

Second Quarter 2015 Commentary

Stocks experienced some nice gains in April and May, only to relinquish those gains in the final weeks of June. Uncertainty about the debt situation in Greece and a bear market in China fueled investor concerns in the final days of the quarter. Stock market volatility, which has been dormant for a considerable amount of time, seemed to return. We wouldn't be surprised to see more volatility in the near future, as the unprecedented situation in Europe develops.

For the quarter, major stock indices hovered close to the flat line, with the S&P 500 and the Dow Jones Industrial Average returning +0.3% and -0.3%, respectively.

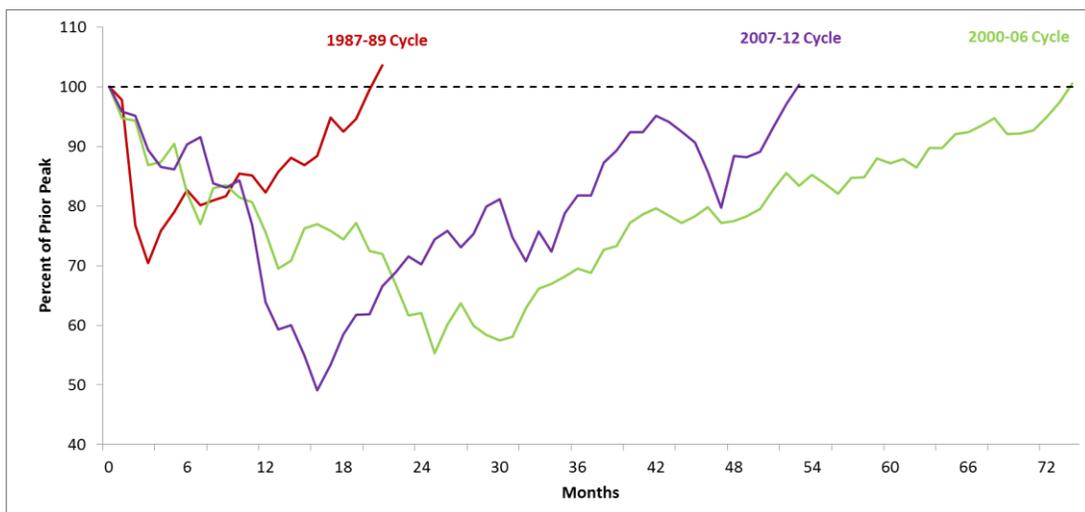
Investing for the Cycle

In baseball, there is a concept called hitting “for the cycle,” in which a player hits a single, a double, a triple, and a home run all within the same game. It's a rare feat, and it's rather exciting when it happens.

Investing has a similarly-named term, though with a much different meaning. Investing for the cycle refers to how an investor performs over the course of the stock market's never-ending bull-and-bear, rise-and-fall periods. Specifically, an investment cycle is defined as the time at which the market reaches its lifetime high up until that moment, after which it declines by at least 20%, and then eventually recovers back to a new lifetime high.

The most recent cycle we have all lived through was when the stock market, as measured by the total return of the S&P 500 index, reached its lifetime high in October 2007. From that point, it began to drop until its cyclical bottom in March 2009, at which point it began to recover. It regained its October 2007 high in March 2012, meaning that particular cycle lasted 53 months.

Some cycles last longer than that, such as the period that began in the year 2000 at the time the Internet bubble burst. The market did not regain its 2000-level highs until October 2006, for a total cycle length of 74 months.



And some are shorter, such as the period beginning with Black Monday in late 1987. Following a brief but precipitous decline, the market was able to reach a new high point by May 1989, less than two years later.

Mixed Metaphors

Since March 2012, though, we have not yet seen any period with at least a 20% correction off of the high points, meaning that we are currently in quite an extended bull run. And, since a rising tide lifts all boats, during this current bullish climate many investors are showing strong positive gains over the last few years. Value-oriented investors like Inkwell typically lag behind the overall market during such expansionary periods. That is, if the market is up, say, 20%, a value-oriented investor might be up “only” 15%.

