About the Firm

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996.

Nottinghill is owned by the seasoned professionals serving its clients, and effectively managing the assets of those clients, taxable as well as tax-exempt, is the Firm's only business. The twin results are commitment and focus.

Total Portfolio Management, or TPM, is Nottinghill's largely indexed, balanced approach to the management of a client's overall portfolio, and Indexed Total Portfolio Management, or ITPM, is the fully indexed variation. In both cases, portfolios contain three sectors: Equities, either indexed or governed by the Firm's Value Plus Equity Strategy; U.S. Fixed Income, either indexed or governed by the Firm's Select Four Bond Strategy; and the fully indexed Alternatives Group. TPM and ITPM are two complete, widely diversified answers to any client's investment needs.

Seasoned investment professionals. Commitment and focus. Two complete, widely diversified answers. Nottinghill is your ideal partner.

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NOTTINGHILL INVESTMENT ADVISERS, Ltd.

Vol. XIX No. 1 **February 2016**

An Update

SCORECARD

	2015	Three Years	Five Years	10 Years
S&P 500 Index	**1.38%**	**15.13%**	**12.57%**	**7.30%**
10-Year Treasury Note	**1.54**	**1.45**	**5.02**	**5.61**
Gold	**-11.31**	**-13.91**	**-5.63**	**7.47**

All multi-year returns are annualized, and all returns are associated with time periods ending December 31, 2015

2015 - Perking Right Along...With Gyrations

The "rocky road to nowhere" is the way someone described 2015; and, in fact, most of the popular stock market averages went nowhere, and the road indeed was rocky. Four factors kept a lid on U.S. equity prices. First, there was Greece and that country's finances. Then, there was China. Would the growth rate of the Chinese economy decline from 9% to 6-7%, or something a little steeper? Then, there was oil. Sure, there are beneficiaries, but those low oil prices mean something else to a whole swath of the U.S. economy. And finally, there was the Fed. Would they and when would they raise interest rates? Every business channel guest had an opinion, and every Fed Board member had his/her view. Through it all, the U.S. economy continued to perk along. Problems? Yes. Unsolvable problems? No.

The gyrations were real, but most of the stock market indexes finished 2015 about where they began. The big stock market story of 2015 was the continued dominance of the Growth style of investing. The Value style, to which we subscribe, may be the long-term winner, but the Growth style once again carried the day. Bonds? Our proxy is a 10-year Treasury, and that 2015 rate of return was 1.54%. Gold? Our proxy is the quote for one Troy ounce of Engelhard industrial bullion, and that proxy declined by 11.31%. Yet another victim of the slow-growth, strong-dollar mid-2010s, but one mantra around here is that most things in the markets and in life are cyclical.

So, the U.S. economy was perking right along at the beginning of 2015, withstood a number of exogenous forces, and was perking right along as the year came to a close. Where do things stand now?

- **The Price/Earnings Ratio of the S&P 500 Index**
  At the end of 2014, the S&P 500 Index sold at 19.97x the earnings of its underlying companies. The year-end 2015 ratio was 21.54x; therefore, S&P 500 earnings by definition did not keep pace with prices. Are U.S. equities overvalued? We think not, although the overall market clearly is not the bargain that it once was.
- **The Average Yield Within the 10-Stock Yield Group**
  The overall market may not be the bargain that it once was, but individual bargains do exist. They are to be found within our 10-stock Yield Group whose average current yield at year-end was 4.06%. Not bad at all, and considerably higher than...
- **The Yield of a Treasury Note Maturing in 10 Years**
  At year-end, this principal equity rival offered investors 2.25% per year. Yes, the U.S. Treasury remains a credit-worthy borrower, and yes, a Treasury component belongs in a well-diversified portfolio. But, from a valuation standpoint, fixed income securities still cannot compete.

As of this writing, the Chinese economy once again has become an issue, and markets worldwide have been unusually volatile; but, our conclusion remains the same. The valuation of the overall market is not compelling, but also is not rich; individual bargains do offer compelling value; and, fixed income securities still offer little competition. We believe that U.S. equities—and we single out Value equities in particular—should remain the heart-and-soul of most well-diversified portfolios.

Bonds? Fed interest rate sentiment may be clear, but the wisdom of having bonds as a portfolio shock absorber continues to be reinforced. Stability is a worthwhile objective.

Diversification, structure, discipline, the bottom up search for value. That's what it's all about.

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And now, the balanced strategies...

Total Portfolio Management

Total Portfolio Management, or TPM, is our largely indexed, balanced approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. The objectives are inflation- and benchmark-beating investment returns, as well as the investment return stability that comes with a balanced portfolio structure.

