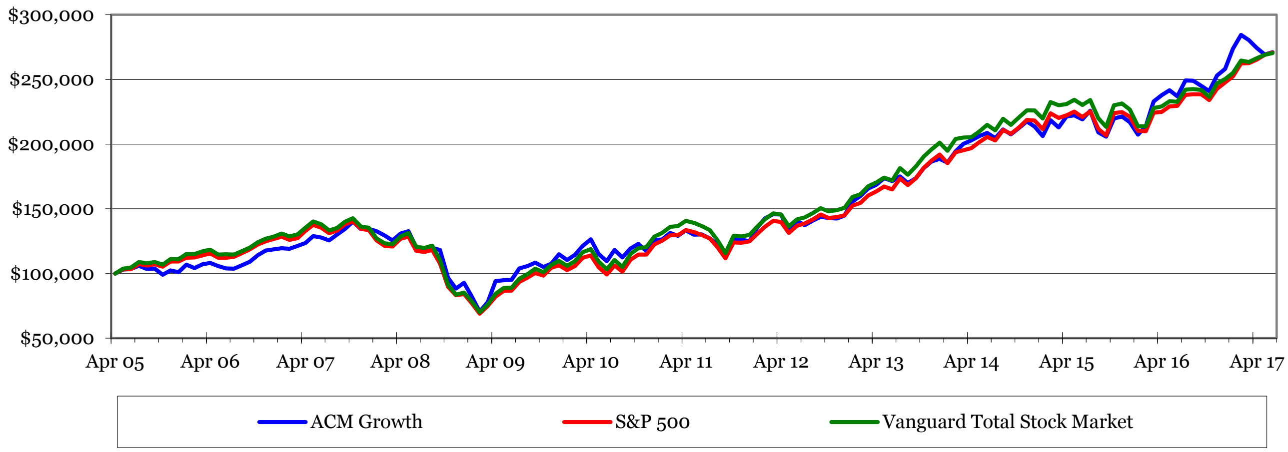
Athena Capital Management

Cumulative Growth Performance

Performance as of 6/30/17	Year to date	3 years	5 years	10 years	Since inception (4/30/05)
ACM Growth	4.97%	29.89%	92.66%	112.05%	171.09%
S&P 500	9.34%	31.70%	97.92%	100.07%	170.82%
Vanguard Total Stock Market	8.01%	25.73%	90.65%	95.93%	170.36%

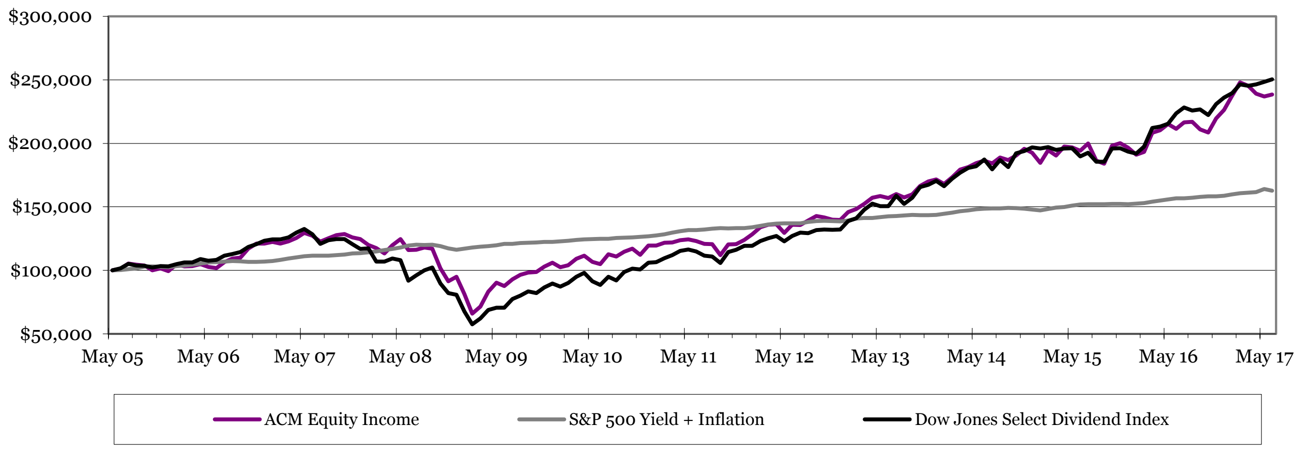
Comparison of the change in value of $100,000 investment in ACM growth versus S&P 500 and Vanguard Total Stock Market



