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3rd Quarter 2015 Investment Review

"*If you even dream of beating me, you'd better wake up and apologize"*

***"The fight is won or lost far away from witnesses—behind the lines, in the gym, and out there on the road, long before I dance under those lights*"**

Muhammad Ali, 3 time World heavyweight boxing champion

Investment Thoughts

It's that time again. Muhammad Ali, perhaps the greatest boxer of the 20th Century, employed his "*Rope-A-Dope*" strategy against opponents by allowing them to land relatively harmless punches to his body while protecting his head. After the opponent had flailed ineffectively and sufficiently worn himself down, Ali would respond by jumping off the ropes and finishing off the tired challenger. We're dealing with the investment version of *Rope-A-Dope*, as many investors remain risk averse and beat up our holdings. We remain focused on getting positioned for the "Ali rebound."

Benjamin Graham was fond of saying you are neither right nor wrong because the market says so. You are right if your facts and reasoning are right. Importantly, you must have the ability to be patient while the market disagrees with you. In today's two-tier market it's the companies with no issues—and occasionally no earnings—whose stock price seems to do well. Companies with temporary problems are ignored as it's easier to make money in the short term hopping on a well performing stock. The problem children often take a couple of years to mend, and investors seemingly will take the relatively sure 10% and pass on the longer-term but potentially higher return opportunity.

Investors can get pulled into risky behavior by putting too much emphasis on what's occurred in the recent past. Behavioral psychologists call this "*recency bias.*" In the stock market, short-term success can be self-fulfilling—in the short-term anyway—as recent market "winners" attract additional buying, creating even more short-term success. This will continue until it stops. When? I can't say. But as the late Economist Herbert Stein remarked: "***If something cannot go on forever, it will stop.***" Brilliant in its simplicity.

We avoid this "momentum" investing approach by remaining absolute value investors. We don't necessarily care what a share price has done recently. What we're interested in is the future. We don't pay up for companies just because the stock market has gone up a lot and investors are putting high valuations on companies. We will invest in a business if we believe there is a prospect of the stock price doubling over a three to five year period. That's an ambitious level to achieve. If a stock doubles over 3 years that's a 24% annual return, and over 5 years equals roughly 15% per year. Compared to historical 10% annual returns we are aiming higher than average.

We set the bar high because we know that we won't always be correct in our analysis. A high bar means if we are wrong with some companies the other holdings could compensate and still deliver satisfactory overall results. We're trying to invest with what Benjamin Graham and Warren Buffett refer to as a "Margin of Safety" through bargain purchases. If we said "*it's ok to invest when we expect 10% returns*" we have left ourselves with a lower Margin of Safety and instead of 10% we may achieve even lower returns.

Great opportunities don't come along every day in a market that consists of thousands of smart, competitive people. So what's an investor to do if trying to achieve above-average returns? If you want different results than the average, you need to do things differently than the average. Here's a short recap of what we believe is different from many "mainstream" investors:

> We focus on businesses we can understand. Believe it or not, many professionals invest in businesses they don't adequately understand, because market liquidity allows them to sell if problems arise.
>
> We research companies ourselves. Here again, many professionals rely upon analysts to tell them the "story." Without firsthand knowledge through original research it's harder to have great conviction, which is vital when Mr. Market disagrees with you. And eventually, he will.
>
> We focus on a small universe of companies, between 200-250, so we can keep learning and building on our knowledge base.
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> We value a company as if we were a rational "business buyer" attempting to purchase a privately-held business in an arms-length negotiated manner.
>
> We invest in a relatively concentrated portfolio of our best ideas when we believe our 3 to 5 year return objective has a reasonable chance of occurring.

The best opportunities often occur because of short-term investor emotional bias (aka panic or euphoria). The tradeoff for these occasional above-average buying opportunities can be the ability to endure hardship. Hardship often takes the form of UNDERPERFORMANCE for a period of time. Clients don't like underperformance. Therefore investment managers don't like to underperform. It can lead to client loss. Which can lead to job loss. These potential negative outcomes create a situation where short-term success is paramount.

