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October 20, 2022

Subject: Cedar Creek Partners 2022 Third Quarter Results

Dear Partners and Friends:

Continued high single digit inflation and increasing interest rates led to a modest market decline in the third quarter. The NASDAQ declined 4% in the quarter and was down 32% in the first nine months of the year. The other major indices we compare against were all down between 0.5 and 6% in the quarter. Other than the DJIA all were down over 20% in the three quarters of 2022. Cedar Creek increased by 13.4% in the third quarter, net of fees and expenses, and was up 2.4% in the first nine months, net of fees and expenses.¹

While Cedar Creek Partners focuses primarily on microcap stocks, and over-the-counter stocks in particular, we compare our returns against larger indices as well since we believe we need to outperform the most prominent passive benchmarks over time in order to justify our existence.

Cedar Creek's average annual return over our 16 and 3/4 year history is 14.0%, net of fees and expenses, which compares favorably to all the indices we compare against. Cumulative returns since inception for Cedar Creek were 792.5%, net of fees and expenses.

	Q3 '22	'22 YTD	Inception	Ave. Annual
Cedar Creek	13.4%	2.4%	793.2%	14.0%
NASDAQ	-4.1%	-32.4%	356.4%	9.5%
DJIA (DIA)	-6.2%	-19.8%	285.3%	8.4%
S&P 500 (SPY)	-4.9%	-23.9%	284.9%	8.4%
Russell 2000	-2.2%	-25.1%	194.1%	6.7%
Russell Microcap	-0.5%	-25.5%	144.2%	5.5%

* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

\$100,000 invested in the fund at inception in January 2006 would have grown to \$893,214 as of September 30, 2022, net of fees and expenses, whereas \$100,000 invested in the indexes we compare against would have only grown to between \$244,179 in the Russell Micro Cap and \$456,428 in the NASDAQ.

¹ While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

Fund Holdings are at Incredibly Attractive Prices

On the whole, as of the end of September 2022, the fund's holdings were trading at less than 7 times our estimate of earnings for the coming year, and 5 times earnings net of cash at the respective businesses.² Weighted price to book was 1.3. Dividend yield was 1.0%. Weighted return on equity as of September 30, 2022 was 19.3%.

Cash Levels and Fund Repositioning

We started the quarter with cash levels at 14% and ended the quarter at 4%. The big decrease was primarily due to building large positions in two microcap companies that we think have the potential to be significant compounders. Both are trading at less than eight times trailing earnings, and we expect earnings to grow rapidly (more on these two stocks below). If they are not the most attractive investments we have made in the fund's sixteen-year history, they are certainly in the top three!

We closed out our position in **Rubicon Technology** (RBCN) after the announced tender offer by **Janel** (JANL). We believed the shares were fairly valued and were not interested in holding the stub for three years waiting on Janel to acquire additional shares. We think Janel overpaid for the shares and should not have followed the tender with a large dividend. Rubicon is going to need funds in order to buy another company in order to take advantage of its historical net operating losses.

We closed our position in **Harbor Diversified** (HRBR) during the quarter. Harbor is the holding company for Wisconsin Airlines, which has a capacity agreement with United. The attraction was the high cash balance and current profitability. The concern was the contract with United ends in 2023. Our purchases were at prices below the company's net cash balances of \$2.24 per share, and at less than 70% of book value per diluted share. Harbor earned \$0.14 per share in Q1 and \$0.15 in Q4 of 2021. Neither quarter benefitted from funds from the payroll support program. Harbor announced a new contract with American Airlines, which caused the share price to rise. Despite the new contract with American, we were very concerned about the language in the quarterly earnings report about disputed amounts with United. The growth of the disputed amount in the second quarter was significant and we felt there was a possibility of Harbor not collecting which meant their earnings were much less than reported. Our cost basis was \$2.18 per share. We exited between \$2.40 and \$2.85 per share. Basically we had some doubts and felt more comfortable selling and allocating the cash to our two investments noted below.

