Kirr, Marbach & Company, LLC

Registered Investment Adviser

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

"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

—Sir Winston Churchill

July 2, 2015

Dear Clients:

After reaching record highs in May, major U.S. stock benchmarks fell in June on investor worries regarding 1) Greece's never-ending debt saga, 2) the timing and impact of the start of the Federal Reserve's increasing of short-term interest rates and 3) the strength of the economy and corporate profits. As you can see in the table on the following page, the Russell 3000 and S&P 500 had essentially flat returns for the second quarter and finished the mid-point of 2015 with low single-digit total returns.

KM's equity performance was generally comfortably ahead of our benchmarks, but still obviously nothing to write home about. While U.S. equity returns were puny (by recent historical standards) in the first half, we think returns for the full year can still be "decent."

It's not the obvious risks that "get you," it's the unexpected events.

Greece has been on the brink of default twice in the past five years, so a third visit to the edge of the cliff shouldn't be a surprise to anyone. While a default leading to an exit from the Eurozone would lead to tragic circumstances for the citizens of Greece, the fact is ***Greece accounts for only about 2% of the Eurozone economy.*** Additionally, the contagion risk to the global financial system of a Greek default is materially lower than it was five years ago.

Similarly, the Fed has been signaling its intent to start removing ***emergency*** stimulus (implemented to stem the global financial crisis ***seven years ago***) for months. It has always been a question of when this would start, not if.

We believe stock prices follow corporate earnings, so that's what we're laser-focused on. The Leading Economic Indicator shows the U.S. economy has recovered from a weak first quarter and is gaining steam (LEI—See Exhibit A). Similarly, Wall Street analysts were quick to reduce corporate earnings estimates due to strength of the dollar and lower energy prices. ***If*** the improving economy, stronger employment and reduced consumer expenditures for energy lead to better-than-expected revenue growth, corporate earnings could surprise to the upside. Finally, worries and low returns have combined to reduce investor optimism. From a contrarian point of view, this is a positive.

According to Bespoke Investment Group, the S&P 500 stayed in the tightest range for the first half of the year ever in 2015, never down more than 3.2%, nor up more than 3.5%. Past performance is no guarantee of future results, but in the 10 years when the S&P 500 was similarly range-bound in the first half, stock prices rose in the balance of the year. While we believe the first half of 2015 will prove to have been the "pause that refreshes" (while corporate earnings catch-up to stock prices), we think there is a high probability stocks will encounter turbulence in the second half. As we've said often, during times of anxiety and turmoil, it will be critically important to stay focused on our process for generating outstanding long-term returns and not become whip-sawed by weak short-term outcomes.
That will never change.

Periods ending June 30, 2015
(Total Returns-Annualized*)

	Russell 3000 Index	S&P 500 Index
3-months	0.14%	0.28%
6-months	1.94%	1.23%
One-year*	7.29%	7.42%
Two-years*	15.91%	15.70%
Three-years*	17.73%	17.31%
Five-years*	17.54%	17.34%
Ten-years*	8.15%	7.89%

"Shocks & Stocks"

Sam Stovall, Chief Equity Strategist for S&P Capital IQ, wrote the terrific, above-titled report in September 2013. You probably don't recall, but at that time investors were gripped with fear about the negative market fallout from the expected retribution targeting the government of Syria for its use of chemical weapons against its own people.

Stovall noted the U.S. stock market has encountered a variety of unanticipated shocks over the past 70-years since World War II, including wars/near wars, assassinations/attempts, terrorist attacks and financial collapses. He has graciously given me permission to share the following table with you.

