TAYLOR INVESTMENT SERVICES LLC
2014 Q4 LETTER

INTRODUCTION

In a year when the domestic indices produced solid returns with large companies notably outperforming small, TIS had an off year. And the portfolio option didn't matter, as returns were tightly bunched and lagged our large company S&P 500 benchmark by a substantial margin. As always, there are variations among specific accounts, particularly for those under $200,000.

For Model accounts, performance also lagged the balanced index fund as both stocks and bonds had a solid year. Noted in previous reports, just because we use a comparison which contains bonds doesn't mean we will have a significant fixed income presence. That said, our closed end preferred securities did well last year as interest rates unexpectedly fell.

Unlike last year, there were few big winners in the portfolios. We had large percentage gains in a group of speculative Canadian pharmaceutical companies but unfortunately most positions sizes there were either too small or non-existent in all client accounts. We did have solid performers like conglomerate Berkshire Hathaway (BRK-b), asset manager Diamond Hill (DHIL), tax preparer H.R. Block (HRB), and telephone company Atlantic Tele Network (ATNI). All these stocks did well mostly because earnings improved.

Losers included surveillance firm Avigilon (AVO-t), internet company Blucora (BCOR), and medical products company Trinity Biotech (TRIB), a winner last year. I accepted too high valuations for the first two and results disappointed while the last is still a work in progress as a potentially lucrative blood test was delayed.

In general, as shown by your ROI by Security (Type) report, our stock picks were inconsistent, and I sold a large number of positions at a loss and they subsequently rose. Plus, as has become a regular routine in these reports, cash levels negatively impacted returns. I'll have more to say in the question and answer section.

Note: Consolidated performance represents a blended fee rate. All return references in this report refer to consolidated numbers. This report was written in the last week of December. Canadian stocks are listed with their Toronto Exchange symbol with a "-t" extension.

LONGER TERM PERSPECTIVE

As noted in the ADV, our "*specific performance objective for the equity allocation of a portfolio is for the time-weighted return on investment to exceed, on a pre-tax basis, the comparative return of the Vanguard 500 fund(VFINX) in the 3rd to 5th year anniversary of the first full quarter after the inception of the portfolio*".

We did not meet this objective*.

For Model accounts starting in 2012 we added a 2nd goal to exceed the Vanguard Balanced Index fund. We remain ahead of this objective. Longer-term performance remains exceptional but only if 2008 and before is included. As TIS has not accepted new clients for several years, the bulk of managed assets represent pre-tax appreciation, though existing client contributions are welcomed at any time.

*NOTE: A few 'more' and 'fully' invested accounts did achieve 5 year outperformance.

TWO PORTFOLIO OPTIONS

Effective Nov 2014 as previously disclosed, TIS currently offers two portfolio options:

The Model Account – currently comprising 62% of TIS managed assets and modeled after my personal accounts, this option is the same as usual. This choice is most suitable for: 1) investors over 50 years old and above, 2) with the bulk of investable assets at TIS, 3) who authorize up to a 100% stock allocation in theory but where portfolios historically contain large cash and fixed income balances. TIS uses two benchmarks on these performance reports: the S&P 500 (as measured by the Vanguard 500 fund – VFINX) for all periods and the Vanguard Balanced Index fund (VBINX; usually 60% total stock market, 40% total bond market) for periods starting in 2012.

The Plus Account – currently 38% of TIS managed assets, this option is for more aggressive investors who want a higher stock allocation in their portfolios than the Model. Plus accounts will contain 1) minimum core account allocations that 2) are potentially larger and 3) may contain positons not in the Model. The latter stipulation represents the major change, facilitating greater flexibility. Plus accounts are planned to be 80 to 90% invested in stocks at all times, subject to finding appropriate values. I am having trouble meeting this objective at this time. The sole comparison here is the Vanguard 500 fund – VFINX. Normally I would expect more volatility in the Plus accounts in the future vs. the Model.

Your portfolio option is listed on the cover page of your performance report. The former 'more' and 'fully' invested options were automatically converted to the Plus option.

Let me know if you want to make a change.

FEARLESS FORECAST

Last year's report speculated that "*...with the economy gaining strength by year-end, stronger earnings growth in 2014 may justify today's prices. My guess is that rising interest rates will temper any increase, but believe a range of -5% to +10% is likely again next year with a bias toward a modest upside, though I'm glad I don't make my living on stock market forecasts."*

I was correct on the upside guess but believe outsized returns (at least for large companies) were powered partly by lower interest rates. Indeed, 10 year U.S. treasury rates fell from 3.0% to 2.25% today. Odds seem to be increasing for future rate hikes with an accelerating domestic economy though lower oil prices and overseas slowdown may temper any rise.

