Kirr, Marbach & Company, LLC
Registered Investment Adviser

Mark D. Foster, CFA
Richard H. Hummel, CFA
Mickey Kim, CFA
Matthew D. Kirr
Darrell H. "Kip" Wright, CFA
David M. Kirr, CFA

"Being president is like being a jackass in a hailstorm. There's nothing to do but to stand there and take it."

– Lyndon B. Johnson

October 1, 2014

Dear Clients:

While the major U.S. stock indices eked out small gains for the quarter ending September 30, 2014 and the S&P 500 reached a record high on September 18, we unfortunately have little new to say from our most recent quarterly letter. Specifically, our performance continued to trail our benchmarks at the end of the third quarter.

Short-term underperformance is frustrating, but our goal always is to generate outstanding ***long-term*** performance. We understand the long road to reaching that destination will be bumpy and periods of underperformance are inevitable. That doesn't make these periods any easier to take. In other words, in times like these we know exactly what being the proverbial jackass in a hailstorm feels like.

On the bright side, we are proud we continue to receive national recognition. We were recognized in the September 2014 issue of ***Kiplinger's Personal Finance*** for our performance for the five-year period ending June 30, 2014. This was the third consecutive year we were recognized by Kiplinger's. We were also recognized in the August 18, 2014 issue of ***Pensions & Investments***, also for our performance for the five-year period ending June 30, 2014. We are big believers in "eating our own cooking" and are invested alongside our clients and fellow fund shareholders. In fact, ***Inc.*** published an article in September highlighting KM and the importance of this fact in building trust and credibility. You can't spend national recognition, but we think it validates we can compete very effectively against the biggest and best in our industry.

We continue to think the overall U.S. stock market is fairly valued. While it has become more challenging to find stocks with attractive risk/reward characteristics, we still like what we own and remain fully invested. The companies we own have generally done a good job of increasing the value of their businesses. While it's frustrating to be in a cyclical period when we don't think stock prices are adequately reflecting these increasing values, we're encouraged the private market is, as evidenced by several takeovers of companies in our portfolio. We think it's a matter of when public market valuations will catch-up, not if.

Periods ending September 30, 2014
(Total Returns-Annualized*)

	Russell 3000 Index	S&P 500 Index
3-months	0.01%	1.13%
9-months	6.95%	8.34%
One-year*	17.76%	19.73%
Three-years*	23.08%	22.99%
Five-years*	15.78%	15.70%
Ten-years*	8.44%	8.11%

The Stock Market

We're not making excuses for our weak relative performance thus far in 2014, but it's important to understand the challenging stock market environment we've continued to face. As stated in our most recent quarterly letter, one of the primary reasons active managers have struggled this year is the wide divergence in performance between the largest-capitalization and smaller-capitalization stocks. Our primary performance benchmark is the Russell 3000 Index, a *capitalization-weighted* index comprised of the 3000 largest-capitalization U.S. stocks (representing about 98% of the investible U.S. equity market). The Russell 3000 Index can be divided into the Russell 1000 Index (largest 1000 market capitalizations) and Russell 2000 Index (smallest 2000). Because the Russell 3000 is capitalization-weighted, the performance of the stocks in the Russell 1000 has a *significantly* greater impact on the performance of the Russell 3000 than the performance of the stocks in the Russell 2000. ***In fact, the stocks in the Russell 1000 (1/3 of the stocks) comprise 92% of the weight of the Russell 3000, while the stocks in the Russell 2000 (2/3 of the stocks) comprise only 8%.***

The performance disparity based on market capitalization can be clearly seen in the two tables below. For the periods ending September 30, 2014, the ***Russell 2000 Index underperformed the Russell 1000 Index by 5.06% and 15.33% for the third quarter and year-to-date, an enormous performance gap.*** Wall Street research firm Strategas Research Partners LLC ("Strategas") examined YTD returns as of 9/30/14 for the Russell 3000 by market-capitalization quintile. As you can see, performance dropped-off dramatically after the largest quintile (i.e. largest 600 stocks) and turned negative by the middle quintile. Thus, active managers like KM that have significant representation in their portfolios outside of the largest 1000 stocks sailed into some stiff performance headwinds in the first nine months of 2014.

