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1st Quarter 2017 Investment Review

"*Markets can remain irrational longer than you can remain solvent*" **John Maynard Keynes**

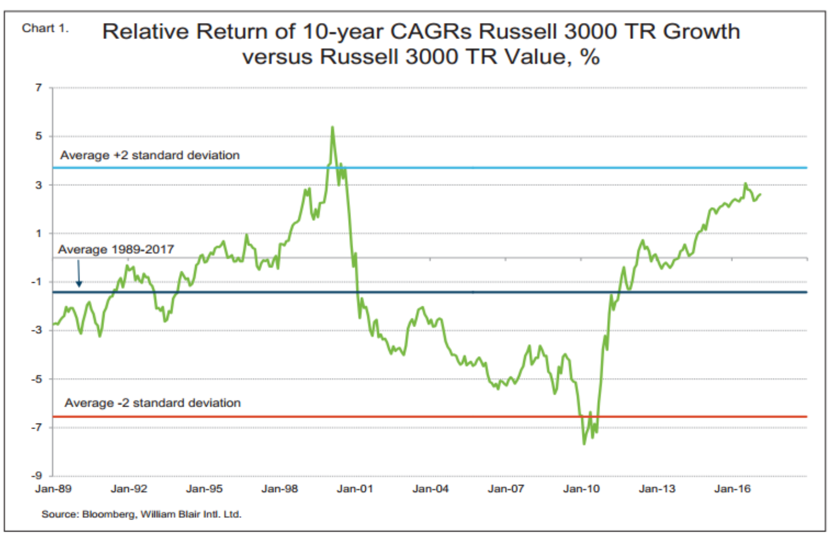
Investment Thoughts

The investment environment continues to be challenging. I hauled out Keynes' comments again—I've used this quote before, but it seems appropriate now. We find new companies every day in which to invest. The only problem is the stock prices are out of whack. Which is my technical term for being overvalued. We just need an extra helping of patience in this environment.

After eight years of upward-marching markets, the key in our view is to usually be wary of market darlings, and seek opportunity in neglected or downtrodden areas. This approach hasn't paid for a number of years, but markets have a way of changing just when the status quo seems inviolable.

The chart below illustrates our thinking regarding risks and opportunities. It depicts the differences in relative returns between two schools of investment thought—Growth and Value. While we aim for both growth and value, many investors still divide the world into these two competing camps.

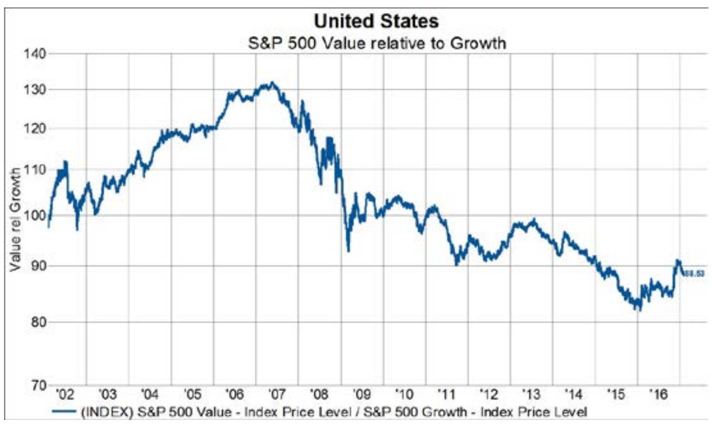
Growth stocks have earned around 3% per year more than Value stocks for the past 10 years. The "norm" for Growth stocks? Around 1% per year **less** than Value stocks over the past almost 3 decades. There's this little thing called "***reversion to the mean***", which in this case means years of outperformance can lead to years of underperformance. Likewise, weak performance can be followed by stronger results. This happens because investors tend to overestimate future growth prospects, while avoiding businesses with moderate or lackluster current results. Eventually the world reverts to long-term equilibrium valuations. The chart below demonstrates, and Mr. Keynes succinctly describes the challenge for investors—it can take years for reversion to occur:



Why the investor fixation on Growth stocks for so many years? It's no coincidence that the period of Growth outperformance corresponds to the slow-growth world since the Global Financial Crisis of 2008. A variety of reasons have been offered for this state of affairs. These include weakened financial institutions unable or unwilling to lend, an aging global population reluctant to spend, and widespread consumer and government indebtedness, contributing to a subdued global economy.

