***"The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by other persons' mistakes of judgment."*- BENJAMIN GRAHAM**

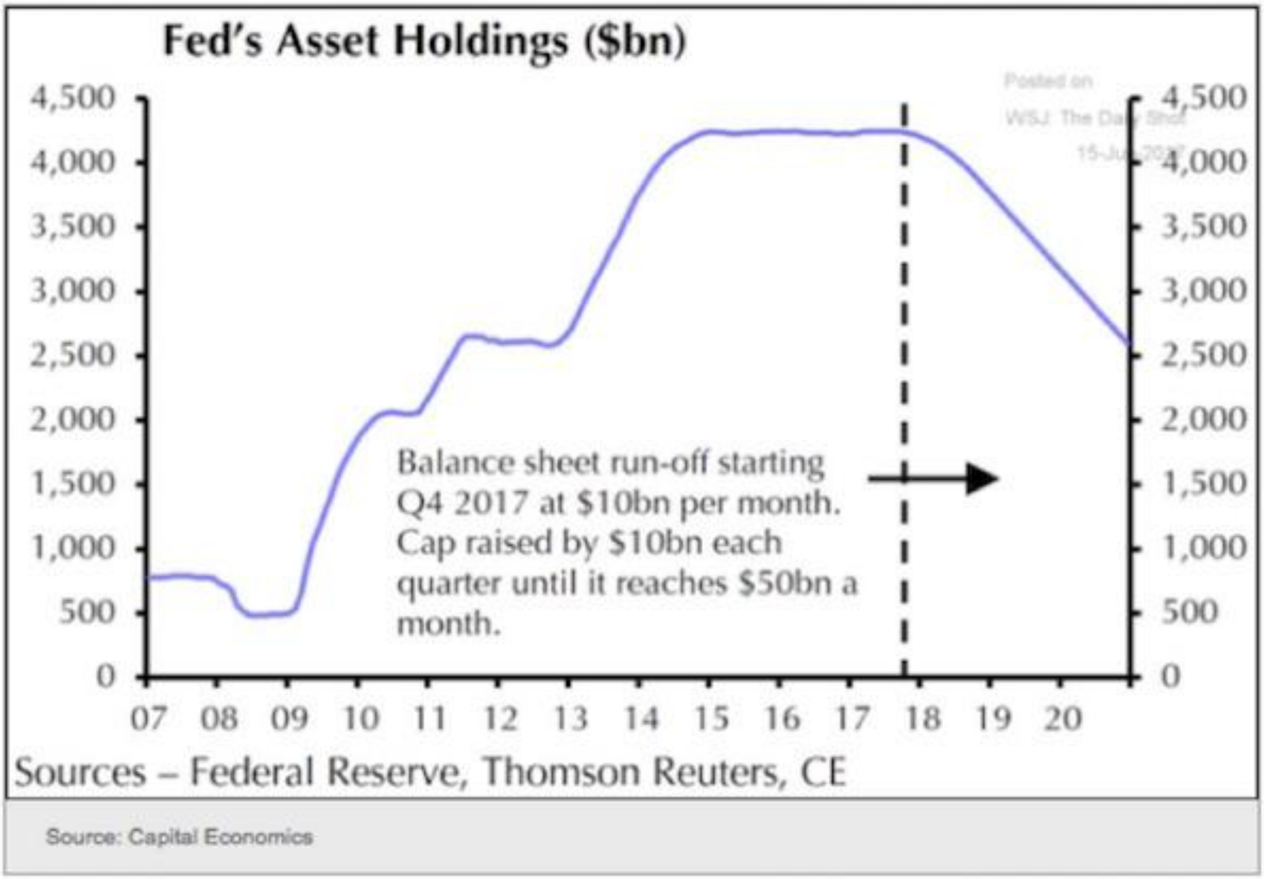
First Quarter 2018 Review and Commentary

The first quarter of 2018 was a remarkable one in that it offered investors just about everything possible in so short a period. Following 2017 characterized as quiescent with almost a total absence of volatility, the year began with a continuation of the prior year's pattern that saw the market reach all-time highs by late January. Shortly thereafter, a larger increase in hourly wages suggested a return of inflation that triggered a spike in volatility shocking investors out of their complacency. The market retreat that ensued was gut-wrenching but largely contained in a few weeks. However, the stormy month of March brought the prospect of a trade war into sharp focus that contributed to more volatility for the remainder of the quarter.