SHOCKS TO THE SYSTEM:
Market Declines and Recoveries Since WWII

Market Shock Events	Closing Levels			Bottom			Days to Recover
	Prior Day	Next Day	% Chg.	Level	Days	% Chg	
Japanese Tsunami: 3/11/11	1304.28	1296.39	(0.6)	1256.88	3	(3.6)	6
Flash Crash: 5/6/10	1165.87	1128.15	(3.2)	1110.88	1	(4.7)	4
Lehman Bankruptcy: 9/15/08	1251.70	1192.7	(4.7)	676.53	121	(46.0)	285
Madrid bombing: 3/10/04	1140.58	1123.89	(1.5)	1093.95	10	(4.1)	18
Terrorist Attacks: 9/11/01	1092.54	1038.77	(4.9)	965.80	5	(11.6)	19
Collapse of LTCM: 9/23/98	1066.09	1042.72	(2.2)	959.44	11	(10.0)	9
Iraq's Invasion of Kuwait: 8/2/90	355.52	351.48	(1.1)	295.46	49	(16.9)	82
Program Trading: 10/19/87	282.70	224.84	(20.5)	223.92	33	(20.8)	223
Nixon Resignation: 8/8/74	136.30	134.7	(1.2)	134.70	1	(1.2)	4
Reagan shooting: 3/30/81	82.65	81.57	(1.3)	62.28	39	(24.6)	143
OPEC oil embargo: 10/17/73	111.30	110.05	(1.1)	109.16	6	(1.9)	10
Kennedy assassination: 11/22/63	71.62	69.61	(2.8)	69.61	1	(2.8)	2
Cuban missile crisis: 10/22/62	54.96	53.49	(2.7)	53.49	1	(2.7)	5
Pearl Harbor Attack: 12/7/41	9.38	8.97	(4.4)	8.37	18	(10.8)	257
Medians			(2.4)		8	(7.4)	14

Source: S&P Capital IQ. Past performance is no guarantee of future results.

He said the initial shock sent the S&P 500 down a median of 2.4% during the subsequent trading day, took six days to reach bottom and fully recovered in the next 14 days. As you can see, some events took much longer to play out than the medians would suggest. However, he noted those extreme situations generally occurred during long-term bear markets and did not precipitate the initial decline.

The lesson, according to Stovall, is "Should history repeat itself, and there is no guarantee it will, unanticipated events that occur within bull markets that throw markets for a loop are typically assessed for their economic impact in short order, allowing opportunistic traders to step in an quickly push share prices back to breakeven and beyond." In other words, "Sell the scare, buy the bombs." Back then, he said some investors thought the impending military response to Syria's use of chemical weapons would trigger a market shock. Stovall said, "If so, it would probably be one of the most anticipated of unanticipated events in modern history." Sound familiar?

Interest Rates and the Bond Market

While the U.S. stock market was frozen in neutral at the prospects of an impending Fed move to raise short-term rates, the bond market slammed on the brakes and reversed sharply on stronger economic data, sending the yield on the 10-year U.S. Treasury Bond surging from 1.93% at the end of the first quarter of 2015 to 2.33% by the end of the second quarter. The "risk-free" 10-Year

U.S. Treasury Bond had a total return of -3.17% for the second quarter. Recall yields had previously defied expectations by continuing to fall while the Fed tapered its stimulus program and prepared investors for an increase in rates, so the only surprise is it took so long for the bond market to respond.

Credit spreads were volatile, but decreased by 10 basis points (0.10%) in the second quarter. Our performance for the quarter and year-to-date was good, but this continued shrinkage poses a significant challenge to find situations where we are being adequately compensated for risk.

KM Welcomes Collin Foster as Research Analyst/Trader

We are pleased to announce Collin joined KM's Investment Team in April 2015. He is researching stocks and handles trading responsibilities. Collin has a B.S. in Finance from Grove City College (2012) and worked as a Credit Analyst with MainSource Bank before joining KM.

Summary

Though we are cautiously optimistic for the balance of 2015, this is not to say we see smooth sailing ahead. The stock market can encounter severe turbulence at any time and for any reason. That said, we believe in Warren Buffett's advice to "be fearful when others are greedy and greedy when others are fearful." We're invested alongside you and you can be assured we'll continue to manage your precious assets with the same care as we invest our own.

Have a great summer and we'll be back to you in October

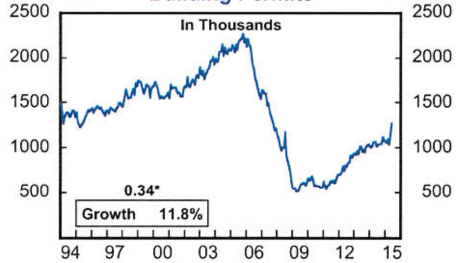
Regards,

Kirr, Marbach & Company, LLC

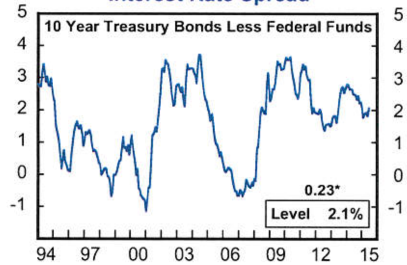
The Leading Indicators And Their Contributions

