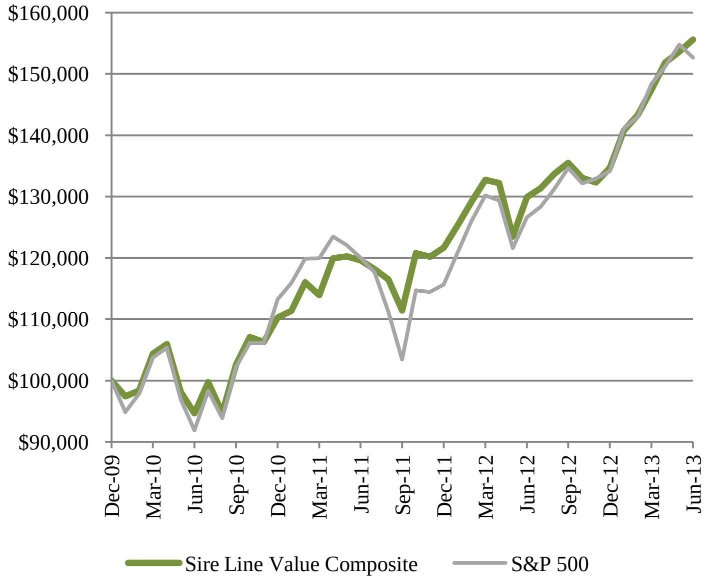
159 Madison Avenue, Suite 10i, New York, NY 10016 | (646) 526-8403 | info@sirelinecapital.com | www.sirelinecapital.com

July 29, 2013

Performance Report from
Daren Taylor, Portfolio Manager

Figure 1: THE VALUE OF A $100,000 INVESTMENT IN THE SIRE LINE VALUE COMPOSITE FROM INCEPTION (1/4/2010) TO PRESENT (6/30/2013) AS COMPARED TO THE S&P 500 INDEX (UNAUDITED)



NOTE: Accounts included in this product composite are fully discretionary taxable and tax-exempt portfolios. They are managed under our value style, which invests primarily in high-quality businesses that 1) are simple to understand, 2) have a consistent operating history and favorable long-term prospects, 3) are managed by honest and able managers whose interests are aligned with ours and 4) can be purchased at a significant discount to intrinsic value. The performance of the Sire Line Value Composite is net of fees. All performance figures in the chart above begin as of the close on January 4, 2010.

Performance Measurement

The primary objective for all of our portfolios is to achieve the maximum long-term total return on capital that is obtainable with minimum risk of permanent loss. The chart above (Figure 1) shows a comparison of a $100,000 investment in the Sire Line Value Composite and the S&P 500 Index (S&P 500) since inception. The S&P 500 is an unmanaged, market capitalization weighted index that measures the equity performance of 500 leading companies in the U.S. today. Firms included in the S&P 500 account for approximately 75% of the value of all U.S. stocks. Therefore, it acts as a fairly good proxy for the total market. Clients could easily replicate the performance of the S&P 500 by investing in an index fund at little cost. For discussion purposes below, I will focus on this benchmark to address our relative performance.

Our Performance

The Sire Line Value Composite (SLVC) experienced a gain of 5.6% in the second quarter, which was better than the 2.9% gain for the S&P 500. Year to date, the SLVC is up 15.6% vs. a 13.8% gain for the S&P 500. And finally, inception to date, the SLVC has increased 55.6% vs. a 52.7% gain for the S&P 500. All of the figures above include reinvested dividends and begin as of the close on January 4, 2010.

Out of the twenty-eight total positions held in our portfolio during the first half of 2013, all but one finished higher. The following chart (Figure 2) lists our top performers:

Figure 2: Top Performers

Company	Year-to-date
BEST BUY	94%
STAPLES	39%
DELL INC	32%
MICROSOFT	29%
AMERICAN INT'L GROUP	27%
HJ HEINZ	26%
WESTERN UNION	26%
MEDTRONIC	25%
BERKSHIRE HATHAWAY "B"	25%
GOOGLE INC.	24%
DIRECTV	23%
JOHNSON & JOHNSON	22%
PEPSICO	20%
JPMORGAN CHASE & CO	20%

Apple, which was down 25% through the first six months of the year, was the only stock in our portfolio that lost value. In the last quarterly report, I spoke briefly about the issues at Apple. I continue to like the stock, although our position size was smaller at the end of the most recent quarter due to tax-loss-selling activities.

The following table (Figure 3) summarizes the historical performance of the S&P 500, the Dow Jones Industrial Average (Dow) and the Sire Line Value Composite (SLVC):

Figure 3:	TOTAL RETURN (1)		
Annual	S&P 500 (2)	Dow (3)	SLVC (4)
2010	13.2%	12.4%	**10.3%**
2011	2.1%	8.4%	**10.3%**
2012	16.0%	10.2%	**10.7%**
2013 YTD	13.8%	15.2%	**15.6%**
Cumulative:			
2010	13.2%	12.4%	**10.3%**
2010-2011	15.6%	21.8%	**21.7%**
2010-2012	34.1%	34.3%	**32.7%**
2010-2013 YTD	52.7%	54.7%	**55.6%**
Annual Compounded Rate:	12.9%	13.3%	**13.5%**

(Footnotes to table above)

(1) All performance figures begin as of the close on January 4, 2010.