Investment Process - The Complete, Largely Indexed Answer

TPM portfolios consist of three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. The Firm's Value Plus Equity Strategy, an active strategy, governs the U.S. large capitalization component of the Equities sector, which also includes three other, indexed Exchange-Traded Fund (ETF) components. The U.S. Fixed Income sector is governed by the Firm's Select Four Bond Strategy, a combination of three actively managed bond mutual funds and intermediate Treasuries. And finally, positions in three alternative asset classes (three ETF positions) constitute an Alternatives Group that adds yet another layer of diversification. The complete, largely indexed answer. One destination for all of the taxable individual's or tax-exempt institution's investment needs.

2015 - Challenging

Hard to make money last year. First, there were the four factors: Greece, China, oil, and the Fed. The intensity of each may have varied, but each was a headwind for financial assets. Then, there was the mysterious and perplexing continued superiority of the Growth style of equity investing. That too was a headwind as far as our value-oriented individual equities are concerned. But, there were a few bright spots: mortgage-backed securities, Vanguard's REITs and emerging markets government bonds; a few Momentum and Contrarian common stocks. Those are the assets and the asset classes that were zigging while others were zagging. The virtues of diversification.

Performance — Value-Added Stability

	2015	Three Years	Five Years	10 Years	Life of the Strategy*
TPM Baseline**	**-4.98%**	**4.81%**	**5.26%**	**5.97%**	**7.63%**

** Strategy inception for discussion purposes is January 1, 2002*
*** 65% equities*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The Total Portfolio Management performance data, which are provided net-of-the management fee, are a combination of the actual investment returns associated with Nottinghill's Value Plus Equity Strategy, three equity and fixed income mutual funds/ETFs, a Treasury ladder, gold bullion/an ETF tracking the price of gold, and, after January 1, 2014, two alternatives indexes/ETFs. The investment returns are actual; however, the combination is simulated, and such simulated data have certain inherent limitations. First, unlike an actual performance record, simulated results do not reflect actual trading. Second, since trades have not actually been executed, results may contain an under- or over-compensation for the impact, if any, of certain market factors. All multi-year returns have been annualized, and all returns are associated with time periods ending December 31, 2015. To receive details regarding the calculation and the presentation of any Nottinghill performance data series and/or a complete description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Whether simulated or actual, past performance is no guarantee of future results.

Now, let's continue the focus on balanced portfolio investing, and talk about ITPM in 2015. Details on the next page.

Indexed Total Portfolio Management

Indexed Total Portfolio Management, or ITPM, is our fully indexed, balanced approach to the management of a taxable or tax-exempt investor's overall portfolio. Once again, the objective is inflation-beating investment returns; but this time, they are expected to be in line with the passive indexes, and expenses are expected to be ultra-low.

Investment Process - The Complete, Fully Indexed Answer

ITPM portfolios also consist of an Equities, a U.S. Fixed Income, and an Alternatives Group sector. A total of nine components, and all nine consist of Exchange-Traded Fund (ETF) positions performing in line with an associated equity market index, bond market index, or commodity price. The result: the traditional performance advantages of indexing, along with ultra-low transaction costs and management fees. The complete, fully indexed answer. As with TPM, one destination for all of the individual or tax-exempt investor's investment needs.

2015 - A Little Less Challenging, But Challenging Nonetheless

The ITPM structure weathered 2015 a little better than its TPM cousin, but the year was challenging in this case as well. Of course, the four factors were there, as was this continued superiority of the Growth style of investing. A clear headwind since the large company component of an ITPM portfolio is weighted three-to-one in favor of Value. But again, there were bright sports: the large company Growth ETF, the REITs and emerging markets government bonds, the Treasuries. As before, the virtues of diversification.

Performance — Indexed Stability

	2015	Three Years	Five Years	10 Years	Life of the Strategy*
ITPM Baseline**	**-4.47%**	**4.79%**	**5.13%**	**5.22%**	**6.70%**

**Strategy inception for discussion purposes is January 1, 2002*
***65% equities*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The Indexed Total Portfolio Management performance data, which are provided net-of-the management fee, are a combination of the actual investment returns associated with certain indexed mutual funds/ETFs or the indexes upon which those indexed mutual funds/ETFs are based and the actual investment returns associated with gold bullion or an ETF tracking the price of gold. The investment results are actual; however, the combination is simulated, and such simulated data have certain inherent limitations. First, unlike an actual performance record, simulated results do not reflect actual trading. Second, since trades have not actually been executed, results may contain an under- or over-compensation for the impact, if any, of certain market factors. All multi-year returns have been annualized, and all returns are associated with time periods ending December 31, 2015. To receive details regarding the calculation and the presentation of any Nottinghill performance data series and/or a complete list and description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Whether simulated or actual, past performance is no guarantee of future results.

CNBC on the line? Check out the back page.

CNBC? Not a Chance

"There are only two kinds of interest rate forecasters: Those who don't know where rates are going, and those who don't know that they don't know."