We did increase our position in **BM Technologies** (BMTX) which we detailed in our 2022 second quarter letter. We also purchased some of the publicly traded warrants as well. BMTX should benefit from higher interest rates in terms of replacing their agreement with Customers Bancorp (CUBI). Customers currently pays BMTX roughly 3% on deposits that BMTX gains through its BankMobile subsidiary. Once the acquisition of **First Sound Bank** (FSWA) for \$25 million goes through, much of the deposits could be held at the bank and invested in three month treasury bills which currently yield nearly 4.0%, or they could broker the deposits and likely make a similar amount in the current environment. We think the stock is currently trading at less than three times forward cash earnings assuming a 3% yield on deposits, and less than two times cash earnings, net of "excess cash" at BMTX. We used parenthesis on "excess cash" due to there likely be a need for the capital at the bank subsidiary once the acquisition closes.

² Ratio excludes cash held by the fund. We add back non-economic amortization in our earnings estimate.

Expert Market Exposure

Our exposure to shares trading in the expert market held fairly steady in the quarter. These are companies impacted by SEC Rule 15c2-11. For those unfamiliar, the rule prevents brokers from not only displaying quotes for non-reporting companies but also restricts transactions to selling only. Institutional accounts, depending on the broker, are not subject to the buying restriction. We don't make the rules, we just try to take advantage of them when they are stupid. We started the quarter with 22% exposure and ended at 22% of the fund.

As noted above, our current exposure to expert market stocks is approximately 22% of the fund's assets. Three positions make up about 65% of the amount - **PD-Rx Pharmaceuticals** (PDRX) which is almost 8% of the fund, **Mortgage Oil Company** (MGAG), which is neither an oil company or a mortgage company, is 4% of the fund, and **Pacific Coast Oil Trust** (ROYTL) is over 3%. We discussed PD-Rx Pharmaceuticals briefly in our Q1 2021 letter, Mortgage Oil in more depth in Q2 2021 letter, and Pacific Coast Oil Trust in our 2022 second quarter letter ([link](#)).

Subsequent to quarter end we joined with Shipyard Capital in filing a joint 13D on Pacific Coast Oil Trust. We think that the operator, PCEC, is improperly trying to assess Asset Retirement Obligations (ARO) to the trust. PCEC's lawyers contend the [Conveyance Agreement](#) allows for it (pages 7 (n), 22 (l)). We contend that the Conveyance Agreement forbids any assessment of costs accrued prior to April 1, 2012 (pages 5, 20 that govern what pages 7 and 22 refer to). PCEC had already accrued an ARO obligation prior to 2009 and did not convey the liability to unitholders per Note 5 (page F-10) of the [Offering documents](#). At that time, it was \$22.3 million and should have accreted (compounded) at approximately a 7% rate annually. After ten years of accretion it would be nearly double the original \$22.3 million, which is nearly the amount the operator says the assessed ARO obligation was. There is a strong likelihood in our opinion that most, if not all, of the ARO that has been assessed is improper. If so, the potential Bonanza scenario we described in our Q2 letter is more likely - that the operator owes the trust roughly \$25 to \$30 million, or \$0.65 to \$0.80 per unit, versus its current \$13 million market cap and \$0.35 per unit price. In addition to that being paid, current distributions would then resume at a run rate of over \$.03 to \$0.04 per unit per month, or \$0.36 to \$0.48 annually. Seems like a potential ten bagger. As we said before, time will tell. We have added to the position this month.

The Best Investment Opportunity We Have Seen in a While

First, I have to thank [@dirtcheapstocks](#) on Twitter for bringing this opportunity to my attention. You can find a write up "dirt" released [here](#) that came out on October 6 causing a bump in the share prices.

Great investment opportunities have an abnormal risk/reward profile. Typically, high reward potential carries high risk. Occasionally there are opportunities where the profile is skewed - a high potential reward without commensurate risk. Charlie Munger has spoken of this related to his investment in the 1970's in Belridge Oil. It was a California oil producer with massive low risk reserves (380 barrels per share) selling below book value and at less than three times earnings, with a 10% dividend yield. It was a 35 bagger for him in just a few years as the company was sold for \$3,665 per share versus his \$115 entry price. It was a once in a lifetime opportunity. Unfortunately, the best investment we have seen in a while is not at that level, but one that is still quite attractive.