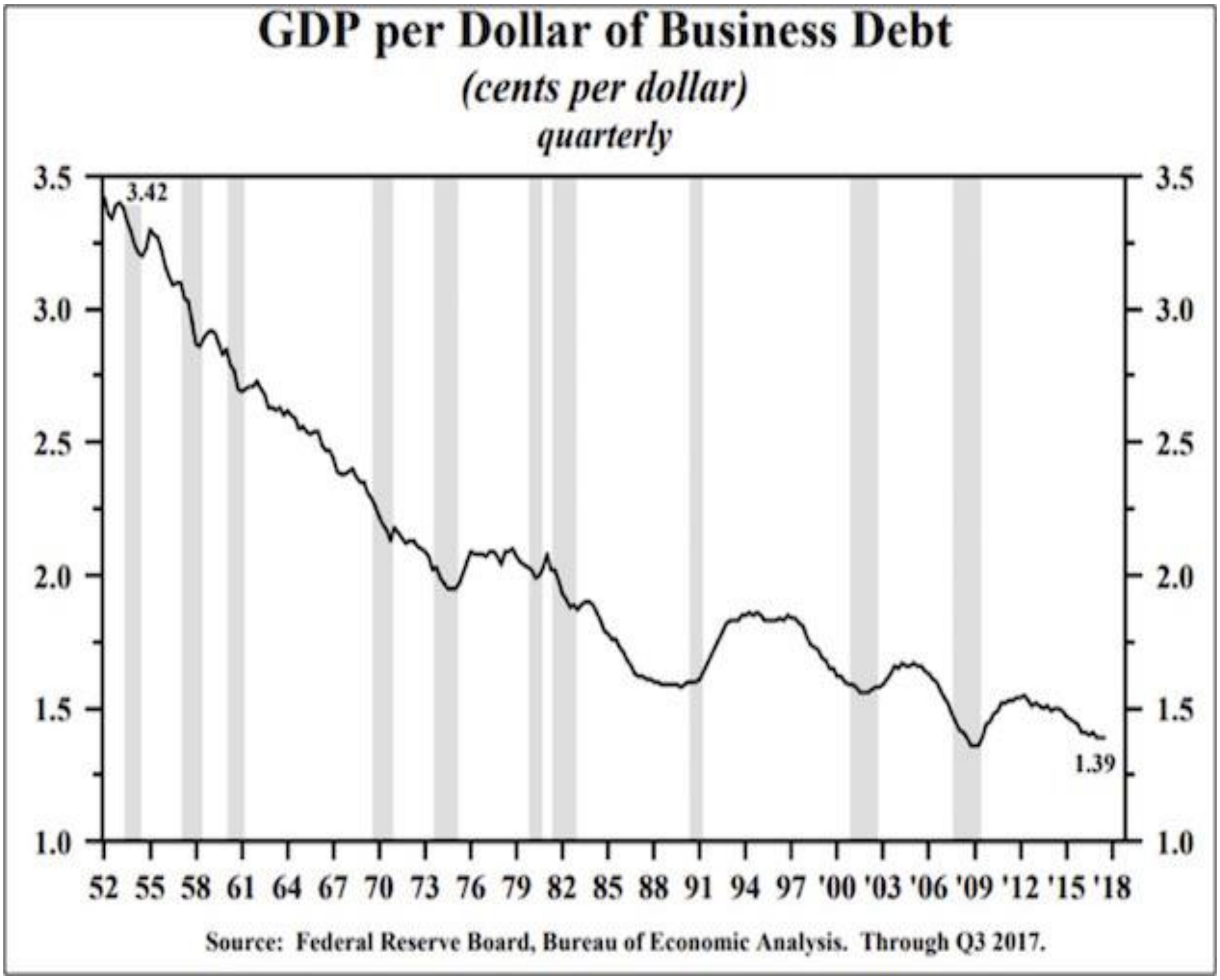
Within this volatile market, MVP's three strategies performed well with MVP Value having a total return of -0.59% compared to the S & P 500 Index with a total return of -0.76% and the Russell 1000 Value index with a total return of -2.83%. The MVP International Value strategy had a total return of -1.98% compared to MSCI EAFE with a return of -2.20%. Lastly, the MVP Dividend Income strategy had a total return of -1.52% compared to the DJ Global Select Dividend Index with a total return of -2.92%.

