TRIAD
INVESTMENT MANAGEMENT

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1st Quarter 2018 Investment Review

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

Warren Buffett, CEO, Berkshire Hathaway

Investment Thoughts

As I put the finishing touches on our last Investment Review in late January, the stock market—S&P 500 version—was hovering around the 2,850 level. Days later, the fireworks began. Volatility was back. The market alternated between large declines and advances. In the short run, the declines prevailed. Over a short few weeks the market dropped 10% or so. Since then, we've had a bit of rebound and the market is 6% below its all-time high in late January as I write this.

Just another dip on the long road to more stock market profits? Maybe. We're not sure what to make of the recent increased volatility, but investors seem to have awakened from their somnambulant stupor and suddenly focused on a few areas of concern.

I've mentioned these before, but they're still with us. Rising interest rates is probably issue number one. Not only is the Federal Reserve raising short term rates, but it is withdrawing from previous purchases of longer-term bonds, creating upward rate pressure all along the "yield curve", from short-term to long-term rates. This party is just getting started, and could continue for the next few years. Rising interest rates historically have tended to put a damper on stock market returns.

Inflation pressures are heating up, whether it's rising minimum wages, oil and commodities prices, or trade tariffs with their usual result of higher prices. Inflation takes a while to ramp up, but once it does, it's hard to put the Genie back in the bottle. We'll see what happens over the next year or two, but it's another concern.

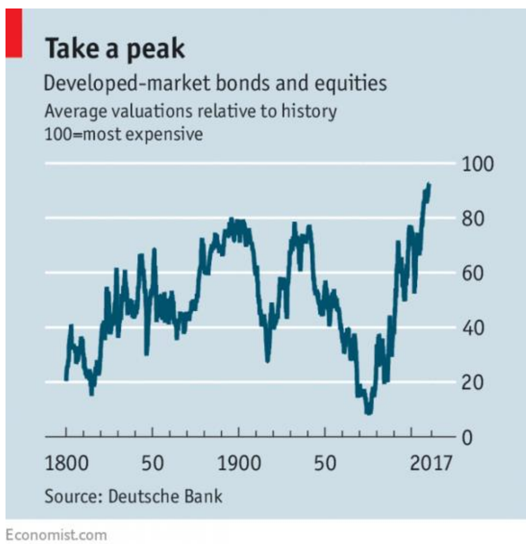
Speaking of higher rates, the Congressional Budget Office just revised its forecast for annual budget deficits and our mounting National Debt—it's big, it deserves capital letters. The U.S. Federal budget deficit is scheduled to hit $1 Trillion—that's $1 billion 1,000 times—by 2020. Meanwhile, over in the Accumulating National Debt Department, the CBO projects our National Debt, now $21 Trillion, will top $33 Trillion by 2028. If I've done the math correctly, that's just over $100,000 for every man, woman and child currently residing in the soon-to-be very leveraged US of A.

Some people suggest that deficits, and debts, don't matter. However, in the real world, higher debts equal higher interest payments. Currently, if interest rates rise by just 1%, our Federal government budget deficit eventually rises by roughly $200 billion. Two percent equals $400 billion. Raise rates 5% and the deficit could balloon higher by $1 Trillion. You get the idea. Higher interest rates mean wider government deficits. Which means higher National Debt levels. It's taken decades to arrive at this juncture, and with luck we'll work out of this, but only over decades.

Meanwhile, there are plenty of other challenges to contend with. Immigration reform. Lower government regulation. International trade. Russia. Iran. The rest of the Middle East. China. North Korea. It's a pretty full plate, despite leaving out a few side dishes. Stormy weather, indeed.

We recognize the world looks a little disjointed—actually, the world often looks this way—but our ability to predict market movements based on how future events will unfold, and how other investors will react to those events, is a very low-probability way to deploy your capital.

Instead, we ask ourselves if the entry price incorporates enough valuation protection to ward off the evil spirits who would throw a monkey wrench into our best laid plans. If we feel enough valuation "margin of safety" is available, we'll invest. This "protection" from our own misjudgments is why we require a significant discount from our assessment of long-term value. I've mentioned in previous letters our concern about general market valuation levels, such as this chart which depicts today's investment environment as generously valued compared to the past 200 years:



Economic Conditions

The economy continues to move forward, despite this economic expansion being one of the longest on record. June 2018 will mark the nine-year anniversary since the last recession ended. How long can we go until the next? The economy doesn't show the classic signs of overheating, which leads to higher interest rates to cool things down, which leads to recession.

