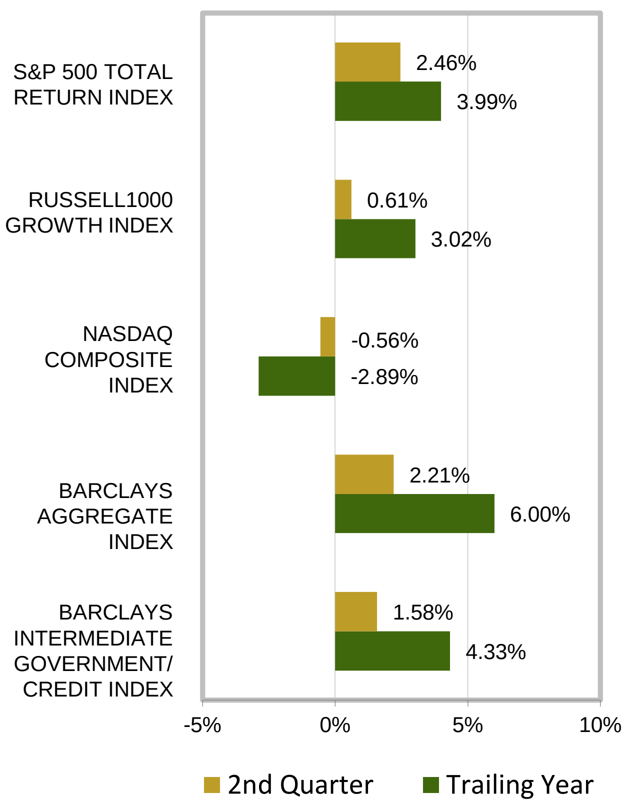
"I once kissed a cat. It was totally weird."



2nd Quarter 2016: Worldwide Weird

This has been a weird year for investors. Front and center in the Sweepstakes of Strange is the fact that both stocks and bonds have posted modestly positive returns for the first half of 2016, despite a long list of dreary items that have dominated the news in recent months.

An abbreviated list of the problems confronting investors includes: stagnant global economic growth rates, bizarre negative sovereign interest rates in many developed markets, low and declining domestic earnings growth rates, high stock valuations, worries about Brexit and the potential dissolution of the European Union, aging populations, slowing personal consumption, disinflation, meddlesome central banks, high government and corporate debt levels, ballooning government budget deficits, slowing personal consumption, low capacity utilization, ISIS and terrorism, China's soft economy, a truly crazy U.S. Presidential election cycle, violence by and against police, and the Zika virus. We could go on (and on, and on).

