September 30, 2015

Wenzel Analytics Inc

Clients,

The good news is that we just completed a retest of the August 24 market lows, which gives you a lower basis for your management fees! ☺ While I don't expect it, if the S&P 500 drops below 1870 for more than a day or so, we could see a significant further decline meriting a heavier cash position.

I am becoming increasingly focused with fewer portfolios in how I manage your accounts. For those of you for whom relatively solid and predictable returns are important, independent of what the stock market is doing, we are turning more and more to preferred stocks with their high dividends and less volatility because of being eventually callable at $25. The preferred stocks plus a few Real Estate Investment Trusts (REITs) now comprises 39% of your combined assets. To the extent we want to do better than the stock market, we are using two portfolios based on newsletters with strong consistent returns. *The Investment Advisory Service* (IAS) now has 17% of your assets and *Nate's Notes* has 18%. Gold and silver still comprise 15%, which is a more speculative play. Either gold and silver will move up soon or we will move out. Taken together, the above portfolios comprise 90% of your assets. The remaining 10% is in cash or scattered minimal portfolios in the process of finding an exit.

So we are using the *Investment Advisory Service* and *Nate's Notes*. These two newsletters have been selected because of the exceptional returns reported in *Hulbert's Financial Digest,* a newsletter that independently tracks returns from over 500 financial newsletters. I look for consistent market-beating returns in every time period, which is very rare.

| *The Hulbert Financial Digest, July 2015* | | **Investor Advisory Service** | **Nate's Notes** | **Wilshire 5000** |
|---|---|---|---|---|
| **Total Return** | (Annualized except 6 mo) | | | |
| | 6 Mo (% Change) | 4.1 | 23.4 | 1.7 |
| | 5 Yr | 18.1 | 29.8 | 17.3 |
| | 10 Yr | 11.2 | 18.7 | 8.2 |
| | 15 Yr | 11.0 | 10.5 | 4.9 |
| | Overall | 12.5 | 14.5 | 11.4 |
| | Compared to Wilshire 5000 | 8.5 | 4.7 | 11.4 |
| | Since | 12/31/95 | 12/31/99 | 6/30/80 |
| **Risk** (Standard Deviation) | | 1.15 | 2.63 | 1.00 |
| | | Hi | V Hi | Avg |
| **Correlation** to market | | 0.87 | 0.53 | 1.00 |
| **Risk Adjusted (Sharp Ratio)** | | | | |
| | 6 Mo (% Change) | 0.18 | 0.58 | 0.11 |
| | 5 Yr | 0.36 | 0.40 | 0.39 |
| | 10 Yr | 0.19 | 0.23 | 0.15 |
| | 15 Yr | 0.17 | 0.13 | 0.08 |
| | Overall | 0.18 | 0.14 | 0.14 |
| | Compared to Wilshire 5000 | 0.13 | 0.08 | 0.14 |



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I tend to be more speculative in my personal holdings, buying individual stocks based on a persuasive story, experimenting with statistical methodologies such as SectorSurfer, or holding resource and energy positions in expectation of being at a bottom for commodities. So far the returns are comparable.

The biggest change in this picture of my narrowed focus is pulling back from reliance on the data mining and statistical strategy. These include the criteria sets derived from my own data mining work, as well as the extensive findings of O'Shaughnessy going back to 1926. What doesn't work about "What Works on Wall Street"? The patterns might work for a period every five or ten years, but it doesn't satisfy me or you when we trail the market in between. The research findings are skewed by extremely high average returns for short periods of time. I'm coming to realize that I don't have to reinvent the wheel. If I can find other people's work that gives strong, predictable returns, why not go with that?