Cumulative Equity Income Performance

Performance as of 6/30/17	Year to date	3 years	5 years	10 years	Since inception (5/31/05)
ACM Equity Income	5.43%	27.92%	75.64%	87.41%	138.54%
S&P 500 yield + inflation	2.49%	9.49%	18.75%	45.89%	62.61%
Dow Jones Select Dividend Index	6.09%	33.66%	97.17%	95.10%	150.43%

Comparison of the change in value of $100,000 investment in ACM equity income versus S&P 500 yield plus inflation and Dow Jones Select Dividend Index



Past performance is no guarantee of future results. As in all equity investing, there is a risk for potential loss. Performance results were calculated after deduction of all management and trading fees. Portfolios were valued daily, trade date accounting was used, accrual accounting was used for dividends. Time-weighted rates of return that adjust for significant cash flows were used. Returns from cash were included. For ACM growth accounts, the S&P 500 was used as benchmark because it was deemed the most readily available and widely known growth composite. It should be noted that ACM growth accounts were more concentrated, sometimes had higher cash investments and short positions, included international investments, and were invested in companies with different market capitalizations and characteristics than the S&P 500. Although these differences existed, the accounts shown were invested for growth and not set to achieve any particular market capitalization or exposure. ACM equity income accounts used S&P 500 yield plus inflation because this combination of the most readily available equity yield and growth with inflation was deemed the most relevant benchmark for equity income accounts. These accounts are designed to provide an equity yield for income plus growth to maintain purchasing power over the impact of inflation. Both out- and under-performance of accounts shown were due both to individual security selection, sometimes short positions, and to concentration of investments. Neither market nor economic conditions contributed significantly to account performance relative to benchmarks. ACM growth and equity income portfolios include all portfolios under management during all periods of management and include portfolio performance as of the first day of management. The accounts depicted used no leverage or derivatives. The S&P 500 and S&P 500 yield plus inflation returns shown do not reflect commissions, trading expenses, or management fees, which would have reduced both benchmarks' results. The returns provided are a combination of client accounts and might not represent individual accounts accurately. The firm puts clients into securities that are on a continuum of the two strategies based on their individual level of risk tolerance.

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July 14, 2017

We had a rough 2nd quarter, posting a -3.4% return for growth and -2.8% for equity income versus +3.1% for the S&P 500. Why the difference? One-third of our shortfall was because value under-performing growth (again), and two-thirds was due to our specific holdings doing poorly (unlike last quarter). We tend to carry concentrated positions, so when investors praise or pan our holdings, we feel it keenly. Last quarter we felt the praise, this quarter: the pan. I think the market over-reacted to news about a couple of our holdings, which is bound to happen occassionaly. Also, many of the things we don't own, like Facebook, Nvidia, Google, Amazon, Oracle, far out-performed the rest of the market. If stocks we don't own go up a lot, you'll see it in our numbers. None of these issues will likely persist over the long run, but it's worthwhile knowing why we under-performed.

In this quarter's letter, you'll find an explanation of our performance, my perspective on what's going on in markets and the economy, and a review of my services beyond portfolio management—things you might not know I do for clients, friends and family.

Performance this quarter

Growth portfolios out-performed over 10 years and since inception, but under-performed year to date, and over 3 and 5 year periods. As described above, part of our under-performance was because value lost to growth, which will reverse in time, and part was due to our particular holdings. To do better than average we must invest differently than the average, which means we'll occasionally be out of step—and we were this quarter. Mostly, I think the market overreacted to news on our specific holdings, which I believe will swing back as the news flow reverses. This isn't necessarily a bad thing as it gave us the chance to buy high quality at even lower prices. This tends to lock in higher future returns, making me even more optimistic about the future.

Philip Morris International and **Comcast** were growth's out-performers this quarter.

Philip Morris International (PMI), the world's largest tobacco company outside of China, rose a modest 4% this quarter. Although unit declines reported last quarter initially disappointed Wall Street, the long term growth potential of PMI's reduced risk products and a declining U.S. dollar led its price to rebound. I agree with investors in this case, and expect the market to continue rewarding PMI as it executes its strategy, fully exploiting the opportunity to switch smokers from combustible cigarettes to healthier non-combustible options. This will likely lead to further appreciation.

Comcast, the largest U.S. cable company, rose a meager 3.5% after reporting another excellent quarter of results. Not only are video, broadband and business customers increasing (in contrast to the cord-cutting hoopla you might hear), but its NBCUniversal business is growing rapidly, too, especially amusement parks and film. These trends look likely to continue, as will investor's attention to shifting video consumption, spelling opportunity for owners like us.

IBM and **Viacom** were growth's under-performers this quarter.