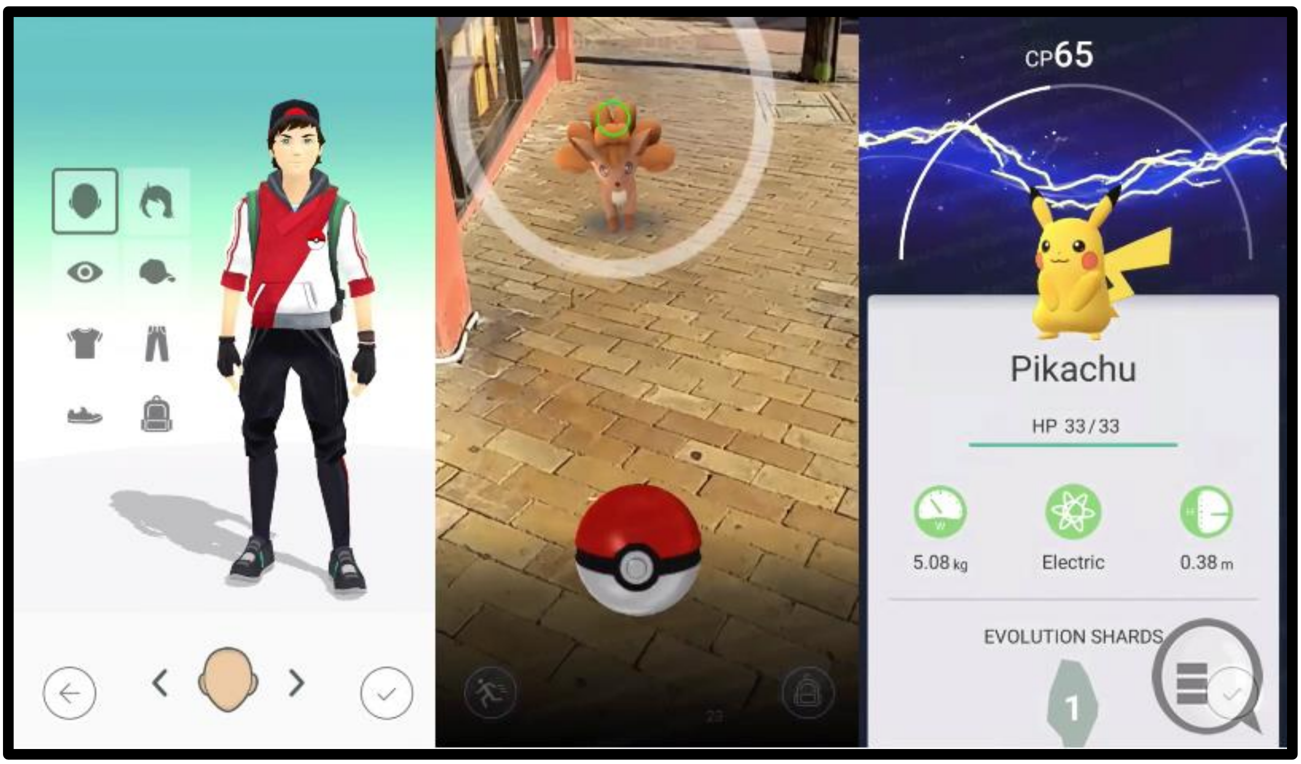
This dissonance between negative headlines and positive market movements – and vice versa – presents perhaps the most difficult obstacle to achieving long-term investment success. Although it seems weirdly counterintuitive, markets rarely act in convenient symmetry with headlines. Periods in which everything seems to be coming up roses tend to be followed by disappointing returns. Conversely, after conventional wisdom has drifted into malaise or has become gripped by fear, markets tend to deliver upside. This is confounding to most of us. It is easier to be optimistic and bullish when "everyone" around you feels the same way. The same dynamic holds true in reverse. One can call it herding behavior or attribute it to seeking safety in numbers, but we humans instinctively feel the pull to conform to the crowd. And yet acting on this instinct can be devastating to long-term investing returns. Investors who sell their stocks during bouts of panic often subsequently realize that they sold at unpleasantly low prices. Those who buy hand over fist when markets are roaring tend to eventually discover that they overpaid. Combining these two instinctive actions has the effect of selling low and buying high. Doing so continually, as many investors do, is a recipe for poor returns and unachieved long-term goals.

As growth stock investors, our bias at JAG leads us to hold a cup half full view of the future most of the time. We are incurable optimists on the power of innovative companies to improve society, expand the global economy, and grow shareholder wealth. Occasionally this stance feels particularly lonely, and the summer of 2016 is definitely one of those times. Perhaps due to the laundry list of negatives we outlined above, we sense a cloud of malaise hanging over the professional and retail investor classes. As one tangible example, we cite Merrill Lynch's Sell Side Indicator, which is based upon the average recommended equity allocation of Wall Street strategists as of the last business day of each month. June's reading dipped for the third straight month to 50.7%, leaving it at its lowest level in three years and significantly below the 15-year average of 58.9%. Similarly, retail investors are far from optimistic. Less than a third of the American Association of Individual Investors described their outlook as "bullish" in the organization's member survey for the last week of June. Equity mutual fund flows have been negative for 16 consecutive weeks through the end of the quarter, and the Monday following the June 24 Brexit vote was the 7th biggest day of fund redemptions in the past 10 years (a period which includes the Great Recession of 2008-2009).

