CK
ADVISORS, LLC

January 21, 2016

Dear Clients:

In this letter we will review our fourth quarter 2015 investment performance and provide our thoughts on the recent turmoil in the stock market.

Following the sharp retrenchment in equity prices in the third quarter, investors bid up stock prices in the final quarter of the year. The S&P 500 rose 7.0% in the fourth quarter (including dividends) and managed to squeak out a 1.4% total return for the full year. However, the trend of growth stocks outperforming value stocks continued to dominate trading in the fourth quarter. As we have done previously, we highlight the returns of the Russell 1000 indexes, which provide a good barometer of the large capitalization growth and value segments. The outperformance of growth versus value equities has been underway for a few years, but accelerated in 2015 and has certainly been a major headwind for us:

	Q4	2015
Russell 1000 Growth Index	+7.3%	+5.7%
Russell 1000 Value Index	+5.6%	-3.8%
CK Advisors, LLC (after fees)	+3.9%	-3.0%

CK Advisors' fourth quarter equity composite rose 3.9% (after fees), with about a 1% headwind from our average cash position in client accounts. Meanwhile, the Barclays Capital Aggregate Bond Composite Index fell -0.6% due to the sell-off in high yield bonds as investors shunned risk. The Fed's long awaited first step in raising interest rates was also a factor behind the negative return. Our balanced account clients have little to no exposure to the junk bond market and are generally positioned for a rising rate environment. For the full year, U.S. bonds returned less than 1% as the loss in principal almost completely offset interest payments.

In 2015 there was a massive divergence in the performance of various industry sectors. The S&P Energy, Materials and Industrial groups all declined materially. Conversely, the Consumer Discretionary (includes Amazon), Technology and Health Care sectors rose nicely. While we do own a few stocks in the better performing sectors, our large exposure to Industrials was an obvious drag.

As you are no doubt aware, stocks have resumed their slide in the first three weeks of 2016. Persistent weakness in oil, ongoing concerns about the economic slowdown in China and fears of further Fed rate hikes are having a profound effect on equity markets around the world. Last year U.S. investors punished commodity stocks and industrial equities with exposure to energy capital spending. In early 2016 the carnage has spread to nearly every industry group in a global flight toward safety. At this writing, we have picked up some ground versus the S&P 500 due to our cash cushion, which we hope to put to work with new investment ideas.

We are not experts on oil and therefore have shunned the more speculative securities in this area. Still, we are surprised that the supply/demand balance of this commodity has not shifted sufficiently to help stabilize the price. We need to see equilibrium restored in the oil market before some of the dire scenarios for global GDP can be discounted.

The U.S. economic picture remains mixed at best. Consumers continued to selectively spend on autos, electronics, and housing as 2015 came to a close. Solid job growth was also a bright spot. But the adverse "wealth effect" from headline-grabbing market turmoil may dent psychology in 2016. Moreover, industrial production and business investment were already deteriorating. The additional leg down in commodity markets will only make matters worse.

Turning to individual securities, General Electric, DuPont and Littelfuse were our best performers in the final quarter, all rising sharply. GE is executing a major transformation plan. It has divested most of GE Capital's Financial Services businesses, which once contributed half of overall earnings. By 2018 this contribution will be less than 10%. GE Capital has been a big drag on earnings and capital, masking the parent's very attractive Industrial segment. The Industrial businesses have unrivaled scale and technology and are comprised mostly of stable, recurring and highly profitable services revenues.

Within the Industrial segment, GE has sold non-core assets and reduced SG&A costs, but there is plenty of room for additional progress. Management only recently unveiled a detailed plan to substantially increase gross margins. Finally, with proceeds from the sale of GE Capital and an underleveraged balance sheet, GE has a war chest of capital to deploy for the benefit of shareholders.

DuPont's stock propelled higher following the termination of CEO Ellen Kuhlman after the company's poor operating performance last year. Kuhlman had resisted activist recommendations to implement huge cost reductions. After Kuhlman resigned, DuPont appointed Ed Breen as CEO. Previously, Breen turned around Tyco International and maximized shareholder value by breaking up that company.

Soon after Breen was hired, DuPont agreed to merge with Dow Chemical. The merger should benefit shareholders, yielding large cost savings and combining businesses with complementary strengths. Once merged, the new entity plans to separate into three companies (Agriculture, Material Science and Specialty Products) via tax-free spin-offs. The spins should create additional value as the new companies will be more focused, nimble and efficient.

