TRIAD INVESTMENT MANAGEMENT

1st Quarter 2013 Investment Review

Investment Thoughts

Behavior first. Brains second. That's a key part of our Philosophy. Don't get me wrong, you need a certain amount of mental ability, but given the multitude of inflated egos in this business, it's humbling to think that investor behavior is more important than intelligence. But investing isn't rocket science or brain surgery. As Warren Buffett remarked about investment success, "If you have 150 IQ points, you can sell 30". A ***reasonable amount of intelligence*** and ***behavioral discipline*** are the primary ingredients to be a successful investor. Behavioral discipline is the challenging part.

Hubris is defined as excessive pride, self-confidence, or arrogance. It's often the downfall for people in business, sports, politics, religion and other walks of life. Why shouldn't it also apply to investors? With so many examples of misbehavior in other areas of life (think corporate fraud, corrupt politicians, cheating athletes, religious scandals) it's hard to conclude that investors are immune to occasional bouts of irrational behavior. It's often difficult to resist feelings of greed, envy and hubris. We now consider a recent example of how hubris or arrogance can lead to ruinous outcomes, and look for investing lessons in the rubble.

J.C. Penney is a department store chain that has been around for decades. Fifteen months ago Penney hired Ron Johnson as CEO, fresh from his triumphant leadership of Apple's wildly successful retail stores. Most observers thought that Ron Johnson walked on water, perhaps most of all Ron Johnson. However, selling highly popular iPhones and iPads isn't the same as selling mundane items like shoes, shirts, socks or dresses. Ron swept into Penney and quickly upended the tradition of regular prices combined with frequent sales in favor of lower everyday pricing. Rather than testing the new concepts in a limited number of stores before nationwide rollout, Ron initiated the changes everywhere at once. Loyal shoppers accustomed to frequent sales voted with their feet and left in droves. Sales plummeted roughly 25% during his short reign, and 15 months later Ron Johnson is unemployed.

Retailing is a tough business but Johnson's overly confident approach resulted in too many changes too quickly. Johnson was felled by a deadly one-two combination of faulty shopper analysis and excessive self-confidence. He "***knew***" what shoppers wanted, even if they didn't. He probably wasn't too concerned about the possibility he might be completely wrong. However, Apple products were so popular that it's conceivable a chimpanzee could have been successful running the Apple stores. Hubris may lead to destructive actions, whether in corporate boardrooms or investment markets. For investors, eternal ***internal*** vigilance is necessary to guard against our own tendencies to behave in irrational or arrogant ways. Behavior first. Brains second.

Economic Conditions

The economy continues to grow modestly. The Bank of Bernanke persists with its free money policies of effectively zero percent interest rates. And the federal government continues to spend far beyond its tax receipts. Given both of these stimuli, what's sobering is the still tepid growth rate. However some bright spots do exist, namely a strengthening housing market, growing U.S. energy independence and improving domestic manufacturing competitiveness. While we don't engage in economic forecasting, we continue to view current economic conditions as neutral to positive. More progress in Washington on long-term budget solutions could improve overall confidence, but I'm a realist, not an optimist.

Internationally, Europe is still in recession and things don't appear to be getting better. It's going to be a long slog for Europe. China remains a wild card, with the government's ability to manage sufficient economic growth in question given a past spending boom that could turn into a real bust. Chinese officials have a difficult rebalancing act ahead away from export-driven growth and toward domestic consumption. Let's hope they get it right.

Investment Conditions

Exactly one year ago, in our 1st Quarter 2012 Investment Review, we laid out Triad's long-term investment goals. All of our letters are on the website under Publications. We got our inspiration from Warren Buffett, who stated his own investment goals while managing the Buffett Investment Partnership in the 1950's and 60's. Our goals are a bit less ambitious than Warren's but the bar is still pretty high: for equity portfolios, ***over a rolling 3 to 5 year period we HOPE to achieve a result of roughly 3% to 5% net of our fees PER YEAR above the market*** as represented by the Standard and Poor's 500 Index. This might not sound too ambitious but should we accomplish this over long time periods, we could find ourselves in very good company within the investment universe. Also, small differences in returns over long time periods result in big differences in account values. It adds up. Our Equity Composite results since inception on April 30, 2008 through March 31, 2013 do exceed our goals, so I believe our first 5 years of results to be quite competitive compared with many other managers:

