TRIAD INVESTMENT MANAGEMENT

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2nd Quarter 2015 Investment Review

Investment Thoughts

"*We have also been hard at work looking to deploy fresh capital in smart ways, while operating in an environment where value can be elusive.*"

Leucadia National 2014 Letter to Shareholders

"*Looking forward, we continue to face a lousy opportunity set in financial markets… Equity valuations are still rich.*"

White Mountains Insurance 2014 Letter to Shareholders

"*The CAPE (Cyclically Adjusted Price Earnings) Ratio for the S&P500 is currently at 28 times. It has been higher only twice before; both times ended badly. The first time was in 1929 and the second time during the dot.com boom of 1999 to 2002…We say "caveat emptor", and continue to be very cautious about our equity positions.*"

Fairfax Financial Holdings 2014 Letter to Shareholders

"*In our opinion we are well-positioned against stock markets that are more than fully priced.*"

One of our able competitors, July 2015

This section of the Investment Review is usually devoted to discussing various investment themes, ideas, philosophies and longer-term investment thoughts. Instead, this quarter I'm going to spend more time discussing current market valuation levels. Given the current difficult environment for value-seeking investors such as Triad, I believe it's appropriate.

The quotes above give some hint about our current thinking. All 3 companies quoted above are among Triad's Top 10 holdings and represent roughly 15-16% of our common stock portfolio. Each has a 20+ year track record of growing shareholder value at rates far above market averages. They've done this by thinking independently, seeking value investments and ignoring the consensus or "crowd" opinion.

As their comments indicate, each is cautious about current market opportunities. In truth, they've been wary for the past few years as markets have steadily appreciated. I've also included a comment from one of the competitors whom we monitor and respect. After a short discussion of the economy, I'll analyze current market conditions and opportunities.

Economic Conditions

Greece and China continue to dominate the headlines. I just checked, and as of this minute, Greece is still in the Euro currency, but barely hanging on. In my humble opinion it will be tough for Greece to remain a member, but since it's about 2% of Europe GDP the impact of a "Grexit" should be mostly psychological. Greece has the ability to fix its problems, but perhaps not the will. According to a recent New York Times article, Greek pensions are roughly 1,625 Euros per person. Lithuanians receive 472 Euros, and Bulgaria gets by on 257 Euros per capita. The formula seems to be this: raise taxes, cut spending, problem solved.

China is more of a problem, given the enormous size of its economy. The decade-long real estate and infrastructure building boom is over and the bust has commenced. It's hard to know the true dimensions of the problem as Chinese statistics are notoriously unreliable. The Chinese "authorities" (the Communist Party) enjoy the perks of power and know that economic security is critical to retaining power. They fear social unrest should the economy crumble, perhaps because less than 10% of the population is Communist Party members. So, Beijing has fired up a fund to buy stocks, cut interest rates and loosened bank lending requirements, hoping to prop up the stock market and ensure social cohesion. Stay tuned.

Overall the global engine still isn't firing on all cylinders. Europe, China and Japan are major concerns, and since these are large economies their struggles impact the rest of us. The good news would be a resumption of stronger growth in some or all of these areas, but we await initiatives to do so.

Investment Conditions

Triad's investment philosophy and process isn't based on stock market predictions. But, as noted investor Howard Marks has suggested, "***you can't predict but you can prepare.***" Let's now turn to current stock market valuations, which might provide clues about future market returns.

The stock market has roughly tripled over the past 6+ years since bottoming in March 2009. As stock prices have advanced, it's become more difficult to find outstanding businesses at bargain prices. We don't normally include charts but I felt adding a few would help to illustrate where we've been and where we are now. As the saying goes, a picture is worth a thousand words. My apologies for the "mini-book" length; hopefully it's informative.

