

October 18, 2017

Dear Friends,

In the third quarter, our All-Cap and Mid-Cap composites performed well, as both the S&P 500 and Russell Mid-Cap Indices hit all time highs. In this bullish environment, buying growing companies at relatively low valuations has been a great way to benefit from a rising market while still reducing valuation risk in the event of a decline.

In many ways the third quarter was similar to the second quarter, which was in turn similar to the first, with the market slowly but surely going up over time. Needless to say this is an unusual pattern for a 9-month period. In fact, the S&P 500 is exhibiting its lowest volatility since the Kennedy administration.

Over the last nine months, the market has moved one percent or more, either up or down, on only five percent of the trading days - the lowest number of one percent market moves for any year since 1982, when Standard & Poor's first began tracking this statistic.

In addition, over the first nine months of this year, there have been no days where the market has moved up or down more than 2% - the first time this has occurred, or rather not occurred, in over a decade.

Finally, for this same period, the S&P 500 has only declined by 3% from peak-to-trough, which is the lowest peak-to-trough decline since the index was created in 1950.

Given the market's steady rise, we have been quick to sell those investments that were declining rather than rising with the market. While we are still optimistic about the future prospects for many of these companies, we may well have the opportunity to buy them back at lower prices in the future as market conditions change.

In the meantime, we have used the proceeds from these stock sales to make investments in companies that we believe have strong competitive positions and yet nonetheless are trading at average valuations. These are not the popular technology companies that are currently revolutionizing retail, the media, or the automobile commute. These are the companies which should exist no matter who wins those wars. No matter if you take a Lyft or an Uber, you still are going to need to pay for your ride with a credit card; we own the credit card processors. No matter if you buy groceries from Walmart or Amazon, you are going to want a branded beverage; we own the beverage. Not being market darlings, these stocks have less to lose when volatility returns to the stock market.

And volatility will return. Calm periods encourage investors and corporations to take on ever more and more debt, which will inevitably exacerbate volatility in the future. As such,

we continued to make the portfolio more defensive by diversifying our holdings into recession resistant businesses, like auto insurance and outsourced pharmaceutical R&D. Although we are nine years into a bull market, we never forget that our job is to grow and protect your assets through the market cycles.

On the corporate front, in September we moved back to our old neighborhood. We are now located at 777 Third Avenue. We very much look forward to welcoming you to our new home.

With all best wishes for a terrific autumn,

A handwritten signature in purple ink, reading "Manny Weintraub". The signature is fluid and cursive, with a long horizontal stroke at the end.

Manny Weintraub, CFA
Founder and Principal