In response, investors have sought companies demonstrating the ability to grow despite weak global growth. "Growth" stocks have been the place to be, as the previous chart demonstrates. Only the equally ebullient "dot-com" boom of the late 1990's has shown such strong demand for Growth stocks compared to "Value" stocks, as the chart on the previous page also shows.

The chart below depicts the same phenomenon from the opposite vantage point—the downward trend since 2007 depicts weakness for Value stocks relative to Growth. According to this measure, it's been a Growth-led market for the past ten years:



What's a growth stock, you might ask? Companies with above-average growth prospects, usually in businesses with lots of apparent long-term promise. Areas such as Technology, Healthcare, Social Media, etc. I'd add, with investors who don't pay as much attention to the price being paid to invest. The rationale? "***I don't have to pay attention to the valuation, this company is gonna grow for years***!" Sometimes that's correct. But history has shown that frequently, it's wrong.

In contrast, value stocks represent more mundane enterprises. Think Industrials, Energy, Financials, Materials, etc. Fuddy-duddy stuff for some folks. Slower growth, or companies with temporary business challenges, usually with more modest valuations. As in many aspects of life, it's a trade-off.

Now, you might be wondering, who wouldn't like a heaping helping of growth? We love growth, as it's hard to earn a return from a business that doesn't grow over long periods of time. But growth has a price, and lately many investors have ignored the cost of acquiring growth in the stock market.

Warren Buffett has said, "***you pay a very high price in the stock market for a cheery consensus***". Which means, be careful how much you pay for growth. Many investors, hoping to catch the next big thing, have ignored valuations and piled into a relatively narrow group of high-growth businesses, irrespective of the asking prices for participation.

It might seem difficult to avoid such temptations, but we strive to be rational and invest your capital when the rewards seem appropriate given the risks. Put another way, when the price paid represents a significant discount to our expectations for future business value. And no more than that.

We believe history is on our side. The returns from various investing styles look like this:

Equity Style	1926-2015 Annualized Return	Growth of $1
Large-Cap Value	11.2%	$ 14,107
Small-Cap Value	13.9%	$ 122,218
Large-Cap Growth	9.4%	$ 3,248
Small-Cap Growth	9.5%	$ 3,526

Source: Barron's

As can be seen, the Value style has trounced Growth over the past nine decades. Large or small company, it doesn't matter. While the differences look small, over nine decades they're enormous, as the growth of a single dollar over that period demonstrates.

How can that be? Shouldn't higher growth lead to higher returns? Theoretically, yes. Practically speaking, no. What gets in the way is that old bugaboo, human nature. Investors tend to bid growth stocks up to irrational levels. But that's only part of the problem. In our competitive capitalist system, investors also overestimate the ability of a company to sustain high growth rates for a long period of time. Capitalist competition works. The result? High prices get paid for growth that often disappoints.

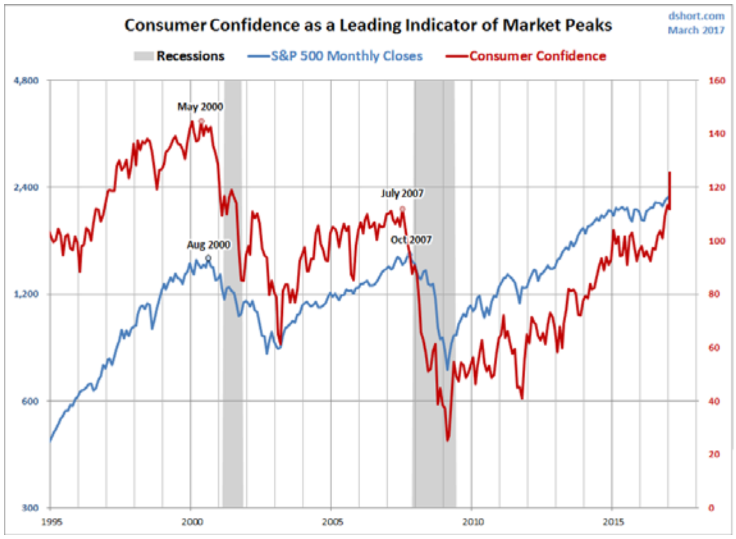
We don't know when these conditions will change, although given it's been almost eight years we're due for a change in leadership. But, perhaps we've entered a new era of sustainable growth as far as the eye can see. But the four most dangerous words in the investing world are these: "***it's different this time***". Just when investors start to believe this, is when investors are about to get their proverbial heads chopped off.

