TRIAD INVESTMENT MANAGEMENT

1301 Dove Street, Suite 1080
Newport Beach, CA 92660
Tel: (949) 679-3991
www.triadim.com

4th Quarter 2016 Investment Review

"All the signs are right this time
You don't have to try so very hard
If you live in this world
You're feelin' the change of the guard"

Steely Dan
Change of the Guard, 1972

Investment Thoughts

Clearly, we are witnessing a changing of the guard in the political realm. Donald J. Trump has been sworn in as our 45th President. Like it or not, the American public has spoken, and we should expect substantial changes over the next couple of years. The focus of the new administration will be on the U.S. economy and foreign affairs.

President Trump has signaled his intention to change policies from the Obama administration in just about every major area. His America-first approach will focus on jobs, trade policy, reducing unproductive government regulations, lowering taxes, healthcare reform, energy policy, education, foreign affairs—you name it, he's targeting it. His cabinet picks come with impressive credentials and significant business experience, in stark contrast to the Obama administration—see the chart below. We expect new and controversial initiatives to be presented. It's going to be a challenge to get the entire agenda enacted, even with Republicans controlling Congress. As Senate Majority Leader Mitch McConnell said: "*This is no time for hubris, you have to perform.*" Let's hope that happens.

How Experienced Is Each Incoming Administration?
Years of Relevant Experience

	Cumulative	Government/ Military	Business (C-Suite)
Kennedy	96	77	19
Nixon	95	67	28
Carter	79	58	21
Reagan	96	51	45
HW Bush	132	79	53
Clinton	123	101	22
Bush	152	80	72
Obama	122	117	5
Trump	138	55	83

High overall number

Most years of business experience, fewer years of governmental

**Counting the President, Vice President, Chief of Staff, Attorney General,*
and secretaries of State, Defense, Treasury, and Commerce.

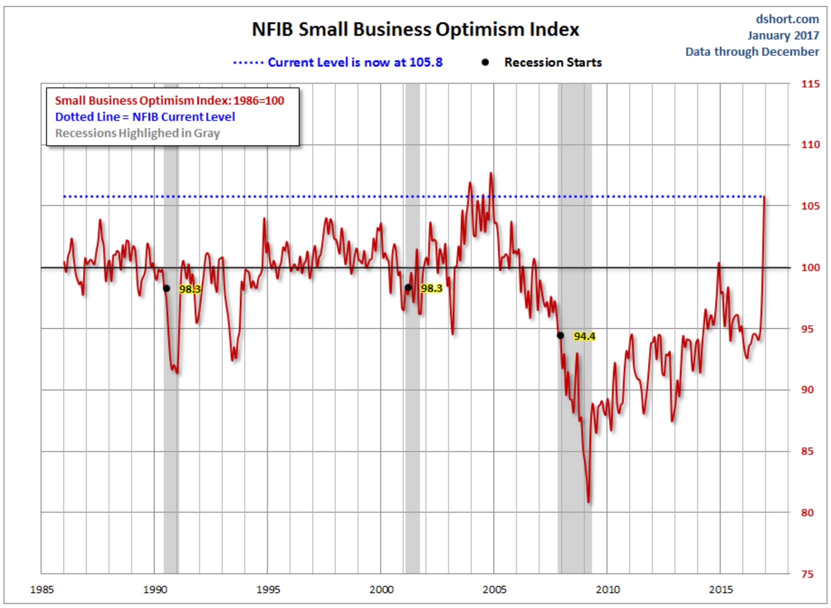
Source: Ray Dalio—Bridgewater Associates

Foreign affairs will also see radically different approaches. America is less likely to play the role of global policeman. Trump will probably view foreign policy through the lens of American interests, with less emphasis on nation-building or projecting American values throughout the world.

We're not usually in the business of forecasting how government policy changes might impact our investments. However, we try to be pragmatic, and the 180-degree change in the environment necessitates our paying close attention to what happens in Washington, D.C. We think it's likely to create a more constructive environment for business success. But we'll keep our eyes sharply focused on the actions taken, and how they might impact our investment world.

Economic Conditions

Whether you're a Trump fan or not, the initial reaction to his election has been improved business and consumer confidence. Psychology can play an important role in the economy, and so far, it's mostly positive, as the chart below clearly indicates:



It's still early but the initial trends seem promising for the economy over the next year or so. And with President Trump aiming to focus on the American economy, we'd expect to see tailwinds at home instead of headwinds. The consensus—which can get it wrong at times—believes we'll see more growth this year, with interest rates rising modestly, and the global economy still growing sluggishly. Overall, it's a reasonable backdrop for us to make investment progress.

Investment Conditions

We experienced positive results last year, in a generally good environment for common stocks. As a result, market valuations have moved even higher, reducing the future return potential for the major stock market indexes. While not a large bubble, valuations are generous, and our caution remains for the broad stock market averages.

While we don't expect much from the stock market, we still love what we own in our portfolios. We have participated in the latest market advance, but still believe our holdings are very undervalued, and have significant return potential over the next three to five years.

With the Trump administration planning to "Make America Great Again" (please, no snickering) it's our view that the domestic economy will be in sharp focus. Higher growth could benefit many of our companies. How?

While the consumer side of the U.S. economy has been growing, the manufacturing sector has been in a prolonged slump. But this appears to be changing for the better. Here's how the CEO of a large industrial distributor described conditions in early January:

> "*We have operated in the midst of a prolonged industrial recession, one that was particularly acute in our primary end markets of metalworking manufacturing…we are, however, seeing signs of greater optimism. At present, it appears that there is a leveling in manufacturing occurring and, in December, we saw greater spending on categories that are indicative of customer optimism. We are certainly more positive than even a few short months ago.*" MSC Industrial, January 2017

Multiply these sentiments by thousands of businesses and "animal spirits" might be unleashed to drive the economy forward.

Fiscal stimulus such as a large infrastructure bill would be a positive for our relatively large weighting in Industrial companies. Improved consumer confidence, already visible in post-election consumer surveys, could provide a boost to consumer spending, which should help our significant exposure to Consumer Discretionary companies. Renewed emphasis on domestic energy production should aid our Energy holdings. Financial stocks, our largest weighting, could benefit primarily from increasing interest rates over the next year or two, and a less-burdensome regulatory approach. Lower tax rates would benefit our largely U.S.-based businesses through higher after-tax earnings.

Rising interest rates should also provide more opportunities for us to buy higher-yielding investments such as corporate and municipal bonds for income-oriented accounts. We've been patiently waiting for higher interest rates and the time is near.

Overall, our companies could enjoy an earnings tailwind—instead of the headwinds we've faced over the past few years—should a good portion of the Trump platform be enacted.

We continue to manage portfolios by focusing on a relatively concentrated selection of the best long-term ideas we can find. We have the flexibility to invest where we think the opportunities are greatest. This approach can create more portfolio volatility, but also offers the chance for improved long-term results. And the long-term is where we are firmly focused.

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 tough stretch over the past couple of 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 clients generally in the same securities. It's the right way to operate.

Sincerely,

John Heldman, CFA

January 23, 2017

"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 September 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.

%	4Q 16	YTD	1 Year	3 Year	5 Year	Inception
Triad Concentrated All-Cap Equity	10.2	9.9	9.9	(4.0)	10.2	6.6
S&P 500 Index	3.8	12.0	12.0	8.9	14.7	8.0

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