There are many reasons to believe the market is due for a pause or correction (detailed below) but my expectation is for a -5% to +5% return with a bias toward a flattish to mildly positive gain. However, as noted last year, my market forecasts are educated guesses at best.

Admittedly, I'm not excited by our current TIS portfolio. Like most recent years, cash levels are very high and our stocks dominated by stalwarts likely tightly correlated to the overall market. I wanted to re-emphasize something many clients don't often consider – a happy market makes my job much more difficult. And a happy market that goes up more or less consistently is the worst for finding dynamic opportunities. Finding good performing companies is not that difficult but the price needs to be right.

I mentioned this last year - as *currently* composed, we will likely again underperform the market if 2015 provides another double digit return. Today I don't think our stock picks are dynamic enough to offset the dead weight of cash. This places even more of a premium on sizing positions appropriately - especially new ideas as they arise. I did poorly in this area in 2014.

That said, every year brings surprises and opportunities. I have some specific focus areas detailed below and will do my best.

QUESTIONS AND ANSWERS

This section serves as an overview of TIS philosophy and a discussion of specific 2014 selections. The responses strive for candor, with an assessment of both the strengths and weaknesses of my approach, and seek to answer questions I would want to know in your place. "Portfolios" generally refer to Model accounts unless specifically referring to another option.

Why did you substantially underperform the S&P 500 index in 2014?

The short answer here is that our stock picks didn't outperform the index and cash contributed less than nothing. Last year our picks, led by Paladin Labs, managed to power us higher despite those same cash levels. As a reminder, the S&P 500 is always fully invested in stocks – it never holds cash.

One of the benefits of TIS outperforming historically (no guarantee in the future) is there wasn't an overly pressing need to consider major changes in my approach.

But 2014 was different – the numbers were poor, our picks were inconsistent, and my decision-making with the benefit of Mr. Hindsight Man (who knows everything) skewed far more toward short-term evaluations than long-term ownership. I didn't hold positions long enough and was painfully indecisive.

This is compounded by my actions during the few declines we had last year - rather than search for stocks to buy, I mostly looked for stocks to sell. Many of these sells look poor in hindsight, and unfortunately declines weren't prolonged to the extent where I felt confident aggressively adding to existing names.

After much deliberation let me admit something that seems even more obvious now – my risk tolerance is much lower than it used to be, shifting more to capital preservation than appreciation. This is not all bad – I believe many clients purposely keep Model assets with TIS precisely because you are comfortable with this approach. But Plus accounts need to be handled differently.

I will also admit to some personal turbulence with TIS itself – employee changes and an office location move as a minimum altered routines, though I remain responsible for any resulting impact. The good news is I'm back at home now and have re-established old habits.

All this said, there is a more significant and long-lasting issue at work here to discuss – namely, the changes in my investment universe.

Why are changes to your investment universe a concern?

One of the most important priorities of money management is to ensure the universe followed offers opportunities. Time is finite, and the first step in a quest is to look in the "right" places. In stock picking, this is more difficult than it sounds, as I believe the only way to determine success is to experience success. Otherwise, all you've got is hope.

Prior to 2011 two industry groups dominated the winner's list for TIS portfolios – asset managers and retailers. Both are facing unique challenges today.

Many asset managers are being hit by similar troubles impacting TIS - indexing has been a tough bogey and overall industry inflows have often been modest despite higher performance. Plus, if I'm having trouble finding ideas, it is hard to be enthusiastic about companies making their living attempting the same task. Retailers face a more direct problem – the growth of E-commerce – a subject discussed in detail in the TIS Q2-2014 report. Granted, even in a challenged industry there are winners but the game here has become more difficult.

As a consequence, last year I shifted my universe to other areas. This can be a painful process, involving new terminology, new variables, and a lot of work getting up to speed on a story. At times, the underlying reasons for stock gyrations are not always immediately apparent, and indecision can be a natural consequence. Some of my hesitancy in 2014 can be traced to this dilemma – especially since acting decisively requires a great deal of confidence.

Yet, I don't want to paint too glum a picture. From 2011 to 2013 we had a diverse list of winners in Canada and those represented many varying industry groups. Despite numerous mistakes the stocks we did hold in 2014 did ok. Plus, I am a year further along in this transition process. Some of our newer picks were solid and therefore I would argue my "hope" for future success is more tangible.

What about longer term performance, specifically the past six years?

Few reading these reports will be surprised that my underperformance corresponds to the start of the bull market in 2009 (with a low in Q1-2009). Cash acts an anchor which is doubly difficult to overcome in high return years.