One cannot convincingly argue that all investor worries are without merit, any more than one can prove a negative. There are no certainties in investing, and no one can guarantee that asset values won't fall sooner or later, for one reason or another. However, we think the old saw about bull markets "climbing a wall of worry" may be particularly applicable right now. The aforementioned Sell Side Indicator was originally developed by Merrill's former strategist Rich Bernstein, and it has historically been a reliable contrary indicator. According to the firm, whenever the indicator has been this low or lower, total returns for the S&P 500 over the subsequent 12 months have been positive 100% of the time, with median 12-month returns of 27%. Obviously, past performance is not an indicator of future results, but this indicator's track record is impressive. Moreover, we think it correctly captures how Wall Street has become unusually pessimistic on the prospects for stocks. The market often acts in a way that confuses even the best and brightest among us. Right now, a continued bull move in stocks would be mighty confusing to a lot of people. We are inclined to "expect the unexpected" as we move into the second half of 2016.

An Update on Virtual and Augmented Reality (VR/AR)

While some of us may think of VR/AR is "weird," you may remember that we discussed this subject a few months ago. To recap, we believe this is the "next big thing" in the technology industry, and potentially a huge investment theme over the next several years. Just over the last few days, we have witnessed the introduction of what we believe is the first mainstream application that employs Augmented Reality. It is a mobile game from Nintendo called Pokemon Go that utilizes the mobile phone's camera and GPS location to allow the game to be played in the real world (see screenshot below). The game launched on July 6 as a free download for iPhone and Android phones and has quickly become a viral phenomenon. As of the time of this writing, it has already been installed on over 5% of US-based Android phones and a similar percentage of iPhones. By a wide margin, this makes it the single biggest launch ever in the mobile content industry.



While we are quick to admit that we do not "get" the attraction of the game itself, millions of people obviously disagree with us. We expect this to be the first of many VR/AR applications to come. As investors, we notice that Nintendo stock (traded only in Tokyo) is up over 40% since July 6, adding over $7.5 billion of market value to the company's shares in just a few days. You can believe that this sort of success with Augmented Reality has gotten the attention of technology CEO's everywhere. We will be watching to see what they come up with – both as consumers and long-term investors.

Best regards,

Norm Conley
July 2016

JAG
CAPITAL MANAGEMENT LLC

Disclosures: These comments were prepared by Norm Conley, an investment advisor representative of JAG Capital Management, LLC, an SEC registered investment advisor. The information herein was obtained from various sources believed to be reliable; however, we do not guarantee its accuracy or completeness. The information in this report is given as of the date indicated. We assume no obligation to update this information, or to advise on further developments relating to securities discussed in this report. Opinions expressed are those of the advisor listed above as of the date of this report and are subject to change without notice. Opinions of individual representatives may not be those of the Firm. Additional information is available upon request.

The information contained in this document is prepared for general circulation and is circulated for general information only. It does not address specific investment objectives, or the financial situation and the particular needs of any recipient. Investors should not attempt to make investment decisions solely based on the information contained in this communication as it does not offer enough information to make such decisions and may not be suitable for your personal financial circumstances. You should consult with your financial professional prior to making such decisions. For institutional investors: J.A. Glynn Investments, LLC, and JAG Capital Management, LLC, both have a reasonable basis to believe that you are capable of evaluating investment risks independently, both in general and with regard to particular transactions or strategies. For institutions who disagree with this statement, please contact us immediately.

Market Index performance statistics are provided by Advent Axys via benchmark data from FT Interactive Data and are presented for the time frame noted. Individuals cannot invest directly in an index. PAST PERFORMANCE SHOULD NOT BE CONSIDERED INDICATIVE OF FUTURE PERFORMANCE. ANY INVESTMENT CONTAINS RISK INCLUDING THE RISK OF TOTAL LOSS.

This document does not constitute an offer, or an invitation to make an offer, to buy or sell any securities discussed herein. J.A. Glynn & Co., JAG Capital Management, LLC, and its affiliates, directors, officers, employees, employee benefit programs and discretionary client accounts may have a position in any securities listed herein.