MIDWAY CAPITAL RESEARCH & MANAGEMENT LLC
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April 17, 2015

Dear Fellow Investors,

There was a fair amount of economic excitement this quarter, though you wouldn't know it from looking at the index. This was a stock-picker's market, our favorite type. Fundamental and macroeconomic factors separated the winners from the losers, which is different from a rising tide lifting all boats. We invest with the conviction that superior companies will be more profitable over time and we were gratified to see that playing out in our returns.

Midway Capital Value Portfolio Returns

	Midway Composite (net of fees)	**S&P 500 TR Index**	**Difference**
Q1 2015	2.20%	0.95%	+1.25
Annualized Return Since Inception	11.20%	9.74%	+1.46
Total Return Since Inception	104.73%	87.26%	+17.47

Data reflect total returns (including dividends) net of fees as of 3/31/2015. Inception date is 7/1/2008. Returns are unaudited. Your individual returns reported on your statements may vary from the composite depending on when you invested and upon any special instructions or restrictions applicable to your account. The composite return is the time-weighted return of all our accounts added together into one big pool. We believe it is the best indication of how the average client fared during these time periods.

Movers and Shakers in the Global Economy

We don't fancy ourselves macro-economists, yet the global economy was again front and center for us this past quarter. We like to give you a window into what drives our investment decisions, and we believe that the upheaval in oil prices will permanently alter the global energy market. The fallout from cheaper oil is already being felt throughout the economy and could bring meaningful changes to other industries as well.

This year the price of oil has bounced around the level of $50 per-barrel. Many consider this to be a "new normal" in the petroleum industry. Accordingly, the number of drill rigs in operation has plummeted with the falling price of oil. The following graph tracks the benchmark price for oil (WTI or West Texas Intermediate, which is also called "light sweet crude oil") against the number of U.S. drilling rigs in operation.

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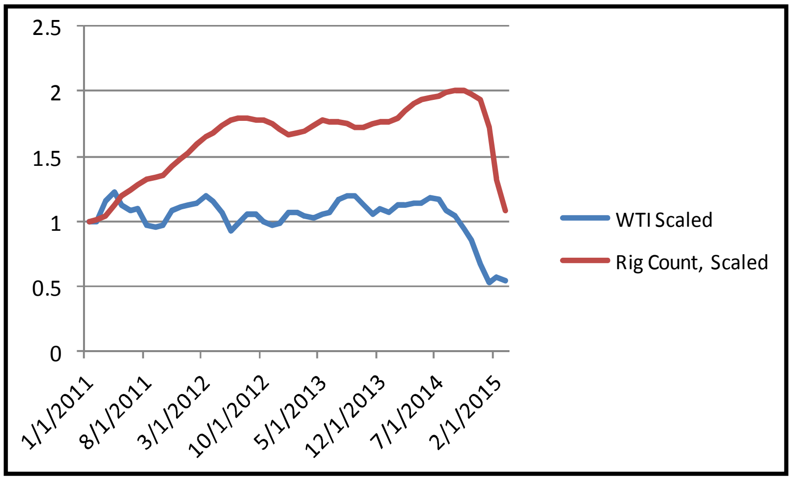
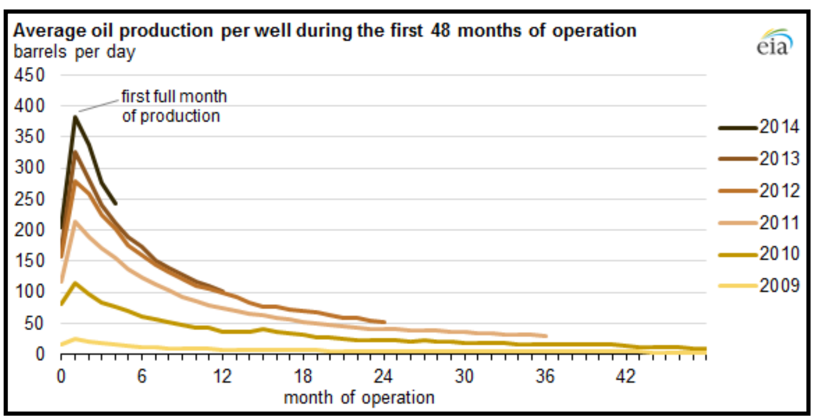
Consider the period from about 2011 through the end of 2013. The price of oil was about the same, while the number of rigs doubled. When oil was $100 a barrel, domestic producers made tidy profits. They reinvested these profits into more equipment. More rigs meant more oil and more profit.