Obviously a charitable view is that TIS returns mostly keep pace with a fully invested index during many strong years despite very large cash positions. A more critical view would note that crummy asset allocation overrode stock selection, especially since valuations were more attractive a few years ago.

Despite the anchor of substantial cash holdings, we have captured most of the index's gains. Granted, the gains could have been larger with less cash, and I know there is room for improvement in my investment process. And yes, one of my objectives is to beat the index but ultimately I am not usually willing to be fully invested in stocks to do it – unless directed otherwise.

But what about Plus accounts?

Yet, clearly changes are needed in the Plus option, and last year I simply waffled too much on how these accounts should differ. The stock that demonstrates this most clearly is **Mednax** (MD) – where I assigned a 5% allocation in the Model and 8% and 10% in the more and fully respectively. As hoped, MD rose smartly but unfortunately I got cold feet and decreased non-Model allocations at the worst possible time.

Changes introduced in Nov 2014 should finally clarify matters. Besides reducing the options from three to two, I also revised my master spreadsheet to place each option on different tabs. This seemingly cosmetic change will make it easier to manage and view each option as separate choices while still being unified by the same underlying investment philosophy and stock selection. In essence, next year if I allocate a stock at 10% in the Plus and 5% Model, I won't overly obsess about the difference (too much at least).

As a reminder, my children are Plus account clients, and I am well aware they have longer time horizons than I do.

Especially for investors with a longer-time horizon like Plus accounts, why not simply invest the cash in an index fund or proportionally within your existing holdings?

As noted last year we could become fully invested in all accounts almost instantly – for instance, by using cash to buy an index fund like the S&P 500. Alternatively, I could proportionately enlarge existing holdings to eliminate cash. Indeed, in the Plus accounts I am experimenting with these choices.

Yet, admittedly it is hard to buy an index that doesn't appear undervalued (see the next question). And I feel the current allocations on my existing stocks are appropriate.

Yet, if you can accept the risk and provide me a written order to be fully invested at all times I will comply as long as we own at least one stock. I would also suggest that you only make this decision after a particularly ugly day in the market – better yet, after many ugly days.

Do you believe the market is overvalued?

This is a question I typically avoid answering. After all, time spent searching is far more productive than time spent speculating, and nobody knows what will happen in the future. The inaccuracy of my own 'Fearless Forecasts' in these reports testifies to that.

But I do think my existing cash levels are linked to a market where finding good ideas is more difficult. Maybe I'm not looking in the right places, but maybe valuations are stretched. Here are three reasons to think so:

1 – The publication **Value Line Investment Survey** includes a weekly "*Estimated Median Price Appreciation Potential*" estimate for all stocks covered for the next 3 to 5 years. The latest figure stood at 30% which compares to a range of 185% to 30% over the last six years.

2 – Warren Buffett famously suggested monitoring stock market attractiveness by comparing Gross National Product (GNP) against the total market valuation of all domestic companies. According to published sources, this ratio sits at 129% (implying a future return of 0.5%). In the low of 2008 the ratio dropped to 62%.

3 – Revision to the mean suggests that if the S&P 500 return was 9.9% annualized over the last 20 years, recent 3 and 5 year returns of 20.9% and 15.7% respectively are likely to moderate.

It also seems obvious that very low interest rates have also inflated the returns investors pay for stocks. As an example, consider how well otherwise boring utilities did in 2014.

Normally these are slow-growers, with modest earnings growth rates and slowly increasing dividends. Yet, investors bid the group much higher last year, likely in search of something to replace low yielding bonds. Maybe this attraction is sustainable but rising rates could change perceptions.

Again, none of this means that the market will correct next year. But it might explain my caution.

What changes will you make to stock selection?

I don't believe major changes to stock picking are warranted. Last year, for example, our stock picking was stellar, and when we have managed to hold onto stocks usually the result has been solid. Again, there is no guarantee this will continue.

That said, I am focusing on three specific changes for next year: 1) making position sizes larger, 2) holding positions longer, and 3) buying more aggressively during declines.

If we are in an environment where values are scarce our allocations ought to be larger as a consequence. As appropriate, I will enlarge position sizes and trade allocations.

Holding periods can be a dicey thing, and hindsight clearly illuminates every decision. That said, clearly I need to 'PAUSE' further before selling and next year I'll monitor holding periods more closely.

Lastly, I plan to accelerate review cycle during periods of market stress. And since my universe changes specifically targeted better business models, in theory this means they should be easier to buy during declines.

How are the portfolios currently composed?

Let's look at the answer to this question in several ways including general category, market value, and team composition and make some general observations. Obviously individual accounts may differ.

