TAYLOR INVESTMENT SERVICES LLC
2015 Q4 LETTER

INTRODUCTION

In a year when the domestic indices produced mixed returns with large stocks mildly positive and small negative, most TIS portfolios finished with positive returns. Like last year, the portfolio option didn't matter, as returns were tightly bunched. As always, there are variations among specific accounts, particularly for those under $200,000.

For Model accounts, performance exceeded the Vanguard Target Retirement 2025 (henceforth 'Vanguard 2025 fund') fund as bonds as well as international stocks produced muted and negative returns respectively. Noted in previous reports, just because we use a comparison which contains international and fixed income exposure doesn't mean we will have a significant presence in either area.

In an indifferent year we had mostly indifferent stock picks. Winners included apparel company Columbia Sportswear (COLM), pharmacy benefit manager Catamaran (CTRX), asset manager Diamond Hill (DHIL), and tech companies Enghouse Systems (ESL-t), and Google (GOOG, GOOGL). The first winner resulted from an astute sale but conversely the gain in the last was curtailed by a poor trade. CTRX was a lucky pick (takeover soon after purchase), DHIL an excellent choice in a challenged industry while ESL-t continued its winning ways.

Losers included shoe retailer DSW (DSW) and conglomerate Berkshire Hathaway (BRKB) along with Canadian healthcare companies BioSyent (RX-v) and Cipher Pharmaceutical (CPHR). DSW fell due to weak results while Berkshire's economically sensitive businesses fell out of favor. Ironically, RX-v's business did fine despite the price drop though CPHR's decline was tied to a disappointing acquisition. I do retain both stocks. Canadian stocks in particular were hurt by currency weakness in 2015.

In general, as shown by your ROI by Security (Type) section in your quarterly performance report, our stock picks were ok, with few obvious discernable patterns in winners and losers. As indexes were generally weak, these numbers are perhaps better than they look in 2015. Unlike previous years, cash was a mostly neutral factor with our closed end preferreds helping returns, especially for model accounts.

Note: Consolidated performance represents a blended fee rate. All return references in this report refer to consolidated numbers. This report was written in late December. Canadian stocks are listed with their Toronto Exchange symbol with a "-t" or "-v" 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 we have a 2nd goal to exceed the Vanguard 2025 fund (previously the Vanguard Balanced fund). We remain ahead of this objective. Longer-term performance remains good though performance after 2008 is more muted. 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: Some specific accounts did achieve outperformance

TWO PORTFOLIO OPTIONS

TIS currently offers two portfolio options:

The Model Account – comprising about 64% of TIS managed assets and modeled after my personal accounts. This choice is most suitable for: 1) investors 50 years old and above, 2) with the bulk of investable assets at TIS, 3) who authorize up to a 100% stock allocation but historically contain notable 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 2025 fund (VTTVX) for periods starting in 2012.

The Plus Account – currently about 36% 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. My original goal in these accounts was to maintain an 80-90% stock allocation, subject to finding appropriate values, but I didn't come close in 2015. Subject to finding good picks, I will target a minimum 75% allocation next year, though a major correction would promptly facilitate a far higher allocation.

Also, you can always mandate a specific stock allocation, though invariably some clients only want to be fully invested in rising markets but less invested in declining ones. *This is obviously an impossible directive.* Thus, for most situations I would strongly discourage specific allocations.

Your portfolio option is listed on the cover page of your performance report. **Let me know if you want to make a change.**

FEARLESS FORECAST

Last year's report speculated that "*There are many reasons to believe the market is due for a pause or correction but my expectation is for a -5% to +5% return with a bias toward a flattish to mildly positive gain."* I also noted that "*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*."

This forecast was right on target.

Many of the same factors are in place for 2016. Despite a rise in short-term rates, 10 year U.S. treasuries hover at 2.2% today. While domestic growth rates remain positive overseas economies have been more difficult, hurt by lower energy prices. If this continues, bankruptcies could roil the energy sector which may mitigate interest rate increases though higher labor costs remain a concern.

My guess is that returns might be similar to last year: -5% to 10% with a bias at the upper middle of the range. Based on my universe of stocks, I also tend to agree with many market prognosticators that low single-digit returns are more likely in the near-term (barring a correction).

