



PEKIN SINGER STRAUSS  
ASSET MANAGEMENT

January 29, 2015

*"The most realistic distinction between the investor and the speculator is found in their attitude toward stock-market movements. The speculator's primary interest lies in anticipating and profiting from market fluctuations. The investor's primary interest lies in acquiring and holding suitable securities at suitable prices. Market movements are important to him in a practical sense, because they alternately create low price levels at which he would be wise to buy and high price levels at which he certainly should refrain from buying and probably would be wise to sell."*

– Benjamin Graham

It perhaps goes without saying, the key to success as an investment professional is to pursue investing principles that properly inform decision making. Many years ago, famed investor Benjamin Graham laid out his timeless investment wisdom in *The Intelligent Investor*, which has become a bible of sorts for value investors (including ourselves). Graham's advice about acquiring suitable securities at suitable prices is easy to understand but difficult to execute consistently, and, we would add, particularly so in the present zero-interest rate environment.

Since the founding of Pekin Singer Strauss Asset Management, we have followed a number of investment principles that have equipped us with an investing roadmap, enabling us, we believe, to better invest in suitable securities at suitable prices. Baseball Hall of Famer Yogi Berra once said, "If you do not know where you are going, you might not get there." In our view, our roadmap has enabled us to invest our clients' assets successfully over the long pull, and we expect it will continue to serve us and our clients long into the future.

In light of the present volatile market environment, we thought it timely to use this quarter's investment commentary as an opportunity to share the outline of our investment principles with you. It should be noted that, individually, all of these principles are important to our approach, but it is the complete tapestry of all the guidelines that enables us to manage your capital consistent with your financial objectives.

Focus on Downside Protection.

Managing the capital of others is a heavy responsibility. We remind ourselves every day that the investment decisions we make are on behalf of real people with real needs. Therefore, it is critical that any capital impairment be temporary. To us, the return *of* our clients' capital is far more of a focus in our investment process than the return *on* our clients' capital.

Our strategy is to deploy capital in investments in which the potential downside of our investment commitments appears to already be implied in the prevailing investment prices at the time of purchase. That does not necessarily mean we are always correct in such assessments, but experience has taught us that, more times than not, good things tend to happen to investments at low prices where we believe the risk of further price declines has been minimized and the opportunity for significant upside is considerable.

#### Act Contrarian.

In investing, a contrarian seeks to reduce his or her risk by investing in opposition to the prevailing wisdom. A contrarian believes that certain crowd behaviors can lead to mispricing; in effect, adhering to conventional wisdom is .... often times unwise. Benjamin Graham's most famous student, Warren Buffett, sums up the definition of the contrarian investing approach with this timeless axiom: "Be fearful when others are greedy, and be greedy when others are fearful."

For example, unbridled optimism about the housing industry and housing prices leading up to 2008 ignored the risks facing home owners and investors, in our view. Identifying and selling housing investments and housing-related investments helped to protect our clients' capital during the Financial Crisis. Similarly, excessive pessimism on the part of investors can result in unjustifiably low valuations; we seek to invest in situations where pervasive pessimism exists, because these situations often offer a highly favorable risk-reward investment profile.

#### Watch Leverage.

Companies have two primary forms of leverage that amplify returns. First, operational leverage exists in companies with high fixed costs and low variable costs, and this leverage boosts earnings growth in times of expansion; an airline company is a prime example of a company with high levels of operational leverage. Second, financial leverage involves issuing debt to reduce cash taxes, invest in the business, and return capital to shareholders; financial leverage also amplifies investment returns well beyond that which would otherwise occur through operational leverage alone.

The combination of high operating leverage and high financial leverage intensifies risk. After taking an initial position in a company, it is far easier for us to deploy incremental capital in companies with limited leverage, particularly companies with limited financial leverage. This approach gave us the confidence to continue to purchase companies during the heights of the Financial Crisis of 2008-2009 that sported rock-solid balance sheets. Financial Crisis or not, many of these companies did not face liquidity or solvency issues.

#### Be Patient.

As compared to a significant portion of the investment community, one of the unique advantages we have as investors is our long-term investment horizon. Investor timelines for capital commitments have shortened markedly over the years; indeed, it has been estimated that as much as 20-30% of each day's stock market volume turns over in less than a day. When short-term oriented investors are faced with a speed bump, more times than not, they tend to throw away their shares at what we believe will prove to be temporarily distressed prices.

Patience is imperative with most successful investments, and particularly so for contrarian investors. Often times, putting a fix on an operational issue takes longer than anticipated and certainly longer than most investors' time horizons. Additionally, patience enables investors to capitalize on the more preferential tax treatment on holdings held for more than one year.