The fund has taken large positions in two small community banks. **Citizens Bancshares** (CZBS) and **M&F Bancorp** (MFBP) along with smaller positions in similar banks. All these banks have a skewed risk reward profile. Thanks to funding through Emergency Capital

Investment Program (ECIP) these two banks received capital equal to two to three times their book value (or market value).³ This funding is in the form of perpetual non-cumulative Preferred stock.⁴ Thus, the banks have more capital than most banks and are thus able to withstand negative events to a greater degree. Since the funding is in the form of low yielding Preferred stock, the common stockholders have nearly all the upside from the increased earnings potential of the additional capital.

The opportunity existed due to the market failing to recognize the value of the ECIP investment for common shareholders. These two banks were trading at six to seven times earnings in early summer, despite having announced months earlier expected receipt of the investments. The additional capital could be used to grow the bank organically. Assuming similar returns on equity as their existing capital, the bank's earnings potential increased three to four times. Organic growth would take a number of years, but a bank with that kind of potential should not trade at a discount to industry multiples. The capital could also be used for a major cash acquisition, which could double or triple earnings almost immediately. If that were to happen the share prices could match or exceed the earnings growth. We say exceed since a larger community bank is more likely to be valued at a higher earnings multiple than a smaller bank. For maximum bang for the buck, the ECIP recipients should acquire other ECIP recipients since the preferred is only transferrable to a fellow recipient in the first five years (**BankFirst** (BFCC) appears to be aggressively

³ The Emergency Capital Investment Program (ECIP) was part of the Consolidated Appropriations Act, 2021. The Act was a \$2.3 trillion spending bill, which combined \$900 billion of stimulus spending and a \$1.4 trillion of omnibus spending bill for the 2021 fiscal spending year, signed into law by President Trump on December 27, 2020. It included stimulus checks for most Americans, extended unemployment benefits, funding for second round of PPP loans, funds for schools and vaccines along with regular appropriations. Included in the bill was \$9 billion for ECIP.

The US Department of Treasury website states that ECIP “was created to encourage low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under the program, Treasury will provide up to \$9 billion in capital directly to depository institutions that are certified Community Development Financial Institutions (CDFIs) or minority depository institutions (MDIs) to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic. Treasury will set aside \$2 billion for CDFIs and MDIs with less than \$500 million in assets and an additional \$2 billion for CDFIs and MDIs with less than \$2 billion in assets.”

The maximum amount any CDFI or MDI could receive was \$250 million. Institutions with assets in excess of \$2 billion were limited to receiving 7.5% of assets. Those between \$0.5 billion and \$2.0 billion were limited to 15% of assets. Lastly, those under \$0.5 billion were eligible for up to 22.5% of assets. A typical bank has equity equal to approximately 7-10% of assets, thus larger banks received an amount nearly equal to their existing equity, medium size banks roughly twice, and smaller banks three times their equity. (The tilt toward smaller banks made them the most attractive as investments in our opinion.)

⁴ Perpetual noncumulative preferred stock means that the stock does not have a designated redemption timeframe. It lasts, in theory, in perpetuity. Noncumulative means any missed dividends do not have to be recouped. They are just skipped. Preferred stock is part of equity, thus counting in terms of Tier 1 capital ratios. Preferred stock dividend payments are not deductible to the bank.

The dividend rate is zero for the first two years. After year two it will vary based on how much the bank increases its qualified lending to low- and middle-income borrowers. Between year three and ten, if lending increases less than 200% of baseline pre-COVID lending amount (i.e., 2019 levels) the dividend rate will be 2%. If qualified lending increases between 200% and 400%, the rate will be 1.25%. If it increases greater than 400% it will be 0.5%. After year 10 the rate is fixed based on average annual lending increase in years 2 through 10 (see 8/11/2021 Senior Preferred Term Sheet at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program>).

adopting this model. Hopefully other ECIP banks are paying attention and will follow BankFirst's lead. If not, BankFirst may soon be offering to buy them.)

