INVESTOR NEWSLETTER FOURTH QUARTER 2014

Investor Quarterly

ROCKINGSTONE ADVISORS LLC

CONTENTS

Founded by Brandt Sakakeeny, Rockingstone Advisors LLC is a boutique financial advisory firm providing asset management and corporate advisory services

Volatility Rises

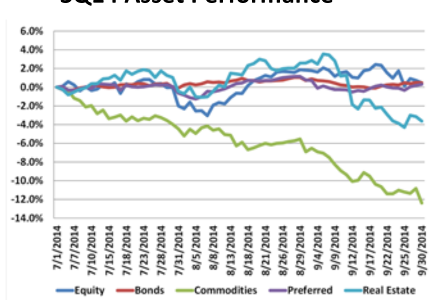
3Q14 Review

Financial assets recorded a mixed third quarter. Stocks and bonds were mostly flat; oil and precious metals declined substantially. Yield-driven Real Estate (REITs) fell about 4% while Preferred Equities were flat.

Unlike in prior quarters, underlying macroeconomic data weakened as the quarter progressed, although not materially and not uniformly, with investor concerns focused increasingly on events in Europe, Japan and China. Growing media coverage of ISIS victories in Iraq and the Ebola outbreak in West Africa weighed on sentiment.

U.S. Treasuries were the best performing asset class in the quarter (among those we track) as investors sought relative safety in government bonds, a trend that was to continue into October.

3Q14 Asset Performance[1]



Source: NYSE Arca

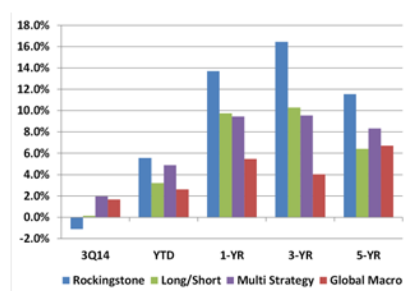
Rockingstone's 3Q14 Performance

Mean Reversion

Rockingstone Advisors posted a loss of -1.1%. We raised cash in mid-July and caught the August equity downdraft in great shape; however, we were late to cover shorts into the September rally and were negatively impacted by our under-weight in bonds. Moreover, we had out-performed for several quarters and we know from experience that periods of out-performance are typically followed by periods of under-performance.

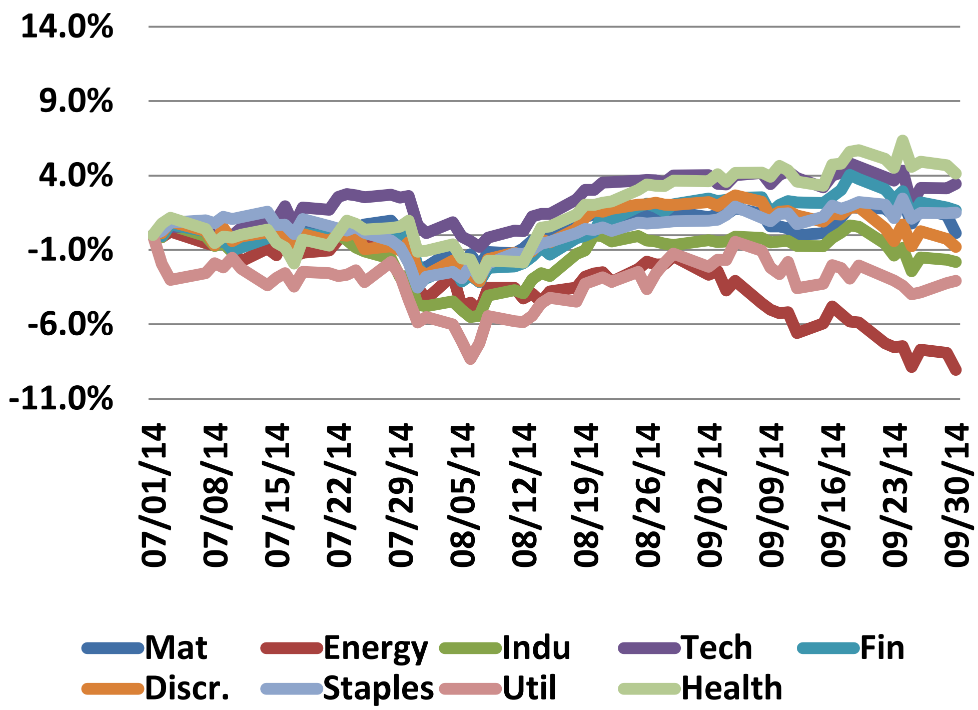
We report our quarterly, YTD, 1-year, 3-year and 5-year returns.

3Q14 Performance[2]



Source: Morningstar, DJ Credit Suisse

Please see our End Notes and Disclosures (page 8 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.



S&P SECTORS[3]

ENERGY DECLINES

The chart depicts the 3Q14 performance of the nine sectors comprising the S&P 500.

Energy stocks suffered the most (9.1%) on the decline in oil (WTI) prices. Healthcare, Financials and Technology sectors out-performed.

Source: NYSE Arca

2.1: 3Q14 Detailed Performance

Financial assets evidenced rising volatility that seemed to set the stage for a very tricky October. Stocks fell and volatility rose at the end of July, only to reverse again by mid-September in a rally that took the S&P 500 to new highs and sent bond prices falling. These trends were once again reversed in the last two weeks of September, and of course continued into the start of the fourth quarter.

Notably small-caps continued to under-perform, which in hindsight was probably a decent "tell" that the stock market was due for a correction.

We had written last quarter that extended valuations typically lead to sharp corrections, and by the end of September the confluence of several events created the conditions for such an event.

As the U.S. economy showed ongoing signs of expansion, the news out of Europe was grim: slowing growth, falling prices, lower business and consumer confidence, and growing disagreement among European leaders as to the right course of action. The differential in the relative outlooks added fuel to the dollar rally (See our *3Q13 Investor Quarterly* for our bullish case on the US Dollar) and put additional downward pressure on the Euro.

The rising dollar, coupled with the prospect for reduced energy demand out of Europe and surprisingly strong production out of the U.S., conspired to send oil prices plummeting, which is logical in hindsight but certainly not what we had forecast, especially given heightened tensions in the Middle East and decent economic growth.

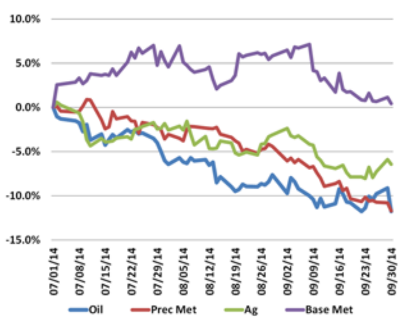
The combination of stretched stock market valuations, dislocations in global energy and foreign-exchange (FX) markets, winding down of carry trades, and growing uncertainty about Ebola all set the stage for a sharp October correction in equity prices and a corresponding rally in U.S. Treasuries.

Commodities

The rally in commodities that occurred in the first half of 2014 was put to rest in 3Q14, as practically all commodities (save for industrial metals, strangely) declined precipitously.

Oil and precious metal prices declined more than 10% in the quarter on the rising dollar and concerns about slowing economic growth. Agricultural prices declined more than 5%, though this was not particularly surprising given the anticipated record harvests in corn and wheat this year.

3Q14 Commodity Performance[4]



Source: NYSE Arca

Notably, industrial metal (like nickel, copper, aluminum) prices were flat at the end of September after rising more than 5% intra-quarter. Normally prospects for slowing economic growth send the industrial and base metal prices lower.

Equities

Equity markets rolled over early in the quarter and then again late in the quarter, setting the stage for the October correction. As noted previously, U.S. small and mid-caps under-performed, which may have signaled a prospective decline in large-caps.