(2) Based on changes in the value of the S&P 500 plus dividends (reinvested) that would have been received through ownership of the Index during the period.

(3) Based on changes in the value of the Dow Jones Industrial Average plus dividends (reinvested) that would have been received through ownership of the Index during the period.

(4) Based on changes in the value of the Sire Line Value Composite including dividends and after all fees and expenses.

Changes to our Portfolios in the First Half of 2013

During the first half of the year I eliminated four stocks and added only one new one. Leaving the portfolios were Best Buy, Dell, HJ Heinz, and Anheuser Busch Inbev. I consider all of these holdings to be successful investments in that we made money on each name. However, HJ Heinz and Anheuser Busch Inbev really lit up the phone lines with total returns on invested capital of 82%, 79%, respectively, in a little over three years.

The only new stock added to our portfolios in the first half of 2013 was Weight Watchers International. A recent health industry study estimated that some two-thirds of the U.S. adult population (over 19 years of age) is overweight and approximately one-third is considered obese. This is up considerably from 1976 when 47% of the adult population was overweight and 15% obese. By 2015, the World Health Organization projects that roughly 3 billion people worldwide will be overweight, with some 700 million considered obese. These are staggering numbers.

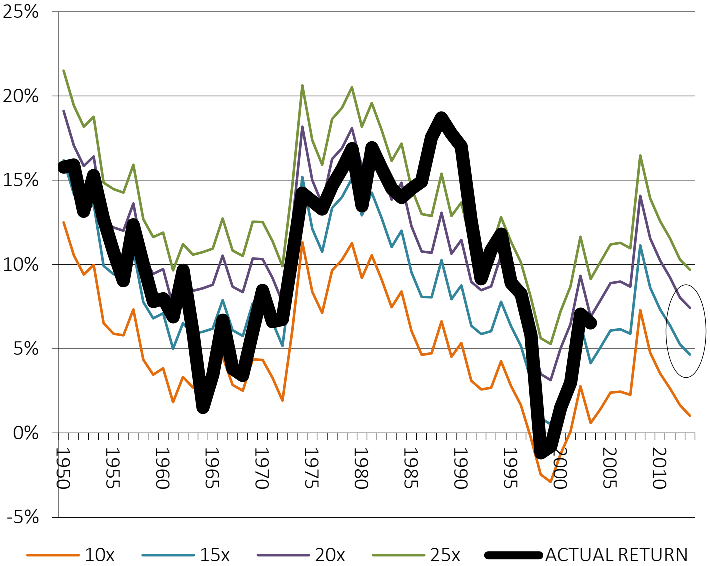
With 50 years of weight management experience, Weight Watchers is one of the most established and trusted brand names in the global weight management industry. After trading as high as $87 in 2011, the company's stock has pulled back to the mid-$40s as the company's sales from weekly membership meetings has come in softer than expected. I believe this to be mostly a cyclical issue and find the company's long-term returns on invested capital to be quite attractive.

Numerous diseases, including heart disease, high blood pressure and Type II diabetes, are associated with being overweight or obese. As corporations and governments search for solutions to help lower the cost of providing health care to their people, they will continue to turn to experienced and proven companies like Weight Watchers to be an ally in the battle. I anticipate *big* returns from this new investment (pun intended).

U.S. Equity Markets: Cheap or Expensive?

As a ship's captain must always be scanning the horizon for threatening storm clouds, so too must a portfolio manager always be aware of the environment he or she is investing in. One measurement that I follow to gauge the current investment environment is the expected 10-year forward rate of return for the S&P 500 Index. Forward rates of return can be implied by using 1) current valuations as a starting point, 2) a conservative assumption of earnings growth going forward, and 3) a range of P/E multiples in the final year. A 10-year time period is used to make sure that the model captures an entire economic cycle.

