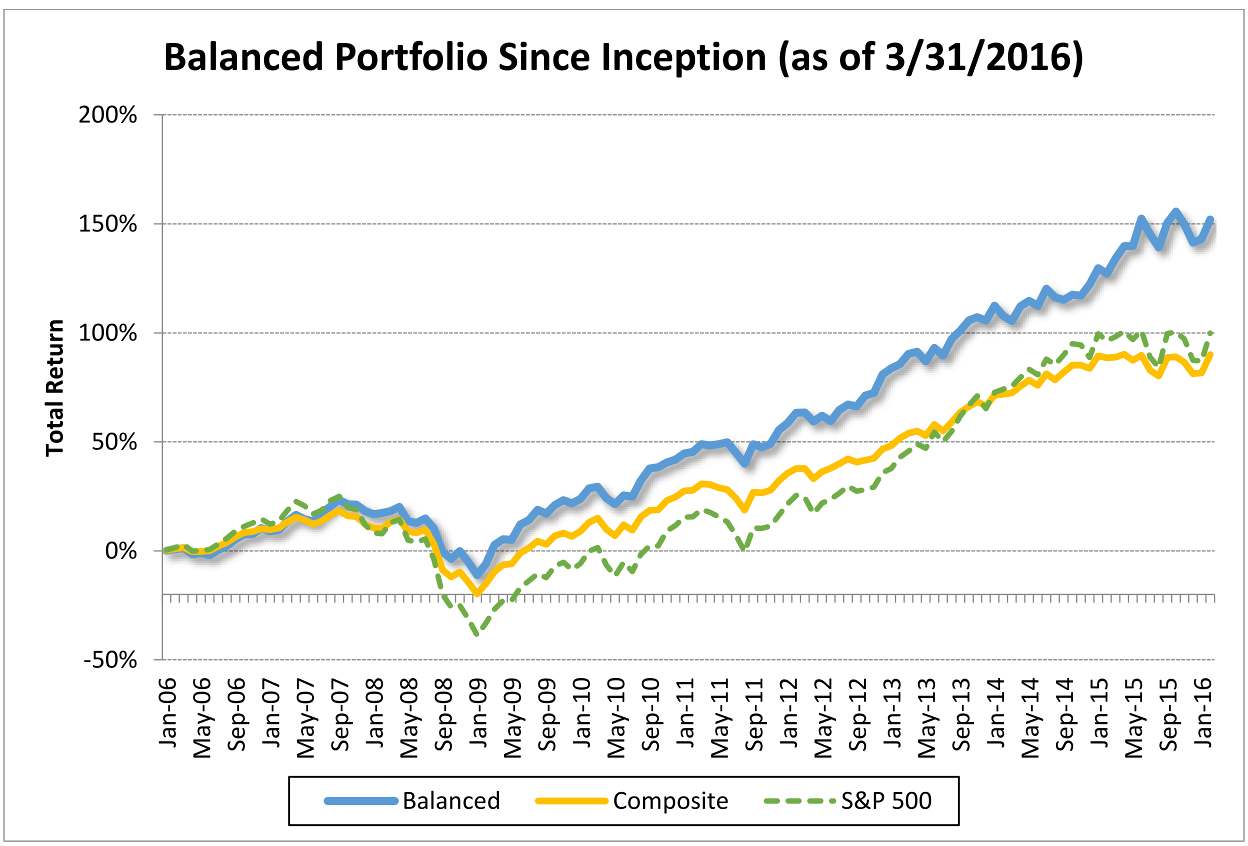
Core
S&P 500 Index


Balanced Portfolio Since Inception (as of 3/31/2016)
200%
150%
100%
50%
0%
-50%
Total Return
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Sep-08
Jan-09
May-09
Sep-09
Jan-10
May-10
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Jan-11
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Jan-12
May-12
Sep-12
Jan-13
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Sep-13
Jan-14
May-14
Sep-14
Jan-15
May-15
Sep-15
Jan-16
Balanced
Composite
S&P 500

Disclosure

The "Core Portfolio" and the “Balanced Portfolio” returns represent the gross weighted average returns of model portfolios based on our Core and Balanced investment styles. The Balanced portfolio is made up of 40% Core portfolio, 20% Equity ETF portfolio and 40% Fixed Income portfolio and is rebalanced yearly for the purposes of reporting returns. The returns are determined using a technique known as “time-weighted return on investment”. They are presented gross of fees and do not represent actual trades of client portfolios although client portfolios are based on the model portfolios. Fees range from 1% to 2% and differ from client to client. Clients may have different fee arrangements. Depending on the timing of a specific investment, client cash contributions or withdrawals, and/or other factors, actual individual client returns may be lower or higher than the model portfolios. The model portfolios are presented here for informational purposes only. Although Brick Financial believes the information and data in this report were obtained from sources considered reliable and correct, their accuracy or completeness cannot be guaranteed. Neither this commentary, nor any opinions expressed herein, should be construed as an offer to sell or a solicitation of an offer to acquire any securities or other investments mentioned herein. Persons associated with this firm may own or have an interest in securities or investments mentioned in this presentation. Their positions may change from time to time and they may buy or sell such securities or investments. Past returns are no guarantee of future performance. Portfolio data is maintained at Foliofn.com. Inception date for the Core Portfolio is 12/6/2002. Inception date for the Balanced portfolio is 2/1/2006.

The index and mutual fund data comes from several sources including Wilshire, Standard and Poor’s, Hedge Fund Research, The Wall Street Journal (mutual fund data), CSRP and Barclays. The Wilshire 5000 Index is a market capitalization weighted index measuring all stocks regardless of size as long as they are traded on a major U.S. exchange. The Wilshire 4500 Index is a market capitalization weighted index measuring small and mid-cap stocks. It is constructed using the Wilshire 5000 with the companies of the S&P 500 removed. The S&P 500 Index is a market capitalization weighted index of 500 large-sized stocks. The index is designed to measure changes in the economy and is representative of most major industries. The ALL U.S. Domiciled Equity Mutual Fund and Balanced Mutual Fund data is from Lipper Research and is published in The Wall Street Journal. The HFRI Equity Hedge Index in maintained by Hedge Fund Research, Inc and is an index of Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. The Composite Balanced Index is made up of 60% CRSP US Total Market Index and 40% Barclays U.S. Aggregate Float Adjusted Index, rebalanced monthly. You cannot invest directly into an index. Index returns are presented for illustrative and comparative purposes only.