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"Games are won by players who focus on the playing field–not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays."
– Warren Buffett (2013 Berkshire Hathaway Inc. Shareholder Letter–March 1, 2014)

April 1, 2014

Dear Clients:

Following a torrid 2013, the U.S. equity market took a breather in the first quarter of 2014. The major U.S. equity indices were up just slightly for the quarter, which was certainly modest performance relative to recent history. Still, we think it is good news stocks were able to withstand the beginning of the Federal Reserve's "tapering" of its emergency program of quantitative easing, some softer economic data early in the quarter and geopolitical upheaval abroad.

In addition, we made some good news of our own. ***For the second consecutive year***, we are proud to let you know the mutual fund we advise received a prestigious national award last month from Lipper—a Thomson Reuters company, an independent mutual fund research and rating service. We believe receiving this award for two years in a row validates we can compete on an investment performance basis with the biggest and best firms in our industry. Further, we are invested alongside you and glad our "slow and steady" approach won this "race" for our investors.

The Stock Market

Though stocks finished the first quarter about where they started, there were some harrowing moments in January and early February. As mentioned above, some data on the U.S. economy was softer than investors had expected, perhaps due in part to the severe winter weather. Similarly, concerns about Federal Reserve policy resurfaced as new Chair Janet Yellen took the reins from Ben Bernanke. It seems lately there is *always* an overseas crisis. Indeed, just as the Eurozone crisis faded into memory, Russia reminded us the world remains a dangerous place.

Similarly, the U.S. stock market reminded investors lulled by a strong 2012 and 2013 it can still quickly turn vicious. The Dow Jones Industrial Average plunged 326 points on February 3, which left it down 7.3% for the year-to-date. U.S. stocks had not suffered a correction (10% decline) since 2011, so many investors were shaken. As shown in the Crandall, Pierce graph on the back page, since 1944 stocks have endured a bear market (20% decline) or correction every 2 years, on average. Thus, a correction is neither a rare occurrence nor something to be overly fearful of. When the talking heads on TV and headlines have you feeling down, try Warren Buffett's suggestion!

Speaking of Buffett's 2013 Berkshire Hathaway shareholder letter, he told the tale of two investments he was able to make decades ago, at what turned out to be ridiculously low prices, in the wake

We are grateful for your business and the fact for more than 38 years, KM has grown primarily through recommendations by clients to their friends. We are humbled when we receive a referral and do our best to meet the investment needs of that individual or organization. If you know of someone searching for a trusted adviser who does one thing—manage money—and is staffed by experienced professionals who invest client assets with the same passion and care as they do their own, please let us know or have them contact Matt Kirr, Senior Client Service Officer (812-376-9444, 800-808-9444 or matt@kirrmar.com). We never take your trust for granted and will treat your referrals with the utmost care and respect.

of the bursting of the bubbles in farmland and commercial real estate. He said:

"There is one major difference between my two small investments and an investment in stocks. Stocks provide you minute-to-minute valuations for your holdings whereas I have yet to see a quotation for either my farm or the New York real estate.

"It should be an enormous advantage for investors in stocks to have those wildly fluctuating valuations placed on their holdings—and for some investors, it is. After all, if a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell his—and those prices varied widely over short periods of time depending on his mental state—how in the world could I be other than benefited by his erratic behavior? If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming.

"Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally, as well. Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits—and, worse yet, important to consider acting upon their comments.

"Those people who can sit quietly for decades when they own a farm or apartment house often become frenetic when they are exposed to a stream of stock quotations and accompanying commentators delivering an implied message of 'Don't just sit there, *do* something.' For these investors, liquidity is transformed from the unqualified benefit it should be to a curse.

"A 'flash crash' or some other extreme market fluctuation can't hurt an investor any more than an erratic and mouthy neighbor can hurt my farm investment. Indeed, tumbling markets can be helpful to the true investor if he has cash available when prices get far out of line with values. A climate of fear is your *friend* when investing; a euphoric world is your enemy.

"During the extraordinary financial panic that occurred late in 2008, I never gave a thought to selling my farm or New York real estate, even though a severe recession was clearly brewing. And, if I had owned 100% of a solid business with good long-term prospects, it would have been foolish for me to even consider dumping it. So why would I have sold my stocks that were small participations in wonderful businesses? True, any one of them might eventually disappoint, but as a group they were certain to do well. Could anyone really believe the earth was going to swallow up the incredible productive assets and unlimited human ingenuity existing in America?"

