Market Commentary Fourth Quarter 2015

As the Danish physicist Niels Bohr famously quipped, "Prediction is very difficult, especially if it's about the future." But for 7Summit Advisors, the future we were predicting for more than a year has arrived. As I write this in mid-January, falling U.S. equities values are reflecting investors' deep anxiety about the global economy as fear of the unknown takes over. What happens when oil drops to $28-a-barrel,, commodities prices collapse and a fire-breathing Chinese dragon stumbles? Barring another round of quantitative easing by the Fed, I believe we are transitioning into a bear market.

Predicting the downturn has not been that difficult, as warnings of a correction only got stronger during the year. Both the Dow Jones Industrial Average and the Standard & Poor 500 indices peaked in May, and have been mostly flat or down since then. True, a rally late in the fourth quarter helped restore some of the losses that occurred during the August swoon, with the result that the Standard & Poor 500 Index was down just 0.7 percent and the Dow down 2.2 percent for the year.

But for many stocks, the damage was much greater than indices would suggest. Wal-Mart (NYSE: WMT) was, unexpectedly, the Dow's biggest loser in 2015, down 26.6%. American Express Co. (NYSE: AXP), a favorite of Warren Buffet's, was down 24.2% for the year. Caterpillar Inc. (NYSE: CAT) was down 23%. And energy stocks, of course, have been in free fall for most of the year.

Investors might have been more alarmed earlier if the performance of the FANG stocks—Facebook, Amazon, Netflix and Google—had not camouflaged what was happening. To a large degree, these four stocks dominated the market in 2015—Facebook (up 37%), Amazon (up 123%), Netflix (up 144%) and Google (up 48%)—masking losses taking place elsewhere.

To flip the cliché, if you focused on the forest in 2015, you missed the devastation of the individual trees. I scan six computer screens throughout the day to make sense of economic data, and if you read my Twitter feeds, you know that I have been concerned about consumer spending.

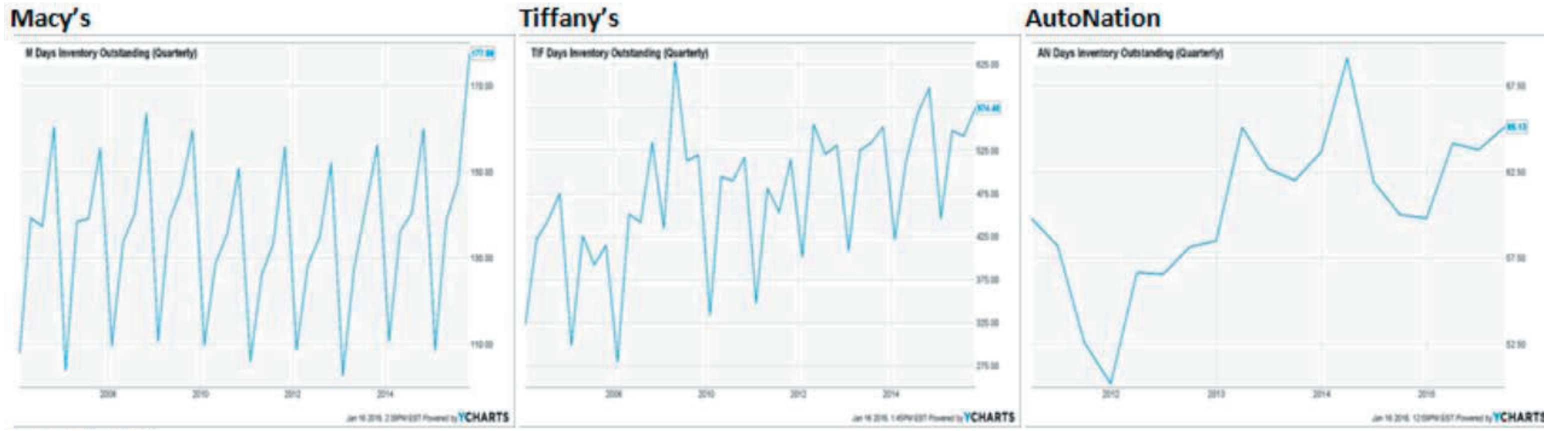
In the following page are three charts showing the average number of days inventory is held before being sold by Macy's, Tiffany's and AutoNation. The trend is not heartening if you are depending on consumer spending to keep the recovery going.

Again, at 7Summit Advisors, our portfolios were defensively positioned. Our shorts and hedges, as well as high quality assets, helped to buffer volatility. And again, in cases where we invested in funds, we benefited from the skill of experienced managers. We have added Plains All American Pipeline (NYSE: PAA), a publicly traded master limited partnership in the oil pipeline transportation, marketing, and storage business that is trading near its five-year low. We are also "averaging" into First Trust Energy Income and Growth Fund (NYSE MKT: FEN) to take advantage of lower energy prices.

As always, thank you for the trust you have placed in me and in

NUMBER OF DAYS INVENTORY OUTSTANDING (QUARTERLY)

2015-2016



Source: YCharts

7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang