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Dear Esteemed Clients,

The past two quarters have given our portfolio a negative return of 2.8% for the year. This is a dramatic drop from our 6.8% gain accrued at the end of Q1. Market conditions proved to be unfavorable as it fell from being flat, throughout the first two quarters, to presently down 7% at the end of Q3. Thanks to our investment in Nintendo (NTDOY) and a conservative cash position, our portfolio has outperformed every major US stock index.

We have been a buyer during this market decline. I have focused on averaging down the majority of our positions while completely selling some major losers for tax-loss harvesting. China has been the culprit for this havoc filled summer, due to their currency devaluation and growth fears which are dominating headlines. Again, commodity based firms have been the hardest hit in the market. For example, I discussed in my Q1 letter new positions in commodity based firms FCX & VALE. Both these stocks have suffered drops since my initial purchase. Most notably is FCX (which peaked at ~$24 and dropped to ~$8). While my valuation model green-lighted the investments, it shows how difficult calling bottoms can be. This is why building positions slowly in uncertain times is a prudent strategy.

Parker Logan's Significant Positions Sold

Nuance Communications (NUAN) was sold at ~$17.50 per share. As discussed in my Q1 letter, I reduced our position following their Q2 earnings call. After much deliberation I reversed my view on the company and sold all our shares. After years of studying this company, more questions have emerged than answers. Along with other red flags, I believe executive management has too much discretion on the way revenue is being recognized. I also believe management is being overly optimistic in their calculation of their revenue pipeline. With much of it's share value priced for future growth, this is a troubling sign and selling at a slight gain was a prudent decision. I will revisit this company if management is replaced and/or fundamentals start to shape up in the next couple of quarters.

Chicago Bridge & Iron (CBI) was sold at a 49% gain while hitting my price target of $59 for 2015. While I believe the fundamentals of their business are strong long term and are not doomed from low oil & gas prices, the Market has them as a proxy for oil & gas. Which means any large decline in oil & gas will negatively impact CBI's shares. The shares were sold in Q2 while oil prices rebounded to their high for the year and new CBI announced long-term contracts awarded. It was my belief that oil prices would once again fall and give us another opportunity to buy. My forecast paid off and we now are buyers of CBI at $43 per share.

Major Holdings Performance

Apple (AAPL) shares have dropped over 20% since the end of Q1. This has contributed to a decline of our portfolio value of 2.4%. Shares are now flat for the year; this was because the Market was shaken by Apple's growth prospects due to the crashing Chinese stock market. The fundamentals have never been stronger, Apple is the most profitable company in the world and continues to dominate the smartphone market. Their new product, 'Apple Watch', is a winner though its adoption will take a few more years. I believe this category will sell 10 million+ units annually in years to come. The importance of this product reinforces my conviction in Apple's ability to innovate and create products with mass appeal.

Corning (GLW) is down ~27% is trading at a 55% discount to the S&P avg P/E ratio and a 36% discount to the industry P/Es. I believe the market for specialty glass will grow greater than what Wall Street is expecting. I expect growth to be powered by the broadening usages of their specialty glass in the automotive, commercial, and home categories. Corning dominates the technology and production of specialty glass. This is an under-the-radar technology company that many ignore. If my prediction on the growth in specialty glass is wrong, we are still buying a company with a long history of profitability, a stable dividend (~3% yield), fundamentally sound, diversified, and the ability to transform itself throughout its 100+ year history.

Parker Logan's Revisit Investment

When one mentions the name Blackberry, the 'ick' reaction tends to be the next sound heard. This is exactly the reaction I hope to hear when I make our investment. I believe the Wall St. consensus is wrong and Blackberry has been written off. Their quick ascension to the pinnacle of the smartphone category was met by even quicker descent after Apple and Google joined the race. The mismanagement of their smartphone business was catastrophic. Yet there is still hope. Not hope in the phone market but the enterprise services market. They still have an overwhelming market share and serviceable niche. These services help companies and government agencies administer devices securely across multiple platforms. Blackberry Enterprise Services can administer phones running multiple platforms (iOS, Android, Windows, Blackberry) and as well as the IOT marketplace (internet of things). I believe the CEO, John Chen, is the right man to execute this turnaround and Blackberry is financially sound to do so.

We are revisiting this company since we sold the majority of our stake in 2014. Blackberry has dropped from the time we sold at $11-$12 to under $7. The previous ascent to $12 was fueled by buyout rumors, a viable turnaround story, and positive financial forecasts (Free-Cash Flow positive for 2015 which means they stopped burning cash on operations). The stock prices descent to $7 has been fueled by equal speculation, poor market conditions and missing Wall St. estimates on software revenue. This has given us the opportunity to revisit and purchase shares at a lower price than in 2014. While I believe the story is intact, the execution has been longer than Wall St. expected. I believe the turnaround still has legs.

We based our investment in 2014 on a reproduction value of $12 (which includes 40,000+ patents) and a turnaround strategy that is sound. Understanding that turnarounds do not take place overnight, we sold our investment when it hit our price target. Now we have the opportunity to reinvest in Blackberry at a better price. When Wall St. starts valuing them as an enterprise software company and not a failed phone maker, Blackberry will be trading at 50% premium from today's price. The company currently has a net cash position of $1.0 billion with a market capitalization of of $3.8 billion.

Parker Logan's New Investments

New investments have been made in the entertainment industry. Time Warner (TWX), Twenty-First Century Fox (FOXA), Viacom (VIAB), and CBS (CBS) have all been added to the portfolio. Content is King and these companies will benefit from the continued global distribution of their content via multiple channels. In August, there was large selloff in this industry which gave us a great entry point.

Following my thesis on global food demand and water needs, Xylem (XYL), the manufacturer of water pumps and water systems was purchased after falling to my purchase target of $31.

While we are currently facing some poor market conditions, I think the portfolio will make large advances when commodity prices regress to their averages. Right now the sector is oversold and I view it as a loaded coil waiting to be released. Overall, I believe the portfolio is positioned well and I will continue to stay focused on uncovering our next big investment opportunities.

Sincerely yours,

Ted Rasa
Chief Investment Officer
Parker Logan Advisors