Of course, note I'm gazing into a crystal ball with these forecasts so don't take them overly seriously. I provide them only because it seems to makes sense to know how your money manager views the future. But as Peter Lynch said, "**I don't believe in predicting markets. I believe in buying great companies."**

For almost a decade these reports have noted a lack of excitement about our portfolios. This is despite wildly varying returns, so hopefully I'm being overly cautious. That said, in my universe the relentless rise of the market for the past seven years has left even the best ideas far from cheaply valued. Cash remains high and our biggest positions are mostly 'good business and ok price' picks where analysis is primarily based on numbers, not unique business insights. This is not a typical recipe for stellar returns.

To repeat a tired refrain, as *currently* composed, we will more than likely underperform the market if 2016 provides a double digit return. While I like our picks enough to hold them, and hopefully they will exceed expectations, my expectations are modest.

On the other hand, in 2016 we could finally benefit from rising money market rates. Plus, I'm not standing still, trying to cast a wider net to find good picks. Now more than ever this places singular importance in sizing positions correctly, getting sells as right as possible, and moderating trading costs when appropriate.

That said, even an ultimately boring year like 2015 provided opportunities and no doubt 2016 will do the same. I have some specific focus areas detailed below and will do my best, though obviously nothing is guaranteed. Plus, a sharp drop in the market (-20% instead of the small drop in 2015) would likely change everything.

QUESTIONS AND ANSWERS

This section serves as an overview of TIS philosophy and a discussion of specific 2015 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.

When do you plan to retire and what is the future of TIS LLC?

I've been told that even bringing up a question like this is a mistake, but as my age has reached the other side of 50 I think you as a TIS client should be informed about my future intentions. Plus, as noted in previous reports, my personal situation clearly impacts risk tolerance, having a definitive influence on stock picks and allocations.

So to answer this question: I plan on continuing to work as long as I enjoy it, meet my personal expectations for performance, and of course have clients like you who want my services. Barring health issues, I would likely give clients a minimum 6 to 12 month notice before shutting down this business, but I have no current plans to retire.

It is likely that as long as TIS remains closed to new clients overall asset levels will decline over time. You and I are getting older, and many clients are in distribution mode. In the final analysis, my focus remains centered on existing clients but at some point I may reopen but believe opportunities in our universe must improve before change is feasible or appropriate.

What is the Vanguard Target Retirement 2025 fund and why is it a comparison for the Model accounts?

Target funds are a one fund alternative keyed to an investor's retirement date (e.g., the 2025 fund is for investors retiring in 2023-2027; the 2030 fund is for 2028-2032, etc.). This specific series of funds provides diversification with both domestic and international stocks and bonds, with the stock exposure decreasing over time. Here is how they are allocated today (figures rounded):

Fund/Allocation	Stocks	Fixed Income
2010	34%	66%
2015	52%	48%
2020	59%	41%
2025	67%	33%
2030	74%	26%
2035	82%	18%
2040-2060	89-90%	10-11%

I added the 2025 fund because unlike the Vanguard Balanced fund, which contains a 60-40 stock/bond allocation, the stock exposure in this fund was higher but would decrease over time. This fund also better reflects my personal situation. Granted, TIS portfolios have little direct international exposure (though many holdings do business overseas), but the diversification setup is Vanguard's choosing, not mine. I also don't anticipate given current rates adding any other traditional fixed income exposure beyond our closed end preferreds, but that could change.

Do you think the market is overvalued?

As you know, I believe pondering great and weighty questions like '**is the market going up or down**' tends to be a waste of time. Nobody knows the future. Yet, existing cash levels continue to be linked to a market where finding really good ideas seems hard. Now, maybe I'm not looking in the right places, but maybe valuations are stretched. Let's update the numbers on three reasons to think so (previously listed in the Q4-2014 report):

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 45% which compares to a range of 185% to 35% high and low over the last seven years.

2 – Warren Buffett 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 116% (implying a future return of 0.8%). In the low of 2008 the ratio dropped to 62%.

3 – Revision to the mean suggests that if the S&P 500 return was 7.5% annualized** over the last 10 years, recent 3 and 5 year returns of 13.8% and 12.3% respectively are likely to moderate.

*Fortune; "*Warren Buffett on the Stock Market"*, 12-10-01; **Vanguard 500 as of 12-18-15

These numbers can't be viewed in isolation. If 10 year treasuries remain near 2%, paying 25x (equal to a 4% "earnings yield") could be justified with many stocks. But it is also possible rates rise - we simply don't know.

None of this means that the market will correct next year. I just think things look expensive, but a great pick and the right sizing can overcome a multitude of issues.

What changes will you make to stock selection?