Figure 4:
S&P 500 Index: Expected 10-Year Forward Returns

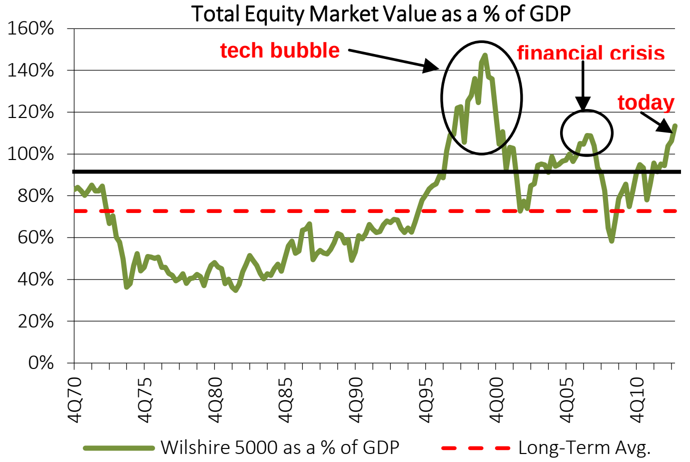


In the chart above (Figure 4), the thin colored lines represent expected 10-year forward rates of return for the S&P 500 Index assuming future earnings grow at a 4% average annual rate (6% pre-2010) and a range of P/E multiples (10x, 15x, 20x and 25x) in the final year. The heavy black line shows the actual 10-year forward rate of return experienced for the S&P 500. Based on this analysis, the current 10-year forward rate of return for the S&P 500 Index is expected to be in the range of 4.7%–7.5%, assuming a final P/E multiple of between 15x and 20x (circled on far right of the chart).

Another measurement that I believe is a good indicator of whether U.S. equity markets are cheap or expensive is the value of the Wilshire 5000 Index relative to U.S. GDP (gross domestic product). Think of this as the total equity market value of all U.S. stocks vs. the total value of all goods and services produced in the U.S. (the price-to-sales ratio for the total stock market, if you will).

With the Wilshire 5000 Index recently valued at over $18 trillion and current GDP of roughly $16 trillion, the current ratio is around 112%. This is significantly higher than the long-term average of around 73%. In addition, as you can see in the following chart (Figure 5), there have only been two other periods since 1970 when the Wilshire 5000 Index traded above 100% of U.S. GDP—once during the tech bubble of the late 1990s and again in 2007, just before the global financial crisis.

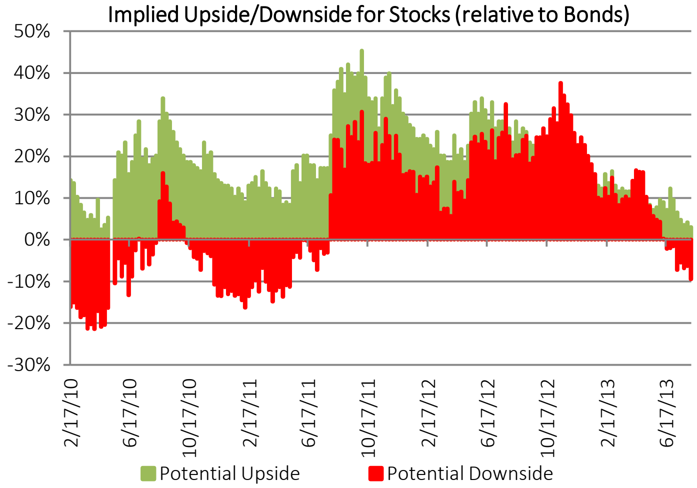
Figure 5:
Total Equity Market Value as a % of GDP



Another measurement that I track closely is the relationship between the yield on U.S. investment grade corporate bonds and the earnings yield for the equity market (represented by the stocks in the Value Line Investment Survey). The reason that this relationship is important is because bonds and stocks are always in competition for investor dollars. Investors will always gravitate toward the asset class that offers a higher risk-adjusted return.

Based on the historical relationship between these two yields, the current relationship implies that there is very little upside to stocks at current valuations. More specifically, the current relationship implies that there is only 3% upside and 9% downside risk for stocks given current valuations. You can see this better in the chart below (Figure 6). (Simplistically, positive green/red means stocks are relatively more attractive than bonds, while negative red/green means stocks are less attractive than bonds.)

Figure 6:
Implied Upside/Downside for Stocks (relative to Bonds)



I am certainly not going to try to predict what the stock market is going to do over the next couple of years. That is a fool's game. However, these broad valuation measurements do reflect three important points: 1) for the first time since the summer of 2011, stocks no longer look inexpensive relative to bonds; 2) relative to GDP, the total stock market is now more expensive than it was just prior to the financial crisis of 2007/2008; and 3) the expected forward rate of return for the S&P 500 Index over the next ten years is the second lowest it has been since 1950. The only time over the last 60 years when the expected forward rate of return on the S&P 500 was lower than it is today was during the tech bubble in the late 1990s.

All of this helps to explain why I am having a hard time finding attractive investment opportunities lately. As a result, the equity weighting in our portfolios has declined while our cash and short positions have increased. Again, I am not predicting that there will be a significant decline in the stock market in the near future. For all I know, stocks could continue to climb endlessly higher for the foreseeable future. But in my experience, when you relax your standards and buy stocks with little or no margin of safety, bad things usually happen.

Let me reiterate again that the stocks we continue to hold in our portfolio represent high-quality, high-value investments. I would be comfortable owning them in almost any environment.

As always, thank you for your continued loyalty and trust. It is an honor for me to be able to help you protect and grow your hard-earned assets.

With appreciation,

Daren Taylor, CFA
dtaylor@sirelinecapital.com