Foreign Developed (Europe, Japan and Australia) mirrored U.S. small caps, recording declines of roughly 8% even *before* the October correction. Part of this under-performance was currency-related; part was fear of slowing growth in Europe and Japan and falling commodity prices in Australia.

3Q14 Equity Performance[5]

Source: NYSE Arca

Emerging Markets shares actually out-performed Foreign Developed shares, falling about 3% in the quarter.

Fixed Income

Fixed income securities recorded a mixed quarter, but like the equity markets reflected growing risk aversion among investors. For this reason, international bonds and high-yield bonds under-performed U.S. Treasuries and U.S. high grade bonds, both of which benefited from a flight to quality.

Government bonds in the U.S. and in Europe have rallied throughout the year, with yields steadily declining. The U.S. 10-year started the year at 3.0% and ended the third quarter at 2.5%. That the bond market deterioration signaled a tougher road for equities was not atypical—frequently the bond market is a better predictor of future growth than is the stock market. The problem is that the Fed's ongoing bond purchases (despite the taper), coupled with its prior purchases (the Fed owns roughly $4.2 trillion of securities), means that it is particularly difficult to disaggregate whether the decline in yields witnessed this year was simply due to a lack of supply of bonds or the market signaling tougher times ahead.

3Q14 Fixed Income Performance[6]

Source: NYSE Arca

As in equities, emerging markets bonds out-performed international developed corporate bonds. Even U.S. high yield beat international as well, despite risk aversion, indicating the deep concerns around the potential for European deflation.

3.1: Our 2014 Forecast

Update of Key Metrics

More than three-quarters through the year we have some updates to our 2014 outlook (please see table on the following page).

Overview

In general, we continue to be fairly constructive about the U.S. economic recovery: employment continues to improve, the economy

Metric	1/2014	3Q14 Revisions
US GDP	2.8%	NC
S&P 500 EPS '14 RSA/Street	$117.51/$119.99	NC/$117.55
S&P 500 EPS '15 RSA/Street	$128.22/$137.26	NC/$134.10
S&P 500	1925	2050
DJIA	17350	17500
10-Yr. U.S. Treasury Yield	3.3%	2.6%
Euro/USD	1.25	NC
USD/Yen	115	NC
Oil (WTI)	$98	$75
Gold	$1,210	$1,110
Inflation (PCE Deflator)	1.7%	NC

KEY METRIC FORECAST

FOR 2014

We raise our S&P 500 forecast to 2050 and our DJIA forecast to 17500. We lower our 10-year US Treasury forecast to 2.6% from 3.3%.

Source: Rockingstone Advisors; Standard and Poor's

is expanding and interest rates remain low. Moreover, lower gas prices should help consumer spending, particularly as we approach the holiday season. That said, we are cognizant that the U.S. is now a large energy producer and lower fuel prices no longer cut just one way.

We are forecasting annualized real GDP growth of 2.8%, which seems reasonably conservative based on current trends. We see low- to mid-single digit gains in equities (S&P 500); expect the 10-year will now end the year lower than where it started; a further strengthening of the dollar; and slightly lower commodity prices.

The only change to our forecast last quarter was a slight reduction in our 2014 GDP estimate due to the horrible first quarter weather. Our revised estimate of 2.8% seems appropriate given the latest preliminary Q3 GDP figure of +3.5% annualized rate.

Details

With respect to S&P 500 earnings, we maintain our current 2014 estimate of $117.51, which is now just slightly below the Street's $117.55 (down from $120.08).