I don't believe major changes to stock picking are warranted. In general, I believe stock picking remains solid with my mistakes centered more on ill-advised selling than what we actually owned. Plus, I continue to reshape my investment universe, putting less emphasis on mall based retailers and asset managers, two areas that indeed struggled terribly in 2015.

There is still much to be done – I must widen the net further, concentrating more than ever on companies that generate substantial free cash flow, regardless of industry. Given tepid domestic growth rates, we will look harder at companies supplementing growth via acquisitions.

For larger portfolios, this could result in even more holdings, though our goal is to make any additions far more meaningful.

How are the portfolios currently composed?

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

By Industry

- Cash 42%
- Healthcare 14%
- Financials 12%
- Fixed Income 12%
- Tech 9%
- Miscellaneous 9%
- Canadian 2%

This allocation seems conservative as cash and fixed income make up the majority of assets. The significant weighting in healthcare, traditionally seen as a less economically sensitive area (individual stocks may differ!), reinforces this impression.

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

By Market Value (b = billion)

- Small (under 1 to 5b market value): 17%
- Mid (5b to 25b): 11%
- Large (25b to 50b): 26%
- Super (above 50b): 46%

Like last year, the allocations are 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 74 positions. Subtracting fixed income ideas reduces the total to 59. 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 : 6 stocks or 46%
- 2nd Team: 16 stocks or 48%
- Farm Team: 37 stocks or 7% (only 8 farm team stocks appear in many accounts)

Excluding cash, the stock allocation in the portfolio is more concentrated than you might surmise, and the bulk of our assets are in the first two teams. The large number of farm team stocks reflects the fact that I am searching in many different places to find appropriate picks but haven't found many worthy of a larger commitment.

Finally, excluding cash and fixed income, let's look at the portfolios in terms of my subjectively assigned Lynch category.

By "Lynch Category"

- Stalwarts: 66%
- Fast Growers 22%
- Asset Plays 10%
- Turnaround 2%

To refresh your memory, **stalwarts** are consistent earnings growers usually with a significant international presence, **fast growers** are companies seen growing earnings faster than the market, **asset plays** have some sort of attractive underlying characteristic (usually a strong balance sheet and/or high free cash flow), and a **turnaround** is company underlying issues that hopefully will turn around. Not included in this list are **slow growers**, companies growing their earnings modestly, and **cyclicals**, which are typically economically sensitive business models with more volatile earnings than other categories.

Again, the breakdown would suggest modest appreciation potential for this portfolio (if chosen correctly, stalwarts tend to be low risk, modest return), though fast growers provide a growth element.

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 Cisco (CSCO), Intercontinental Exchange (ICE), Knight Therapeutics (GUD-t), Priceline (PCLN), and UnitedHealth Group (UNH). None of these are repeat top 5 holdings from last year.

- **Cisco** (CSCO – stalwart). CSCO is an anomaly: this technology stalwart features a strong balance sheet with very high cash levels (though much is overseas and would be taxed if used domestically), huge free cash flow, and a commitment to spend 50% of yearly cash flow on buybacks and dividends. Yet, the stock trades for only 14x earnings and 10x cash excluded. Why is it this cheap? It is hard to say. Recent sales growth rates have been modest, but CSCO reports totals based entirely on the US Dollar, not currency adjusted figures like most other companies. There are ongoing fears software will cannibalize CSCO's hardware products and competition remains relentless but these are not new. Indeed, my biggest issue with this stock is my own ignorance – this is a numbers oriented buy as I bring no unique insights into CSCO's long-term future. Yet, the numbers are impressive; expect active trading of this stock.

- **Intercontinental Exchange** (ICE – fast grower). Our largest holding, I see ICE as a very good business trading at an appropriate price. Thus, while my expectations are modest short-term, the future could be bright. Why is easy: ICE generates huge free cash flow, operates a virtual duopoly in some aspects of their trading exchange, and makes acquisitions to add to growth. ICE is also pro-shareholder, with a dynamic CEO who has earned investor confidence. There are gyrations in business results: much of ICE's earnings are tied to unpredictable energy and financial volume changes, but I would view any decline in ICE's stock as a buying opportunity. This could be a substantially bigger holding at the right price.