Periods ending September 30, 2014

	Russell 3000 Index	Russell 1000 Index	Russell 2000 Index	Performance Gap (R2000 vs R1000)
3-months	0.01%	0.65%	-4.41%	-5.06%
9-months	6.95%	7.97%	-7.36%	-15.33%

Russell 3000 Index Quintile Returns

Size quintile	YTD Returns (as of 9/30/14)
Largest (1)	6.79%
Larger (2)	2.35%
Middle (3)	-2.08%
Smaller (4)	-7.42%
Smallest (5)	-8.47%

Source: Strategas Research Partners LLC

We believe investors are nervous about the strength of the U.S. economy and on pins and needles regarding the impact of the inevitable tightening of Fed monetary policy. Further, this has caused investors to flee from smaller-capitalization stocks to the perceived safety of larger-capitalization stocks. We think these fears are misplaced. The Leading Economic Indicators point to a strengthening economy, which will enable the Fed to slowly withdraw some of the emergency measures implemented at the depth of the financial crisis, over 5 years ago.

The relative strength of the large capitalization-dominated indices has also masked a "stealth correction" that has impacted the vast majority of stocks. Bespoke Investment Group reported as of September 10, 2014, the average large-cap stock was down 7.5% from its 52-week high, the average mid-cap stock down 11.1% and the average small-cap stock down 17.3%. Overall, the average stock was down 12.4% from its 52-week high.

We've established it's been a tough environment in 2014, so what do we do going forward? We'll continue to evaluate stocks as if we're buying the entire business to own for 5-10 years. We'll look for companies with solid business prospects, sound financial structures and strong, shareholder-oriented management teams whose stocks are selling at a significant discount to our evaluation of intrinsic value. We'll remain true to our value discipline and maintain a steely-eyed focus on our investment *process*, tuning out the noise from short-term *results*.

KM's Investment Process...

Market Inefficiencies

We look for stocks with limited Wall Street recognition or sponsorship or that are otherwise out of favor with the crowd. We have had success investing in spin-offs, post-bankruptcy reorganizations and other corporate restructurings. Our experience has been that these restructuring events often create market inefficiencies that allow us to buy at a significant discount to our evaluation of intrinsic value.

Effective/Ethical Management

We look at a management team's Integrity and Competency, Ownership of Stock and Track Record of Building Shareholder Value.

Strong Financials

Considerations include Leverage, Returns on Invested Capital, Free Cash Flow Generation and External Financing Needs.

Compelling Valuation

We look at valuation metrics including Price / Earnings, Price / Sales, Price / Private Market Value and Enterprise Value / Free Cash Flow.

Catalyst

Finally, we look for a catalyst to close the gap between our evaluation of intrinsic value and the stock market's evaluation. These can include Management Changes, Restructurings, Insider Buying and New Cost Cutting/Revenue Growth Initiatives

We believe following this process has been the "secret" to our long-term success. Even during this difficult year, our approach has been validated by the buyouts of portfolio holdings **Time Warner Cable Inc., Covidien PLC, Taminco Corporation and EPL Oil & Gas, Inc.**

Interest Rates and the Bond Market

The yield on the 10-year U.S. Treasury Bond remained in a tight band, starting and ending the third quarter at around 2.5%. Credit spreads widened by about 0.3% during the third quarter off of historically low levels. We think interest rates will rise during the rest of 2014 and into 2015, 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 adequate compensation for the credit risk assumed 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.

Summary

We're not happy to be trailing our benchmarks thus far in 2014, but have been here many times before. We can't say when this hailstorm will end, but they don't last forever. In the meantime, we'll work hard to make-up lost ground. We're invested along-side you and you can rest assured we'll continue to manage your precious assets with the same care as we invest our own.

KM Privacy Policy Notice

Under Securities and Exchange Commission Regulation S-P, KM is required to deliver its Privacy Policy Notice to each client prior to the establishment of an account and updates annually. We are delivering our 2014 annual update to each client account with this letter. In addition, given the increasing importance of protecting clients' personal information, we have implemented a policy whereby KM personnel will *not* release any information about a client's account without specific authorization from the client. If you would like KM to release information about your account to your CPA or other service provider, please contact Kip Wright, CFA (kip@kirrmar.com) or Matt Kirr (matt@kirrmar.com) by e-mail or at 812-376-9444 or 800-808-9444.

Regards,

Kirr, Marbach & Company, LLC