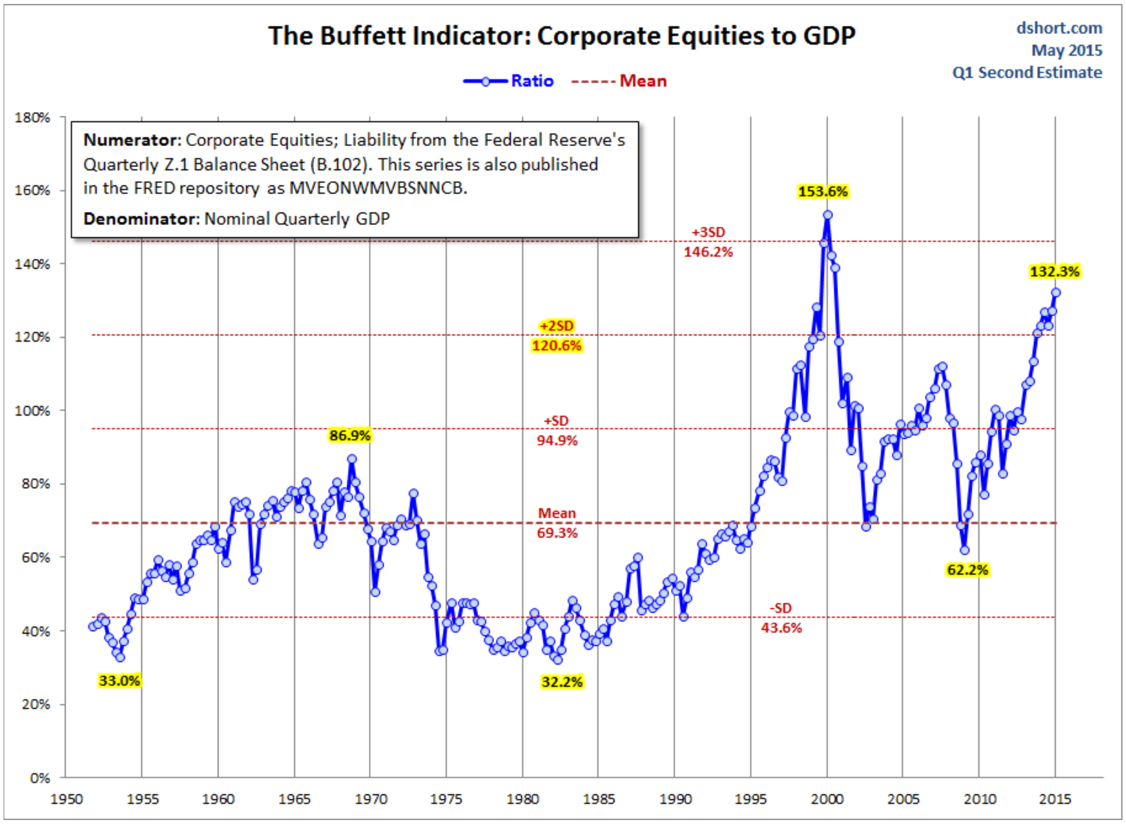

Chart 1

Chart 1 illustrates the relationship—over the past 60+ years—between the stock market and output of the U.S. economy as measured by Gross Domestic Product (GDP). This is also known as the Buffett indicator as it's one of Warren Buffett's favorite measures of overall market valuation levels. As the chart clearly illustrates **the stock market on this score has been more richly valued only once before.** That was during the late 1990's stock market boom. This culminated in a gigantic bubble which came crashing down in the early 2000's, with the market bottoming at right around the "mean" or average value.

In statistical terms we are 2 standard deviations above normal valuation levels. Don't worry if you're not a statistician. It's a very high level. Statistically, the broad market has been more expensive only 5% of the time. Stocks are selling for roughly 130% of GDP, compared to 62% at the most recent market bottom in March 2009. It brings to mind the famous Virginia Slims cigarette commercial from the 1960's: "You've come a long way, baby." Or Dorothy in the Wizard of Oz: "Toto, I don't think we're in Kansas anymore."

