1301 Dove Street, Suite 1080
Newport Beach, CA 92660
Tel: (949) 851-7902
www.triadim.com

3rd Quarter 2014 Investment Review

Investment Thoughts

"*For most professional money managers, if you've got four children to put through college…you care about survival, and the way you survive is just not doing anything that might make you stand out."*

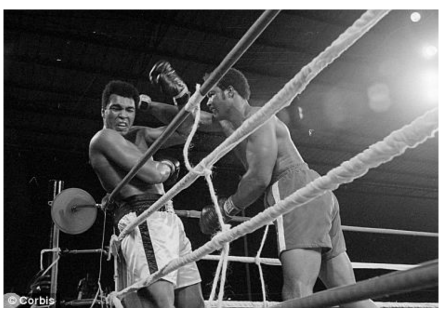
"We like to stay sane while others go crazy. That's a competitive advantage."

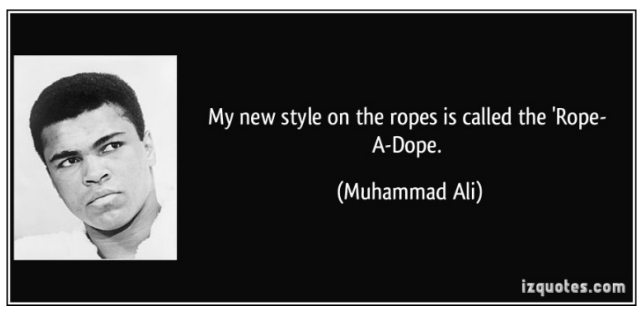
Charlie Munger, Vice-Chairman, Berkshire Hathaway

"*Two roads diverged in a wood, and I---*
I took the one less traveled by,
And that has made all the difference."

Robert Frost "The Road Not Taken"

I'm not much of a boxing fan, but have watched a few big fights over the years. When I was a kid, Muhammad Ali pretty much ruled the boxing world. Sure, George Foreman, Ken Norton and Joe Frazier were formidable opponents. But Ali stole the limelight and charmed the world with his funny and occasionally outrageous comments.





Ali fought George Foreman in a famous fight exactly 40 years ago on October 30, 1974 in Kinshasa, Zaire—now the Democratic Republic of Congo, although I'm not sure how democratic it is—that became known as the "***Rumble in the Jungle***". It was here that Ali unveiled his "***Rope-A-Dope***" strategy. It consisted of lying back against the ropes in the boxing ring and allowing Foreman to swing away at his body. The idea was to endure the body blows and wait for Foreman to wear himself down, at which point Ali came to life and unleashed a flurry of punches, ultimately knocking out Foreman in the 8th round. Don't feel too sorry for George. After his boxing career he became a celebrity product endorser and it's estimated that he has earned over $200 million, far more than he ever earned from boxing.

We're currently experiencing a form of investment ***Rope-A-Dope***. We've gone through this before, most recently in the latter half of 2011 when we zigged and the markets zagged. We ended the year with negative returns, against a market that was slightly positive. We maintained our discipline and were ultimately rewarded with our 2012 results.

So yes, our 2014 results to date are less than the "***market***" as defined by the S&P 500 or the Russell 3000 Indices. And we like to win. So like Ali, we are sitting back and enduring the punches that the market throws at us. But while Ali could decide when to fight back, we don't have the luxury of making that decision. The market must decide when it will reward our efforts. However, unlike Ali, we own durable businesses and won't get knocked out. So we wait, enduring the psychological "punches" of an environment that isn't rewarding our efforts. We've been in a few investment boxing matches over the decades, and we expect to come out of this round as we have others, with your capital intact.

We get asked by prospective clients, especially institutions, "***what's your competitive advantage?***" As Charlie Munger would say, acting rationally when others won't, or occasionally can't, is one of our main advantages. We care about survival as Charlie mentions, but it's client capital survival we care about. So our decisions emphasize the best long-term investment results for clients, not primarily our own business survival.

Sounds simplistic, but common sense and rational behavior are often in short supply when markets go haywire. In today's environment where information is a few keystrokes away and investors can spend all day, every day digesting data, an advantage should accrue to the person who can think rationally and act independently.

Jane Mendillo stepped down in June as the CEO of Harvard Management Company, which manages the $33 billion Harvard University endowment. She took the job in 2008 and survived for six years. Her predecessor? Mohamed El-Erian. He lasted two years. Why such short tenures? An astute, longtime investment observer was quoted in the New York Times commenting on Mendillo's resignation: ***"The pressure on people in that kind of institution is tremendous from people who want to see good results all the time…There's no patience for the fact that managing endowments is a long-horizon enterprise that naturally involves occasional periods of disappointing results."***

Now, I don't know if Jane has children to put through college, and she was paid well enough not to worry about "career risk", or the risk of being fired. But it's possible that the pressure to perform ***now*** influenced her investment decisions. And this is exactly the outcome that a long-term oriented client should seek to avoid. Operating under pressure to produce consistent, superior results can backfire and create sub-optimal long-term results. Sophisticated clients recognize this, but can be under pressure themselves—as in Harvard's case—to provide the funds for university spending needs. This is why attracting clients who understand and are compatible with the investment philosophy is absolutely essential.

We frequently discuss one of the biggest impediments to long-term investment success; drumroll please—***ourselves***. Investors can get impatient and expect above-average results, consistently produced. Whether it's Harvard University or the General Electric pension plan, there can be little room for disappointment. We don't play that game, because we're convinced it's the road to mediocre long-term results. Also, my kids are done with college.

Economic Conditions

The best house in a bad neighborhood. That's how some people describe the U.S. within the global economy. I'm not sure the world should be described so negatively, but the list of problems is long. Russia is re-arming and attempting a Putin takeover of Eastern Ukraine. Europe is still floundering and in need of a Winston Churchill to lead. Islamic State threatens to overrun the Middle East, still the largest worldwide oil source. China continues to suffer slowing growth, with overinvestment in real estate and bad loans hiding everywhere. Oh, and Hong Kong would like more freedom. In South America, Brazil suffers from economic malaise, poor governance and political indecisiveness. Ditto India, where bureaucracy and poor infrastructure continues to hold back 1.2 billion people from realizing their full potential.

Here in the U.S. things don't look so bad. Yes we have challenges, but unemployment is relatively low, interest rates nearly invisible, incomes are growing, consumers are spending more, home prices are up and the stock market is higher. In short, homegrown problems pale in comparison to the difficult issues that plague many "*developed*" and developing countries.

Investment Conditions

As can be seen from our 3rd quarter results, our investments haven't met with universal acceptance by the investment populace at large. Which in plain English means we underperformed in the 3rd quarter. While most of the underperformance was from temporary price declines, we did have a few investments that experienced permanent impairment, and likely won't recover. But the vast majority of our holdings are well-run businesses managed by motivated co-owners with significant ownership stakes. We remain optimistic that our long-term results will reflect the underlying economics of each business.

Although investment valuations are higher today than previous years, we can still find a few attractive opportunities, especially as markets have recently declined and better values are starting to appear. This is a natural part of the investment process. Declines lead to a greater abundance of attractive investments, as is occurring now. Further declines, while not enjoyable in the short-term, should create greater long-term opportunities. For this reason, we welcome occasional market drops. If you want crops to grow, you need occasional rain.

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

We encourage comments, questions and suggestions. As always, your loyalty and patience remains our secret weapon. We remain diligent, disciplined and co-invested with our clients: we eat our own cooking.

Sincerely,

John Heldman, CFA
October 27, 2014

"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 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 June 30, 2014. 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 between 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. 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 has been 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.