- **Knight Therapeutics** (GUD-t – asset play)**.** GUD is our oddest holding. Founded in 2014 by the former CEO Goodman of Paladin Labs (a fantastic stock for us that got taken over), GUD-t quickly raised a lot of money despite the firm having few assets other than the CEO's reputation. Since then, company actions have centered on distributing money to:

  a. various life science venture capital funds both for investment and to facilitate introduction for possible product licensing,

  b. do various debt financings of a wide variety of companies,

  c. partnering with companies on drug licensing (with nothing major yet though) and

  d. buying a major stake in an Israeli 'Paladin' lookalike.

  The balance sheet remains flush, and indeed maybe GUD-t is overcapitalized – it has too much assets and not enough earnings. As such, GUD is more speculation than investment at this point, though Goodman has a history of low risk, high return capital allocation, and I will give him plenty of time to do his thing. Course, 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. I like our current position size for now and would need further business developments to add further.

- **Priceline** (PCLN – fast grower). Given recent attacks in Paris and a heavy European focus, the near-term for this travel technology company will be challenging. Otherwise, PCLN's attractions are obvious: strong balance sheet, high free cash flow, and before the latest news strong organic growth, albeit beaten up by currency. Yet, we humans are nothing if not resilient, and I'm choosing to focus on the long-term, though our allocation remains modest even as a first team stock.

- **UnitedHealth Group** (UNH – stalwart). Managed care and pharmacy benefit manager UNH offers many charms, including high free cash flow, a strong balance sheet, organic growth supplemented by acquisitions, and a reasonable valuation. Long-term, the company has been a brilliant performer, benefitting from enormous scale which serves as a buffer against encroaching competition. Not all is wonderful – UNH's foray into the public heath exchanges (Obamacare) has been a failure and regulations never stand still. Like all our major holdings today, ownership is centered far more on "numbers" than any other criteria.

Describe your top 5 holdings at the start of 2015 and how they contributed to performance.

Our top five positions at the start of 2015, in alphabetical order, were Berkshire Hathaway (BRK.B), Checkpoint Systems (CHKP), Johnson and Johnson (JNJ), Google (GOOG; GOOGL), and Markit (MRKT). I've included expanded comments on GOOG below.

- **Berkshire Hathaway** (BRK.B – stalwart). While I sold most of this conglomerate at a loss this was better than the yearly return of the stock. BRK.B remains a possible buy for the future but I am not overly enamored of its major stock holdings and some of the underlying businesses likely had a tough 2015.

- **Checkpoint Systems** (CHKP – fast grower/asset play)**.** I sold this software company at break-even last year, increasingly concerned that higher personnel costs would pressure margins, especially since the company was growing far slower than competitors. The stock is up modestly from our sale.

- **Johnson and Johnson** (JNJ stalwart). At first my sale of JNJ (a winner in past years) looked astute as the stock promptly fell 10 points, but the spin here turned more positive, the stock rebounded, and I re-established a positon. While JNJ did not contribute to returns, I believe my mistake was centered more on not considering the stock at a lower price rather than the original sell – though this is all clear in hindsight.

- **Google** (GOOG, GOOGL – fast grower). This stock added to our returns but in essence is a "loser of a winner" since our gain could have been much larger simply by holding our original position. GOOG is discussed below.

- **Markit** (MRKT – asset play). We lost a modest sum and the price rose after our sale but unlike GOOG I don't feel this was a mistake – this financial company's ongoing option policies made this a toxic choice.

How will you try to avoid a "GOOG" decision next year?

Perfection is impossible in this business but eliminating unforced errors is paramount, especially if low-returns become the norm. Unfortunately, unforced errors are usually only clear in hindsight, but GOOG seems to fit the bill.

While I discussed the reasons for my sale in the Q3-2015 report, this section expands further on how I will try to prevent a similar situation from reoccurring.

Some of these changes are psychological while others are analytical. In the former category, I have:

- removed my personal net worth from the TIS tracking spreadsheet (so as not to be influenced by day to day fluctuations),

- repositioned specific stock prices outside immediate view unless accompanied by valuation data (which puts pricing changes into better context), and

- altered my trading frequency (including using off-hours more frequently for decision making, which naturally allows a further deliberation)

While clearly not every sell is a mistake, the point of the above is to provide more time for deliberation while emphasizing facts over emotion.

The analytical side involves two changes: 1) being more dogmatic about identifying holding periods in my evaluations and 2) being more flexible in trading sizes, particularly liquidations.

