TRIAD INVESTMENT MANAGEMENT

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2nd Quarter 2017 Investment Review

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

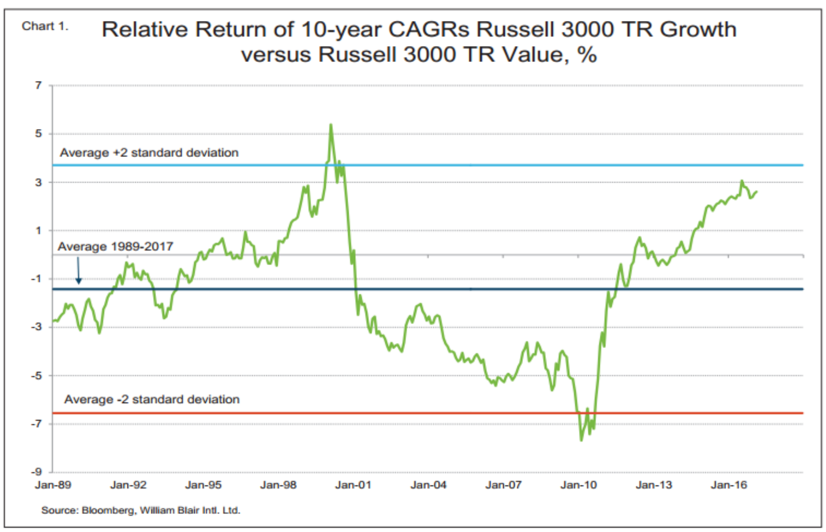
Investment Thoughts

One of the ways to get the same investment results as everyone else is to invest like everyone else. The corollary idea is this: if you want above-average results, you must do things differently. It's a fundamental belief of ours. At times being different helps. For the past three years, it hasn't.

However, we still believe that taking a different approach is the road to long-term investment success. As Keynes' quote indicates, it can take longer than we'd prefer for markets to change. Especially when markets aren't going your way, it's vital to check, double-check and triple-check your original facts and assumptions. If the facts have changed, we must determine if investment changes are warranted. But, if nothing has changed, it's equally important to resist the temptation to do something, just for the sake of doing something. For investors, this is easier said than done.

We've discussed in previous letters the difficult environment over the past three years for our investment style, which we describe as buying good businesses, managed by owner/operators, purchased at reasonable valuations. It's easy enough to identify good businesses run by good managers. It's far more difficult to have the patience to wait for bargain prices. Many investors today have joined the party without regard to the potential hangover that might come tomorrow. We have no concerns about a hangover, as we haven't even been invited to the party. We've been watching the merrymaking—from outside—in the rain. It hasn't been fun, but the rain will stop. We'll eventually be invited indoors. Hangover free.

I included the chart below in last quarter's Review; it's still relevant, so I've included it again:



So-called growth stocks have been trumping value stocks for years. Since around 2010, according to the chart. But nothing lasts forever. While we can't predict when the cycle will turn in our favor, we believe it's inevitable. In our view, it's a mistake to chase the richly valued market darlings.

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? Humans. Investors tend to bid up high-growth stocks to irrational levels. But that's only part of the problem. In our competitive capitalist system, investors also often overestimate a company's ability to sustain high growth rates for long periods 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. Or, perhaps we're wrong, and 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

We've never invested based upon our view of economic conditions. It's far too difficult to predict economic events, or their impact on markets. If it were easy, the world would be populated with billionaire economists. It isn't. Despite this seeming shortcoming, we do pay attention to current conditions. As famed investor Howard Marks has said: "*you can't predict, but you can prepare.*" This approach seems sensible to us and it's how we operate.

The economy has been surprisingly resilient for many years, demonstrating moderate, steady growth. Inflation remains remarkably low. Interest rates are at very low levels, although the trend is higher over the next couple of years. All things considered, it's not a bad environment for progress.

Investment Conditions

Our results for the first half of 2017 have been positive. But, ***we continue to believe that our real payoff has yet to happen.*** Mr. Market remains fixated on a small number of large Growth stocks—Facebook, Amazon, Netflix, Google, the so-called FANG stocks, plus a few others—that have been driving the market for the past several years. When this movie ends, I can't say. But trees don't grow to the sky. Ok, that's enough clichés.

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 rates rise 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 tough over the past couple of years, but we believe brighter days are ahead.

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

John Heldman, CFA

July 24, 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 March 31, 2017. 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.

%	2Q 17	YTD	1 Year	3 Year	5 Year	Inception
Triad Concentrated All-Cap Equity	(1.7)	2.3	13.3	(5.8)	5.9	6.5
S&P 500 Index	3.1	9.3	17.9	9.6	14.6	8.6

As of June 30, 2017. Results presented net of management fees.