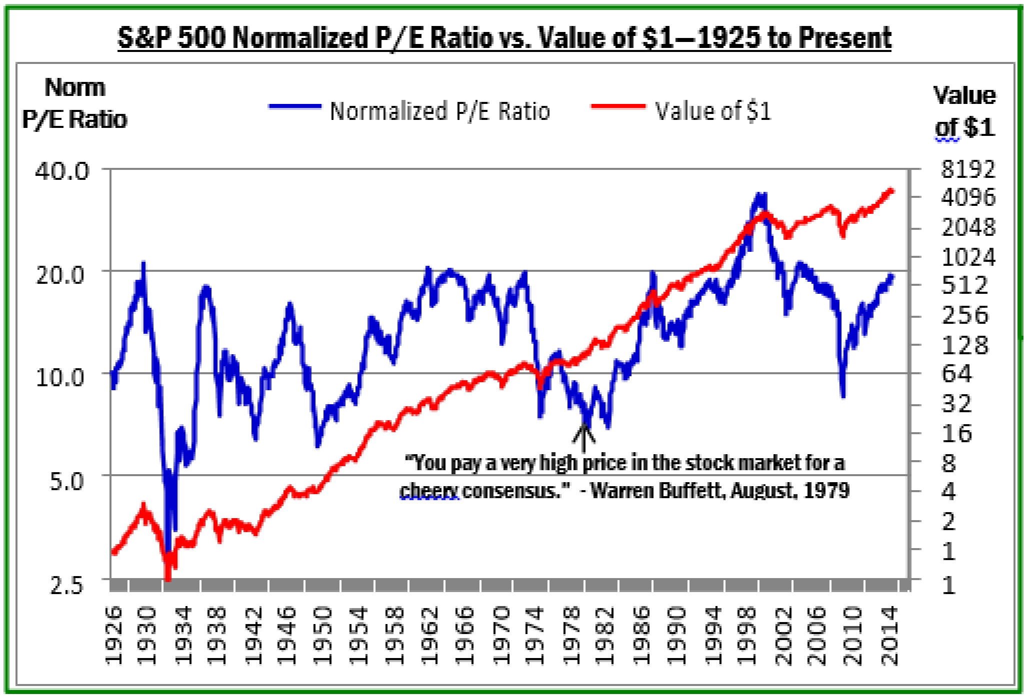

Chart 2

Chart 2 depicts the stock market price to earnings ratio over the past 90 years. The blue line demonstrates that the market P/E ratio is bumping up against the 20x ceiling that has only been surpassed once before, during the late 1990's stock market boom/bubble (sound familiar?). The market spends most of its time between 10x earnings on the low end and 20x earnings on the higher end. **So the market has most likely used up its valuation bullets and now must rely upon earnings growth to power forward.**

Corporate earnings have grown around 6% over very long periods of time. If that holds true in the future, and is combined with a dividend yield of perhaps 2%, the total return equals 8%, assuming, and this is a big assumption, market valuations stay at current levels. To expect valuations to expand beyond current levels and stay there is asking for a "new era" and history suggests that is a poor bet. It's certainly not a bet we will make. Should the market P/E level return to say, 15x, then over a 5 year period the market would experience zero price appreciation as increased earnings are offset by the lower P/E ratio.