While the “rising tide” metaphor is apt to describe bull runs such as the one we're currently on, Warren Buffett has a more colorful term to describe what happens during the inevitable bear markets: “It's only when the tide goes out that you learn who's been swimming naked.”

Inkwell is always focused on the full market cycle. When evaluating our investment performance, we take a wide view. While we do like to participate in advancing bull markets such as this one, we are always conscious of limiting our clients' exposures to market downdrafts. We believe that the real money to be made through investing in the stock market over the long haul is in having a portfolio that declines less than the overall market during bear market periods. In other words, it is much easier to climb back to level ground after you've fallen into a shallow ditch than it would be if you had fallen into a deep well.

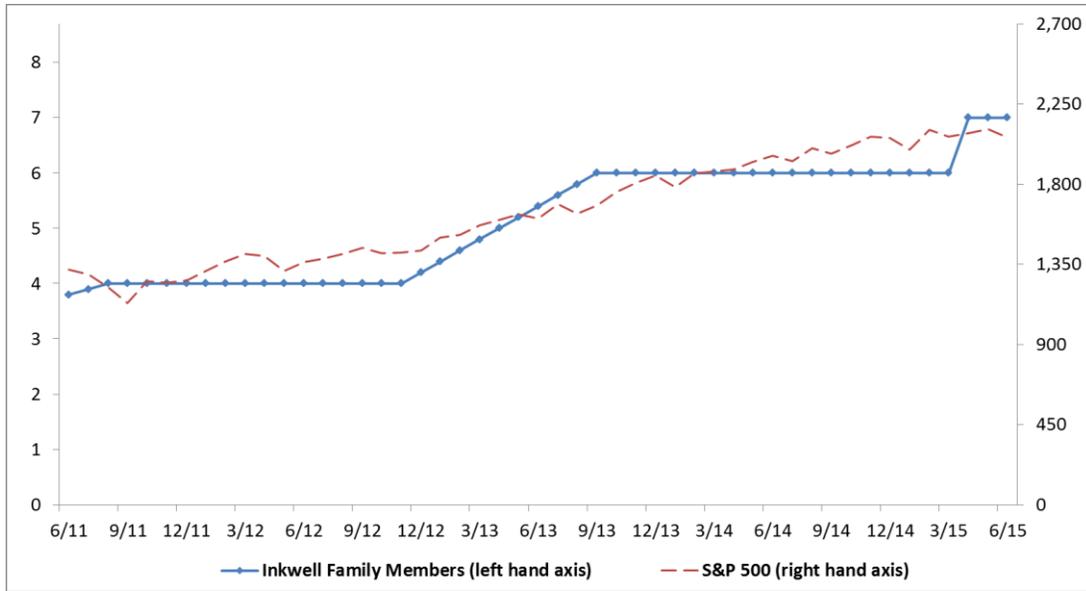
Inkwell Continues to Grow!

While all of the above is very interesting, we have saved the most important news of the second quarter for last: in April, Felipe married Dr. Yanelys Guerra in a beautiful beachside ceremony in Hawaii. Dr. Guerra is a prominent Miami-area dentist, and we warmly welcome her as the seventh member of the Inkwell family.

When Inkwell first launched in 2011, there were just three full members of the Inkwell family: Felipe, Aaron, and Aaron's wife Kari. Aaron and Kari have since added three children to the mix, and now Yanelys makes seven.

Based on the following graph, we should all be cheering on Felipe and Yanelys to add even more members to our numbers. Apparently, the size of Inkwell's family has a direct bearing on the movements of the stock market:





Thank you once again for your confidence, support, and of course your referrals. We look forward to reporting to you again in three months.

Sincerely,

Felipe Garcia, CFA
Chief Investment Officer
INKWELL CAPITAL LLC

Aaron Byrd, CFA
President
INKWELL CAPITAL LLC