We have stated our belief the overall recovery from the Great Recession has broadened to the point where it should be much more sustainable and less susceptible to shocks. Additionally, we concentrate on analyzing companies and finding stocks selling at a discount to intrinsic value. This type of ***micro-analysis*** is the basis of value investing. Thus, we don't spend a lot of time trying to forecast unknowable ***macro-factors***, such as Federal Reserve policy changes or military invasions. Speaking of Federal Reserve policy, many investors feared the eventual winding-down of its emergency program of "quantitative easing." These same investors wrongly believed stock prices had been propelled higher primarily due to Fed policy. We thought tapering would be a ***positive*** sign for the strength of the economy and ***good*** for stocks. In other words, investors should not "fear the taper." The Federal Reserve has begun to reduce its monthly purchases of bonds by about $10 billion/month, which the equity and fixed income markets and economy appear to have taken in stride

Periods ending March 31, 2014
(Total Returns-Annualized*)

	Russell 3000 Index	S&P 500 Index
3-months	1.97%	1.81%
One-year*	22.61%	21.86%
Two-years*	18.52%	17.84%
Three-years*	14.61%	14.66%
Five-years*	21.93%	21.16%
Ten-years*	7.86%	7.42%

Valuations are materially higher than at the once-in-a-lifetime levels of five years ago. Thus, the overall market can probably be characterized as "fairly valued" (but not overstretched). In addition, the *dispersion* of stock valuations (based on P/E) has dropped to a 25-year low. These combine to make it more difficult to find investment candidates with attractive risk/reward characteristics, but we continue to like what we own and remain fully invested.

Interest Rates and the Bond Market

The yield on the 10-year U.S. Treasury actually dropped from 3.03% at the beginning of the year to 2.72% at the end of the first quarter, confounding skeptics who expected yields to soar with the Fed's tapering of its bond purchases. We think interest rates will rise during the rest of 2014, but not rapidly. As long as the rise is tied to a strengthening economy and improving confidence (i.e. and not increased inflationary expectations), we won't be overly concerned. Our strategy of buying corporate bonds with improving fundamentals and offering attractive risk/reward has been successful. We believe this is the appropriate strategy in an environment of rising rates and plan to continue. As always, we are monitoring our positions very closely.

Indianapolis Business Journal (IBJ)

The IBJ is a weekly business publication (**www.ibj.com**). We have been writing a bi-weekly Investing column for the past two-and-a-half years. We are doing this to increase KM's exposure by hopefully presenting investing topics/concepts to readers in a common-sense manner. The response has been very good and a couple other publications have subsequently picked-it up. You can view the archive of columns at **www.kirrmar.com** under "Kirr, Marbach in the Media." If you'd like to be placed on the electronic distribution list, please send a note to **mickey@kirrmar.com**.

Summary

We're pleased with our continuing national recognition, but at the same time truly humbled by the trust and confidence you place in us, each and every day, to allow us the privilege to manage your precious assets. Public recognition or not, we wouldn't have a business without our clients. We will continue to strive to earn your business.

Regulatory Update

Kirr, Marbach & Company, LLC (KM) is registered with the U.S. Securities and Exchange Commission ("SEC"), which requires advisers to file Forms ADV-Part 1 and 2A ("Brochure")/2B ("Brochure Supplements") electronically on the Investment Adviser Registration Depository (www.iard.com). Form ADV-Part 2A is a narrative disclosure of an adviser's business, written in "plain English." The SEC mandated the headings, specific topics to be covered and the order of presentation. We have enclosed a copy of KM's ADV-Part 2A "Brochure" for each client account.

As a SEC-registered investment adviser, KM is subject to periodic examination by the SEC, which can occur at any time. In the aftermath of the Bernie Madoff scandal, the SEC has determined that it's a good idea for their examiners to independently verify records provided by registrants (like us). This being the case, it is *possible* during our next examination that the examiners will contact clients to confirm account balances, holdings or other information. We do not know if this will become a standard part of routine examinations, but wanted to alert clients ahead of time.