IBM, one of the largest providers of information technology to large organizations, suffered a hefty 11.7% decline on disappointing quarterly results. Wall Street expected a -1% decline in revenues, but IBM reported -2%. That might seem like a small difference, but investors are unforgiving when disappointed. IBM's strategic imperatives are growing even as its legacy business declines. Which trend triumphs—strategic or legacy—will determine if IBM is a good or poor investment. I think strategic will grow more strongly than legacy will decline, thus turning IBM's revenue trend and profit margins up, and why I'm positive on its long term future.

Viacom, the owner of Nickelodeon, BET, Comedy Central, and MTV cable channels and Paramount movie studios, fell a harsh 28% this quarter. This was somewhat surprising after Viacom announced much better than expected revenues and profits. But, its good news was over-shadowed by concerns about over-the-top and cable distributors opting not to carry its channels in the future. I think the market overreacted to this possibility, and that Viacom is positioning its networks, with improved content, as must-have video for all distributors. Added to that, upcoming changes at Paramount will likely further boost Viacom's profitability. That's why I see Viacom as an improving franchise with a bright future.

Equity income portfolios continue to out-perform our long term benchmark over all reported periods, but are back to losing to the Dow Jones Dividend Select Index. As mentioned above, value investing under-performed and our specific investments did poorly, both of which seem short term issues likely to reverse. Investing is inherently an unsmooth path, and we felt that reality this quarter. The fundamentals behind our holdings are strong, though, and our portfolio yield and its growth are well supported. With that, I think we are well positioned to achieve good results over time.

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Philip Morris International and **Deere & Company** out-performed for equity income portfolios this quarter. Please see my comments above on Philip Morris.

Deere & Company, the largest agricultural equipment company in the world as well as a significant maker of construction and forestry equipment, rose 13.5% this quarter as the farm and construction sectors started to rebound. The construction market peaked in 2012 and the farm sector did in 2013, and both have declined every year since. But, it looks like both markets have found a bottom, and that led Deere to report higher sales and profits for the first time in years. This recovery looks likely to continue, too, which means Deere will probably continue performing well.

IBM and **Viacom** under-performed in equity income portfolios this quarter. Please see my comments above on both.

Market and Economic Outlook

The S&P 500 returned 3.1% last quarter and 9.3% so far this year. These above average results pushed my six year projections down—yet again—this time to 2.1% average returns for growth and 5% for equity income. I continue to think we can do better, and have positioned our portfolios accordingly.

Projected annualized returns over the next 6 years	
S&P 500 (growth benchmark)	-5.1% to 9.3%
S&P-500-yield-plus-inflation (equity income benchmark)	2.0% to 8.0%

How do I arrive at these numbers? See my 2Q05 and 3Q14 articles.

It was another lackluster quarter for global economic growth. The U.S. economy slowed for the third quarter in a row even as Europe and Asia slightly rebounded. Japan, Indonesia, Vietnam, India and the Philippines showed good growth, as did Germany, but not enough to make world economic growth what it was a decade ago, and not what investors expect in the long run. Low birth rates and reduced immigration are two causes for slower growth, as are structural issues like too high government debt and a retreat from free trade. These causes seem unlikely to reverse soon, but then again, big economic turns seldom look obvious beforehand.

As usual, equity markets are blissfully ignoring these negative issues, at least for now. One reason is the growth of passive index investing. As investors choose passive over active, this leads to indiscriminate and disproportionate purchasing of the biggest, highest growth companies, thus fueling a cycle of self-reinforcing price increases. Unfortunately for us, at least in the short term, this is causing value and fundamental investing to perform especially poorly. There is nothing to say this trend won't continue for a while, but it will eventually reach saturation, as all such trends do. At that point, things will likely reverse rapidly and unpredictably to our benefit (see 2000-2005 as an analog).

Which is why I continue to drill deep to find the best investments based on underlying fundamentals. As Benjamin Graham said, the stock market is a voting machine in the short run and a weighing machine in the long run. I'm not focusing our hard-earned savings on short term voting, but on weighing underlying fundamentals and satisfactory returns over the long haul. The farther passive indexing runs, the longer my approach might look foolish, and the bigger the reward when the tide runs out and we find out who's been swimming naked.

Additional Services

Over the last 12 years, I've added several client services beyond managing portfolios. Some of these ideas came from clients like you, while others were of my own design. Such services may be of no use to you, but if they are I want you to know about them. All options but one are available to you *and* your friends and family, so if you know someone who could benefit, let me know.

401(k) options

A bonus of my job is that I know a good deal about other money managers and can quickly evaluate them. If your company presents you with a list of 401(k) investment options and you don't know which to pick, **I can help you choose particular funds and what proportion to invest in each.** Annual updates can also be requested if your list or market conditions change.

In other cases, employers allow self-directed (also called "solo") 401(k)'s, meaning you have total control over who manages your money. If you'd like more of your investments under my care, as several clients have requested, **I can manage your self-directed 401(k) for you**. To find out if this is an option, ask your human resources department if they allow self-directed 401(k)'s and about their sign-up process, then contact me and we can go from there.