M&F Bancorp (MFBP) is a North Carolina based bank that has run rate earnings as of the second quarter of \$1.85 per share. As we write this the stock is \$17.50. There are less than two million shares outstanding. M&F received \$80 million of additional capital. Thus, even today, a buyer is paying under ten times earnings for a bank with the potential to see earnings potential triple if it acquires a bank earning \$7 million after merger synergies, or roughly \$6 million currently. That is not only very possible, but probable assuming the bank understands what it has in ECIP. There are even more tail winds for M&F that we mention below that will also help propel earnings upward. The fund started buying in June at under \$9 per share.

Citizens Bancshares (CZBS) is an Atlanta, Georgia based bank with similar characteristics. Its shares have jumped a bit due to the write up on twitter I mentioned above. Citizens has roughly 2 million shares outstanding. Shares traded last at \$23 per share. Citizens received \$95.7 million of additional capital. Citizens does not report quarterly earnings, but the bank and the parent both file quarterly Call Reports. Both are available on otcmarkets.com. Earnings for the first half of 2022 were about \$1.60 per share, but that is inflated due to a \$1.8 million grant. Q2 EPS excluding the grant were roughly \$0.55 per share. Thus, Citizens is also trading at around ten times its earnings run rate. Citizens has additional tailwinds beyond ECIP. The fund started buying in June at \$12 per share.

In order to be successful a bank needs access to capital, low cost deposits, lending and investment opportunities, and usually some form of additional non-interest fee or trust income. ECIP solved the problem of lack of capital.

Amazingly enough, ECIP funds are not the only capital funds some of the CDFI's have received. Citizens (CZBS) and M&F Bancorp (MFBP) both received preferred stock investments from money center banks in 2021. Citizens issued \$22 million of Preferred Stock in 2021 with just a 1% dividend to major money center banks. M&F issued a total of \$17.5 million in Cumulative Perpetual Preferred Stock to JP Morgan, Bank of America, Wells Fargo and Citibank, and also issued 39,600 common shares. The preferred has a low 1% rate; however, it does have a dividend share that gives the preferred a proportionate share in dividend increases. Bank of America has also purchased 5% common equity positions in ten MDI's and CDFI's ([link](#)). Most are privately held, but the list includes M&F Bancorp (MFBP).

Post George Floyd, a number of large corporations announced their intentions to advance racial equality by supporting MDI's and CDFI's by putting deposits at those banks. The problem became the bank's ability to have large deposits from just one customer. JPMorgan created the JP Morgan Empower fund to address that issue. It is an institutional money market fund where 12.5% of the management fee revenue received is directed to specified CDFI's and MDI's. The minimum investment is \$50 million. Both Citizens and M&F receive funds from this program. If you look at M&F's income statement under noninterest income you will see a line titled "Commissions from sales of financial products." This is funds from this program directed to M&F. In Q1 it was \$122,000. In Q2 it rose to \$231,000. If the trend continues, the Q3 number should be between \$300,000 and \$350,000. Due to rising interest rates, we would not be surprised if Q4 income approaches \$500,000, which would mean a pre-tax run rate of \$1 per share from this program alone versus nothing in 2021. Hopefully we are not being too optimistic.

As the banks get larger, they will be able to take on larger deposits on their own balance sheets which will allow them to earn multiples of what they currently receive from the

JPMorgan program. It is a virtuous cycle – as the banks grow larger, they can take on larger deposits, which allows them to grow larger, etc.

The money center banks have also created a program to allow participation by select CDFI's in loan syndications. There is also the recently formed National Black Bank Foundation, which recently organized a syndication team to structure a deal for the Atlanta Hawks practice facility and complex. Citizens and M&F both participated in the [loan](#).

A number of money center banks have also agreed to provide ATM access free of charge to customers at M&F and Citizens. This will allow them to attract deposits outside of their local branch base, as well as lower fees for existing customers who travel. We can envision people intentionally choosing to bank with a CDFI or MDI, which would further grow deposits. In a branchless banking world, why not support a CDFI instead of a large money center bank?