But somewhere out there is a recession. It's a normal part of business cycles. I remember back in 2004 when former Federal Reserve Chairman Ben Bernanke called the prevailing economic environment "The Great Moderation", meaning business cycles were much more subdued and less volatile. Two years later, the housing market began to crack, and we had one of the worst financial crises and ensuing deep recession—dubbed The Great Recession—starting in late 2008.

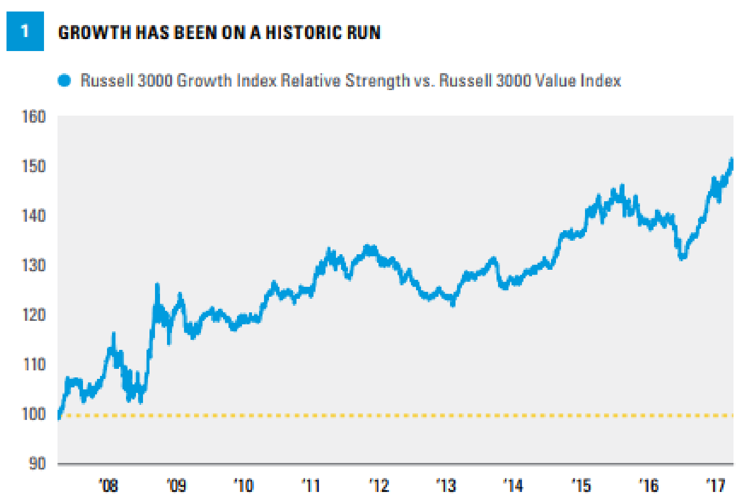
What Big Ben got wrong is this: People. Economies can develop new technologies, infrastructure improvements, healthcare advances and global trade progress. But after long periods of economic progress, complacency sets in. People let down their guard. Lenders make shakier loans.

Borrowers borrow more. Investors pay up for investments. Ultimately, people can get carried away and steer the car into the ditch. It's human nature to overdo things. We've done it before, and we'll do it again. But fear not. We do our best work when markets are trembling and investors have sweaty palms. When many investors start to question their assumptions. We'd welcome the opportunity to invest capital at more reasonable valuation levels than those prevailing today.

One short note about the recent tax law changes. The law does provide further short-term economic stimulus, in 2 ways. First, corporations see reduced rates, putting more dollars in their hands to spend on new factories, equipment, employee raises, etc. Second, consumers are taxpayers, and the recent tax rate reductions means more consumer spending.

Investment Conditions

I've mentioned many times over the past several years the enormous disparity in returns between so-called "growth" stocks and "value" stocks—I realize I'm starting to sound like a broken record—which is an anachronism, given that anyone under age 40 probably doesn't know what that means:



Source: LPL Research, FactSet 09/15/17

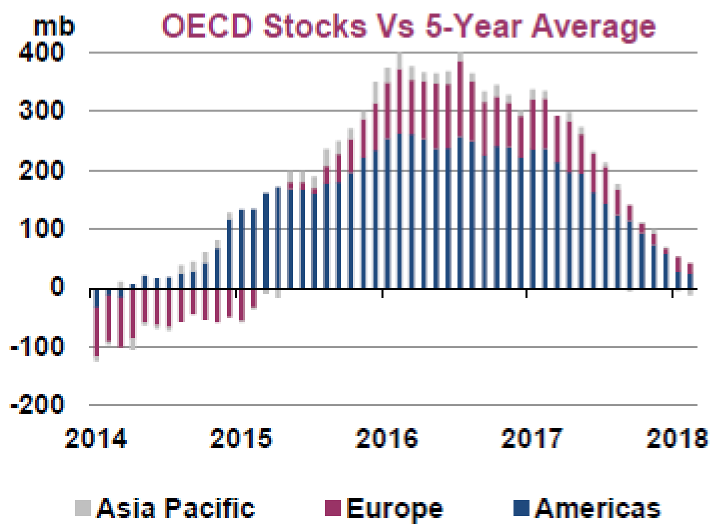
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

We've missed the "growth" party, having stuck to dull, old-economy stocks like Energy, Industrials and Financial Services. We do seek growth in all that we do, for if a company doesn't have some prospects for growth in earnings or asset value, where's the value? But our growth tends to be much more moderate, and in this slow-growth world of the past 8-plus years, rapid earnings growth has been the place to be.

