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INVESTMENT MANAGEMENT

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3rd Quarter 2016 Investment Review

"The market can remain irrational longer than you can remain solvent."

John Maynard Keynes, Economist (1883-1946)

"If something cannot go on forever, it will stop."

Herbert Stein, Economist (1916-1999)

Investment Thoughts

After two years of fairly steady drought, my investment thoughts are simple: I'm ready for the drought to end. I'm not talking about the Southern California weather drought. No, I'm talking about the stock market investment drought that we've been in for the past two years, since about mid-2014. For clients, it's been our longest period of lackluster results. We've had two previous periods of subpar results, but both recoveries took less than one year.

The previous six years from 2008 to 2014 were much better. We enjoyed strong absolute and relative stock market returns. In 2013 we observed the rising risks that result from long periods of upward price momentum and subsequent overvaluation. In response we remained disciplined and sold fully-valued positions. We reinvested the proceeds into investments we believed offered more value than those being sold. But Mr. Market has continued to party on for the past two years, without us. So much for our disciplined behavior.

So, we find ourselves out of sync with current markets. The bad news is our current holdings look nothing like the "market." The good news, in my opinion? Our current holdings look nothing like the "market." My belief is our holdings are less susceptible to the whims of investors bidding up the prices of currently fashionable investments such as ETFs, index funds, dividend income, low volatility, etc. I believe we own very undervalued businesses—we still adhere to the quaint notion of researching and investing in businesses, not pieces of paper. I've stated several times over the recent past that I wouldn't be surprised to see substantial gains over the next few years from our current portfolio. We're not alone in these thoughts, as other capable investors have noticed the same conditions. Still, the waiting game is psychologically difficult.

As I mentioned last quarter, unlike the S&P 500, which is currently 2-3% below its all-time highs, our portfolio in aggregate trades far below its all-time high prices. Why is that, you might ask? Because we've invested in these companies AFTER the share prices declined to a level where we felt that there was sufficient value to warrant our purchase. The share prices declined mostly due to temporary company-specific issues, which we believe will be corrected over the next several years. It can be VERY difficult to be patient while waiting for business improvements, and subsequent investor recognition of those improvements. But that's our strategy and approach.

While there are no guarantees that we'll see a rebound in the next couple of years, we're sticking to what's worked in the past: attempting to "buy low and sell high." I would characterize an investment in a broad stock market index today as employing a "buy high, sell higher" approach. It could work, but it depends on either higher valuation levels, or higher earnings growth. We start from a low valuation level, and don't need as much to go right to experience improved results.

I've reminded our investors over the years that occasionally we will look smart, and occasionally we will look pretty dumb. **Here's what I said three years ago** in the Fourth Quarter 2013 Investment Review—in retrospect, just prior to the start of our current "dumb" period:

> "*We know that* ***we'll frequently be out of sync with markets****. Some years better, some years worse. If you want different—meaning better—results than other investors and markets, you need to do things differently. We do. Occasionally we look smart. Occasionally we look not so smart—ok, dumb. Last year, we thought stock valuations were getting a bit high, and we reduced some positions that looked more fully valued. We rolled the proceeds into neglected stocks. They remained neglected throughout 2013. They may continue to be unloved during 2014. It's a central part of our process to look longer-term when others can't or won't.* ***Our willingness to endure short-term pain creates the opportunity for long-term gain****.*"

I didn't realize the period of neglect would extend into 2016. Regardless, we still believe buying undervalued, out-of-favor companies is the right long-term approach. Patience, and the willingness to endure short-term pain, unfortunately, is the key ingredient.

One last comment. The quotes at the top of the letter might seem familiar. I included them last quarter, and they are still appropriate for the environment we're in, so I left them in this quarter's letter. The market can remain irrational for a long time, but not forever. Ultimately, investors figure out the right valuations. When things change, we're ready.

Economic Conditions

Not much has changed in the economy over the past 3 months. Investors await the Federal Reserve lifting interest rates to "normal" levels, although in this strange post-financial crisis world we're in, it's hard to know what normal is. What's also unknown is the response to higher interest rates. Our guess is there will be some financial turbulence, but limited negative impact on the economy. We haven't owned the stock market beneficiaries of lower rates, so I would expect our holdings to be less impacted as rates rise.

Some aspects of higher rates should be positive for the economy. Bank CDs, money market funds, Treasury bills and other lower-risk short-term investments will actually earn higher income. Savers should have more money to spend. Banks and other lenders will be more interested in lending money at higher rates. Potential buyers of homes, cars and other big-ticket purchases, who were on the sidelines, might be motivated to purchase before rates move much higher, stimulating demand. It's hard to envision financial Armageddon just because interest rates increase 1-2% over the next couple of years. Rates will still be extremely low, and lenders have lots of cash to lend.

The presidential election is right around the corner, and new policies on healthcare, taxes, infrastructure spending, regulations and other areas are likely. My guess is that many businesses and investors are on hold until the election results are known. Once the election is behind us, greater certainty should be a positive for the economy.

Investment Conditions

As I mentioned in the Investment Thoughts section, we're finding what we believe are attractive long-term investment candidates; it's just that the rest of the world doesn't seem to notice or care. If it's not Facebook, Google, Amazon, et al, then the world seemingly doesn't pay much attention. It's still a two-tier, bifurcated, schizophrenic market in our view, exhibiting overvaluation in some areas, and undervaluation in other areas. Our job is to determine where the values are, and not get distracted by short-term considerations.

The world of fixed income is a different story from common stocks. Low interest rates make bond investing challenging. We were able to take advantage of temporary market volatility in late January and early February—a short one-month window—to purchase corporate bonds for some income-oriented clients, but our wallet has been largely shut since then. All areas of the bond market currently offer high prices and low yields—Treasuries, corporates, high-yield, municipals. We'll wait for higher interest rates to work their magic on bond prices—lower—and then we'll open up the wallet. We should start to see this unfold in 2017.

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. It's been a difficult two years, but we believe brighter days are ahead. I'd be very surprised and disappointed if the next two years were a replay of the past two years.

We remain diligent, disciplined, and optimistic. And, we continue to eat our own cooking, which means investing alongside you generally in the same securities. It's the right way to operate.

Sincerely,

John Heldman, CFA

October 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 June 30, 2016. 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 16	YTD	1 Year	3 Year	5 Year	Inception
Triad Concentrated All-Cap Equity	0.4	(0.3)	(0.4)	(4.5)	10.9	5.6
S&P 500 Index	3.9	7.8	15.4	11.2	16.4	7.8

As of June 30, 2016. Results presented net of management fees.