By Category

- Canada Domiciled 6%
- Financials 5%
- Medical 3%
- Miscellaneous 2%
- Preferred Stocks 7%
- Retail 3%
- Stalwarts 18%
- Tech 11%
- Cash 44%

Numbers don't equate to 100% due to rounding.

This allocation appears to be a very conservative posture. Cash and the preferred stocks make up a huge portion of assets. The significant weighting in stalwarts (large companies with consistent earnings growth typically with a notable international presence – contains many industries) seconds this impression. Not much has changed from the beginning of last year.

Excluding smaller positions, cash, and fixed income oriented securities, the portfolios are divided by market value as follows:

By Market Value

- Small (under 1b market value): 15%
- Mid (1b to 5b): 22%
- Large (5b to 25b): 17%
- Super (above 25b): 45%

(b = billion)

These numbers are clearly skewed toward larger companies yet small and mid-cap stocks are represented, unsurprising since TIS will invest in any size company.

TIS portfolios currently contain 75 positions. Subtracting closed end preferred stocks, income oriented positions, and stocks appearing in few client accounts roughly reduces the total to 29. Of that number, here is the breakdown by 1st team (holdings typically 3% or more), 2nd team (1-3%), and the farm team (under 1%) in terms of the total dollars allocated to each group:

By "Team"

- 1st Team : 5 stocks or 43%
- 2nd Team: 14 stocks or 43%
- Farm Team: 10 stocks or 14%

Excluding cash, the stock allocation in the portfolio is more concentrated than you might surmise, though again most are stalwarts. And I own a LOT of farm team stocks that don't appear on this list as the search for value is taking me into many different places.

What are your top five holdings and why did you choose them?

In alphabetical order the largest positions in the consolidated TIS portfolio, excluding closed end preferreds, include Berkshire Hathaway (BRK.B), Johnson and Johnson (JNJ), Google (GOOG; GOOGL), Checkpoint Systems (CHKP), and Markit (MRKT). Two of these positions are repeat top five holdings from last year (BRK.B, JNJ) with MRKT a brand new TIS position in 2014.

Berkshire Hathaway (BRK.B – stalwart). For the year, this stock outperformed the market. BRK.B is the only position we follow where I feel little urgency to read the latest earnings report beyond a cursory review. No one is like this – earnings reports can signal change and influence stock prices. But BRK.B is rarely like that. Our most complicated holding by a mile, this conglomerate has a multitude of operations ranging from insurance to candy, from railroads to utilities, from restaurant franchising to manufacturing, though the most important remains insurance underwriting. This wide diversity generally insulates the overall business from any extreme changes in any specific area and thus rarely do earnings reports provide vital company transforming data. There are reasons for caution here – CEO Warren Buffett is 83 and won't live forever – and while most believe the culture created will be fine under future successors, nothing is assured. Plus, the stock had a nice run last year with valuation now less attractive.

Checkpoint Systems (CHKP – fast grower/asset play**)**. Appearing in the portfolios for a few years now, software technology company CHKP's charms are obvious: a strong balance sheet with tons of excess cash, gigantic free cash flow, and a growing buyback plan. In the past couple years the knock against CHKP has been its moderating sales growth but progress was made last year as sales could reach double digit by Q4-2014. While lower than some competitors, CHKP is one of the larger companies in the industry and continued high profile data breaches will only bolster the industry's prospects. Plus, if CHKP's search for acquisitions ever proves successful, growth could be enhanced.

Johnson and Johnson (JNJ- stalwart). For the year, this stock exceeded the market and perhaps should have done even better. Many other stalwarts trade at higher valuations despite tepid sales and earnings growth and debt heavy balance sheets. Not JNJ – driven by pharmaceuticals earnings growth was solid in 2014 and the balance sheet contains more cash than debt. Many feel further value could be unlocked by separating the company (pharmaceuticals, medical devices, and especially consumer) but management has resisted calls so far. Not everything is rosy here – 2015 will likely be more muted as a drug that recently inflated earnings faces imminent competition from a better product early next year. Plus, the pharma division in general faces difficult comparisons.

Google (GOOG, GOOGL – fast grower). It is hard not to loath this technology company. Earnings reports are singularly unhelpful, as GOOG never bothers to truly explain its business in sufficient detail. Analyst reports are no help as the insights appearing are mostly drivel "gleamed" from conference calls where little of consequence is discussed. Financial filings are no help either, and for a company whose motto is 'Don't do Evil' the 'high-end' letters written each year by management border on parody as they are extremely brief.