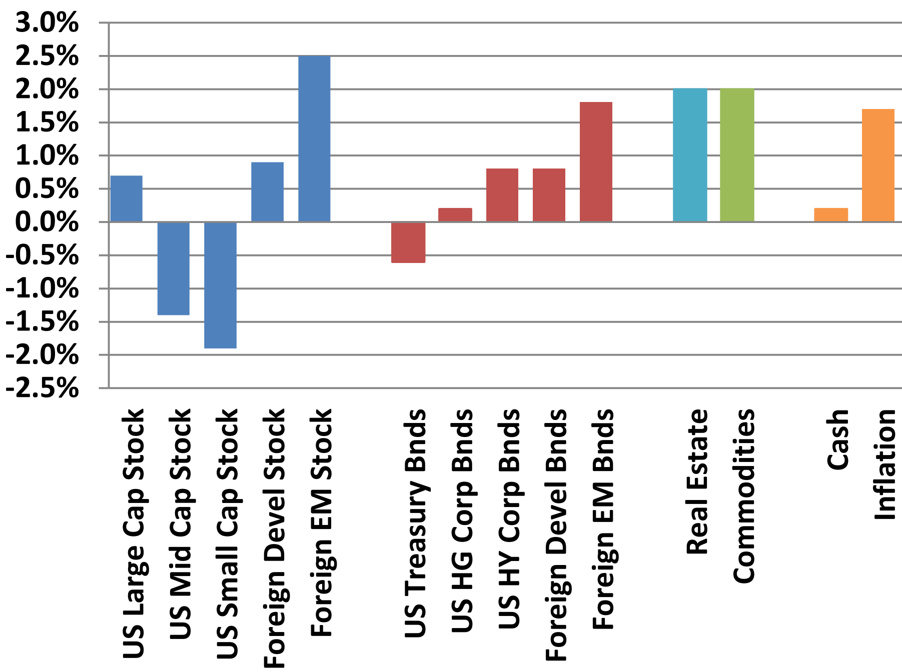
Third quarter revenue growth for the S&P 500 is currently estimated to be up +6.8% (YoY) compared to an increase of +5.5% last quarter (2Q14 vs. 2Q13).

Third quarter preliminary profit margins (45% of companies reporting) for the S&P 500 are running at 9.9%, a 28 basis point improvement over 3Q13, but down sequentially from 2Q14's all-time high of 10.1%.

Revenue growth, plus margin expansion yields a minimum of 7% growth, holding the multiple constant.

If revenue trends persist, S&P 500 revenue growth will have accelerated sequentially from the second quarter, a very positive sign. On the flip side, however, if 3Q14 margins remain below 10.1%, that will make two consecutive years (2013 and 2014) that have witnessed lower margins from 2Q to 3Q; the last time this occurred was 2007 and 2008.

As we look to 2015, our S&P 500 earnings forecast remains $128.22, below the Street's $134.10 (down from $136.01), which implies a 9% increase from 2014. Given the current revenue growth rate of 6.8%, we would have to see further acceleration in sales or enhanced profit margins to deliver our figure,



5-YR ASSET VALUE FORECAST

2014 - 2019

We update our 5-year valuation forecast based on 3Q14 results. We see limited real return potential for most financial assets over the next five years.

Source: Rockingstone Advisors

let alone the Street's.

This would definitely be plausible if Europe and China address structural impediments to economic growth, and the U.S. economy continues to expand. If, however, Europe continues to slow as does China, equity markets could be in for tougher times in 2015.

For the remainder of 2014 and at least into the first quarter of 2015, there is no dramatic change to the outlook. As the Fed *steps away* from intervention, it appears that both Japan and Europe may *step up* intervention. While there's little change to global liquidity, these actions should lead to more of the same: a rising dollar, falling Euro and Yen; added pressure on dollar-denominated commodities, and the inflation of financial assets. U.S. interest rates should rise, albeit slowly; rates in Europe and Japan should be flat to down.

(We realize that classical economic theory says that when the government prints money bond holders will demand a higher interest rate to compensate for anticipated inflation; instead the inverse has occurred, which may be the genesis behind Ben Bernanke's quotation that QE "works in practice, not in theory.")