Lastly, a number of government programs provide grant income. As we noted above, Citizens received \$1.8 million through CDFI Rapid Resource Grant program as well as \$5 million from Morgan Stanley in 2020. Even with ECIP funds, we expect the government programs, including the grant programs, to continue.

In summary, M&F Bancorp and Citizens Bancshares have obtained:

1. Significant funds via ECIP
2. Preferred stock investments by Money Center Banks
3. Substantial ESG investments (deposits, JP Morgan Empower fund)
4. Participation in Loan syndication with money center banks and National Black Bank Foundation
5. ATM access nationwide with no fees
6. Government and private grants

Valuation

How should we value the ECIP funding? What is it worth to the banks? We are more income statement focused; therefore, we look at what it could do to earnings and then apply a fair multiple to those earnings. One way is to apply historical return on equity to the ECIP funds less expected dividend rate of 0.5 -2.0%. This requires estimating current earnings run rate and future return on equity once ECIP fully put into use, which should exceed historical return on equity since certain overhead is already covered.

Bank	Ticker	10/20 Price	Our EPS estimate	Proj. P/E	ECIP Amount	ECIP ROE after tax estimate	per share benefit	pro forma EPS	pro forma PE
Harbor	HRBK	\$ 17.27	\$ 0.12	143.9	71	6.0%	\$ 3.11	\$ 3.23	5.3
M&F	MFBP	\$ 17.55	\$ 1.85	9.5	80	8.0%	\$ 2.83	\$ 4.68	3.8
Citizens	CZBS	\$ 23.49	\$ 2.25	10.4	96	10.0%	\$ 4.32	\$ 6.57	3.6
Merchants & Marine	MNMB	\$ 37.00	\$ 0.75	49.3	51	7.0%	\$ 2.28	\$ 3.92	9.4
Community Bank of the Bay	CBOBA	\$ 9.20	\$ 0.80	11.5	119	9.0%	\$ 1.11	\$ 1.91	4.8
Broadway Financial	BYFC	\$ 1.10	\$ 0.12	9.2	150	6.0%	\$ 0.10	\$ 0.22	4.9
Security Federal	SFDL	\$ 27.10	\$ 2.40	11.3	83	9.0%	\$ 2.04	\$ 4.44	6.1
United Bancorporation of Al	UBAB	\$ 29.00	\$ 4.40	6.6	123	10.0%	\$ 3.09	\$ 7.49	3.9
BankFirst	BFCC	\$ 37.21	\$ 4.50	8.3	175	11.0%	\$ 3.29	\$ 7.79	4.8
Ponce Financial	PDLB	\$ 9.44	\$ 0.35	27.0	225	5.0%	\$ 0.36	\$ 0.71	13.2
PCB Bancorp	PCB	\$ 18.94	\$ 2.40	7.9	69	12.0%	\$ 0.51	\$ 2.91	6.5

ECIP amount in millions.

The result is the smaller the bank the better with the proviso that they are already decently profitable. Periodic grant income makes estimating profitability difficult for many of the banks, and Harbor in particular. Citizens (CZBS), M&F Bancorp (MFBP), United Bancorporation of Alabama (UBAB), BankFirst (BFCC) and Community Bank of the Bay (CBOBA) stand out the most. Assuming a 10-12x price to earnings ratio would result in a 2-3x return for those five banks. When we first started buying M&F and Citizens their future P/E was under two times using this approach, which meant we were expecting a 5-6x return within three or four years. Since both have nearly doubled in price, future expected return is no 2-3x over four years. We would stress that the timeframe assumes organic growth. An acquisition can bring the increased earnings almost immediately. Thus, we have a base case of 2-3x in four years, with an upside scenario of 2-3x in one year.