So why make this stock a top 5 holding? Here's why:

- 20% sales growth in the latest quarter which is extremely impressive for a company this size
- $53 billion last quarter in investments and cash above debt on the balance sheet
- $21 billion in trailing 12 months cash flow from operations

- After moving up big in 2012-2013, the stock was mostly flat this year and trades for well under 20x next year's earnings with cash and investments excluded

There are some challenges besides the lack of clarity – expense growth has largely outpaced sales, top line sales growth rates will surely come down as the company gets bigger, and numerous legal challenges both domestically and overseas will continue to surround the company. Lastly, as with any tech firm obsolesce is always concerning but GOOG is entrenched in many attractive areas.

Markit (MRKT – fast grower). An IPO mid-2014, MRKT provides pricing, valuation, trade processing, and software and services for the financial services industry – particularly in derivatives and other hard to value instruments. MRKT features a strong track record (19% sales growth rate from 2009-2013), high free cash flow with minimal capital expenditures, and an acquisition driven business model. But the crown jewel here is recurring revenue, estimated as high as 95%. There are some unusual risks here – like any acquisition centered company, you hope management won't pay too much; credit default swaps and other derivatives can be a lightning rod for criticism with attendant legal risks; a transition to more computerized trading could create pricing and margin pressures. Lastly, MRKT itself has few peers, making it harder to value. But I like the business and will be patient.

Describe your top 5 holdings at the start of 2014 and how they contributed to performance.

Our top five positions at the start of 2014, in alphabetical order, were Apple (APPL), Berkshire Hathaway (BRK.B), Johnson and Johnson (JNJ), Market Vectors Wide Moat ETF (MOAT), and Pzena Capital Management (PZN). BRK.B and JNJ were discussed above.

Apple (APPL – stalwart**).** The good news is that we had a solid gain in Apple. Twelve months ago I thought the market was undervaluing this company and after a great year where little went wrong the stock exploded upwards again. The bad news is I managed to reduce part of this gain by selling too early (a pattern this year). I thought the law of large numbers would catch up to the business but the perception change which moved the stock upwards has yet to wear off but I am more cautious and consequently we don't own shares.

Market Vectors Wide Moat ETF (MOAT). I had planned to use this index-like actively managed ETF as a cash substitute but changed my mind several times. MOAT underperformed our benchmark but would have added to returns if held the entire year. While there were reasons for my indecision (see the Q3-2014 report), suffice it to say my lower risk tolerance overrode ownership in these shares. Next year, I do plan to use this position in more modest quantities in the Plus accounts in particular.

Pzena Asset Management (PZN – fast grower). Previously discussed in the Q2-2014 report, we lost a nominal amount in this security in 2014. As noted then, my numbers were off when evaluating this security. Subsequent to our sales, PZN moved lower.

What new positions did you add in Q4?

Here is a list of major additions to the portfolios, though not all trades appeared in every account. I added to several companies mentioned above, including CHKP, GOOG, and MRKT.

Columbia Sportswear (COLM **–** asset play/fast grower). Apparel company COLM features a strong cash heavy balance sheet, high free cash flow, and reasonable if not overly exciting valuation whose fortunes should be helped by generally colder winter conditions (unlike two previous years) and inroads into China.

eBay (EBAY – asset play/fast grower). A pending separation of the higher growing PayPal division could serve as a further catalyst for this company which has a strong balance sheet, generates considerable free cash flow, and trades for a reasonable valuation. The company does have a history of decent earnings reports but modest future forecasts, so expect persistent volatility in the shares.

HR Block (HRB – stalwart). HRB was one stock I aggressively purchased during the early Q4 decline, as the company's tax preparation business ought to be relatively immune to economic fluctuations. The stock has been hurt by continued regulator delays on the sale of its affiliated banking operation which will eventually free up capital for higher buybacks and dividends.

What were the major sales in Q4?

The list below covers major reductions in the portfolios. Not all trades appeared in every account. Sales are grouped by themes with commentary as warranted. I could add back to these stocks at any time. MOAT was discussed previously.

Valuation related - Atlantic Tele Network (ATNI – asset play/fast grower), **Constellation Software** (CSU-t – fast grower), **Mednax** (MD – fast grower).

The partial sale or liquidation of all these positions was the result of a normal reduction after significant price rises. I did decide to add back to ATNI at the end of the quarter.

Low conviction ideas - Franklin Resources (BEN – asset play), **T Rowe Price** (TROW – fast grower), **Varian Medical** (VAR - stalwart).