— John Kenneth Galbraith

No one within these four walls ever will be invited to appear on CNBC. Why? Because no one here is willing to provide some grand, headline-grabbing pronouncement regarding the direction of interest rates or the overall direction of the stock market. Attempting to gauge such things in fact is futile. And yet, CNBC and the other business channels depend upon an endless supply of guests offering such learned pronouncements. Want to get into the CNBC mix? You'd better have grand macro-type opinions and be willing to state them with all the certainty you can muster. Want to plead humility and talk about diversification, structure, discipline, and the bottom up search for investment value? Well, don't call them, they'll call you...and have a good life.

These grand macro trends upon which so much media attention is lavished, of course, are unforecastable by mere mortals. We humbly admit this; but, we're human, and do have macro-type opinions. Those opinions don't guide our hand, i.e., dictate large-scale, so-called tactical asset allocation shifts. But still, we always are interested in what the markets might be telling us. And, despite the long odds, we occasionally also are interested in what some other mere mortal might be telling us. One such piece is the early-February "Now's the Time to Buy Stocks — the Stars are Aligned," by Michael Brush. The three aligned stars:

Negative Investor Sentiment

Unfortunately, many sentiment indicators don't have the precision that we prefer; but, some do, and they can be valuable in a contrarian sense. One such set is the various put/call ratios. Simply stated, puts are used to protect asset values if a decline is expected. Calls, on the other hand, are the option of choice if prices are expected to rise. What's important for our purposes is that too many put buyers relative to call buyers is a sign that the crowd is way too bearish. Beware of unanimity, as they say. High put-to-call ratios mean that the path of least resistance is up, and that's the way things are now.

Then, there are the less precise sentiment measures. For example, the AAIR survey recently came in at 18% bulls, the lowest reading in 10 years, and the Investor's Intelligence Bull/Bear ratio recently fell for the sixth week in a row to 0.74 (II's buy signal: anything below 2.00.)

Bottom line: Investor sentiment is way too negative. Contrarians, take note.

Negative Media Sentiment

We talked about China and oil in the January 25 Perspective ("U.S. Equities Are On Sale"). Every day, we're bombarded with stories about the one's growth rate crashing down and/or the price of the other going to $10 a barrel and triggering Armageddon. Of course, the media are responsible for getting people to read their print or to watch their broadcasts, and we know that pessimism does a better job than optimism in both cases.

But, come on, extreme media bearishness is annoying and another very good contrarian indicator. As soon as these bearish scenarios become the subject of every magazine cover story and every CNBC guest's pronouncement, you can be sure of one thing: Something else is going to happen.

Bottom line: Media sentiment is way too (depressingly) negative. Contrarians, take note.

Insiders Are Bullish

Frankly, the various analyses of corporate insider selling and buying always have caused us to scratch our heads. Take insider selling, for example. The accepted wisdom is that insiders know the company better than the rest of us and that such selling demonstrates a lack of faith. Then, after all the data are aggregated, a large ratio of selling-to-buying is supposed to indicate an overall lack of faith by a knowledgeable subset of investors. But, stocks are sold for many reasons, not just to cash out before a company's or the market's fortunes sag. The motives of insiders buying on the other hand, typically are easier to discern. Specifically, he/she/they expect prices to rise, so a healthy ratio of insider buying-to-insider selling is a very good thing. And, that's what's been happening. Vickers is the outfit best known in the area, and their analysis is very conclusive: Insider buying is at extremely bullish levels.

Bottom line: A knowledgeable investor subset with crystal-clear motives is betting that all those gloom-and-doom scenarios are not going to become reality. Trend-followers (as opposed to contrarians in this case), take note.

Figure 1

The Nottinghill Yield Group

January 31, 2016

	Current Yield
AT&T	5.32%
Dow Chemical	4.38
Emerson Electric	4.13
ExxonMobil	3.75
General Motors	4.86
Int. Paper	5.14
Merck	3.63
Pfizer	3.94
WalMart	2.95
Weyerhaeuser	4.84

So, there you have it. Grand, headline-grabbing, macro-type pronouncements may be good entertainment, but, in the long run, it's all about the aforementioned diversification, structure, discipline, and bottom up search for investment value. Those four concepts, in fact, are what we're all about, but we periodically like to look at the tea leaves, particularly when those "tea leaves" have been tested thoroughly. In the Michael Brush case, they have been, and his conclusions are simple: Investors and the media are too focused on the negatives out there and corporate insiders, who know a thing or two about what's going on out there, are not.

OK, U.S. equities are on sale, and the stars are aligned. What to buy? Let's start with something near-and-dear to our hearts: the 10-stock Yield Group (Figure 1). Good opportunity with a forgotten bunch of prominent, large-company stocks with generous, growing dividends. What's not to like?

Gotta go now. CNBC is on the line. (Not a chance.)

We would like to hear from you. Your questions, comments, and requests for information are welcome at our e-mail addresses: mcpeek@nottinghilladvisers.com, jem@nottinghilladvisers.com, and lmason@nottinghilladvisers.com.