SACAJAWEA & COMPANY, LLP
Economic & Financial Research

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February 18, 2015

Dear ,

After earning high returns for our clients over the previous five years, an average of XX% annually for your portfolio, we have been largely on the sideline for the past year. Recently, the price of oil fell 50%, creating a few buying opportunities for us, but not enough. Your portfolio continues to be very safe, with lots of cash but in this low interest rate environment, not earning a high return. We want to invest, but cannot at these levels, so we continue to do research and prepare for the next opportunity that arrives.

We recently analyzed the 135 companies that we want to buy to determine whether or not we should remain defensive. We studied current sales, earnings and prices to see if they are on normal long-term trend lines, above or below trend, or at record levels. As the results below show, sales and earnings are predominantly at their normal trend levels, sales are on trend for 70% of companies, and earnings are on trend for 57% of companies. Only 2% of companies have sales above trend or at record highs, while 26% are below trend. In contrast, prices are high, with 44% of companies above trend or at record highs and only 7% below trend or lower.

We also analyzed a valuation metric to determine whether stocks are overpriced relative to company growth. We found valuations are very high, 75% of company valuations are above trend or at record highs, indeed 48% are at record highs. This means 48% of the companies we follow closely are at least as overpriced as they were before the 2000 stock market crash. However, we do not expect a market crash like 2000 because the overall market was more extreme then, caused by the insane prices of many "dot-com" companies.

Studied Companies	Sales	Earnings	Price	Valuation Metric
At or near record high	**1%**	**1%**	**9%**	**48%**
Above trend	**1%**	**8%**	**35%**	**27%**
On Trend	**70%**	**57%**	**48%**	**19%**
Below trend	**26%**	**25%**	**6%**	**4%**
At or near record low	**1%**	**7%**	**1%**	**1%**

Another observation is that stock prices have been growing faster than company fundamentals for over 20 years. Why are investors willing to pay more for a dollar of sales or earnings today than they were in the past? One possible reason, the invention of IRAs and other retirement accounts has increased the demand for long-term investment in stocks. There also may be a large inflow of money from foreign investors driving up stock prices. There may be other reasons as well, but we believe the biggest reason is that interest rates have been declining steadily since 1981. As the interest rates on bonds decline, they become less attractive to

investors. Stocks are then more attractive relative to bonds so investors buy more stocks, driving prices higher.

Can these trends continue? Are zero interest rates here to stay? We do not think so. Unemployment in the U.S. is down and the economy is slowly improving. The Federal Reserve Bank is talking about finally raising interest rates this year. This will make bonds a more attractive investment and reduce the demand for stocks. Therefore, we remain cautious but prepared to act when valuations correct. We think this is smarter than joining the lemmings as they rush forward.

Sincerely,

William H. Wrean Jr. William H. Wrean