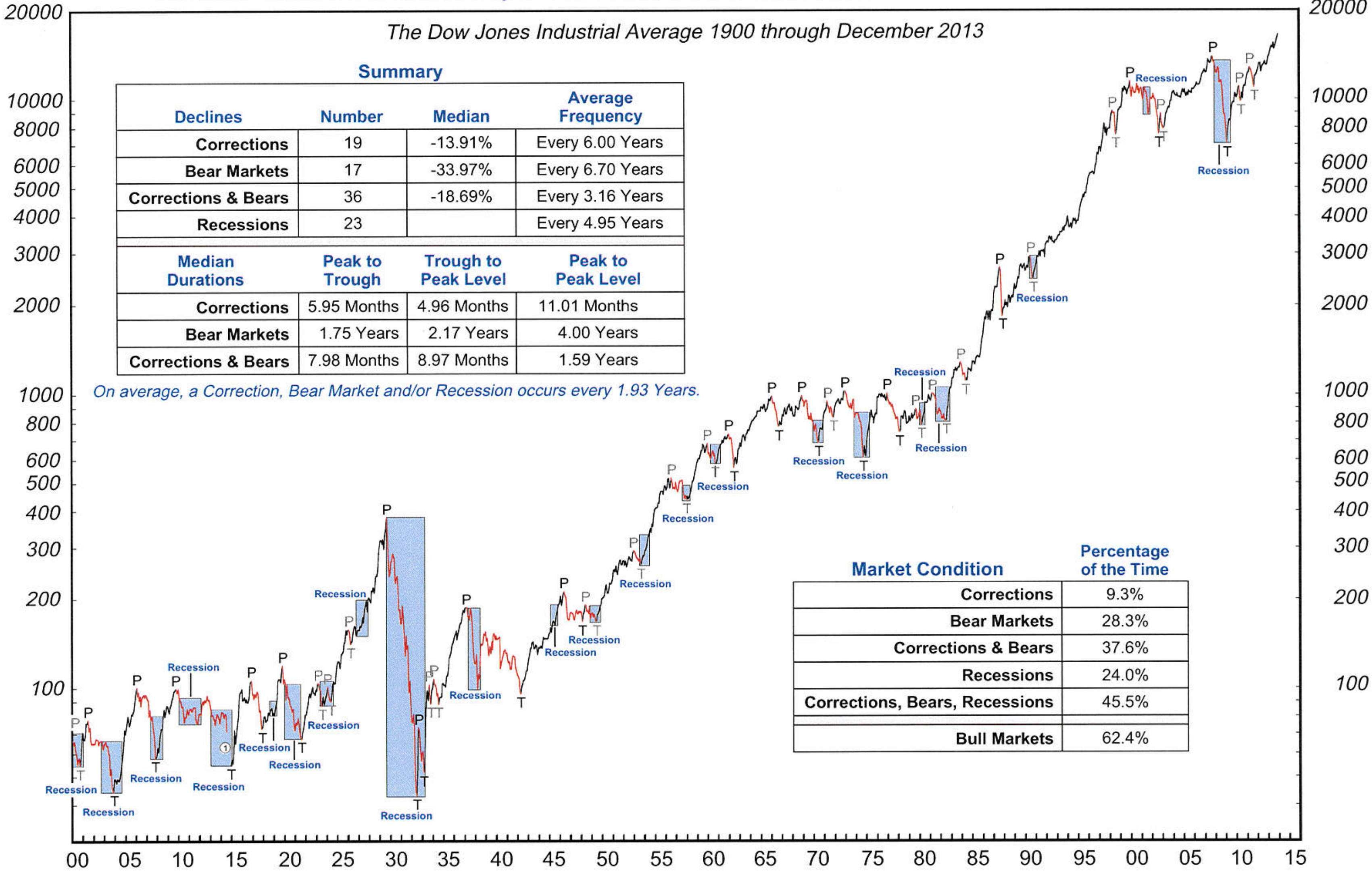
Related to the above, the SEC adopted an amendment to Advisers Act Rule 206(4)-2 ("Custody Rule"). This rule requires KM to 1) make "due inquiry" of Custodians to confirm periodic statements have been sent directly to clients and 2) on statements KM provides to clients, "urge" clients to compare the statement from KM with the statement from the Custodian. In addition, ***unless we have written authorization from a client to instruct the Custodian to make distributions of cash or securities from the client's account or transfer cash or securities between a client's accounts, the client should instruct their Custodian directly***. This rule creates some additional burdens, but is for your own protection.

Regards,

Kirr, Marbach & Company, LLC

Why Have a Disciplined Investment Approach?

The Market has been affected by a Correction, Bear Market and/or Recession 45.5% of the time.



Summary

Declines	Number	Median	Average Frequency
Corrections	19	-13.91%	Every 6.00 Years
Bear Markets	17	-33.97%	Every 6.70 Years
Corrections & Bears	36	-18.69%	Every 3.16 Years
Recessions	23		Every 4.95 Years

Median Durations	Peak to Trough	Trough to Peak Level	Peak to Peak Level
Corrections	5.95 Months	4.96 Months	11.01 Months
Bear Markets	1.75 Years	2.17 Years	4.00 Years
Corrections & Bears	7.98 Months	8.97 Months	1.59 Years

On average, a Correction, Bear Market and/or Recession occurs every 1.93 Years.

Market Condition	Percentage of the Time
Corrections	9.3%
Bear Markets	28.3%
Corrections & Bears	37.6%
Recessions	24.0%
Corrections, Bears, Recessions	45.5%
Bull Markets	62.4%

Note: On average, the market's trough occurs 5.3 months prior to the end of a recession.

Red Line Segments: Corrections (P,T) - Minimum 10% decline but less than 20% & Bear Markets (P,T) - Minimum 20% decline. Data: Dow Jones Industrial Average (end of month)
Recessions are as defined by The National Bureau of Economic Research. ① The Stock Exchange was closed due to World War I.
Sources: Dow Jones & Company; National Bureau of Economic Research • Copyright © 2014 Crandall, Pierce & Company • All rights reserved.