In general, I believe my practice of trying to get out of situations that are deteriorating and getting into situations improving has served us well. Lower earnings usually presage lower stock prices. I have always preferred letting the 'story' of a company combined with price assigned dictate our holding periods but for some stocks this approach is too short-sighted. A truly dominant business (like GOOG) may deserve the benefit of the doubt and sitting on one's hand can be the best option. I'll try to be more dogmatic about this up-front. On trading, I will simply be more flexible. For some stocks, I will use less of the 'either or' choice ("either I keep this or not") in favor of additional options like partial liquidations.

Obviously success is hardly assured, but we'll see how it goes.

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 ICE, JNJ, and UNH.

- **Cardinal Health** (CAH – stalwart). Drug distributor CAH features strong finances, high free cash flow, and a reasonable if not overly exciting valuation. A joint venture with retailer CVS should serve as a catalyst for future earnings growth and CAH also pays a growing dividend and regularly buys its own shares.

- **CME Group** (CME – fast grower). I like this exchange operator's huge free cash flow, regular and special dividend payments, and tight expense control, though the valuation is not particularly cheap. While transaction volumes are variable, the company's interest rate products could get a boost with any sustained interest rate rise. At the right price, this could be a much larger holding.

- **Expeditor's International** (EXPD – asset play). After selling at a higher price late last quarter we repurchased the shares at a lower valuation. This logistics company features a cash heavy balance sheet and huge free cash flow, though near-term a port disruption which boosted volumes last year serves as a hard compare which could pressure the shares and provide an opportunity to enlarge the allocation.

- **McKesson** (MCK – stalwart). Similar to CAH, drug distributor MCK features strong finances, high free cash flow, and a reasonable if not exciting valuation. There are some near-term issues as customer Rite Aid is likely being taken over by Walgreens though contract changes are endemic to this business.

- **McGraw-Hill Financial** (MHFI – stalwart). Another stalwart, MHFI fits the profile of many of our recent buys: solid finances (though debt is higher than usual due to a recent acquisition), high free cash flow, and a dominant business, this time in bond ratings and other financial analysis. While my expectations are modest short-term, I like the business long-term and would welcome an opportunity to buy more.

- **Microsoft** (MSFT – stalwart). MSFT features a stellar balance sheet, high free cash flow, notable dividend yield, and ongoing buyback plan at a reasonable if not cheap valuation. MSFT has been valued cheaply before, but management changes and an increasing focus on cloud services could support modest near term appreciation and yet the stock is being valued like any other stalwart.

- **Vanguard US Large Cap Value ETF** (VTV – index). VTV is the 'value' side of the large cap indexes with these 10 holdings: Microsoft, Exxon, General Electric, Johnson and Johnson, Berkshire Hathaway, Wells Fargo, JPMorgan Chase, AT&T, Procter and Gamble, and Pfizer. I like the banking exposure and value has been out of favor in recent years, though admittedly VTV could be a source of funds for better ideas. As a bonus, our broker allows purchase of this position without a commission.

- **TMX Group** (X-t – asset play). A loser since we've owned it, TMX operates the Toronto Stock Exchange and has been pressured by competitors and a natural resource market in Canada but I like this company's high free cash flow and will continue to hold steady with our position unless circumstances warrant a change.

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. CHKP and GOOG/GOOGL were discussed previously.

- **Low conviction ideas – CVS** (CVS – stalwart). We essentially switched an allocation in CVS, which operates both a pharmacy benefit manager and large retail operation, to drug distributors CAH and MCK which should benefit from similar trends in this industry but without persistent sales pressure from the front end (non-pharma) side of the CVS's retail operations. I also like CAH's and MCK's balance sheets better. CVS is the sort of position that we may buy back at any time.

- **Deteriorating Fundamentals – DSW** (DSW – asset play). I was too patient with this stock as inventory problems, tough comparisons (good numbers last year making hard compares for this year), and looming saturation battered the shares.

- **Round Trips – Dollar General** (DG – fast grower) - I bot DG earlier in the quarter and then sold at a gain. Despite offering many charms including consistent same store sales, new store growth, and solid free cash flow, a stock drop earlier in the quarter showed DG could trade for a lower valuation even with no change in the story. I decided to take the gain and look for a better entry point.

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 2015. 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.

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 is a hindsight observation of buying and selling a position too much.

- **Accenture** (ACN – stalwart). This consulting and outsourcing company features strong organic growth, high free cash flow, and a pretty balance sheet. Like the vast majority of our holdings, relative valuation is much higher than previous years. I have overtraded this position in the past.