Data Released 6/18/15; May 2015

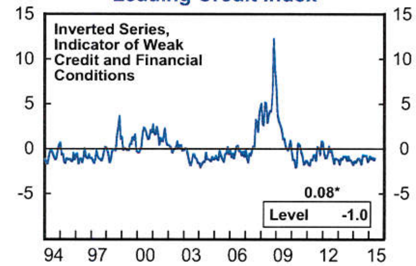
Building Permits



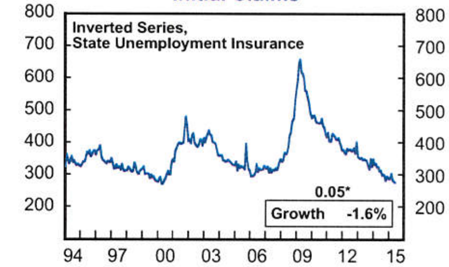
Interest Rate Spread



Leading Credit Index™



Initial Claims

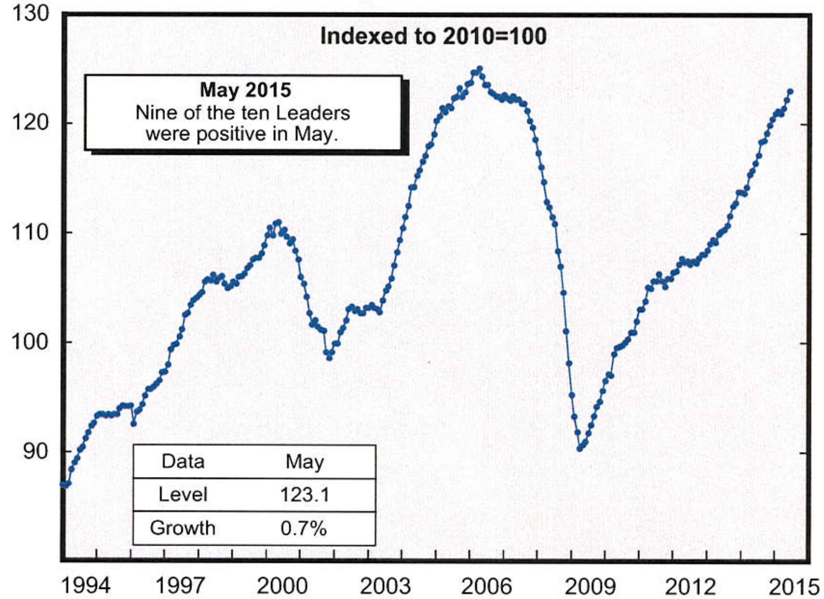


Note

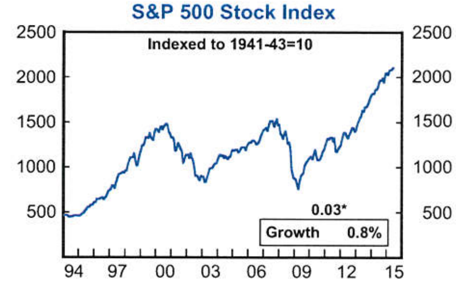
*** Indicates Net Contribution of Series to Total Leading Indicators Index in May 2015.**

Growth indicates percentage change from previous month.

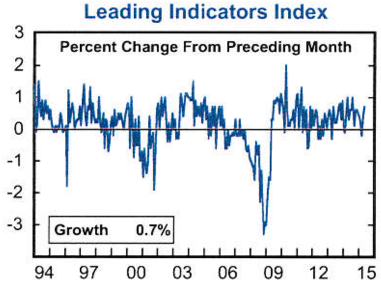
Leading Indicators Index



S&P 500 Stock Index

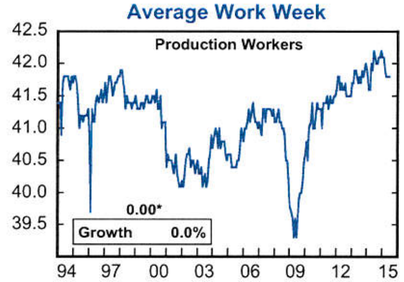


Leading Indicators Index



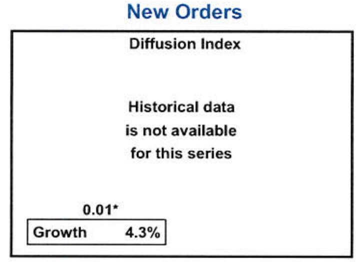
Consumer Expectations

Average Work Week



Nondefense Capital Goods exc. Aircraft

New Orders



Consumer Goods & Materials

Sources: The Conference Board; Bureau of Economic Analysis; Bureau of Labor Statistics; Bureau of the Census; Standard & Poor's Corporation; Copyright © 2015 Crandall, Pierce & Company