	4/30/08 to 3/31/13 annualized return (net of fees)
Triad Equity Composite	12.02%
S& P 500 Stock Index	4.89%
Excess return	7.13%

Most managers are reluctant to provide investment return goals, for good and not-so-good reasons. The good reason is not to seem overly promotional and promising returns that could be construed as misleading and suggesting a guaranteed return. The not-so-good reason? In my opinion, many "smart professionals" are subject to institutional constraints (investment committees, job security concerns, etc.) and/or behavioral constraints, and choose to emphasize other "services" to mask lackluster results.

Let's be clear that ***we publish these numbers as GOALS, which is not guaranteed.*** If we do our job, it's possible but not assured that we can achieve these results. We'll continue to aim high, while being aware that arrogance, self-confidence and hubris are the enemies of long-term success. As mentioned last quarter, the great basketball coach John Wooden counseled to ***"be humble and be careful."***

Markets continued to rise in the first quarter of 2013. Rising prices in excess of increases in business value narrows the gap between value and price. ***Bargains are now less plentiful***. Therefore, we must be more careful when investing your capital. We have been selling stocks as prices approached our estimated values and were holding between 5% and 10% in cash reserves as we wait for additional opportunities. ***Our process is based on absolute, not relative value***. We won't continue to hold fully valued companies just because the alternatives are unattractive. Rather, we buy and remain investors as long as the business performs to our expectations and the valuation provides the prospect of an attractive return over the long-term. As long as these conditions apply, we will remain invested. Ultimately if we select the right companies with the right shareholder-focused managers bought at discounts to our estimated long-term value, we should have profitable results.

We continued to reduce our housing-related investments during the first quarter. Renewed investor optimism about the housing recovery means ***many of our previously unloved companies are now belles of the ball.*** Investors have been falling over each other in their desire to participate in the now widely anticipated recovery. Valuations for many housing-related companies now reflect a good part of the likely recovery over the next few years. Given a much narrower gap between current prices and intrinsic value, we've chosen to reduce commitments and let the speculators speculate further.

Our common stock portfolios currently hold their ***largest concentration in financial services companies***. These are the survivors of the worst financial meltdown since the 1930's Great Depression. Our battle-tested group continues to get stronger, and we anticipate a relatively good environment over the next few years. We like the companies, their business models, the managers who run them, and the valuations. That is our recipe for investment results.

Bonds remain unattractive with ridiculously low interest rates offering little return and substantial risk as interest rates rise. Some bondholders will be quite surprised at the loss of market value once interest rates begin their ascent to higher levels. High yield bonds offer few opportunities now, and we haven't made any purchases in many months. We are still looking at the exits here as well. Convertible bonds follow stocks and here too we are having trouble finding good ideas. I said all of this last quarter, and unfortunately it applies today.

We recently revamped our website. In addition to a new design, we have a library of all previous client letters and correspondence. No hiding here. You can ***read what we said and when we said it and compare that to how the world unfolded.*** We aim to be an "open book" and aim for complete transparency regarding our client communications and investment performance. We believe this is unique compared to many managers. But we'd want the same approach if we were in your shoes.

We have implemented a shorter website address www.triadim.com to cut down on typing-related carpal tunnel injuries. Check out our website and give us your opinions about the layout and content.

My new associate Dave Hutchison is hard at work thinking about ways to make our firm better. He is our Chief Marketing Officer (actually his title is Managing Director) and Dave would be happy to assist any of your friends, relatives and business associates with their financial questions or concerns. Please let them know we are here to help.

Let us know of any changes to your financial situation that might suggest altering your investment portfolio or if you'd like a current copy of our SEC Form ADV Part II. Also, we have enclosed Triad's Privacy Policy for your review.

I remain confident in our philosophy and investment process, believing we have the opportunity for respectable investment returns over the next 3 to 5 years. I encourage comments, questions and suggestions. And as always, your loyalty and patience remains our secret weapon.

Sincerely,

John Heldman, CFA
April 23, 2013

"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