For the first two, I sold both of these asset managers during market declines early in the quarter. My thought was that asset managers are far more volatile than the market itself, with earnings dependent on both investor flows and asset levels, and a lower market could pressure the shares. But the market did not go lower, and both stocks are much higher today. My timing was wrong here – if anything, declines are an opportunity to own these sorts of companies while good times can be an opportunity to sell, though no one knows the length of a market sell-off. Because of this result, I will be more cautious with this group next year.

For VAR, the recent earnings report was disappointing with sales challenges and a disappointing forecast. The stock has responded by rising 10%. Was I too short-oriented in my evaluation? Stock price action suggests so, but normally muted results produce lower or muted stock prices, especially if the valuation is not cheap to begin with. Yet, growth could certainly accelerate beyond expectations, especially over the longer-term, and VAR is a very good business. These quandaries make for tough decisions.

Deteriorating Fundamentals - Applied Industrial Technology (AIT – fast grower)

AIT has a notable oil services presence (particularly since recent acquisitions have been focused on this area) but lower oil prices make me less optimistic in the short-term, but I kept a presence mainly because these same challenges could lead to interesting future acquisition opportunities at the company's option.

Round Trips - Johnson & Johnson (JNJ - stalwart), **Priceline** (PCLN – fast grower)

These are stocks sold that were repurchased. I decided to reduce JNJ in stages as it had reached price targets and offered a muted 2015 forecast but late in the quarter I repurchased because its relative prospects compared to available alternatives seemed more attractive. With PCLN, I'm embarrassed to admit I watched too much TV and reacted to Ebola fears but the stock fell back to near our sell price and I bought it back, albeit at a lower allocation.

POSITIONS

This is a full list of TIS companies. Not all stocks will appear in your personal portfolio. Valuations referenced are for prices as of late December 2014. These opinions are subject to change at a moment's notice, and no profile should be construed as a recommendation for any listed security. Stocks discussed in detail previously are not repeated again.

Stocks are grouped into three classifications: the first string (generally 3% or more) which appear in all portfolios, second team (generally 1-3% or more) appearing in most portfolios, and the farm team (less than 1%) which appear in far fewer accounts but are likely candidates to be larger positions. The profiles are listed in alphabetical order by symbol within the subgroups. Finally, there is a small section for outliers, positions that don't fit normal categories. I own every position listed below.

All first string stocks were listed above and not repeated below.

SECOND STRING – these profiles describe the positives and negatives with the individual company and explain why the position isn't larger. Overtrading a position mentioned below refers to buying and selling a position too much – usually at a determent.

- **Applied Industrial Technologies** (AIT – fast grower). AIT is an industrial distributor who also provides engineering services for industrial and fluid applications. The company features solid finances, high free cash flow, and a consistent though modest historical sales record. For the past year, management has emphasized growth by acquisition (which can be good or bad), with a recent focus on energy services which likely will be hurt by lower oil prices. I think the stock is reasonably priced, but when purchased AIT's future growth path seemed more optimistic than today.

- **Atlantic Tele-Network** (ATNI – asset play/fast grower). The company operates wireless and wireline segments overseas and domestically and owns wholesale cell towers mostly in the rural Midwest. The company had a strong year, driven by higher demand from increased cell traffic. And driven by an astute acquisition sold fairly recently, cash equals almost 40% of the company's market value. There are some risks as overseas performance has been inconsistent and capital expenditures ramped up to increase cell tower penetration and capability. ATNI is also negotiating lower pricing in exchange for long-term cell tower deals, thereby lessening the odds telephone companies build their own. This could create pricing pressures on margins. Lastly, eventually management has to do something intelligent with their cash, but remains patient for now as pricing is too high.

- **Constellation Software** (CSU-t – fast grower). For a while I've believed this acquisition-happy software company was fully valued and due for a rest but 2014 was another strong year. Yet, the story has always been rather complex, with many earnings related adjustments, rapid changes in the company's financial structure, and an inability on my part to understand if acquisition prices are appropriate. That said, focusing on cash flow from operations alone reveals ongoing growth and management doesn't issue options, but the valuation makes me uncomfortable. Yet, long-term plans remain aggressive driven by continued acquisitions and we retain a position in the shares, albeit at a reduced level.

- **Columbia Sportswear** (COLM – asset play/fast grower). From 2011 to 2013 apparel wholesaler COLM experienced static sales but growth has ramped up this year, with catalysts including colder weather and a new joint venture in China. The company features a strong cash heavy balance sheet, increasing dividend, high free cash flow, and accelerating near-term earnings. The biggest negative as with most stocks in 2014 is valuation, and COLM's longer term history suggests there could be a cap on good news in the future. This is the sort of position I would expect to adjust as it moves up and down.

