

Sound Investments Inc.

Second Quarter 2015

DJIA 17619.5 S&P 500 2063.1 NASDAQ 4841.2

Summary

We view the stock market as fairly valued on a price/earnings ratio basis. In June I attended the Morningstar Conference in Chicago where speakers thought additional stock market potential will be closely aligned with corporate earnings, and corporate earnings will be closely aligned with the growth rate of the economy. At the same time, the strong dollar continues to act as a headwind for U.S. corporate profitability, (see chart # 3 on the back of this page) This condition is likely to persist throughout 2015.

It is worth noting that the S&P 500 Index has tripled in value in just over six years, and almost doubled in value since the autumn of 2011. The last major correction occurred in early-autumn of 2011. Since then, there has not been a correction of 10% or more on the S&P 500 Index. This means that many investors have earned huge gains in recent years and therefore, periods of profit-taking accompanied by a short-term correction may develop, if investors decide to reduce risk. Our view is that a health restoring correction would likely lead to a buying opportunity for those looking to add to holdings.

We think a year from now, the stock market will be higher.

The Investment Letter is mailed quarterly to our clients and friends.

Half Empty or Half Full

Midway through 2015, U.S. stocks remained where they started the year. After last months dip, the S&P 500 index is up 1.1% so far, this year, and the Dow Jones Industrial average is down 0.1% Bonds and Gold also lost ground. Dividend stocks have underperformed due to a fear of higher interest rates while technology and health care stocks performed better. Since 2009 Foreign stocks have lagged, American shares, however in 2015, were the big winners up approximately 9% since the beginning of the year.

Where We Are Now

On the back of this page, I show a chart of the Dow Jones industrial average for the past 6 months. You can see how it moved from positive to negative 19 times. What is causing this sideways motion? Many experts (including myself), banter about how the market is overdue for a 10% correction. Investors are bombarded by fears of Greek and Puerto Rican defaults as well as slowing earnings growth and the likelihood of higher interest rates ahead. In some ways, this up and down market action is reflective of individual investors as they attempt to predict the future and deal with uncertainty.

Adding to the turmoil and uncertainty is the potential for a new agreement with Iran that may impact oil prices and the stability of the Mideast

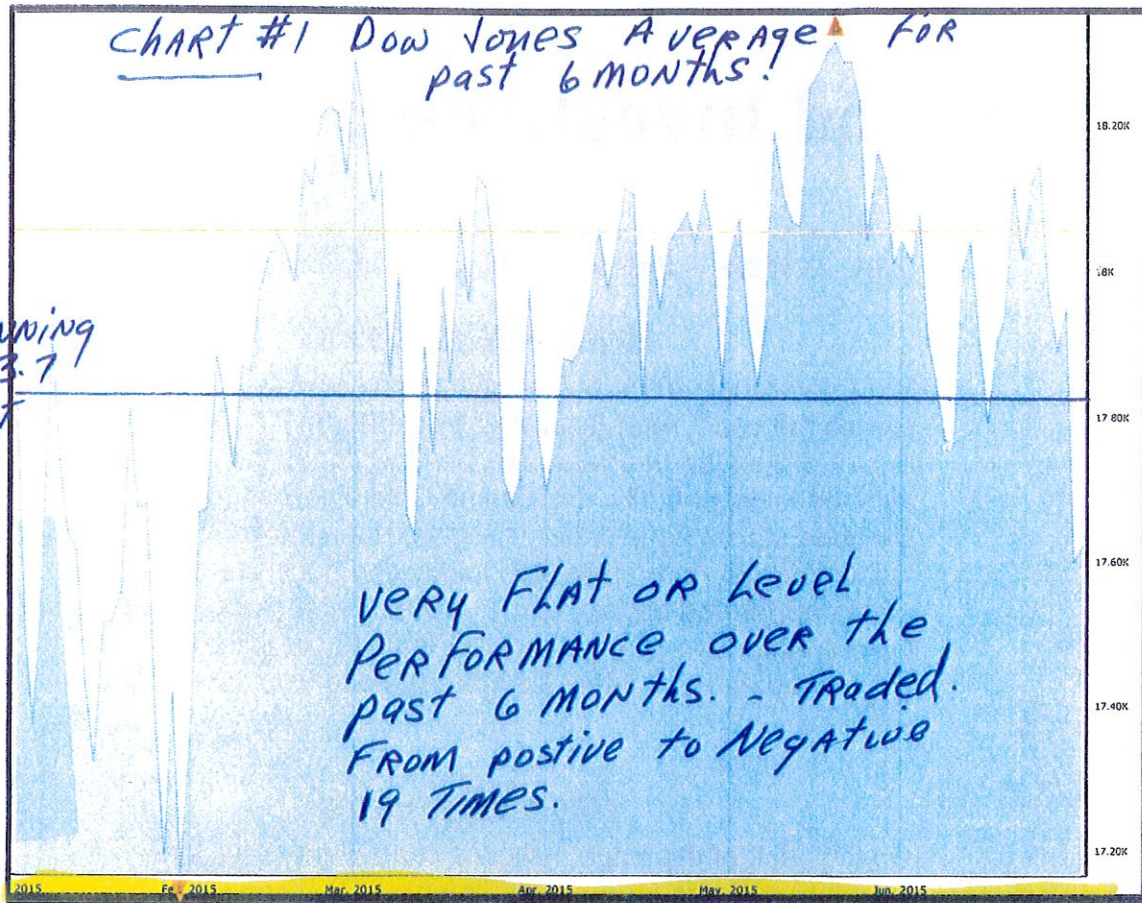
There are also a number of positive signs that I have outlined below;