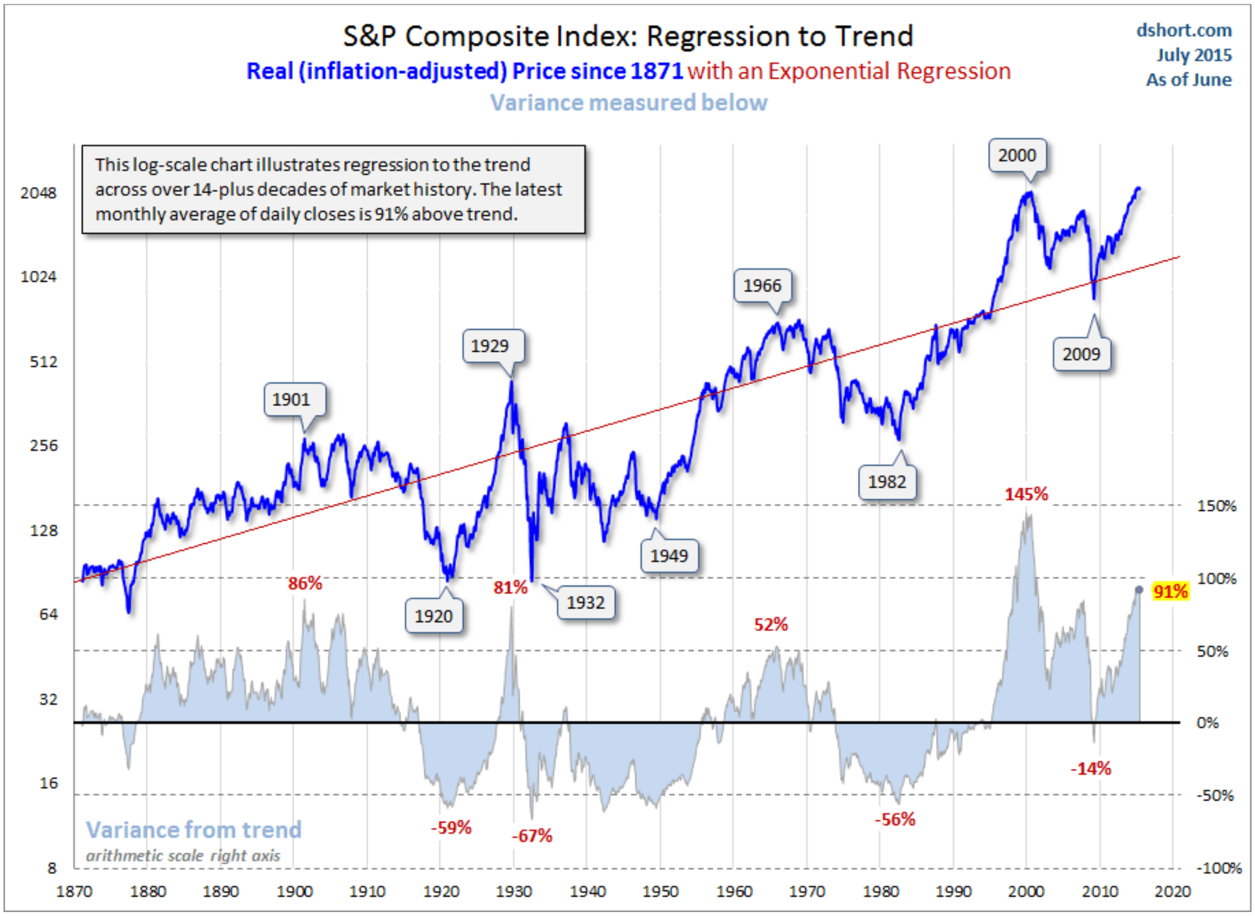

Chart 3

Chart 3 illustrates another very long-term view of the stock market. The blue line demonstrates the ebb and flow of market cycles from 1870 to 2015. The red line is the trend line of "normalized" progress. As illustrated, there have been periods where the market lagged behind the trend line (below the red line), and periods where the market got ahead of itself (above the red line, which is where we find ourselves currently).

Based on this measure the market is once again ahead of itself, and has borrowed from future returns. Notably, the only period that was further above trend line was the late 1990's boom/bubble (there's that pesky bubble popping up again). The thing to keep in mind is **the market always "regresses" or returns back to the trend line.** If history repeats, that means future market returns should be more subdued than the recent past.