Sources: St. Louis Federal Reserve, Baker Hughes

But when the price of oil was cut in half, many of the rigs just weren't profitable anymore. So the domestic oil boom has been curtailed. Just to be clear: America is still producing oil. However, it is no longer on track to make imported oil obsolete. And the prospect that America just might be energy independent is what led to this oil price drop in the first place.

In 2014, Saudi Arabia had begun to realize that America was drilling a lot of oil wells, and those wells were producing a whole lot of oil. The concept of American energy independence may sound good to our leaders, but it sounded like disaster to Saudi Arabia, whose economy depends almost completely on oil exports. Losing one of your biggest customers forever is something that would keep any business leader up at night. Even more alarming than the volume of American production were the huge improvements in efficiency. Not only were American energy firms drilling *twice* as many wells, but those wells were producing roughly *twenty times* as much oil as they'd produced only five years earlier. American petroleum engineers had devised an innovative method of producing oil for less than $100 per barrel. If these engineers kept working American fields, the technology would inevitably advance further and make America an even more competitive producer. The chart to the left shows the amount of oil coming from new wells in the Eagle Ford, an oil play in Southeast Texas. These data were certainly keeping the Saudis up at night.



Source: Energy Information Administration

To keep America from becoming a better and better oil producer, the Saudis acted to cut oil prices. They simply produced more oil, which caused prices to fall. (Keep in mind that the marginal cost to produce oil in Saudi Arabia is very low and they had been keeping prices artificially high by limiting production.) In response, American energy firms idled half their fleet of drill rigs which can't make money with $50 oil. It will take a while for all the oil and gas to stop coming from American sources – look at the previous graph to see the decline in production over time. The price of oil will need to remain low for a long while if the Saudis are

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to successfully curtail American oil production. So when Saudi Prince A-Waleed bin Talal says we won't see $100 oil anymore, we take him at his word. He is in a position to make that happen – at least for the foreseeable future.

While all this intrigue is going on, cheap oil is having a big effect on the global economy. So far, lower oil prices seem to be a net positive for the world. Moreover, Europe and Asia are throwing fuel on the fire by pushing forward with large stimulus programs that are driving interest rates down. You may already know that U.S. stock indices are at or near all-time highs. But European stocks also set a new all-time record this past week, besting their previous mark set in 2000. Even the Japanese Nikkei is at its highest level in 15 years (though still more than a third below its all-time high from 1989 -- remember when the Japanese bought Rockefeller Center in New York? That was exactly two months before the very top of the market).

So money is now very cheap in Europe. In fact interest rates are not just zero, some of them are negative. Short-term German bonds have negative interest rates, which means that German savers have to pay the bank to keep their savings there. Is it any wonder that foreigners want to buy U.S. dollar investments? At least they get paid a little something.

All those foreigners buying dollars means the price of dollars is going up. Demand for dollars is increasing and so is the price. Unfortunately, this is bad news for corporate America. The goods they export will now be more expensive for foreign buyers. A product that costs $100 would have cost the European consumer about €72 last year, but this year he would pay €92 for the same thing. That will surely discourage buying of American exports. U.S. firms will also have to compete with lower-cost foreign imports. But for the American consumer, a strong dollar means cheap imports and an all-around better standard of living, especially when paired with low gas prices.