#### Seek a Margin of Safety.

Introduced by Benjamin Graham, the concept of a "margin of safety" represents the difference between the market price and the intrinsic value for a particular security. For us, it is critical that there be a large margin of safety in our investments.

While having a margin of safety does not guarantee strong investment returns, it does provide room for judgment error. Not having a crystal ball, our view of the future is far from omniscient. Both known and unknown variables can impact the future rates of return on our investments. Accordingly, building in a significant margin of safety when we deploy capital should provide us with a strong risk/return profile.

We recently sold a leading office supply company in our client accounts. We purchased the stock prior to the tremendous success of iPads and other tablet computers; these devices drove significant declines in the demand for office supplies, thus making our initial demand forecast overly optimistic. Fortunately, we invested in the company at a price which was steeply discounted versus our estimate of intrinsic value, which provided a buffer of downside protection.

#### Be Wary of the Expression: "This Time Is Different."

There may be more potentially dangerous words in the lexicon of investors, but the term "this time is different" ranks up there in any listing of expressions that could be viewed as egregiously injurious to investors' financial health. The term tends to surface as excessive optimism becomes pervasive, and investors, analysts, and/or strategists conjure up new, albeit mostly irrational themes to justify continued optimism.

The near-total lack of fear of the unintended consequences from the aggressive monetary policies of the world's central banks, including the Federal Reserve Bank, remains of great concern to us. Central bankers have lulled investors into thinking that their manipulation of interest rates has created price stability, when just the opposite may be the case. In this connection, it is perhaps helpful to remember that these same central bankers who claim that "this time is different" are the same ones who believed in 2007 that the problems in subprime mortgages appeared to be contained. Dangerous words, indeed.

#### Focus on the Balance Sheet, the Cash Flow Statement and the Strength of the Business Model.

Given a strong balance sheet, robust cash flows, and a business model that boasts strong competitive advantages, the income statement (and the stock price) tends to take care of itself over time.

A good example of this sort of situation occurred in 2011 when we took a position in one of South Korea's leading telecommunications service provider. Despite boasting a large market share domestically, the company's valuation compressed materially over a multi-year period due to capital allocation mistakes, government intervention in pricing, and a slow growth environment in its core business. The stock price traded down to a discount to tangible book value and less than 10x earnings, where we initiated a position. The balance sheet was strong, and the stock was trading at a double-digit free cash flow yield. As we anticipated, returns on capital and earnings improved with time.

Know What You Own.

Capital deployed is capital at risk. The capital we manage is not just a number, it is the hard earned savings of our clients; it compels us to expend every effort to understand our holdings as well as we possibly can. Exhaustive due diligence means digging for a depth of knowledge about the companies in our clients' portfolios that enables us to understand the factors that could adversely impact the principal value of our investment. It means having a critical eye on the management teams, their operational strategies, and their rosy pronouncements about their prospects. As prudent investors, we try to expect the unexpected.

In summary, then, generating attractive investment returns involves patience, discipline, critical thinking, a deep respect for financial history, and, of course, more than a little bit of intestinal fortitude. Our charge is to execute the principles that we have laid out for you in this letter. We hope this letter is helpful to your understanding of our investment philosophy and our investment process. Before closing, there is one other item that we want you to know remains of utmost important to us: the continued support of our clients. It is that support that enables us to manage your capital with a long-term perspective in mind.

.....

Separately, we have received a few questions from clients about the -10.3% decline that occurred in the price of Appleseed Fund in December 2014. The decline in price is entirely attributable to the payout of capital gains and dividends, which occurs each December (\$1.3957/share for December 2014); the share price was reduced on the ex-dividend day by the amount of the dividend payout plus the one-day investment return.

.....

We wish our clients' and their families a happy and healthy New Year.

***Pekin Singer Strauss Asset Management***

*This commentary is prepared by Pekin Singer Strauss Asset Management ("Pekin Singer") for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any security. The information contained herein is neither investment advice nor a legal opinion. The views expressed are those of the authors as of the date of publication of this report, and are subject to change at any time due to changes in market or economic conditions. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. Pekin Singer cannot assure that the type of investments discussed herein will outperform any other investment strategy in the future. Although information has been obtained from and is based upon sources Pekin Singer believes to be reliable, we do not guarantee its accuracy. There are no assurances that any predicted results will actually occur. Past performance is no guarantee of future results.*

*Pekin Singer Strauss Asset Management is the adviser to the Appleseed Fund.*

***You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information***

January 29, 2015

Page 5

*about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-800-470-1029. Past performance is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.*

*Distributed by Unified Financial Securities, Inc., 2960 North Meridian Street, Suite 300, Indianapolis, IN 46208.  
(Member FINRA).*