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1st Quarter 2016 Investment Review

"Losing feels worse than winning feels good." *Vin Scully, Los Angeles Dodgers*

Investment Thoughts

I have a confession to make. Despite being a lifelong baseball fan, I've never been a Los Angeles Dodgers fan. And it's not just because I'm a Los Angeles Angels fan. I was raised in the L.A. area and yet, I grew up rooting for the San Francisco Giants. Yes, the Dodgers' not-very-well-liked—ok, hated—arch-rival. Try explaining that to your friends. Actually, it's quite simple. My parents were originally from New York City and were Giants fans in New York and then San Francisco. As little kids will, I followed my parents lead. I enjoyed my oddball status. The Giants back then had Willie Mays—my baseball hero—Willie McCovey, Juan Marichal, Orlando Cepeda, Gaylord Perry and a bunch of other quality players.

But there's one part of the Dodger franchise that I've always admired and supported. I admit that I'm a Vin Scully fan. I've been listening to Vinny for decades. He's simply the best sportscaster in the business—he was ranked #1 by MLB Network. He got a star on the Hollywood Walk of Fame in 1982, the same year he was inducted into the National Baseball Hall of Fame.

Scully announced his first Dodgers game on April 18, 1950. He was the announcer when pitcher Don Drysdale set a record in 1968 with 58 scoreless innings, and was calling the game when Orel Hershiser broke Drysdale's record with 59 scoreless innings in 1988. He announced in 1974 when Hank Aaron blasted home run number 715 to break Babe Ruth's record. But to really appreciate Scully's appeal, search for "*Vin Scully grocery list*" on YouTube. That's right, he made reading a grocery store list come alive on the air in 1974. If you're a Scully fan, it's worth a listen.

Ok, this isn't People magazine, so what does Vin Scully have to do with investing? In this, his 67th and final season, when I think of Scully, I'm reminded of the sound work habits that have served him well for almost 7 decades, and how these principles apply to the investment world:

- **Preparation**. Scully is the consummate professional because he is prepared, and ready to handle any situation the game throws at him. Vin studies teams, player statistics, family histories and every aspect of the game. He fills notebooks with interesting facts and figures. Likewise, if we prepare in advance through careful research, we're better prepared to behave rationally when Mr. Market has a temper tantrum.

- **Love your work**. Vin clearly loves what he does. It shows in his enthusiasm, and is part of the reason why he's still going at age 88. It seems logical that if you love what you do, you're more likely to be good at it. I think this also applies to the investment business.

- **Discipline**. Vin doesn't have any alcohol on game day. He doesn't want anything to interfere with his thinking and ability to focus on his goal, which is announcing excellence.

"Investment discipline" is almost redundant. In my view, there is no investment success without investment discipline.

- **Objectivity**. Scully was asked once about his "Lifetime Achievement" Award. He credited God with granting him a long life, and felt that the achievement was earned by the players, not him. And he always announces games fairly, not as a "homer" who roots only for the home team.

- **Humility**. Despite being accorded the all-time best sportscaster, Vin still believes the game is more important than him. In investing, if you haven't learned humility, you haven't been in the investment business very long.

- **Focus on the field, not the scoreboard**. Actually this isn't Vinny's, but it fits the theme. We spend our time studying businesses, not obsessing about whether we're ahead of or behind competitors. If we play the game right, the score should take care of itself.

In short, Vin Scully has been an inspiration and role model for me and millions of others. Whether sports or investing, success is the result of preparation, hard work, loving what you do, striving to be objective and recognizing that humility is essential. And thanks for the memories, Vin.

Economic Conditions

At the risk of sounding like a broken record, the economy continues to chug along, displaying modest growth, despite the best efforts of the Federal Reserve via ZIRP (Zero Interest Rate Policy) to stimulate the economy. We've been in a Twilight Zone of low growth and low inflation for years, and the Fed would like stronger numbers. For those who recall the 1970's and 1980's when the U.S. battled double-digit inflation, today's attempts to raise inflation off the floor must seem strange.

But the world has changed, with deflationary forces today that weren't as predominant back then. Three main forces now converge to hold global prices in check: 1) **Globalization**, which has increased international trade and competition; 2) **Technology** improvements continue to push down prices for many products; 3) **Deregulation** has reduced competitive barriers and red tape in areas such as transportation, telecommunications, financial services, etc.

High global debt levels also dampens economic activity, as indebted consumers, businesses and governments are constrained from expanding consumption and investment. This is what our neighbors down the street who run a small bond shop (PIMCO) refer to as the "new normal." Meaning high debt levels and slower growth for the foreseeable future.

Despite these sluggish conditions the Fed is planning further rate increases this year. It should be a fairly gradual path, but nonetheless could result in negative market reactions and irrational behavior. But that shouldn't be news; irrationality is a constant in the investment world. And in our view, irrational behavior by others is a cause for celebration, as it usually brings opportunities.

Investment Conditions

We've been witnessing a two-tiered stock market over the past two years. On the one hand, major stock market indexes have recently rebounded to near all-time high levels. On the other hand, stock prices for many of our companies generally remain well below their all-time highs. We seek to buy good companies when they are out of favor, which usually means prices have dropped. Since we want to "buy low and sell high" we've been buying what others are selling. And I'd argue that many investors over the past two years have been buying what others are buying. Strong recent performance often attracts more buying. We won't play that game.

Instead, we continue to employ our investment process in the same manner we have for years:

- We focus on businesses with ***understandable economics***; if we don't understand a business, how can we place a value on it?

- We perform our own ***independent research***, far from the Wall Street consensus "groupthink" that pervades many investment organizations

- We ***value each business as a business***, not a piece of paper traded on the New York Stock Exchange or elsewhere

- We seek "***owner-operators***" who have significant ownership stakes in the business, which should align their interests with ours

- We invest only when the purchase price is at a ***substantial discount*** to our 3 to 5 year estimated value, and focus on a concentrated portfolio of our best ideas

While we have no special forecasting abilities, we certainly pay attention to what's happening with the economy, interest rates, inflation, and importantly, general investor behavior. For the past few years, in this slower-growth, uncertain environment, many investors have sought perceived safety and stability by crowding into big, stable, growing companies. Think consumer staples, healthcare, biotech, social media, FANG (what's that, you ask? Facebook, Amazon, Netflix, Google). Also Twitter, LinkedIn and other absurdly highly-valued companies.

But when too many investors pile into the same ideas, what may have been safe at one price can be unsafe at another higher price. I'm not sure I'd call today's situation a big bubble, but there is plenty of investor affection for a small group of richly-valued companies. We pursue long-term value wherever we find it, and we're currently finding better values in smaller, lesser-known and more cyclical businesses. And we continue to have a sizable weighting in Energy and related Industrial holdings, as the market has done to these areas what markets occasionally do, which is become bearish at the bottom, in my view.

We stated the following several times last year and it's still worth repeating, probably more so now that markets have bounced back in the past couple of months:

> ***"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."

While the major stock market averages seem likely to post average returns at best, we still feel very good about the long-term prospects for our select group of focused investments.

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

April 25, 2016

"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 December 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.

%	1Q 16	YTD	1 Year	3 Year	5 Year	Inception
Triad Concentrated All-Cap Equity	0.5	0.5	(16.2)	(3.1)	3.0	6.0
S&P 500 Index	1.4	1.4	1.8	11.8	11.6	7.5

As of March 31, 2016. Results presented net of management fees.