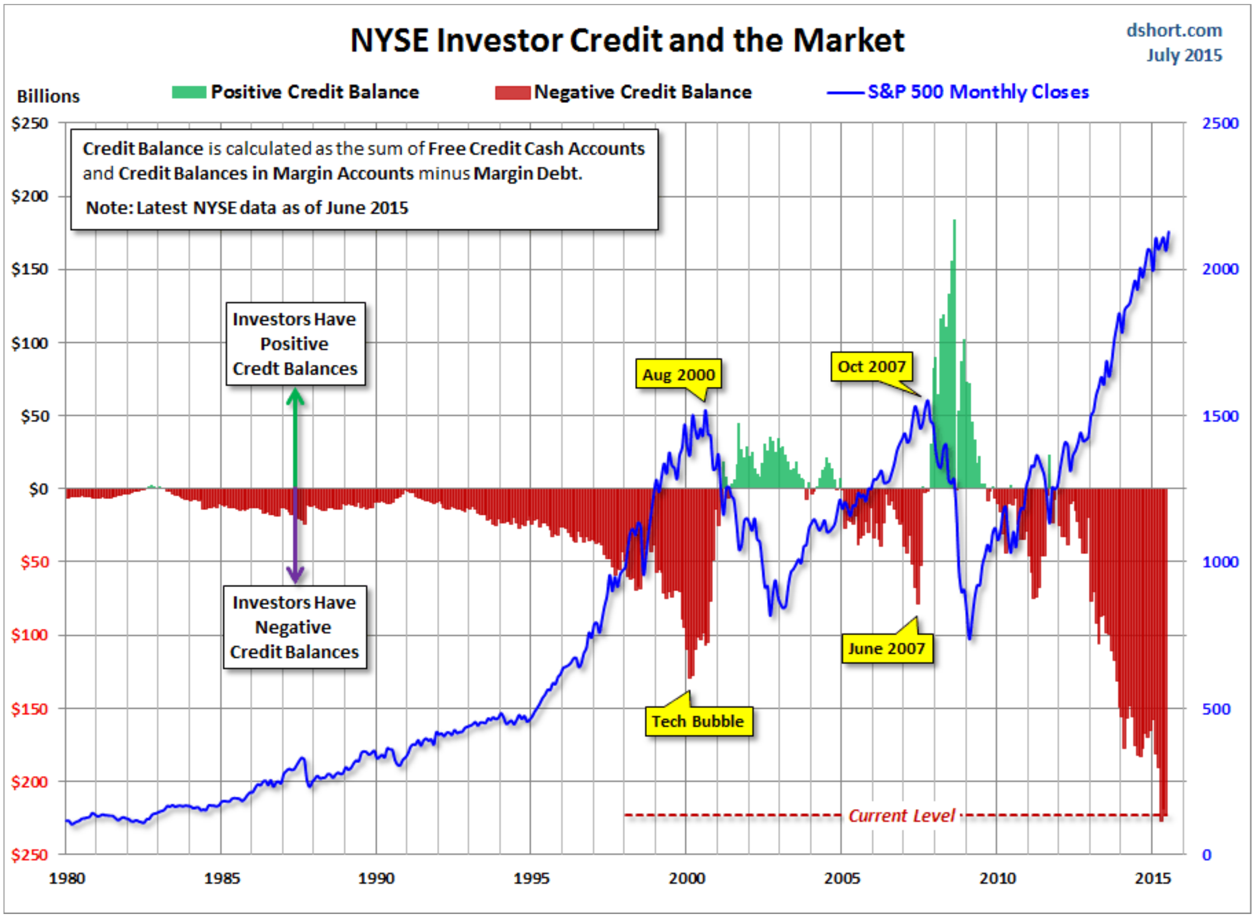

Chart 4

So, it would appear that the market isn't in bargain territory. How did we get here? Easy money from the Federal Reserve via zero percent interest rates has helped, pushing money into the market as investors seek higher returns through capital gains and dividends. The Fed has in our view wanted to levitate the stock market to enhance the "wealth effect." Which basically means owners of common stocks will feel wealthier and be inclined to spend more money, thereby stimulating the economy.

In addition, as Chart 4 demonstrates, investor borrowings through margin loans have been used to purchase stocks and push the market higher. Green shows positive cash balances and red illustrates borrowing. Borrowing gives investors the ability to purchase additional shares. **Stock margin loans are at the highest levels on record**, even surpassing the late 1990's technology-fueled boom/bubble (yes, same bubble as mentioned before). More fuel poured on the stock market fire.