- **BioSyent** (RX-V – fast grower). This stock did poorly in 2015 despite consistent 20% sales and earnings growth. The problem? Valuation, as investors became more cautious of RX-v's dependence on a single product. RX-v is diligently diversifying the portfolio but progress is slow. We'll be patient here – I like the large insider stake and cash continues to accumulate.

- **CGI Group** (GIB – fast grower). Like ACN, GIB is one of those stocks where every sell I've ever made looks foolish in hindsight, as this Canadian based consulting and outsourcing company recently successfully integrated a large acquisition and could return to organic growth in the near-future.

- **Express Scripts** (ESRX – stalwart). Fitting the profile of many recent buys, this pharmacy benefit manager features enormous scale, high free cash flow, and ongoing share buybacks. While sales prospects are modest, even slight margin gains can result in strong earnings. ESRX does face important future contract negotiations, and while this stock is not cheap I like the business long-term.

- **Genuine Parts** (GPC – stalwart). GPC has three different segments: auto parts retail (the well-known NAPA brand), office supplies, and industrial. The latter two businesses are facing challenges and consequently GPC is seeing very modest organic growth but I am taking the long-view as the valuation is ok and the company continually raises its dividend.

- **MasterCard** (MA – stalwart). Credit card processing company MA saw moderating results as the year progressed but features a strong balance sheet, high free cash flow, and growing dividend and ongoing buyback plan. Like past years, the stock is not cheap but MA is a great business we want to be slow to let go.

- **Syntel** (SYNT – asset play/fast grower). SYNT is a consulting firm with a strong balance sheet, high free cash flow, and cheap valuation. Unfortunately, most cash is domiciled overseas (and would be taxed if returned here) and SYNT has an unusually concentrated customer base. This story is little unchanged from last year, and I'd have a larger allocation but earnings habitually surprise on the downside.

- **Trinity Biotech** (TRIB – turnaround). The stock of this clinical lab diagnostic and point-of-care testing company was a dog again in 2015, but hope is building. Negatives are clear: moderating sales and margins, with high expenses partially caused by both spending and failure to find a target for a newly raised convertible offering. But a long-awaited heart attack test was recently submitted to the FDA, though any good earnings news will likely take until 2017. We did curtain our losses here with good trading.

- **Visa** (V – stalwart). V had another terrific year in 2015 with near double digit sales growth and continued high free cash flow and a super-strong balance sheet. Like MA, this credit card company is a seemingly expensive stock, though the business is so well-regarded that we want to be slow to sell regardless of valuation.

FARM TEAM – these profiles describe the business and explain why the position isn't larger. Only farm team stocks appearing across most portfolios are listed. TIS provides a full list of all farm team stocks in the annual meeting materials (available by request in Feb 2016). TMX was listed above.

- **Constellation Software** (CSU-t – fast grower). A residual of a larger position, software company CSU-t had another spectacular year but appears fully priced.

- **Denny's Corp** (DENN – asset play). The asset play in this restaurant franchiser is a large net operating loss carryforwards which will offset taxes for a few years. DENN has posted great sales this year but this will make for hard comparisons in 2016.

- **Enghouse Systems** (ESL-t – fast grower). Another residual of a larger position, this software company looks expensive though operating performance has been outstanding.

- **Marsh and McLennan** (MMC – stalwart). A leading insurance broker and consulting company, MMC is a great business with modest sales growth prospects that I will actively trade based on valuation ranges.

- **NASDAQ** (NDAQ – fast grower). Like most exchanges, NDAQ is an excellent business with high free cash flow though organic growth tends to be more moderate than comparable companies.

- **Oracle** (ORCL – stalwart). This software company features a strong balance sheet and high free cash flow but slowing growth rates (which may be a temporary transition to cloud subscription sales versus up-front license fees) have pressured the shares.

- **PayPal (**PYPL – fast grower**).** A pure numbers buy, PYPL features a great balance sheet, high free cash flow, and a high valuation.

OUTLIERS – these are mostly income positions with capped upside but downside risk from rising rates.

- **Preferred Stock,** including **Schwab, Tri-Continental,** and several from **Gabelli**. A substantial allocation, these positions feature solid yields but capped upside with downside risk from rising rates or calls (e.g., Gabelli could call the notes at par or $25 with the preferred trading at, say, $26). Over time, I expect this allocation to outperform cash holdings, especially since TIS is rarely fully invested, and would hold more if there were higher trading volumes. We have owned these for years.

  NOTE: I have a substantial position in these securities in my personal accounts (more than 20%) and will likely 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.

Paul Taylor, TIS LLC