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Auxier Focus Fund Founder Cautions that Easy Money and Extreme Valuations May be Creating “Pockets of Misallocation”

Jeff Auxier is Watching Trends Affecting Wall Street: Biotech Stock Frenzy; Millennials’ Culinary Choices, Technology Gains, Lower Energy Prices and that \$7 Trillion Debt

Lake Oswego, Ore.— “With shocking ferocity” is how Jeff Auxier describes how fast investors can lose money during market conditions with extreme valuations. Auxier, founder and manager of the 16-year-old Auxier Focus Fund, says right now it’s especially important for investors to pay attention to price and value. “Take the market frenzy in biotech stocks,” he says. “More than 100 companies in the biotech index have \$2.5 billion in aggregate revenue, but recently sported a valuation in excess of \$140 billion.” Auxier, a long time student of market history, says indexing for the S&P 500 hit peak popularity in 1999 as P/E ratios exceeded 28 times just prior to the 40 percent correction. “With the current market at 18.5 times, now is not the time to blindly allocate capital without regard to price and value. There is also a huge cost if investors can’t benefit from the long-term compounding by being scared out in difficult markets,” says Auxier.

Can’t Afford a House but Buying Organic Produce, Free Range Beef and Microbrews

Millennials, and their refined choices in food and beverages are another market trend catching Auxier’s eye. “They can’t afford to buy a house due to high college debt and home prices, but millennials will soon outnumber the baby boomers as the biggest consumer spenders in history--expected to spend \$200 billion annually beginning in 2017, and \$10 trillion in their lifetimes. “They want to travel and enjoy premium food and beverage,” says Auxier. And they aren’t alone...

Global Food Demands for High Quality

An exploding global middle class is also demanding high quality foods. “Look at China,” says Auxier. “Almond demand from that country has grown 1,000 percent since 2001. Living on a working farm since 1989, I have seen firsthand the rising demand for quality food and its material impact on prices of hazelnuts, eggs, beef and alfalfa. Transparent food sourcing is becoming a monumental determinant in food sales. People are becoming better informed about ingredients, minerals, nutrition and the immune system in the prevention of disease.”

Other Trends Auxier is Watching

- **Drugs and the Aging:** It is estimated that 10,000 Americans are turning 65 each day and, boosted in part by the Affordable Care Act, there’s an increase in demand for drugs. The oncology market is anticipated to rise from the current \$74 billion to \$100 billion in 2018. (Source: IMS Health) Rapid strides continue in disease treatments through immunotherapy.
- **Aggressive Central Banks:** Globally, central banks have been aggressively lowering rates, (totaling 12 countries last year), supporting both the bond and stock markets. In the U.S., many companies provide additional impetus by borrowing to buy back a projected \$1 trillion in stock. Global mergers and acquisitions hit \$1.4 trillion in 2014, up 56 percent from 2013, and up another 11 percent in the first quarter of 2015.

- **Energy Oversupply:** Technology and growing conservation efforts are helping control energy prices. For instance, since 2006 the cost of installing a solar system has dropped 65 percent, from \$8 per megawatt to a recent \$2.80. Last winter, despite record cold temperatures in the Northeast, natural gas prices dropped under \$2.75 per Mcf. In the oil patch, there are an estimated 4,000 shale wells nationwide that are drilled but not yet completed. An energy oversupply bodes well for a U.S. economy that is still 70 percent consumption driven. Auxier sees opportunities in energy, but mainly in distressed credits and from potential mergers rather than rising oil prices.
- **U.S. corporate debt** stands at \$7 trillion, double its level in 2006. Much of this is so-called covenant-lite, which is higher risk. In 2006-07, 28 percent of debt issued was B rated. Today it is closer to 71 percent. Historically high overall debt levels hamper economic growth. High borrowing in developed economies like Japan, Europe, China and the U.S. have led Auxier to invest in companies that generally sell lower ticket necessity items that are less dependent on a strong economy. Bonds are priced with yields lower than in the Great Depression, yet food prices are close to a 15-year high. Food and beverage stocks may be dull, but the performance can be exciting.

Observations from the Road

Auxier is seeking businesses and investments that can survive another liquidity crisis and higher interest rates. “On my recent travels from Los Angeles to Seattle and from Omaha to Phoenix and Denver, economic activity may look vibrant but interest rates are priced as if we are in the worst economy in over 100 years. We may be slow, but not like the depressions of the 1870s or 1930s. It is more like central bank mispricing. We seek high, free cash flow yields that may help cushion unexpected downside surprises and financial panics. Spinoffs and split-offs continue to provide opportunity as they are often underfollowed.”

“Ask Questions”

Auxier is encouraging all investors to ask questions of their investor in charge—not a committee. “Having personally survived down markets since 1982, I can attest that having a stomach and a rational demeanor can be as important as intellect. Extreme volatility can make it difficult for investors to stay unemotional and engaged. Fads and fashions come and go. To endure, an investor needs to be constantly vigilant and apprised of the fundamentals. Ask questions,” he advises

About Jeff Auxier: Whether he’s deciding what crops to plant on Auxier Family Farms, or choosing which stocks to pluck for his Auxier Focus Fund, 33-year investor Jeff Auxier takes the long view. “Both farming and investing require similar skills, patiently researching, considering price, value and assessing risks. There are no shortcuts,” says Auxier. “Our focus is always on long term performance and the power of compounding, which Einstein called the ‘greatest invention’.” Auxier continues to eat his own cooking with 100 percent of his personal retirement invested in his fund. Auxier voluntarily undergoes a Global Investment Performance Standards (GIPS®) verification for Auxier Asset Management (as of 12/31/2014 more than \$750 million in assets, including Auxier Focus Fund, and \$113 million in pension consulting).

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IMPORTANT INFORMATION

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information about the Fund is in the prospectus, a copy of which may be obtained by calling (877) 328-9437 or visiting the Fund's website. Please read the prospectus carefully before you invest.

The Fund may invest in value and/or growth stocks. Investments in value stocks are subject to risk that their intrinsic value may never be realized and investments in growth stocks may be susceptible to rapid price swings, especially during periods of economic uncertainty. In addition, the Fund may invest in mid-sized companies which generally carry greater risk than is customarily associated with larger companies. Moreover, if the Fund's portfolio is overweighted in a sector, any negative development affecting that sector will have a greater impact on the Fund than a fund that is not overweighted in that sector. An increase in interest rates typically causes a fall in the value of a debt security (Fixed-Income Securities Risk) with corresponding changes to the Fund's value.

The S&P 500 Index is a broad-based, unmanaged measurement of changes in stock market conditions based on 500 widely held common stocks. One cannot invest directly in an index. Price-to-earnings (P/E) of an index is the total price of the index divided by its total earnings

The term 'Easy Money' specifically denotes a condition in the money supply. Easy money occurs when the Federal Reserve allows cash flow to build up within the banking system. This lowers interest rates and makes it easier for banks and lenders to loan money. Money is therefore easily acquired by borrowers.

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