July 1, 2017

Quarter Ending June 30, 2017

Year-to-Date Performance	Last Full Quarter	YTD	Index Close
Dow Jones Industrial Average	4.0%	9.3%	21,349.63
NASDAQ Composite Price	4.2%	14.7%	6,140.42
Standard & Poor's Averages	3.1%	9.3%	2,423.41

Dear Clients,

"Those who fail to learn from history are doomed to repeat it" – Winston Churchill

This letter will be a little different from my previous writings. I will touch on some market specifics, but the goal of this letter is to provide some insight into investor sentiment and how it is driving the current market. Investor behavior is not often talked about and I feel it is very important for investors to understand why the markets are "doing what they are doing." To quote famed investor Howard Marks, "There's only one way to describe most investors: trend followers." Today's investors are once again chasing performance and blindly investing money into products they do not fully understand. And it is this behavior that is very reminiscent of what happened to the markets during the mid to late 90's.

Over the last few years billions of dollars have poured out of actively managed funds and into low cost ETF and index funds. These low-cost investment options are in vogue and have been popularized by the investment media. We feel exchange traded funds (ETF's) and index funds can serve a purpose for an investor; however, most investors do not understand what they are buying and how their dollars are being allocated.

As an example, look at the NASDAQ 100. This mainstream index was set up to mirror the 100 largest firms in the NASDAQ Composite Index, which contains over 3000 companies. The NASDAQ 100 ETF (QQQ) is widely popular and one of the largest ETF's in the country. However, if you look at what an investor is actually investing in, most ETF and index funds allocate their capital based upon a formula not the fundamentals of each company. The top 5 holdings of the NASDAQ 100 (Apple, Google, Microsoft, Amazon, and Facebook) total 41% of the value of the entire index. As a fiduciary we must ask, "Is it prudent to have 41% of an investment in 5 names…whose valuations are suspect?" As we have mentioned in previous letters, we feel these stocks are extremely overvalued and no reasonable business person would ever buy a business trading at these current extreme multiples. Due to these phenomena, we are starting to wonder if history is repeating itself.

The comparison between today and the late 90's does not mean the markets are due for an imminent reversal. There are significant parts of the market that are fairly-valued and offer attractive risk vs. reward opportunities. As a value investor we are not going to chase performance and overpay for an investment.

The equity markets and indices have continued to move in an upward direction during the first half of 2017 with significant variance between different sectors of the market. The low interest rate environment has caused a scenario where there is little competition for equity investments and their expected returns. Money market rates at close to zero and 10-year treasury rates at 2.30% will not generate enough return after taxes and inflation to justify their ownership.

To wrap things up I would like to end with an additional quote from Howard Marks. Both Marks' quotes were taken from his book, "The Most Important Thing: Uncommon Sense for the Thoughtful Investor." -

"Unfortunately, the greater fool theory only works until it doesn't. Valuation eventually comes into play, and those who are holding the bag when it does have to face the music."

Sincerely,

Jeffrey L. Farni Sr.

*As required by Advisors Act Rule 204-3 advisory disclosure documents (ADV Part 2A) are available upon request.