Rather than stick our necks—and yours—out and buy a bunch of highly-priced growth stocks now, we continue to analyze a wide range of companies with the goal to buy cheaply when the next downturn hits. We can count on the market to eventually provide another great buying opportunity.

Technology stocks have been in the news lately, and not in a good way. It wouldn't surprise us to see a long, drawn-out process of global scrutiny and tougher regulations for Facebook, Google, Amazon and other large internet providers. We think they'll survive the politicians, but the road over the next couple of years is likely to include a few good-sized potholes. We do admire some of their business models, and would invest at appropriate valuations.

Oil prices continue to march higher, and we'd expect the next few years to be much better for energy-related businesses. The global oil glut that started in late 2014 and peaked around mid-2016 is finally receding. Supply and demand are in much better balance, as shown in the chart below:



Saudi Arabia and the rest of OPEC learned the same lesson I learned in Economics 101 in college. But it cost them more than I paid. They gave up far more due to price declines than was gained through maintaining market share. So they've done what any aspiring monopolist would have done long ago. Cut back production 5% and watch prices increase by 50% or so.

The Saudi Oil Minister Khalid al-Falih was recently quoted in the Wall Street Journal: "***we will not sit by and let another glut resurface in the coming years and bring the market through the roller coaster that we have seen.***" Sounds like a committed market manipulator to me. Rumors are the Saudis need oil prices around $100 per barrel to balance their welfare-state budget and ensure a successful stock market debut for Saudi Aramco next year.

We have numerous energy investments that we weren't smart enough to sell at the top in 2014, and hopefully the next few years will show we weren't dumb enough to sell at the bottom. We believe our beaten-down energy investments can perform well—potentially much better than the overall market—in the energy recovery that should develop over the next few years.

Furthermore, we own equipment and service suppliers, so we're not as dependent on the direction of oil prices. As long as oil drilling and production continues—the world consumes around 35 billion barrels of oil each year—our companies should benefit over the next couple of years from the resumption of oilfield activity.

Interest rate increases over the next couple of years could provide additional benefits to our stock portfolios. Higher rates benefit our financial services companies, as they reinvest cash-flows into higher-yielding assets, and see higher revenues from increased trading activity.

Overall, our portfolios should be beneficiaries of a strengthening global economy. Roughly two-thirds of our holdings are cyclical businesses that should experience higher sales and earnings in a stronger global economy. We own good businesses in depressed areas such as Energy, Chemicals, Agriculture, Capital Goods and Industrials. After a multi-year downturn, we look forward to a resumption of sales and earnings growth.

Bond yields are rising as market interest rates rise, providing investment opportunities but also more risk. We continue to keep our bond maturities relatively short-term—generally under 5 years—while we await higher rates over the next few years. As with stocks, it requires patience and diligence to navigate a challenging, but improving, fixed income environment.

We continue to believe our stocks are significantly undervalued and still have plenty of upside potential to reach our valuation targets. In a market still enamored with large growth stocks, our boring companies should eventually be recognized. We won't be surprised if it happens relatively quickly.

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. We remain diligent, disciplined, and optimistic.

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

April 19, 2018

"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 ACA Compliance Group for the period from the strategy's inception, April 30, 2008, through September 30, 2017. Triad has subsequently been independently verified by Alpha Performance Verification Services from October 1, 2017 through March 31, 2018. 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 18	YTD	1 Year	3 Year	5 Year	Inception*
Triad Concentrated All-Cap Equity	(3.1)	(3.1)	(4.2)	(3.0)	(0.2)	5.7
S&P 500 Index	(0.8)	(0.8)	14.0	10.8	13.3	9.1

As of March 31, 2018. Periods over one year are annualized. Results presented net of management fees.
*Inception date April 30, 2008