The dynamic that might upset our conventional forecast (stronger dollar, higher rates, higher stock market) is if the Fed's exit turns out to be too premature, and the U.S. economy slows while Europe and Japan accelerate; this would obviously reverse our forecast. Currently we believe this alternative is the lower-probability outcome.

Hence, we raise our 2014 year-end target for the S&P 500 to 2050 or about 16x our $128.22 EPS estimate. This target implies some additional incremental returns for stocks for the remainder of the year, though not much.

We failed miserably in our U.S. 10-year treasury yield forecast. While we thought we'd see a range of between 2.4% and 3.9%, we expected to end the year at 3.3% Instead, rates declined to below 2% during the October sell-off and we now believe will most likely finish the year around 2.6%.

As the dollar strengthens and U.S. oil production exceeds our forecast, we are now predicting lower oil prices: $75 by year end 2014 with the prospect of further declines in 2015. Despite the shift in QE away from the Fed to Europe and Japan, gold seems to take its lead from the U.S. dollar. It's unclear to us at what point owners of yen and euros decide to swap their depreciating currency for a hard asset like gold; presently there seems to be no rush to the mines. It may take a crack in either currency to force action into gold. In the meantime, we expect some further erosion in gold prices. We had originally forecast gold prices to decline to $1,210; we now see expect gold to decline to $1,110.

6.1: Five-Year Asset Value Forecast

A Scarcity of Cheap Assets

Longer term, according to our five-year asset value forecast (on the previous page), we maintain the view that financial assets may offer historically limited real return potential, given current valuations and profit margins.

We see foreign developed and emerging stocks as the least expensive assets; however, it is important to note that frequently assets are cheap for a reason, and Europe's structural problems, anemic growth rates, and lack of leadership are several reasons behind the discount relative to the U.S. Similarly, emerging markets equities have disproportionate exposure to natural resources, which have been under pressure.

However, we continue to believe that there are opportunities to find undervalued securities within each of our asset classes.

As we see mid-single digit gains in the major benchmarks in 2014, our research focus is concentrated on individual stocks that may benefit from global growth, with substantial operating leverage (high incremental margins), well-capitalized balance sheets, high returns on equity and compelling valuations.

Mid- and Small-Cap Stocks

Consensus 2014 earnings for the S&P 400 (mid-cap) and the S&P 600 (small-cap) are $71.70 (down from $73.75) and $32.35 (down from $34.22), respectively, implying a P/E multiple of 19.5x and 20.6x, a decent premium to the S&P 500, a full multiple point higher than last quarter.

Adjusting P/Es for growth rates, currently the S&P 500 trades at a PEG ratio 1.4x vs. the S&P 400 at 1.5x and S&P 600 at 1.3x.

6.2 Portfolio Positioning, 2014

Summary Views

The following section outlines our portfolio positioning ideas for this year and some of the potential risks we see.

Equities

We are constructive on U.S. large-cap stocks and high-quality equities, neutral on mid-cap stocks and fairly bearish on small-cap stocks. We are also constructive on foreign developed and emerging market equities, the last of which has performed ahead of our expectations.

Our favorite sectors are technology, financials and industrials.

Within our industry sectors, we like mobile chips, airlines, staffers, banks and asset managers. We are reducing index holdings and adding more individual stock ideas that have underperformed or offer value.

Our top domestic equity holdings are Apple (AAPL), New Mountain Finance (NMFC), Northstar Realty (NRF), Northstar Asset (NSAM), Home Depot (HD), Bank of America (BAC), General Dynamics (GD), Google (GOOGL), KKR, (KKR), Walmart (WMT), Exxon (XOM), Mobile Mini (MINI), Delta (DAL), Intuitive Surgical (ISRG) and Sparton (SPA).

We covered our small-cap short during the October sell-off, but have since re-established the position in the recent rally. We also trimmed mid-cap positions.

Bonds

We continue to like high yield bonds, bank loans, floating rate notes and other similar instruments. We covered our short on U.S. treasuries in July to offset gains in stocks we sold. Luckily. We have not re-entered the trade.