1.) The year over year inflation rate is low with a core reading of 1.3%.

1.) Unemployment is dramatically better. We're seeing a self-sustaining recovery where production growth leads to job growth, which leads to consumption growth, Job growth blew past expectations and the unemployment rate fell to the lowest level since before the financial crisis peaked six years ago. This created a firm foundation for a stronger U.S. economic expansion. See chart on Job

CHART #1 Dow Jones Average [▲] For
past 6 months.

Beginning
17823.7
JAN 1ST
2015



Closing
17,619.5
JUNE 30
2015

VERY FLAT OR LEVEL
PERFORMANCE OVER THE
PAST 6 MONTHS. - TRADED
FROM POSITIVE TO NEGATIVE
19 TIMES.

TIME FRAME JAN 1, 2015 TO JUNE 30 2015.

CHART #2



Job
openings
have improved
dramatically.

openings on back of this page.

2. Housing is in the early stages of a recovery. The HMI index which measures the level of builder confidence for single-family homes, rose 5 points in June to 59, the highest reading since Sept 2014. Forecasters expect housing starts to increase 12% this year per the Wall Street Journal.
3. The U.S. led stock market rally is expanding globally and foreign markets show good gains.
4. Figures from the Commerce Department showed the U.S. trade deficit narrowed 5.6 percent in May, to \$44.4 billion, which were helped by record exports. The value of petroleum imports was the smallest since November 2010.

Where do We Go from Here

We are fine-tuning our 2016 S&P 500 Index operating earnings estimate to \$130 which reflects our current economic growth expectations for next year. Investor attention will increasingly focus on 2016 operating earnings potential as we move into the second-half of 2015. We are maintaining our valuation estimate of 16.5 to 17 times operating earnings, which gives the S&P 500 Index the potential to trade into the low-2200s range ($17 \times \text{earnings of } \$130 = 2210$) going forward, based on 2016 earnings prospects. The S&P 500 index is currently at 2063.

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In my view, if interest rates go up, foreigners will invest in the U.S. which will push the dollar higher. As shown on chart #4 on back of this page the number one reason for slower earnings is the high value of the dollar. Therefore, the Federal Reserve Bank will push only for a limited rate increase. Europe and China are keeping their rates low which puts a clamp or limits on how high our rates can go.

In our last quarterly report, we discussed how the chance of a recession was low and interest rates may creep up a bit will remain still be relatively low. We continue to think that way.

Conclusion

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Please see attached request to mail ADV Part 2 disclosure and our privacy notice.

CHART 3.

US Dollar Index, M, (CFD)
O 95.77 H 97.91 L 95.56 C 97.79



The dollar increased
from approx. 82 to
96 or 16%.

The strong dollar
makes goods exported
more expensive abroad
and makes goods
imported into the
U.S. less expensive

of S&P 500 Companies Citing Negative Impact in Q2 Earnings Calls (23)

(Source: FactSet)

CHART 4.

