January 22nd, 2016

FARRIS CAPITAL MANAGEMENT LLC

Market Commentary – 4th Quarter Review 2015

*Market Summary**	12/31/2014	10/31/2015	11/30/2015	12/31/2015	Performance for Q4	Final YTD Performance
S&P 500 Index	**$2,058.90**	**$2,079.36**	**$2,080.41**	**$2,043.94**	**S&P 500 Index**	**S&P 500 Index**
		8.30%	*0.05%*	*-1.75%*	*6.45%*	*-0.73%*
Dow Jones DJIA	**$17,823.07**	**$17,663.54**	**$17,719.92**	**$17,425.03**	**Dow Jones DJIA**	**Dow Jones DJIA**
		8.47%	*0.32%*	*-1.66%*	*7.00%*	*-2.23%*
MSCI EAFE Index	**$1,774.88**	**$1,771.66**	**$1,741.01**	**$1,716.28**	**MSCI EAFE Index**	**MSCI EAFE Index**
		7.74%	*-1.73%*	*-1.42%*	*4.37%*	*-3.30%*
MSCI Emerg Mkts	**$956.31**	**$847.84**	**$814.30**	**$794.14**	**MSCI Emerg Mkts**	**MSCI Emerg Mkts**
		7.04%	*-3.96%*	*-2.48%*	*0.26%*	*-16.96%*
FTSE Global All Stock	**$627.65**	**$632.09**	**$628.38**	**$617.03**	**FTSE Global All Stock**	**FTSE Global All Stock**
		7.58%	*-0.59%*	*-1.81%*	*5.02%*	*-1.69%*
Barclays US Agg Bnd	**$1,914.87**	**$1,936.76**	**$1,931.64**	**$1,925.40**	**Barclays US Agg Bnd**	**Barclays US Agg Bnd**
		0.02%	*-0.26%*	*-0.32%*	*-0.57%*	*0.55%*
Barclays Global Agg Bnd	**$456.53**	**$447.20**	**$439.79**	**$442.13**	**Barclays Global Agg Bnd**	**Barclays Global Agg Bnd**
		0.21%	*-1.66%*	*0.53%*	*-0.93%*	*-3.15%*

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance is no guarantee of future results. *Source: Standard and Poors Dow Jones, Barclays, and MSCI. Data as of 12/31/2015. Returns are in U.S. Dollars. All returns are calculated on a closing price basis with the exception of the Barclays Bond Indexes.*

EQUITY MARKETS

The 4th Quarter of 2015 showed a bounce back from the steep decline in late August, much of which came in the first 3 weeks of the quarter. The Fed delay helped calm some of the angst that generated a portion of the volatility in late August and into September. However, the Santa Claus rally did not occur in its usual fashion as seen in the chart from the previous newsletter. In fact, December was the worst performing month of the 4th quarter which is unusual as market volatility in general steadily declines and markets grind higher as the quarter moves along. It was almost as if investors were waiting for the 12/31 finish line to come along so they could take a deep breath, reevaluate portfolios, and make changes for 2016. However, 2016 has been anything but a breath of fresh air. We have kicked off with a drastic decline that has continued on for the first few weeks now. At this point, much of said decline has been from oil, China growth expectations, a North Korea bomb test, and overall lack of growth from the global economy, including recent economic reports from the USA.

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Moving Forward

While there is a ton of noise out there from the ultra bullish to the doomsdayers, what should really be in focus is what are the current underlying fundamentals of the economy and where are we going. While no one can predict where we are going with certainty we can get some insight from the 4th quarter earnings and economic reports that are slowly trickling out at this point.

I have mentioned the impact of earnings on market performance but I think it's worth reviewing some data to quantify what we have seen and what may lie ahead. If you look at historical realized operating earnings of the S&P 500 versus the performance of the S&P 500 you get a good idea of where prices have been and where they may go. The main difference between any given period is what investors are willing to pay for earnings (Price/Earnings ratio) which can be influenced by factors such as growth expectations, interest rates, inflation, overall market sentiment among others. Economic expectations and the accuracy of them are key to estimating where the stock markets may go since stock markets tend to look ahead.

Economic conditions influence PE ratios because they affect corporate earnings and financial markets. A combination of economic growth and low inflation could expand PE ratios as funds flow into stock markets in anticipation of strong earnings and dividend growth. Conversely, rising interest rates, high unemployment, and low levels of consumer and business spending usually lead to declining sales, higher operating costs, and falling earnings. These factors would drive down investor demand for stocks, which could shrink PE ratios.

As you can see in the included charts the overall moves of the market typically are highly correlated with earnings. The impact of the most recent market declines can be explained by earnings for the most part with 12 month S&P 500 trailing earnings declining from $113.01 at this time last year to ~$106.66 currently as numbers are starting to come in. This is a decline in earnings of ~5.5%. Guess what the market performance was over the past 12 months? -5.25%!

As we look ahead, S&P 500 2016 earnings estimates are starting to take shape and are predicted to come in at $122.99. Based on average market multiples this would equate to a year end expectation in the 1,970 to 2,000 range if market multiples don't change, roughly 4-5% higher than where we sit now. Add in a 2% dividend and that may be it for 2016. However, analysts have been wrong on the optimistic view point of 2015 earnings where projections initially started at $131.00. Maybe $122.99 will be too low for 2016. We will have to wait and see.