Unfortunately, what works in the short-term doesn't always work long-term. Noted Economist John Maynard Keynes put it eloquently way back in 1936: "***Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.***" Keynes, a contrarian and successful investor, wasn't heaping praise on the conventional approach.

This desire to conform and avoid "***career risk***" can create a vacuum of investor neglect that Triad, with a longer time horizon, seeks to exploit. The further out investors believe the payoff lies, the greater the market discount, and hence the greater the potential reward. We try to balance short-term pain and underperformance (we've noted in previous letters that we will occasionally look dumb, and that's the case lately) with the opportunity for above-average long-term results. Since we seek to buy good companies that are experiencing what we believe are temporary problems, we must have the PATIENCE to wait until the clouds depart and the sun shines again. It ain't always easy, but as Charlie Munger, Vice-Chairman of Berkshire-Hathaway says about investing: "***It's not supposed to be easy. Anyone who finds it easy is stupid.***" You always know where Charlie stands.

On the flip side, when the sun begins to shine and a rising stock price leads to excessive valuation, we don't fall in love. An excessively high valuation presents the risk of future price declines. So we exercise the discipline to sell our winners when called for. It might seem tough psychologically to sell winners and buy more "losers" but logic and process dictates that we buy low and sell high. This seems easy but human nature gets in the way.

Economic Conditions

"***Anyone who isn't confused really doesn't understand the situation.***" Edward R. Murrow

I've used Murrow's quote for the second time in the past year. It still seems appropriate in the current global environment. So what's confusing? Interest rates have been at zero percent for the past 8 years. Normally this would create a booming economy, rapid job growth, labor and material shortages leading to surging inflation. We have none of that. Part of the problem is weak global economies, excess global production capacity, and a debt overhang from the previous boom. It's not clear what will end this sluggishness and create higher growth. It may be that more time is needed for healing. We'll know conditions are better when interest rates finally rise up from zero and approach "normal" levels.

Investment Conditions

"***If you're going through hell, keep going.***" Winston Churchill, English Statesmen

Churchill's advice was offered during World War Two, and fortunately we're not dealing with anything resembling that today. However, the investment environment has been challenging for us over the past few years. One of my favorite investors, Howard Marks of Oaktree Capital, said in a recent memo: "***The best way to get through a downdraft is to verify your thesis, tighten your seatbelt and hang on.***" And that's exactly what we are doing.

Many of our holdings are disliked by investors. Energy companies and industrial companies that serve them have experienced significant stock price declines as the "*conventional wisdom*" is that oil prices are going to remain "lower for longer." A year ago, the conventional wisdom didn't expect oil prices to decline from $100 per barrel to under $50 today. We believe energy presents a significant opportunity for those willing to wait a few years for supply and demand to come into better balance. China uses about as much energy as the

U.S., yet has four times as many people. That will change. India has 17 cars per 1,000 people, while the U.S. has 402 per 1,000. That also will change. There are enormous unmet needs throughout the developing world, and energy is essential to economic progress.

Our portfolio also continues to be negatively impacted by low interest rates. We have a significant investment in financial companies, and most would benefit from higher interest rates as their assets would produce more interest income. We look forward to the period when zero interest rate policy (aka ZIRP) is a distant memory. It's finally on the horizon.

Overall, a stronger global economy would create additional demand for energy and industrial goods, while allowing the Federal Reserve to raise interest rates. All of this should create good conditions for our holdings to flourish. That day will come.

We stated the following in our last two quarterly reviews but 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."

The only addition I'd make to the previous paragraph is that ***we now believe our holdings are even cheaper and are selling at very low valuations***. Time will tell if we are correct.

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
October 22, 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.

%	**3Q 15**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**Inception**
Triad Concentrated All-Cap Equity	(15.4)	(20.7)	(18.5)	2.6	6.9	6.4
S&P 500 Index	(6.4)	(5.3)	(0.6)	12.4	13.3	6.8

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