As we assess the markets' action in the first quarter, it should be obvious that there has been a sea change that calls into question many assumptions that have persisted for the last two years. Specifically, the often mentioned "goldilocks" environment was coming to an end. This period was characterized by a moderately growing economy, improving corporate profits, declining unemployment, low inflation and interest rates and acceptable valuations. In what seems like the "wink of an eye", investors are beginning to rethink their strategies and starting to reevaluate the outlook for 2018 and beyond. Let's take a brief look at some of the underlying fundamentals that underpin the capital markets.

For a broader perspective, it is instructive to review the actions of the Federal Reserve, now under the leadership of Chairman Jerome Powell who succeeded Janet Yellen in the early 2018. Following the 2008-09 market meltdown, the Fed unleashed several programs of "quantitative easing" (printing money) to flood the financial system with liquidity with the intent of producing a sustainable economic recovery. In the process, the Fed increased their balance sheet to over $4 trillion as the Fed purchased securities. Simultaneously, interest rates were lowered to an all-time low approaching 0.0% on overnight funds. Having been successful, the Fed is now raising short term interest rates and gradually reducing their balance sheet by selling off securities and not reinvesting proceeds from maturing bonds. As the Fed removes stimulus, there are those who are worried that the tightening of credit may cause unanticipated consequences in the capital markets. At this moment, it is a "watching-and-waiting" time to see how this Fed action plays out over the next couple of years. In the interim, it is important to remember that of the 13 Fed tightening cycles since 1950, 10 have ended in recession.



While we recently wrote an article (March 2018) on the huge and rapidly growing U.S government debt, corporate debt in the U.S. also continues to grow at an alarming rate. Corporate treasurers wishing to take advantage of the historically low interest rates have issued an unprecedented amount of debt that now totals more than $6 trillion. As corporations lever up their balance sheets in these favorable economic times, the real test will come with the next economic downturn. Unfortunately, corporate debt is frequently being used to repurchase common stock and increase dividends with very little being targeted for capacity expansion and efficiency enhancing equipment. The result of this policy on a broader level is the declining amount of incremental GDP growth for each dollar of new corporate debt. The following chart clearly shows this trend.



Interestingly, a totally neutral organization had some sobering thoughts on the rise of business debt in the U.S. The International Monetary Fund issued its Global Financial Stability Report in April 2017, in which they stated that in the next recession, 20% to 22% of U. S. corporate bonds would default. Only time (and the next recession) will determine the accuracy of that observation.

Before moving on to the equity markets, it is important to look at another aspect of the capital markets that has been instrumental in the impressive equity market advance since the lows of 2009. The yin and yang relationship between bonds and stocks appears to have faded. In the recent past, whenever the equity markets turned down, investors sought haven in the bond market driving up their prices. In doing so, the rise in the value of fixed income securities in a portfolio cushioned the decline in the equity portion of a portfolio. This balance allowed investors to stay the course of any equity market downturns and created a sort of self-correcting market. With this relationship seemingly less apparent, future equity market declines may not enjoy the same benefit from fixed income.

With the Federal and corporate debt situation clearly in view, let's now turn our attention to the state of the equity markets. As most investment professionals are aware, there are many valuation methods to judge the attractiveness of the current market. Although one study is a couple of months out-of-date (having been done in January 2018), the statistics are compelling and clearly demonstrate that both equities and fixed income assets seem expensive. Please review the chart on next page for some thought-provoking information that shows, by most conventional measures, that the capital markets are in rarified territory.

Valuation frustration – both bonds and equities appear expensive.

Valuation percentile (since 1971 for S & P 500 and U.S. 10-year yield, 1919 for AAA spreads).