If you or someone you know needs help with their 401(k), just let me know.

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Retirement planning tool

After frustration with online retirement calculators over the years, I created my own. It's what I use to update my retirement plan each year, so I thought you might find it helpful, too. My spreadsheet uses mostly the same inputs and assumptions as other tools, but I found other calculators lacked the input control or specific output I wanted.

My tool frames your retirement in terms of:

- Current investments and future savings by category:
  - Taxable (individual, joint)
  - After-tax (Roth IRA, Roth 401(k))
  - Tax-deferred (traditional IRA, 401(k))
- When you want to retire
- How long you want the money to last
- How much you want to leave to heirs
- Future inflation
- Future tax rates
- Current and future allocations between equity and fixed income
- Future equity and fixed income returns

The end result is an after-tax, inflation-adjusted annual income figure—how much you'll have to live on each year in today's dollars (which is the answer I think most people are looking for). My tool also allows you to play with the numbers to see what happens to your annual retirement income if you:

- Save more/less
- Retire earlier/later
- Leave more/less to heirs
- Change investment allocations between equity and fixed income
- Get better/worse returns over time

Several clients have used my spreadsheet to analyze how their savings might turn into future retirement income. Like all such tools, it's only as good as the assumptions and inputs used, but most have found the analysis process valuable (I can help you make your inputs realistic and logically consistent). Please let me know if my spreadsheet can help you or someone you know.

Marketocracy

Back in late 2000, I created two model portfolios on the Marketocracy website (an online model portfolio tracker designed to discover up and coming money managers). The website was designed to simulate returns as realistically as possible, including trading costs, management fees, bid/ask spreads, market impact, trading dynamics, etc., and I think it paints a realistic picture of a manger's investment abilities. My records there have been impressive (through 6/30/17):

Michael Rivers Mutual Fund (MRMF)

Period	MRMF	S&P 500	Difference
1 year	26.6%	18.3%	8.3%
3 years	21.7%	31.5%	-9.7%
5 years	98.5%	98.6%	-0.1%
10 years	126.4%	98.4%	28.1%
Since inception (9/4/2000)	362.2%	125.2%	237.1%
Since inception annualized	9.5%	4.9%	4.6%

Rivers Capital (RCAP)

Period	MRMF	S&P 500	Difference
1 year	19.1%	18.3%	0.8%
3 years	25.6%	31.5%	-5.9%
5 years	86.3%	98.6%	-12.3%
10 years	126.5%	98.4%	28.1%
Since inception (11/3/2000)	312.9%	150.6%	162.3%
Since inception annualized	8.9%	5.7%	3.2%

I manage these portfolios slightly differently than the ones I control through Athena Capital, so there are some unique advantages (different valuation methods, more diversification, more frequent and mechanistic trading, etc.).

These options are now available for real money investment, but separate from Athena Capital (Folio*fn*, Inc. is the broker, Marketocracy Inc. is the investment firm). I've invested some of my savings there and am interested in increasing assets under management through the platform. Get in touch if you'd like to learn more or know someone who would.

Short Selling

Some clients have expressed concerns about market risk to me, like the stock market tanking or income declines in an economic downturn, so I looked for ways to mitigate that risk for them.

By short selling in taxable accounts, I can reduce downside risk for you (regulations only allow taxable accounts). The cost for this risk mitigation—and there's always a cost—is missing out on some of the upside. For example, if your account were 50% short the market and the market went down by 50%, your account would be down only 25%; or if the market climbed 50%, your account would be up only 25%. In shorting, you miss part of the downside and part the upside. I can explain this process in more

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detail if you're interested—the complexities go far beyond the scope of this letter.

I have been shorting the market in my own account off and on for over a decade (just so you know I'm eating my own cooking), and I've also been doing the same for two clients who asked to lower their market risk. This service is only available to clients.

Sounding board

Several clients and their friends and family have used me as a sounding board for their investing, financial planning, college funding, tax-related, and estate planning questions. My expertise is clearly in the investing realm, but I've gained additional experience and knowledge in matters beyond portfolio management over the years, too. The sounding-board process focuses more on helping you think things through than providing set answers, and several clients, friends and family have found it productive.

You might not know I offer services beyond portfolio management, but now you do. Please feel free to follow up with me if you think any of those services would be useful to you or someone you know.

Until next quarter

As usual, if you have any questions or comments about my letter or anything else, feel free to contact me at your convenience. I always enjoy hearing from you.

And, if you know anyone who's looking for investing help, please pass my information on to them. Referrals are the way I grow my business.

Unceasingly,
Mike

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