- **Diamond Hill Investment Group** (DHIL – asset play/fast grower). Long-time holding DHIL features a solid balance sheet, large free cash flow, and annual special dividends. Despite muted performance compared to indices in 2014 (TIS is not the only one who had a tough year), investor inflows have been surprisingly strong, leading to good earnings gains. The company remains exclusively focused on domestic stocks but does feature a unique long-short fund with a solid long-term record. This stock is difficult to purchase in quantity and I overtraded the positon in 2014.

- **eBay** (EBAY – fast grower). EBAY features a strong balance sheet, high free cash flow, and an ongoing buyback plan. Next year's planned split of the faster growing online payments (PayPal) and core marketplace businesses (eBay.com) could lead to an upward valuation for each division, though the stock has begun to reflect this possibility. There are also looming threats with Apple Pay another payments alternative and Amazon a formidable competitor.

- **Enghouse Systems** (ESL-t – fast grower). In many ways, ESL represents the best and worst of TIS LLC over the last several years. I became enamored with this otherwise obscure software company and particularly its talented and frugal CEO and made it a large position. The stock is up 4-fold. But rather than hold tenaciously I 'traded' the stock, thereby reducing a potentially humongous gain to something noteworthy but not outright spectacular. Granted, nobody knows the future with precision, but this company had all the qualities you want in a long-term investment – great balance sheet, huge free cash flow, large insider ownership, significant recurring revenue, frugal spending, and when purchased years ago a very strikingly attractive valuation. While ESL had another good year in 2014, the stock is now 'discovered' and sports a much higher valuation. I plan to retain our remaining shares unless there is a change in management or if the valuation moves to absurd levels. This stock is the poster child for what I need to do for an improved technique – in the right situation, invest with a death grip rather than trade.

- **HR Block** (HRB - stalwart)**.** This tax company is a reasonably priced stalwart with a solid balance sheet, high free cash flow, and solid dividend yield. Growth is modest but well-defined, and a pending sale of HRB's banking operation should free up financial flexibility, likely leading to dividends, buybacks, and maybe even a sale of this company. This stock has one other obvious appeal – during market declines it is easy to buy since the underlying business is mostly immune to economic upheaval. Death and taxes are constants in life. Due to modest growth rates, we will adjust this position size as warranted.

- **Knight Therapeutics** (GUD-t – asset play)**.** GUD is perhaps our oddest holding. The company was founded by the former CEO of Paladin Labs and based on that company's sparkling historical record quickly raised a lot of money. GUD's sole asset – a priority voucher – was recently sold for another tidy sum, and in late Dec the company yet again raised another large sum from a follow-on share offering. GUD's capital allocation has been varied too, involving debt financings, product acquisitions, and even more surprisingly significant investments in various life science venture capital funds. GUD believes these investments will help facilitate drug opportunities in Canada. Frankly, a lot of these activities could potentially take years to show results, and thus our ownership centers more on management right now. As such, GUD might be our single most speculative holding, but I plan to be patient with this stock. And as a reminder, this is also the CEO with short-term memory issues stemming from a bicycle mishap, though the company stresses his cognitive functions are unaffected.

- **MasterCard** (MA – stalwart). Credit card processing company MA saw slowing results in 2014 as sales and earnings decelerated to lower double digits though as usual the company features a strong balance sheet, growing dividends, and an ongoing buyback plan. The problem is valuation – this is a great business but seemingly expensive stock. While I intend to hold our current position years of relentless appreciation suggest the stock is due for a rest.

- **Mednax** (MD – fast grower). If ESL- t represents a microcosm of the past several years MD fits that profile for 2014. At one time, MD was one of our largest holdings in 2014, featuring a solid balance sheet, high free cash flow, and high quality business model trading at a reasonable if not overly cheap valuation. The stock ultimately moved up as expected, as investors increasingly looked beyond short-term issues with non-recurring state parity payments to MD's longer-term growth prospects. So this was a good pick but ultimately could have been a better pick. For one, I passed on adding here when the price went lower. For another, I got cold feet in the Plus accounts and decided to reduce it for reasons that seem short-sighted today. Admittedly, this was a new position and industry and I was not completely comfortable with the story or resulting gyrations in the stock price. In effect, these two failures reduced what could have been a solid 20 to 30% gain to about half that (esp. for Plus accounts). Moves like this make or break a year. I still like the company today though the valuation is less interesting than previously.

- **Priceline** (PCLN – fast grower). Like MD, I waffled on this stock in 2014 as I was attracted by the company's strong balance sheet, high free cash flow, and dynamic growth record. But I was also repelled by the high valuation, dubious acquisition prices, and most importantly reliance on its European division. I also watched too much TV and was spooked by the Ebola threat, though after a sale PLCN provided another opportunity to re-establish. I continue to be cautious with this positon.

