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1st Quarter 2014 Investment Review

Investment Thoughts

Years ago a stock brokerage advertising campaign ended with the tagline "*Thank you, Paine Webber*". Presumably Paine Webber was instrumental in growing and preserving client capital. Alas PW, founded in 1880, wasn't as successful in preserving itself. It was gobbled up in 2000 by Swiss giant UBS and in 2003 the name was retired.

In my world I'd say "***Thank you, Warren Buffett***". I was fortunate to get exposure to Buffett within months of joining the investment business oh so many years ago. I've learned more from reading his shareholder letters than just about any business school class. Below is an important section from the 1996 Berkshire Hathaway annual report:

> ***"Intelligent investing is not complex, though that is far from saying that it is easy. What an investor needs is the ability to correctly evaluate selected businesses. Note that word "selected": You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital."***
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> ***"To invest successfully, you need not understand beta, efficient markets, modern portfolio theory, option pricing or emerging markets. You may, in fact, be better off knowing nothing of these. That, of course, is not the prevailing view at most business schools, whose finance curriculum tends to be dominated by such subjects. In our view, though, investment students need only two well-taught courses—How to Value a Business, and How to Think About Market Prices."***

If you want to understand how we manage client assets you might want to read that passage again. To me, it's the essence of investing. Beta, Efficient Markets Hypothesis (EMH), Modern Portfolio Theory (MPT), Black-Scholes Option Pricing (BS); they can all be ignored.

Strip away all of the nonsense and long-term stock market success boils down to exactly two—that's right TWO things:

1. You must be able to evaluate and ***place a value on a business***,

2. You must know ***how to deal with markets***.

Or, you must know someone like Triad to do it for you.

Buffett learned these ideas decades ago from his mentor, Benjamin Graham. It worked for Graham during the 1930's Depression era, it's worked for Buffett since the early 1950's, and it still works today. And it will work in the future. This is how we think about managing client assets, instead of trying to predict the direction of the economy, markets, inflation, interest rates, etc. We spend our time focused on the ***Big Two***.

As ***big believers in the occasional irrationality of markets***, we often find ourselves on the opposite side of market sentiment. If you want different results, you need to do things differently than Mr. Market. So we're usually buying what's unpopular, and avoiding the hot sellers. Popularity might have worked in high school, but unpopularity works in investment markets. Out of favor companies frequently sell at depressed valuations.

But our approach is not to seek out-of-favor companies on the theory that that ensures good values. Many unpopular companies deserve their poor reputations. No, ***we seek good businesses***, but we find that good values are often only available when there is investor concern about short-term company-specific events or general stock market conditions. Our willingness to be patient and think long-term allows us to buy when others are selling.

An example might illuminate our thinking. Boardwalk Pipeline Partners, L.P. (BWP: NYSE) is a Master Limited Partnership (MLP) that transports around 11% of the natural gas shipped via pipelines in the U.S. BWP recently slashed its dividend by 81% sending the shares plunging 45% in one day. Needless to say, some shareholders (stock renters?) bailed out, given the weak earnings outlook and prospect of reduced dividends for the next couple of years. While we don't discuss what we are currently buying, let's just say that we take a longer-term view of the company than many investors and "Wall Street."

Boardwalk is 51% owned and therefore "controlled" by Loews Corporation (L: NYSE), which has been capably steered by the Tisch family for generations. Loews has its wallet where its mouth is, owning 125.6 million BWP shares worth roughly $2 billion at current reduced prices. Loews feels the impact of the reduced dividend more than any single shareholder.

With natural gas currently in oversupply and prices weak, Boardwalk's fees for transporting gas have come under pressure. The dividend was significantly reduced (more than necessary) to free up cash for reducing debt. In a couple of years the balance sheet should be much healthier. With better natural gas prices and some new projects completed, Boardwalk should be in much better shape to increase the dividend.