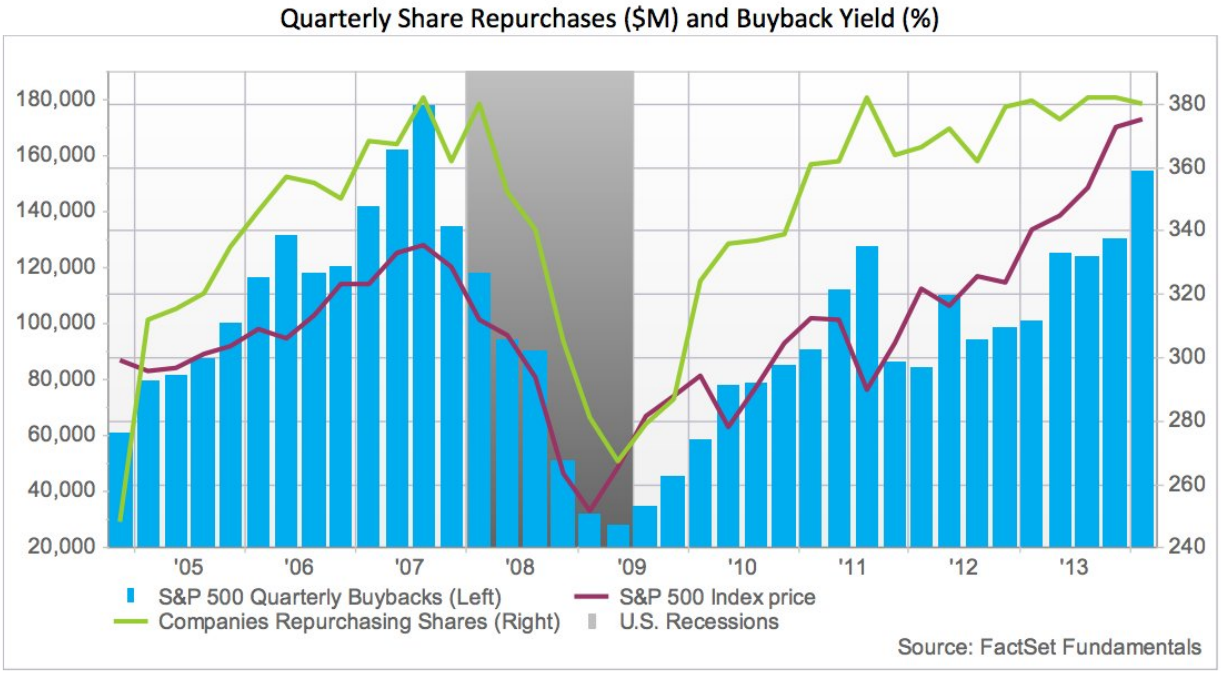

Chart 5

But it's not just individual investors who have stoked the stock market fires. Corporations have been voracious acquirers of their own stock. The blue bars on Chart 5 show the amount of quarterly corporate share repurchases. It's **no coincidence that share repurchases are at levels last seen in 2007, a year before the financial crisis** and stock market collapse of late 2008-early 2009. Companies are flush with cash, times are good, and repurchases keep shareholders happy, even if done at elevated levels. Oddly, or sadly, during the market bottom in late 2008 through 2009 when stocks were selling at once-in-a-generation bargain levels, corporations repurchased very few shares. Now, with stocks at much higher valuations, many corporations can't buy enough of their own stock. Another indicator that we're no longer in bargain territory.

A bit more evidence. Bloomberg publishes an index of Wall Street analyst recommendations. It's a 1 to 5 ranking system, where 1 is a strong sell, and 5 is a strong buy. The index average is currently 3.85, which according to Bloomberg is higher than the 1990's dot-com bubble level of 3.73 or the 3.74 registered in 2007-2008 just before the 2008 financial crisis. The June 12th issue of highly-regarded Grant's Interest Rate Observer noted that ***"there has been no correction in the Dow Industrials of as much as 10% in almost four years, the third longest stretch without a double-digit pullback since 1929."*** More evidence that we're no longer in Kansas, Toto.

As the stock market hit bottom in March 2009, a widely respected investment research and management firm, GMO LLC, published its monthly forecast for 7 year stock market returns. Due to depressed valuations the forecast ranged between 12% and 17% per year.

Today, GMO is forecasting returns over the next 7 years that roughly approximate 0% per year (that's zero, not a typo) based upon today's much higher valuations. They haven't always been right (who has?) but their methodology and track record deserve our attention.

Ok, you say, what does all of this mean for us? Most importantly, **we invest in companies, not the broad stock market.** While we clearly feel the market is fully-valued that doesn't mean it's time to sell everything and buy gold, guns and an underground bunker. The world is not going to end, and we don't anticipate financial Armageddon again as in 2008.

What we have been doing in response to the higher valuations over the past 2 years is **sell stocks when we felt the valuations were unsustainable, and purchase more reasonably priced stocks**. Unfortunately the market hasn't immediately agreed with us, as many of our "more reasonably-priced" stocks have become yet more reasonable due to price declines. It's the nature of things when we buy good companies that are out of favor with investors.

Over the past few years a **lovefest has occurred among investors and so-called "high growth" companies** such as Biotechnology and Healthcare, Information Technology and Social Media. This is currently where the "action" is, and the "hot money" has been having a good time. Also, seeking income, investors have bid up prices on high-yielding Consumer stocks, Utilities and Real Estate Investment Trusts (REITs). Similar lovefests—admittedly on a much grander scale —occurred with dot-com companies during the late 1990's internet bubble period; likewise for housing and banks during the 2004-2007 real estate boom. And we know how that ended.

It can be frustrating watching highly-priced merchandise become even more expensive, while fuddy-duddies like us see our stocks languish. It truly takes a long-term approach to ignore the crowd as it piles into fast-moving but perhaps unsustainable price trends. Given almost 3 decades in this business, I've seen this movie, and the ending won't be pretty for some investors.

However, all is not lost. Sure, **it's a difficult market for investors seeking value, but we can still find enough decent companies to remain invested**. But it takes lots of searching and analysis. The one thing we won't do is cast aside our philosophy and process to join the "party." Eventually Mr. Market will regain his sanity, company valuations will return to more reasonable levels, and more opportunities will come our way. Meanwhile, we continue to study companies, calculate appropriate business valuations, and wait patiently.