We were recently asked the best way to play the European currency decline. After much consideration, we felt that neither stocks nor bonds were the best choice. Rather: we suggest you take a vacation. Pack your bags for the Eurozone, Japan, Canada, Australia, Brazil – basically every country except Switzerland – and cash in your coupon for 20% off everything in that country. If an international vacation isn't on your agenda, you can at least accept OPEC's offer to pay half your gas bill for a stateside road trip in the good old USA.

Fun Economics Summer Reading

And while you're enjoying your discounted European vacation, we would like to recommend some fun summer reading in economics and finance. Now, we realize some of you may find this a contradiction in terms…. but hang with us here. There is a whole group of popular authors and journalists who explore economic and financial themes in ways that are both fascinating and completely accessible to anyone, whether you have an MBA or an MFA. If your last economics book was nothing but equations and dry discussions of shifting demand curves, you're in for a treat! We often are asked for reading recommendations for a general audience, and below are some of the best – even suitable for the plane or that beach in Majorca.

Books and Articles

The Millionaire Next Door, by Thomas J. Stanley and William D. Danko. What are the real secrets of the wealthy? The authors set out to study the wealthy and are surprised to find that America's millionaires are not the champagne and caviar set, but hard-working people who live below their means, save, and invest. Their

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descriptions of the spendthrift "big hat, no cattle" types is priceless. Great book for young people forming their savings habits and anyone who aims to be financially secure.

Freakonomics and *Superfreakonomics*, by Steven Levitt and Stephen Dubner. The study of financial incentives was never so entertaining. Find out about the real economics of drug gangs and why drug dealers live with their mothers. Discover which parenting decisions really matter and which have no effect. Are pools more dangerous than guns? There are no sacred cows for these economists.

Almost anything by Michael Lewis. Lewis is a gifted writer and storyteller who focused on Wall Street themes – two favorites include: *Liar's Poker*, a classic insider's view of Wall Street that pulls no punches, and "California and Bust," an article in Vanity Fair where Lewis interviews Arnold Schwartzenegger. If you think you know 'the governator', this will change your whole perspective.

Influence: The Psychology of Persuasion, by Robert Cialdini. You will never look at advertising the same way again once you understand the tricks that marketers can use to change your mind.

The Travels of a T-shirt in the Global Economy, by Pietra Rivoli. A compelling page-turner that follows a humble t-shirt from Texas cotton field all around the globe as it is woven, worn, sold, and re-sold. In the process, you see an insider's view of the crazy quilt that is global trade, economics, and politics.

Podcasts – if you aren't already a podcast listener you can find these directly on the websites below, or download them onto your favorite device with a variety of apps. We like "Stitcher" a lot. It's a free app, it puts all your podcasts in one place, and it's especially handy when NPR stations hold their pledge drives.

Planet Money Podcast – http://www.npr.org/blogs/money/127413729/podcast/archive

They're all fun, but start with "Episode 590: The Planet Money Workout" and find out why gyms want to sell you a membership that you'll never use.

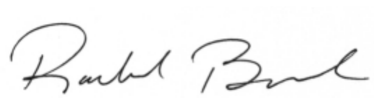
Freakonomics Podcast – http://freakonomics.com/category/freakonomics-radio/podcasts/

As in the books, the authors answer questions you didn't even know you had. Try the most recent one called "Diamonds are a Marriage Counselor's Best Friend" and learn that diamonds aren't really investments at all – De Beers just brainwashed us to think they are.

The TED Radio Hour – http://www.npr.org/podcasts/510298/ted-radio-hour

The range of topics here is immense and all really fascinating. For a behavioral finance topic, check out the April 3 episode "Why We Lie." Dan Ariely takes on the topic of why a huge deception like Enron could happen. Was it a few really dishonest people or a few white lies and a slippery slope?

Happy Reading!



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