Our stock portfolios today could be classified as firmly in the Value camp, and we own both Large and Small companies among our holdings. We like our odds over the next few years.

Economic Conditions

El Presidente Trump—given his attitude toward Mexico perhaps I shouldn't call him that—has survived his first 100 days in office. While his agenda is ambitious, he hasn't yet achieved everything that he's asked for. And I'd guess he's not likely to get it all. We assume it's the real estate developer version of President Trump, who asks for the moon and settles for a small block of cheese. Nevertheless, business confidence is up, the stock market is up—for now—and consumers are still spending. Overall, conditions are not bad.

As shown on the next chart, there is a connection between how confident consumers feel and how the stock market feels. It's a self-reinforcing system: stronger consumer confidence leads to a more vibrant stock market, which makes consumers feel even better. Round and round it goes, until it stops. You'll also note that confidence is up quite a bit since the election. Whether it's a sugar high or something more long-lasting remains to be seen. But as we noted in our last letter, it seems we're experiencing a change of the guard, and we need to watch the politicians in Washington, D.C. Should Trump get his spending and tax reform plans enacted it's possible we'll see better growth, although your grandchildren may be paying off the budget deficits decades from now.



Meanwhile, the rest of the globe is at least holding its own, if not experiencing rapid progress. Europe seems to be dealing with "Brexit"—the impending withdrawal of Britain from the European Union—as the European economy has started to strengthen a bit. China has been dealing with its own deflating infrastructure-led spending bubble, but conditions seems to be stabilizing and are poised to perhaps get better. Many other emerging economies in Asia, Africa and Latin America are slowly recovering from the commodity boom-turned-bust that flattened their economies for years.

The global economic recovery has gone on for almost 8 years, which is historically a long expansion. While there are positive developments that could prolong the economic expansion, offsetting negatives could bring the global economy into recession. We can't and won't attempt to predict, but remain vigilant for signs of both strength and weakness.

Investment Conditions

Stock market results for the first quarter have been positive. But, ***we believe that our real payoff has yet to happen.*** Mr. Market remains fixated on a small number of large-cap Growth stocks—Facebook, Amazon, Netflix, Google, the so-called FANG stocks—that have been driving the market for the past many years. When this movie ends, I can't say. But trees don't grow to the sky.

Until then, we're sticking to our discipline of purchasing good businesses, run by capable, co-invested managers, acquired at a significant discount to our appraisal of future value. This approach worked well for the first six years of Triad's existence, but less so for the past three years. But markets operate in cycles, and this one has gone mostly in one direction for a while. We think it's ready to move more in our direction. We can't give any guarantees but believe the next couple of years will be a better environment for us to make progress.

Interest rates are slowly moving higher, and more rate increases are forecast for this year. Bond yields will follow higher, and we're ready to put more money to work in the bond market as this occurs over the next couple of years. For now, we're keeping our bond maturities relatively short-term, usually within five years, to guard against an unforeseen, large rate increase.

Let us know of any changes to your financial situation that might suggest altering your investment portfolio and 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 in the same securities—yes, even those that haven't necessarily gone up. It's the right way to operate.

Sincerely,

John Heldman, CFA

May 3rd, 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 December 31, 2016. Triad is an SEC-registered investment adviser. 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 17	YTD	1 Year	3 Year	5 Year	Inception
Triad Concentrated All-Cap Equity	4.1	4.1	13.8	(2.4)	5.5	6.9
S&P 500 Index	6.1	6.1	17.2	10.4	13.3	8.5

As of March 31, 2017. Results presented net of management fees.