

# MATRIX ADVISORS VALUE FUND

747 Third Avenue • New York, NY 10017 • Tel. (212) 486-2004 • Fax (212) 486-1822

November 11, 2016

Dear Fellow Shareholder,

The Fund significantly outpaced the S&P 500 Index in the 3<sup>rd</sup> quarter increasing +8.26% compared to a gain of +3.85% for the S&P 500 Index. After a difficult start to the year, the fund is now ahead of the benchmark for the first nine months of 2016 with a +9.39% gain compared to a +7.84% increase in the Index. All sectors showed a positive return during the quarter with the greatest contributors to performance coming from the Technology and Financial sectors. As we have noted in previous letters, we think Financials are one of the most attractive places to invest in the market today. After Technology and Financials, the next greatest contributor to performance in the quarter was from Industrials. Lagging sectors for us this quarter were Health Care and Consumer Staples. As we discuss in the enclosed commentary, we think the portfolio is well positioned for changes in the investment outlook created by the unexpected election results and performance in the first days after the election has been encouraging. As of September 30, 2016 the Fund's Net Asset Value was \$62.67.

## Disclosure Note:

For your information, for the period ended September 30, 2016, the Fund's average annual total returns for the one-year, five-years, ten-years and for the period from July 1, 1996, the inception of Matrix Asset Advisors' involvement with the Fund were 15.99%, 13.92%, 4.54% and 7.46%, respectively. For the same periods the returns for the S&P 500 Index were 15.43%, 16.37%, 7.24% and 7.93%.

Gross Expense Ratio: 1.16%

Net Expense Ratio: 0.99%\*\*

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800-366-6223 or by visiting [www.matrixadvisorsvaluefund.com](http://www.matrixadvisorsvaluefund.com). The Fund imposes a 1.00% redemption fee on shares held for 60 days or less. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced.*

\*\*The Advisor has contractually agreed to reduce fees through 10/31/17.

Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced. Matrix Asset Advisors became the sub-advisor on July 1, 1996 and Advisor to the Fund on May 11, 1997. Prior to those dates, the Fund was managed by another advisor.

According to *The Wall Street Journal* the U.S. economy appears to be growing at its best rate in two years, led by consumer spending, stronger exports and positive business investment. The consumer confidence index report released on September 27 showed the highest reading since August 2007. Outside of the U.S., Europe's economy has shown surprising resilience after the Brexit vote, with the only apparent fall out so far being the sharp decline in the value of the British currency.

The recent election results were unexpected by most and so has been the immediately strong positive market reaction. Many feared that a Trump victory could cause a market sell-off fueled by uncertainty and campaign rhetoric of trade wars. Instead, investors have chosen to focus on the positive implications of anticipated tax reform, less business regulation and a significant fiscal stimulus in the form of infrastructure spending. The immediate beneficiaries of this optimistic scenario have been Financials (less regulation and higher interest rates), Health Care (less focus on price controls) and Industrials (infrastructure). Our Fund has significant investments in all of these areas.

Our outlook for the Fund in the coming year is positive, supported by the prospect of accelerating economic growth with still low but rising interest rates and an increase in business investment and rising employment. With the uncertainty of the election behind us, businesses and investors are looking ahead with confidence to the fourth quarter and New Year.

As you know, Matrix partners and associates are significant shareholders in the Fund along with all of you. We are pleased to report the strong recent performance results and are upbeat about our prospects for upcoming periods. Most importantly, we appreciate your trust in us and for investing alongside us in the Fund.

Best regards.

Sincerely,

A handwritten signature in black ink, appearing to read "David Katz", written in a cursive style.

David A. Katz, CFA  
Fund Manager

**Past performance is not a guarantee of future results.**

Diversification does not guarantee a profit or protect from loss in a declining market.

Please refer to the top 10 holdings in this report for details on Fund holdings. Fund holdings are subject to change at any time and are not recommendations to buy or sell any security.

The information provided herein represents the opinion of the Matrix Advisors Value Fund management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

The S&P500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

It is not possible to invest directly in an index.

Must be preceded or accompanied by a prospectus.

**Mutual fund investing involves risk. Principal loss is possible. The stock of value companies can continue to be undervalued for long periods of time and not realize its expected value. The value of the Fund may decrease in response to the activities and financial prospects of an individual company.**

The Matrix Advisors Value Fund is distributed by Quasar Distributors, LLC.