We stated the following in our last quarterly review and it's worth repeating:

> ***"We don't expect stock markets over the next 5 years to match the past 5 years given current above-average valuations.*** However, ***we believe our holdings have above-average prospects*** based on reasonable valuations, good businesses and strong, "*culturally-correct*" managers. Of course, that's what you'd expect us to say, but it's also what we firmly believe. At this stage of the game, ***we're more interested in avoiding permanent capital losses than chasing crowd favorites in an attempt to keep up with market averages.*** We hope you agree."

Our energy holdings have been a significant drag on results over the past year and deserve some additional comments. Our companies have been negatively impacted by the decline in oil prices. Our companies are well-financed and will survive even if oil prices stay depressed for several years. **We expect the current supply-demand imbalance to improve over the next 12 months** as lower oil prices reduce supply and stimulate demand, leading to higher prices down the road. Also, many oil producers have locked in higher oil prices through mid-2016, allowing the oil to keep flowing. As 2016 arrives these producers will start to confront reduced cash-flow and be forced to reduce production at current prices. While $100 per barrel is not likely, we think $70 to $90 is possible compared to today's roughly $50 per barrel level.

We've also been waiting patiently for interest rates to rise. After 6+ years of near zero rates, relief is in sight. I say relief because **higher interest rates will benefit many of our current stock holdings**. We own many financial services companies, including commercial banks, custody banks, investment banks and insurance companies. What they all have in common is a desire for higher interest rates. Why? They hold assets on their balance sheets, which are mostly fixed income investments. In the rate-starved environment of the past 6+ years the income being generated has slowly declined to today's paltry levels. With rising rates these companies will obtain higher yields on assets and higher earnings. So, bring on rising rates, Ms. Yellen.

If you've made it this far, congratulations and I thank you for enduring this long quarterly review. The bottom line: while I can't guarantee a particular rate of return (the SEC and others rightly frown on such activity) or tell you what the market will do in the short-term, I can tell you that we will be working 110% to both protect and grow your capital over the longer-term. The environment may get tougher, but **we have turned such adversity into opportunity in the past**, and I'm optimistic that we could do so again in the future.

Let us know of any changes to your financial situation that might suggest altering your investment portfolio and also if you'd like a current copy of our SEC Form ADV Part 2.

We encourage your questions and comments. As always, ***your*** LOYALTY and PATIENCE remain our secret weapons. We remain diligent, disciplined, and optimistic. And, we continue to eat our own cooking, which means investing alongside you in generally the same securities. It's the right way to operate.

Sincerely,

John Heldman, CFA
July 24, 2015

"Many shall be restored that are now fallen and many shall fall that are now in honor." Horace

"Always do right. This will gratify some people, and astonish the rest." Mark Twain

The securities discussed herein do not represent all of the securities purchased, sold or recommended for each strategy during the quarter. The reader should not assume that an investment in these securities was or will be profitable. Inherent in any investment is the possibility of loss. Past performance is no guarantee of future results.

Triad Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). Triad has been independently verified by Ashland Partners & Company, LLP for the period from the strategy's inception, April 30, 2008, through March 31, 2015. Triad is an SEC-registered investment advisor. The composite includes all fully discretionary separately managed accounts that follow the firm's Concentrated All-Cap Equity investment strategy, including those accounts no longer with the firm. Triad's strategy is to invest in a concentrated portfolio (usually holding 20 to 30 securities) of common stocks, unrestricted as to market capitalization, of both domestic and international companies. The U.S. Dollar is the currency used to express performance. Past performance is not a guarantee of future results, and there is a risk of loss in investing in equities. Results are presented net of fees and include the reinvestment of all income. Investments made by Triad for its clients differ significantly in comparison to the referenced indexes in terms of security holdings, industry weightings, and asset allocations. Accordingly, investment results and volatility will differ from those of the benchmarks. As of June 30, 2013, the Triad Equity Composite was renamed the Concentrated All-Cap Equity Composite. For more information or for a copy of the firm's fully compliant presentation and the firm's list of composite descriptions, please contact us at (949) 679-3991.

%	2Q15	YTD	1 Year	3 Year	5 Year	Inception
Triad Concentrated All-Cap Equity	(1.3)	(6.2)	(12.1)	11.9	13.7	9.1
S&P 500 Index	0.3	1.2	7.4	17.3	17.3	8.1

As of June 30, 2015. Results presented net of management fees.