In our opinion it will be important this year to know what you own and where value may be hiding. Stay tuned…

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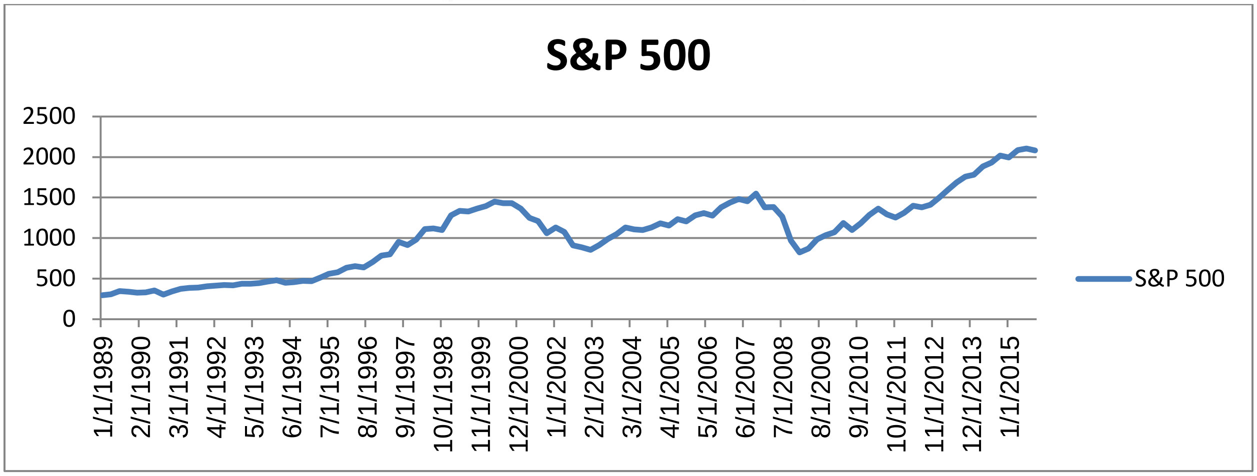

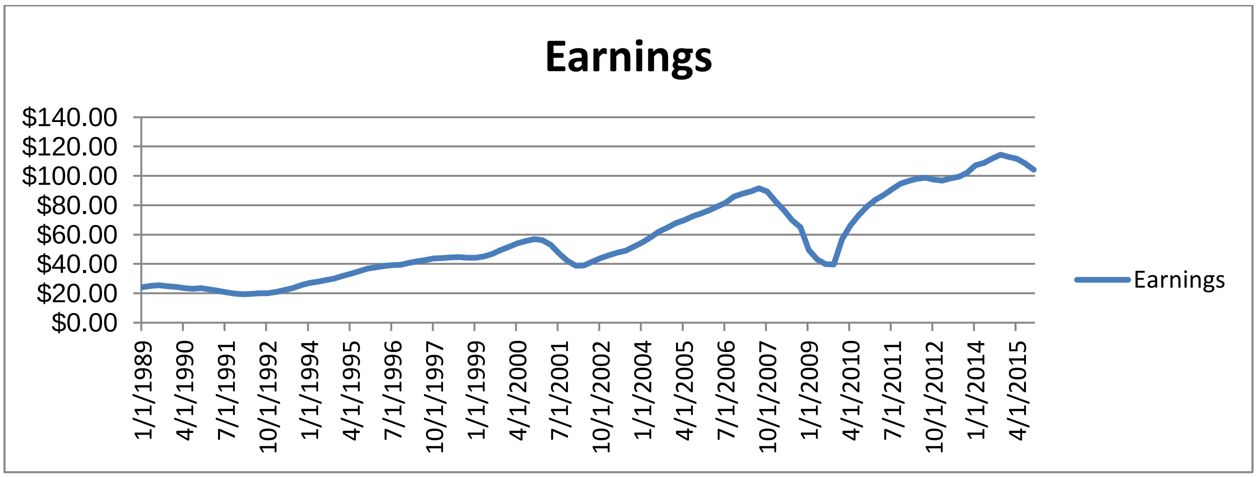

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*Earnings Data provided by http://www.standardandpoors.com under indices “S&P 500”. Specific current data can be found under ”Download Index Data” and by selecting the Index earnings link.

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Index definitions:

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones DJIA or Dow Jones Industrial Average is an index that shows how 30 large publicly owned companies based in the United States. The DJIA was first calculated on May 26th 1896 and is the second oldest U.S. market index currently followed.

The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends.

The MSCI Emerging Markets Index is a float-adjusted market capitalization index. As of May 2005, it consisted of indices in 26 global emerging economies.

The FTSE All-World Index is a market-capitalization weighted index representing the performance of the large and mid cap stocks from the FTSE Global Equity Index Series and covers 90-95% of the investable market capitalization. The index covers Developed and Emerging markets and is suitable as the basis for investment products, such as funds, derivatives and exchange-traded funds.

Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and ten years.

The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four different local currency markets. This multi-currency benchmark includes fixed-rate treasury, government-related, corporate and securitized bonds from both developed and emerging markets issuers. The Global Aggregate Index is largely comprised of three major regional aggregate components: the US Aggregate (USD300mn), the Pan-European Aggregate, and the Asian-Pacific Aggregate Index.

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