Another valuation approach is the balance sheet. The balance sheet investor is typically looking at community banks that sell at a discount to tangible book value. Preferred stock doesn't impact that; however, since this preferred is potentially redeemable by the bank, it could become common equity in a few years. The Treasury has implemented a number of rules and already provided guidance on a minimum repurchase price. Without permission, only another MDI or CDFI can buy a CDFI and rollover the preferred. What is interesting is that the Treasury has said it may sell the preferred down the road, and when it does the bank will have the opportunity to match an offer. The price will not be below 10% of face value. Yes, you read that right. Treasury already recognizes that the fair value of the preferred is a fraction of face value. A simple discounted cash flow comparing the preferred to the market price of bank preferred with a hypothetical 7.5% yield will result in a fair value of 10-25% of face value, thus the bank (i.e. common shareholder) is essentially being gifted 75-90% of the face value of the preferred. The balance sheet investor could add that amount to tangible book to get a ballpark estimate of fair value.

Bank	Ticker	10/20 Price	Market Cap	BV	ECIP Approval Amount	BVPS + ECIP 75%	Possible Gain	BVPS + ECIP 90%	Possible Gain
Harbor	HRBK	\$ 17.27	20	10	71	\$ 55	220%	\$ 65	274%
M&F	MFBP	\$ 17.55	35	22	80	\$ 41	136%	\$ 47	171%
Citizens	CZBS	\$ 23.49	47	53	96	\$ 63	166%	\$ 70	197%
Merchants & Marine	MNMB	\$ 37.00	49	76	51	\$ 86	132%	\$ 92	148%
Community Bank of the Bay	CBOBA	\$ 9.20	79	67	119	\$ 18	98%	\$ 20	121%
Broadway Financial	BYFC	\$ 1.10	81	136	150	\$ 3	208%	\$ 4	236%
Security Federal	SFDL	\$ 27.10	88	84	83	\$ 45	66%	\$ 49	80%
United Bancorporation of Al	UBAB	\$ 29.00	104	99	123	\$ 53	84%	\$ 59	102%
BankFirst	BFCC	\$ 37.21	198	159	175	\$ 54	46%	\$ 59	60%
Ponce Financial	PDLB	\$ 9.44	233	300	225	\$ 19	101%	\$ 20	115%
PCB Bancorp	PCB	\$ 18.94	283	261	69	\$ 21	10%	\$ 22	14%

Market Cap, book value, and ECIP Approval amount in millions.

Using this metric, the five most attractive are Harbor (HRBR), Broadway Financial (BYFC), Citizens (CZBS), M&F Bancorp (MFBP), and Merchants & Marine (MNMB). We have not spent equivalent amounts of time on each of these banks. We have primarily focused on M&F and Citizens. There may be benefits in some of the others we are not aware of, as well as risks. Our rough estimate of their earnings may not be accurate.

With any investment there is risk. Buying banks in a rising interest rate environment is typically not ideal. While we do have the additional capital protection courtesy of the ECIP funds, there are still a number of risks, including:

1. rates paid on deposits approach or exceed rates paid on historical loans

2. mark to market on securities portfolios results in significant decreases to tangible book value
3. increase in troubled loans, particularly since many borrowers have moderate incomes.
4. poor capital allocation

Another reason we like M&F Bancorp and Citizens is they have relatively small securities portfolios that have to be marked to market and large cash and deposits at other banks. Citizens had \$360 million in cash and deposits versus its \$832 million of assets. A ridiculous 43% of assets. That is a lot of capital that can be deployed at higher rates, whether 4% Treasury bills or 7% mortgages. M&F Bancorp had \$135 million in cash versus \$450 million in assets. While still an attractive amount, it is 1/3 less percentage wise than what Citizens had.

Room for New Members and/or Additional Funds

We continue to have more attractive ideas than capital. Thus, there is plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of \$100,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of \$10,000.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. You can find more letters at eriksencapitalmgmt.com/investor-letters. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,



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DISCLAIMERS

Fund Performance

The financial performance figures for 2022 presented in this report are un-audited estimates based on the best information available at the time of the letter and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.

Index Returns

The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.

Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.

Russell 2000 performance is from data reported on Russell's website, and includes reinvested dividends.

DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.

While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.

Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.

Share Prices

Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com, except for unlisted stocks classified as expert market, which do not have public availability of quotes, and are marked to last sale.

Forward Looking Statements

This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.