It's the "couple of years" that weighs on investor sentiment. A couple of years are a "couple of decades" to some investors. Many investors, including "professionals" think: ***"two years to turn this around? Ok, then I'll revisit the stock in 18 or 20 months"***. Trouble is, by then the stock price might have increased and the opportunity reduced. But "***career risk***" is reduced for these "pros" who can't take the chance that a stock doesn't perform in the short-term.

We have no such issues. If it makes sense to do, we'll do it. Our patience plus your patience equals investment success.

Meanwhile, on the other side of the market "***behavioral pendulum***", where love is in bloom between shareholders and their stocks, cracks are appearing in the high fliers. These are the stock market "darlings", loved by hedge funds, short-term traders, and institutional managers afraid of being left behind in a roaring bull market. While we don't spend a lot of time eyeing these things with envy, the unfolding discomfort seems to be concentrated in Big Data, E-Commerce, Social Media and Biotechnology shares. Areas thought to be capable of changing the world.

And so they might. Kind of like automobiles and computers changed our world. But over 99% of automobile and computer manufacturers have gone out of business. We should always remember that the benefits of rapid growth don't always accrue to shareholders. Most of the economic gains are turned over to consumers through vigorous competition. That's Econ 101. That's how we get giant flat screen televisions for $499, high performance desktop computers for $399 and cars loaded with fancy technology and safety equipment.

So while the high fliers might continue to fly, we'll stick to our boring strategy of identifying ***quality, understandable businesses*** run by able ***owner-operators***. We'll ***value each business*** and only look to invest when we can buy at a large discount from our appraised future value. If we can't do this, we'll wait. As Buffett says, it's "***not complex, though that is far from saying it is easy***".

Economic Conditions

The economy continues to confound most observers. Sluggish growth this far into a recovery seems like no recovery for many people. We're just glad to put the financial crisis far in the rear view mirror. The economy seems capable of growth this year and next. We'd like to know with certainty, but we're humble about our ability to forecast such things. We simply monitor current conditions and try to be prepared for upturns and downturns.

Globally, there is plenty to be concerned about. China's decade-long boom has given way to a slower growth rate for the world's second-largest economy. The reverberations are being felt throughout Asia and worldwide. China has enormous challenges and opportunities. We hope that the politicians and autocrats who manage China's economy can deal with the hangover conditions from previous growth bubble. Europe, in the sick ward for the past five years or so, is finally experiencing glimmers of growth. Southern Europe, including Greece, Italy, Spain, Portugal, is still suffering from uncompetitive economies, but at least has recognized the challenges and is attempting to create more flexible, dynamic, entrepreneurial conditions. In an increasingly competitive world economy it's the only way to prosper.

Meanwhile Emerging Markets —they seem to be granted capital letter status these days— have caught the flu since China has downshifted into a slower growth mode. There is plenty of turmoil in some of these markets, but we don't have to play here, so we'll watch from the sidelines.

Investment Conditions

Most markets were generally flattish in the first quarter; minor gains or losses. We slightly trailed the indexes during the first quarter. But one quarter is a blip, as is one year. What matters is the long-term. Triad will mark the ***six year anniversary*** of our Concentrated All-Cap Equity Composite at the end of this month. We take pride in the results we've delivered over the past six years.

Overall ***equities still look fairly valued at best.*** Unfortunately, there is no more ridiculous undervaluation as prevailed back in late 2008 and early 2009 at the height of market panic. So we are watching carefully but not finding a great many things to do. We still like what we own, and believe that our current holdings have good potential over the next 3 to 5 year timeframe. But what happens this year? I have no idea. Can you see me being interviewed by CNBC for my stock market outlook? Neither can I.

We believe in and are committed to our investment Philosophy and Process. We'll stay focused on the Big Two: ***How to Value a Business, and How to Think About Market Prices.*** We think it's rational and will serve us well no matter what Mr. Market throws at us.

And we remain focused on generating above-average long-term results while recognizing that short-term market volatility is inevitable and usually creates long-term opportunities.

We encourage comments, questions and suggestions. As always, your loyalty and patience remains our secret weapon.

Sincerely,

John Heldman, CFA
April 22, 2014

"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