	Metric	Current	Historical %ile	Median
Equity (S&P 500)	EV / Sales	2.4 x	97 %	89%
	Forward P/E	18.6 x	90	
	Cyclically adjusted P/E (CAPE)	27.6 x	90	
	EV / EBITDA	11.9 x	89	
	Cash flow yield (CFO)	6.9 %	88	
	Price / Book	3.4 x	88	
	Free cash flow yield (FCF)	4.1 %	56	
Rates	Nominal 10-year Treasury	2.4 %	85	82%
	Real 10-year Treasury	0.5 %	76	
Credit	High Yield YTM	6.2 %	94	
	Investment Grade YTM	3.3 %	82	
	High Yield Spread	358 bp	81	
	Investment Grade Spread	98 bp	78	

Source: FactSet, Compustat, Haver, and Goldman Sachs Global Investment Research. As of December 31, 2017.

Although the above table is reason for concern, MVP portfolios, on average, have lower valuations than the general market due to our stock selection process. In addition, ETFs offer even greater risks than the general market because ETFs designed to replicate a popular market index are forced to buy all stocks in the index, even the most expensive stocks, rather than using security analysis and investment judgment to find and invest in the most reasonably valued stocks. With the easy money already having been made in the ETF marketplace, stock selection is, once more, the best way to construct a portfolio for a volatile and uncertain market.

In a recent study by David Rosenberg of Gluskin Sheff, four valuation measures of the S & P 500 Index were studied and evaluated:

1) Forward Price to Earnings Ratio
2) Price to Sales Ratio
3) Price to Book Value Ratio
4) Enterprise Value to EBITDA Ratio

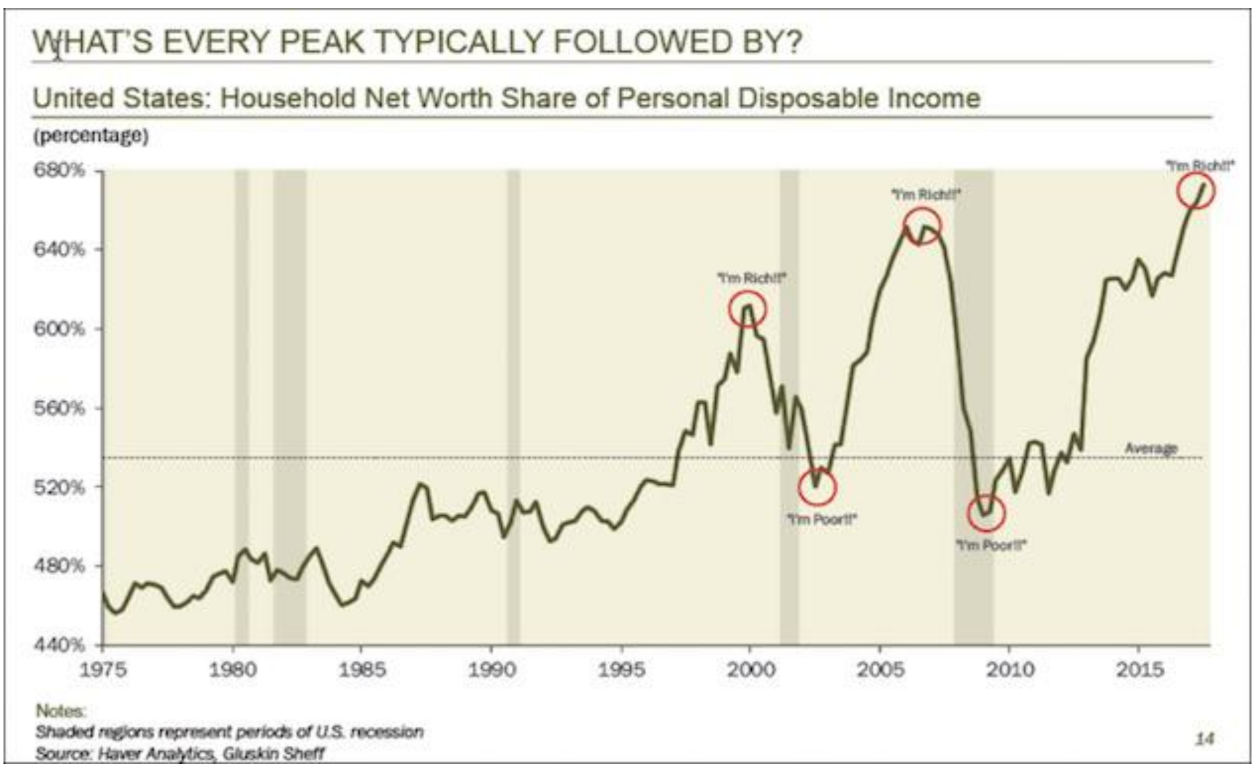
David calculated the percentage of time that each of these measures had been at its present level or below. The results for the Forward P/E ratio are shown in the chart on the next page:

The S & P 500 forward P/E ratio has been below its present level 83% of the time since 1990. David then repeated the exercise for the other three measures and averaged them. David found that the combined Index is currently at a 92nd percentile valuation. In other words, only 8% of the time since 1990 has the U.S. stock market been as richly priced as it is today.

It's probably safe to say that there are as many ways to slice and dice the results as there are analysts. So, to move away from the traditional methods for a moment, David looked at household net worth as a percentage of disposable income.

Obviously, the higher the number, the wealthier and more confident consumers feel if they are anywhere near the average.

In 1999-2000 and in 2006-2007, the ratio was near a peak and people generally felt good. The good feelings didn't last and both times the ratio corrected back below its long term average.



With this measure in uncharted waters, there is every reason to believe that market valuations are stretched and that the economy may be drawing closer to a recession after a nine-year expansion. Of course, it is well to keep in mind that the economy and the markets often advance to higher levels and for longer periods than most strategists anticipate. Nevertheless, it is also advisable to remember that "trees don't grow to the sky" and nothing lasts forever. Finally, beware anyone who proclaims that *"it's different this time"*…….the four costliest words in the investment business.

In conclusion, no one knows what the market will be doing the remainder of the year so it would be folly for us to make any forecasts. Nevertheless, this year promises to be a challenging one for market participants as there appears to be more than the usual number of factors that could have a profound impact on the direction of the economy and the markets. One thing is certain in an uncertain world – the markets are at an elevated valuation level and are vulnerable to any shocks to the system. At Metis Value Partners, we have experienced many different environments throughout a lengthy career in the industry including some devastating bear markets. During these more troubling times, it has always been important to remain true to our time-tested value principles and be ready to take advantage of opportunities to improve and upgrade the quality of our three value strategies. As an example of the emotions at work in the market, during the recently completed quarter, we observed the mania of crowds revaluing a company's business on a daily basis without any new information or changed fundamentals.

One of the interesting facets of a market decline is that often mutual fund managers need to sell stock to fund client withdrawals. This can also be true for individual investors who suffer the indignity of a margin call. In extreme cases, investors of many stripes find that reduced liquidity in some of their stock holdings forces them to sell the most liquid stocks rather than the stocks they would prefer to sell. This forced selling drives down the prices of some high quality companies and provides disciplined value managers like MVP the opportunity to purchase stocks at exceptionally attractive prices. When these opportunities arise, MVP will likely replace some existing holdings with higher quality stocks that offer a greater margin of safety.

In challenging environments, more so than in normal markets, it is critically important to know the companies in your portfolio. MVP devotes an exceptional amount of time analyzing and evaluating our stock holdings and thoroughly understanding the dynamics that potentially affect each of the stocks in our three strategies. As 2018 unfolds, we are confident that whatever the challenges that lie ahead, we are prepared to handle the market vagaries conditioned by our decades of experience in successfully managing value portfolios. As always, managers who adhere to a well-defined philosophy with a disciplined approach and a long term objective will achieve their goals. Without these key elements, investment managers will fail in reaching their goals.

As always, we are grateful for your support and look forward to working with you as partners. Should you have any questions about this commentary, our three concentrated value strategies or other support we can offer to your firm, we welcome your calls.

Stephen K. Kent, Jr.

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CIO and Founding Partner
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