# **Matrix Advisors Value Fund, Inc.**

## **Capital Markets Commentary and Quarterly Report: 3rd Quarter 2016**

The S&P 500 Index rose +3.85% in the third quarter. It was the fourth consecutive quarter of positive returns for the index and the largest percentage increase in calendar 2016. Year-to-date through September 30, the S&P 500 was up +7.84%.

It was a surprisingly strong quarter for the stock market following the Brexit vote at the end of last quarter, which many analysts thought would result in a significant deceleration in economic activity, particularly in Europe. But outside of the sharp decline in the value of the British currency, the anticipated economic aftershocks from the Brexit vote have yet to be felt, with global economic growth continuing at a low single digit pace. A composite Global Manufacturing Purchasing Managers Index produced by JP Morgan and IHS Markit showed an average headline reading in September at its highest level since the fourth quarter of 2015, with the UK accelerating to a 27-month high.

For the quarter, the Matrix Advisors Value Fund significantly outpaced the S&P 500 and at quarter's end outperformed the benchmark for the year-to-date period (12/31/15 - 9/30/16).

According to *The Wall Street Journal*, the U.S. economy appears to be growing at its best rate in two years, led by consumer spending, stronger exports and positive business investment. The most recent consumer confidence report released on September 27 showed the highest reading since August 2007.

Further recent evidence of economic growth includes: 1) a gauge of U.S. service-sector activity in September, about 70% of the economy, rose to its highest level in two years; 2) a similar manufacturing index returned to growth; 3) holiday retail sales are forecast by two trade associations to rise this year; and 4) employment growth continues at a healthy rate, averaging a gain of 192,000 jobs over the last three months with the latest unemployment rate at 5.0%.

The improving economic picture has led to some changes in leading and lagging market sector performance. In the first half of the year, safe haven sectors including Utilities and Telecom far outpaced more economically sensitive market sectors.

The third quarter marked a sharp reversal for the Telecom and Utilities sectors which were both down more than 5% in the quarter. For Utilities, it was the biggest quarterly drop since 2009. In Q3, market leadership shifted to the Technology, Financial and Industrial sectors.

For the first nine months of the year, Telecom and Utilities remain among the top performing sectors but Energy is now the leading performance sector in 2016 with Technology and Industrials also up double digits for the year-to-date through September 30.

During the quarter, U.S. Treasury note yields rose across the maturity spectrum. The 2-year Treasury yield ended the quarter at 0.76%, up from 0.58% at June 30<sup>th</sup>. The 5-year note yield rose to 1.15% from 1.00%, and the 10 year note yield rose to 1.60% from 1.47%. While rates moved higher over the past few months, they are still well below where they were at the end of 2015. With increasing evidence that global economic activity is accelerating, we would not be surprised if we have seen the lows for Treasury yields for this economic cycle and expect rates to continue to rise for the balance of the year and into 2017.

Oil (Brent Crude) ended the quarter at \$46.87 per barrel versus \$48.37 at June 30, but near its high for the three month period on rumors of an OPEC agreement to limit production. Since quarter-end oil has continued to rise in price as data on U.S. stockpiles has shown a decrease for five consecutive weeks and further indications from OPEC that an agreement to limit production may be reached at their November meeting.

Gold was virtually unchanged in price at \$1,323 an ounce on September 30 versus \$1,321 at June 30.

## **Fund Portfolio and Outlook**

The Fund showed strong performance in Q3 2016, more than doubling the return of the S&P 500 (+8.26% to +3.85%). All sectors showed a positive return during the quarter with the greatest contributors to performance in the quarter coming from the Technology and Financial sectors.

In both of these groups, our stock selection was significantly better than the return for the sector overall. The top three contributors to performance in Technology were Qualcomm, Symantec and Microsoft. Qualcomm was up on increased confidence that it would meet its earnings guidance after signing more licensing agreements and also rumors that it was in talks to acquire semiconductor firm NXP, which would be significantly value accretive and diversify its earnings base. Symantec rose on news of the very accretive acquisition of cyber security firm Blue Coat. Microsoft advanced after a strong earnings report and optimistic guidance.

Our Financial sector performance was led by State Street, Charles Schwab and Morgan Stanley, all up more than 20%. As we noted in our last quarterly letter, we think Financials are one of the most attractive places to invest in the market today.

After Technology and Financials, the next greatest sector contributor to performance was Industrials with Caterpillar (CAT) and Eaton, both up by double digits. Since the quarter's end, we have sold the position in CAT as the share price already discounts a substantial rebound in the company's business and we have better investment opportunities in other names.