Risks to our bond underweight would come from either slowing economic growth (a soft patch that seems to appear at least annually) or ongoing subdued economic growth and high equity valuations that would allow bonds to outperform stocks in 2014.

Risks to our high yield bond position could come from a slowing of economic growth that would lead to wider spreads and higher perceived default risk, or an increase in hostilities in the Middle East or in Ukraine, which would lead investors to seek safety in U.S. Treasuries.

Hybrids

Despite the prospect of rising rates, we continue to own bond/equity hybrids, including convertible bonds and preferred stocks. While higher interest rates may dampen the performance of preferred securities, we like the fact that preferreds are over-represented among financials as we continue to like that sector despite the recent decline in yields (and pressure on their net interest margins from such a move).

Risks to this group include the prospect of rising rates, as well as disproportionate exposure to financials.

Commodities

We have maintained our very slight under-weight in oil and natural gas exposure; luckily we sold our refiners in the spring and summer. Given our current cautious outlook on oil, we are re-visiting our energy holdings. We hold a little silver, no gold, and have exposure to palladium (and platinum) through Stillwater Mining (SWC).

Risks

Risks to our commodity position include a rising dollar that may put pressure on prices, uncertainty regarding inventory levels, especially in China and other emerging markets, and weaker demand due to slower economic growth.

We see two principal risks to our current views: valuation and Fed exiting. Valuations continue to seem full across most of the equity benchmarks, and most acutely in small caps; valuations seem even more stretched across most bonds categories, and most acutely in government bonds.

Fed exiting is somewhat related, as the Fed’s purchasing of mortgage and treasury bonds has raised the price of these securities and lowered their yield; this in turn raises the discount value of all future cash flows, inflating the value of financial assets and contributing to the full valuation commentary above.

End Notes

Please Read Carefully

[1] Asset Class Performance chart depicts Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price changes plus dividends and income during the period.

[2] Rockingstone Advisors performance charts depict the aggregate average of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition.

Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Public equity returns are calculated by Morningstar based on information received from our custodian, Charles Schwab & Co. Other investment returns, including private equity and real estate investments, are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios has increased over time, which affects returns.

Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including, but not limited to: (i) certain funds in which we invest are now closed to new investors; (ii) certain clients may not meet "accredited investor" standards; (iii) certain investments are available only to officers or directors of a business; or (iv) we may believe that historical returns most likely will not be generated in a specific investment and therefore are not committing new capital to a specific strategy.

Past performance is not indicative of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how the benchmarks performed, but also how much risk we assumed in generating portfolio returns.

This *Quarterly* is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations. We are solely responsible for the content of this presentation. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

[3] S&P 500 sector charts represent XLY, XLV, XLF, XLU, XLK, XLP, XLB, XLE, and XLI with pricing data from NYSE Arca.

[4] Commodity Price Performance chart depicts Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF) and Agriculture (DBA ETF).

[5] Equity Price Performance chart depicts US Large (SPY ETF), US Mid (VO ETF), US Small (IWM ETF), MSCI (VEA ETF) and Emerging Markets (VWO ETF) total return, including dividends.

[6] Fixed Income Price Performance chart depicts Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporate (LQD ETF) and Emerging Markets (EMB ETF); all figures include price changes and interest earned over the period.

[7] Our 5-year forecast is updated quarterly and reflects our judgment on future performance based on current valuations and our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

IMPORTANT DISCLOSURES

This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Quarterly data priced as of September 30, 2014; most other prices and yields are as of October 31, 2014.

Please contact us if you have any questions, comments or concerns.

We are happy to provide the raw data and source links for any of the charts or tables in this newsletter. We thank you for your interest.

Rockingstone Advisors LLC
500 Mamaroneck Ave.
Suite 320
Harrison, NY 10528
914-481-5050

brandt@rockingstoneadvisors.com