Littelfuse provides circuit protection parts and services for the electronics, auto and electrical industries. The stock was helped by a strong quarterly operating report, but even more so by the announcement that it will buy TE Connectivity's circuit protection business. The acquisition should generate a compelling return on investment and is a good strategic fit. It will also add to the company's product breadth and provide a manufacturing facility in Japan where Littelfuse had little presence. Littelfuse has an opportunity to significantly increase its penetration in this region.

For the second consecutive quarter, Macy's and Zebra Technologies were our worst performing stocks. Macy's top line challenges were exacerbated by unusually warm November/December weather. This hurt sales of cold weather clothing and the company's ability to cross sell other merchandise. In response, Macy's has stepped up its effort to improve sales and cut costs. The company has also begun to focus on creating value from its substantial real estate holdings. Management has retained experts to help it sell non-core properties or redevelop existing stores, including flagship stores in New York, San Francisco, Chicago and Minneapolis.

Zebra's decline appears to be in response to its highly leveraged balance sheet at a time when investors fled higher risk, higher reward securities. As is well known by investors, the integration of Motorola's Enterprise businesses is a bit more difficult and costly than previously anticipated. In our view, this does not detract from the medium term upside from this transformative acquisition.

Late in the year, we initiated a small position in BB&T, a regional bank operating primarily in the Southeast. In addition to consumer and commercial banking, BB&T offers products and services in securities brokerage, mortgage and asset management. It is also the fifth largest insurance broker in the U.S. Unlike most other banks, BB&T remained profitable throughout the financial crisis, and even grew capital during this period. Today the bank remains much more profitable than peers and has a better capital and liquidity position.

BB&T's superior track record is due to strong risk management, a diversified business model and good expense control. The bank conservatively underwrites loans and has largely avoided risky areas such as leveraged loans.

BB&T's diversified revenue stream helps it generate a high level of fee (or noninterest) income, through its insurance, mortgage, brokerage and asset management operations. Fee income is higher quality and less cyclical than interest income, which is dependent on interest rate spreads. The insurance business also dampens cyclicality since it is countercyclical to bank lending. In addition, insurance is a steady grower, requires little capital, and throws off good cash flow.

Acquisitions are a central part of BB&T's growth strategy. Acquisitions help the bank reach its goal of obtaining a top five deposit share in each of its markets, enabling it to reap the benefits of scale. BB&T is disciplined in the prices it pays for transactions. It targets candidates which are a good strategic fit and which are small enough to minimize integration risk.

We modestly added to our positions in Exxon Mobil and Johnson Controls during the period. We view Exxon as a high quality, defensive play on an eventual recovery in oil prices. Exxon is a superior operator due to advantages in scale, technology and project execution. The company is also a shrewd allocator of capital. It has achieved well above average returns on capital investment and has a good track record of buying and selling assets.

We also like the defensive nature of Exxon's integrated model. It has substantial ownership in refining and chemicals, which have historically been countercyclical to the company's upstream production business. Along with its low cost position and operating prowess, this model has enabled Exxon to increase its dividend for 33 straight years, maintain a triple A rated balance sheet and continue to generate a healthy level of free cash flow. We think Exxon will weather the downturn and emerge stronger when the oil market recovers.

Johnson Controls has undergone a significant portfolio transformation, exiting cyclical, low margin businesses while acquiring assets with better growth and profitability. The plan to spin off its Automotive division later this year will further this transformation and unlock value. The automotive businesses are mature and cyclical and do not fit well with JCI's remaining segments, which have better growth prospects and are less cyclical.

We sold W.W. Grainger even though we had only recently purchased the stock. Grainger distributes products used to maintain, repair and operate facilities for industrial customers. We exited Grainger because it appears the downturn in the industrial sector will be deeper and longer than previously expected. In addition, there has been an acceleration in the shift of customer purchasing from phones and branch pick-ups towards online purchasing. This shift has increased price transparency resulting in pressure on Grainger's prices and gross margins.

We appreciate your continued support during this volatile environment. We always welcome any comments, questions or concerns.

Sincerely,

Dan

Daniel K. Cantor
Managing Member

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Enclosure