Lagging sectors for us this quarter were Health Care and Consumer Staples.

There were no new purchases in the quarter. Where funds were available, we added to positions in AbbVie, Alphabet (Google), Apple, CVS, Gilead, Charles Schwab and Teva.

During the quarter we sold our position in Hewlett Packard Enterprise when it reached our price target. We also sold our very small position in California Resources that we received as a spin-off from our holding in Occidental Petroleum.

For the first nine months of 2016, the largest sector contributors to performance were Technology, Industrials and Energy. The greatest detractors from performance were Financials and Health Care.

Our portfolio continues to trade at a significant discount to our estimates of fair value, and we believe it is well positioned for the environment we foresee in the next twelve months.

We expect that the current modest acceleration in economic growth will continue for the balance of this year and into 2017. The recovery's below normal growth rate makes it more likely that it will last longer than the typical recovery.

Interest rates remain very accommodative and we expect the next administration in Washington to propose tax reform and spending programs to provide further economic stimulus.

We think the overall market is fairly valued at 16.2 times estimated 2017 earnings, but that significant opportunities exist in a number of high quality stocks and sectors. Our portfolio strategy trades at a discount to the S&P 500 multiple, with an estimated price/earnings ratio of 13.9 and we believe it offers meaningful appreciation potential from current levels over the next 12-18 months.

\*

\*

\*

This quarter our Ideas About Investing focuses on “Navigating High Dividend Stocks in a Rising Rate Environment.”

We hope you are off to a good start to the fall. Please contact any of us with any questions at (800) 366-6223 or (212) 486-2004.

Best regards.

## *Ideas About Investing*

September 30, 2016

### **Navigating High Dividend Stocks in a Rising Rate Environment.**

It seems that not a week goes by without *The Wall Street Journal* publishing an article warning of the perils of owning high dividend stocks. We agree with many aspects of this thinking, but this issue is more nuanced. At this point in the cycle, we think paying attention to valuation and limiting exposure to interest rate sensitive areas of the market, are both critical for success.

The WSJ correctly points out that investing in higher yielding stocks has been one of the most consistently profitable strategies in the years since the Great Recession and as a result, it is probably one of the most crowded trades in the market today. Their articles provide data showing that many sectors and industries that are traditional dividend stalwarts are selling near or above record high valuations. In addition, they note that when interest rates start rising, there could very well be a mass exodus from the dividend group.

We agree that many areas of the traditional dividend trade, like Utilities, are pricey. For example, JP Morgan's Guide to the Markets notes that as of September 30, 2016, the S&P 500 Utility sector is trading at 17.2 times forward earnings versus its 20-year forward average P/E of 14.4x. This is also a premium to the market versus its historic discount.

However, there are also many attractively priced stocks spread out in a number of other industries and sectors that won't be adversely impacted by rising rates. Many stocks that offer healthy dividends will be helped, in fact, by rising rates and the improving economic conditions underpinning the rise.

The most interesting of these sectors is Financials, which is trading at a discount to its 20 year sector average and at a large discount to the market. Earnings and the valuations for these stocks should be significant beneficiaries of rising interest rates. Additionally, the prospects for continued strong dividend payouts by these companies will also benefit.

Good values in stocks with high dividends can also be found in select Energy, Industrial, and Technology stocks. The Energy sector P/E ratio appears high because near-term earnings are depressed, but this will quickly reverse as the price of crude oil recovers. The Technology and Industrial sector P/E ratios are below their long-term averages. All three of these groups will also likely perform well if and when the Fed starts raising rates, as the better economic conditions necessary to support the need for higher rates will generally be positive for their respective businesses.

When combined with more traditional safe haven dividend stocks in the Consumer Staples and Health Care sectors, a portfolio of these stocks should provide solid appreciation in an improving economy and higher interest rate environment, yet still provide reasonable downside protection during bouts of market turbulence.

We believe paying attention to valuation and avoiding the priciest and most crowded area of the dividend trade will be the key to success for this strategy in upcoming periods.

#### Top Ten Holdings as of September 30, 2016

Qualcomm	4.11%
J. P. Morgan Chase & Co	4.00%
Microsoft Corporation	3.71%
TE Connectivity Ltd	3.60%
Eaton Corp. PLC F	3.52%
MetLife Inc.	3.50%
Cisco Systems Inc.	3.48%
Wells Fargo & Co.	3.41%
Gilead Sciences Inc.	3.37%
Schwab (Charles) Corporation	3.36%

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Price to earnings (P/E) ratio is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share.