- **Syntel** (SYNT – asset play/fast grower). SYNT is a consulting firm with a strong balance sheet, high free cash flow, and cheap valuation. Unfortunately, cash on the balance sheet is domiciled overseas (would be taxed if brought back here) and SYNT has an unusually concentrated customer base. SYNT also habitually issues checkered earnings reports with earnings not always matching sales growth partly due to its Indian work force and unstable currency. Lastly, by definition the consulting business is difficult to forecast so we've kept this position smaller than it otherwise would be.

- **Trinity Biotech** (TRIB – fast grower). This is not a biotech firm but instead operates a clinical lab diagnostics and point-of-care testing business with instruments, testing kits, and reagents. In 2013 the valuation was up due to investor excitement over a new blood test but 2014 came and went without approval and the stock fell. Yet, delays appear procedural in nature and maybe 2015 will be a better year, especially since restructuring costs with acquisitions appear largely completed. I do expect continued volatility in these shares.

FARM TEAM – these profiles describe the business and explain why the position isn't larger. Several stocks are not listed as they only appear in a few accounts either for tracking purposes or because my research is currently incomplete.

- **Ansys** (ANSS – fast grower/asset play). I like this software company's very strong balance sheet, high free cash flow, and high recurring revenue but the stock is expensive.

- **Chicago Mercantile Exchange** (CME - stalwart). A residual of a much larger position, futures exchange CME is a franchise business with great free cash flow, an ok balance sheet, and ongoing regular and special dividends but the stock is expensive.

- **Citi-trends** (CTRN – asset play). Retailer CTRN features a solid balance sheet, generates significant cash flow, and has put up impressive results in recent quarters. I like management. We owned shares earlier in the year and due to the nature of the business I took profits and then wasn't aggressive enough re-buying the shares.

- **CGI Group** (GIB – fast grower). Previously under pressure from now resolved accounting reserve issues, GIB features substantial free cash flow, terrific long-term record, and growth supplemented by acquisitions and I would make the position larger at the right price. I overtraded this position last year.

- **Intercontinental Exchange** (ICE – fast grower). Like CME, futures and stock exchange ICE is a residual of a larger position and a franchise business I would add to at the right price.

- **Oaktree Capital** (OAK – fast grower). OAK is a growing non-traditional money manager favoring mostly non-public debt oriented securities which makes periodic distributions but I continue to find the company too complicated to consider as a much larger holding right now.

- **Oracle** (ORCL – stalwart). ORCL features a strong balance sheet and high free cash flow but the price recently vaulted on earnings news which was little different from previous reports that were viewed as disappointments.

- **Quintiles Transnational Holdings** (Q - stalwart). A new public company in late 2013, Q is the largest provider of outsourcing and development services to most major medical companies. The company features an ok balance sheet, strong free cash flow, and low double digit growth and would be a larger position at a higher price, especially as I develop more familiarity and comfort with this management team and business model.

- **Visa (**V **-** stalwart**).** Another residual of a larger position, V is like MA and features the same strong balance sheet, high free cash flow, and high valuation.

- **BioSyent** (RX-v **–** fast grower). A very small speculative drug company ($7m CAD shareholder equity) based in Canada, RX-v was our best percentage gainer in 2014 but appeared in too few accounts at too small a size. The stock trades based more on potential than actual results at this point but 2014 was an excellent year and I would like to buy more but risk here is very high.

OUTLIERS – these are positions that are income oriented usually purchased because they could outperform money market balances over time albeit with more volatility.

- **Preferred Stock,** including several from **Gabelli** (GAB-D, GCV-B, GDL-B, GDV-A, GDV-D, GGN-B, GGT-B, GRX-B), **Schwab 6% preferred** (SCHW-B), and **Tri-Continental (**TY-). Equal to 4 to 7% in most portfolios, these positions feature solid dividend yields (currently 5.1% to 5.8% excluding GDL-B) but capped upside performance and downside risk from rising rates. Over time, I expect these positions to outperform cash holdings, especially since TIS is rarely fully invested.

  NOTE: I have a substantial position in these securities in my personal accounts (roughly 14%) and plan to increase the allocation further in the quarters ahead.

CONCLUSION

As always, I hope this review has given you a better understanding of my investment philosophy and your portfolio composition. I appreciate the trust you have placed in my firm to manage your assets. If you have any questions or comments, please don't hesitate to contact me.

Note: Appendix pages following are typically included in annual meeting materials.

Paul Taylor, TIS LLC