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Richard H. Hummel, CFA
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"Indeed, who has ever benefited during the past 238 years by betting against America? My parents could not have dreamed in 1930 of the world their son would see. Though the preachers of pessimism prattle endlessly about America's problems, I've never seen one who wishes to emigrate (though I can think of a few for whom I would happily buy a one-way ticket). The dynamism embedded in our market economy will continue to work its magic. Gains won't come in a smooth or uninterrupted manner; they never have. But, most assuredly, America's best days lie ahead."
-Warren Buffett (Berkshire Hathaway Inc. 2014 Shareholder Letter- February 28, 2015)

April 7, 2015

Dear Clients:

Volatility returned with a vengeance in the first quarter of 2015, as investors grappled with increasing uncertainty associated with Federal Reserve ("Fed") policy, signs the U.S. economy has hit a soft patch and lowered expectations for corporate earnings. The S&P 500 dropped 3.1% in January, rose 5.5% in February and fell 1.7% in March. The S&P 500 experienced nine swings of 3.5% or more during the quarter. From mid-February to late-March, the S&P 500 failed to put together back-to-back gains for 28 consecutive trading days. This rare circumstance happened only twice since World War II—in May 1970 and April 1994.

That said, we kept a steady hand on the tiller and client equity portfolios generally outperformed their S&P 500 and Russell 3000 benchmarks by a comfortable margin in the first quarter. We don't pay much attention to performance over short-periods (our underperformance by an uncomfortable margin in 2014 is still fresh in our minds), but were pleased smaller-capitalization stocks performed better than larger-capitalization stocks in the first quarter.

To repeat a refrain, we like what we own and remain fairly fully invested. Stocks aren't cheap on an absolute, historical basis, but still remain attractive relative to bonds. As we've also said, given the U.S. economy has been recovering for several years since the depths of the "Great Recession," we don't see any reason to fear the gradual lifting of the emergency measures implemented by the Fed. We also think the recent weakness in economic readings is indicative of a temporary soft patch, not the start of a trend. Corporate earnings remain a wild card, but we think expectations have been lowered to the point surprises could be to the upside.

Periods ending March 31, 2015
(Total Returns-Annualized*)

	Russell 3000 Index	**S&P 500 Index**
3-months	1.80%	0.95%
One-year*	12.37%	12.73%
Two-years*	17.38%	17.21%
Three-years*	16.43%	16.11%
Five-years*	14.71%	14.47%
Ten-Years*	8.38%	8.01%

The Stock Market

The U.S. economy encountered significant challenges in the first quarter, leading to weaker-than-expected manufacturing activity and employment. Falling oil prices have had an immediate negative impact on earnings, capital spending and employment in the energy sector. Strategas Research Partners estimates if oil remains at its first quarter average of $48/barrel for the rest of 2015 (vs. $93/barrel in 2014), this will translate to ***$200 billion in savings*** for consumers. We think this will be a boon to the economy, but the boost to consumer spending has been slower to materialize than expected.

Our economy was also negatively impacted by the brutal winter in the Midwest and Northeast and the massive West Coast dock strike, all of which are seasonal/transitory. In January, the European Central Bank (ECB) finally decided to act on its pledge

to start its own brand of quantitative easing to jumpstart the European economy. Combined with the Fed indicating its intention to raise rates at some point, the U.S. Dollar surged in value vs. the Euro. Last May, 1 Euro cost about $1.39. Today, 1 Euro costs about $1.07. While this is fantastic news for Americans visiting Europe, this has made it tough for American companies doing business in Europe. The rise in the dollar makes American goods more expensive vs. those from European competitors. Similarly, an American multi-national corporation translating its earnings from Euros to dollars also takes a hit.

On the positive side, the European economy finally appears to be emerging from the doldrums. The ECB was far less aggressive than the Fed in taking extreme, emergency measures to shore-up the European economy. As a result, "green shoots" of economic recovery began appearing in the U.S. much sooner than in Europe. Recent economic data from Europe as well as signs of increased lending activity look similar to our green shoots of a few years ago. If these are indications of a European recovery, that could be a nice bonus most investors are not anticipating.

One of the primary reasons active managers struggled in 2014 was 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%.***

Recall in 2014, the ***Russell 2000 Index underperformed the Russell 1000 Index by 8.35%, an enormous performance gap.*** As shown in the table below, this reversed somewhat in the first quarter of 2015, with the Russell 2000 outperforming the Russell 1000 by 2.73%. We were happy to get some relief from the stiff performance headwinds we've been fighting, but for the 12-months ending 3/31/15, the Russell 1000 is still on top of the Russell 2000 by a significant (though narrower) margin.

Periods ending March 31, 2015

	Russell 3000 Index	**Russell 1000 Index**	**Russell 2000 Index**	**Performance Gap (R2000 vs. R1000)**
3-months	1.80%	1.59%	4.32%	**+2.73%**
12-months	12.37%	12.73%	8.21%	**-4.52%**

Interest Rates and the Bond Market

While the Fed removed "patient" from its most recent statement, we expect it to be most patient and gradual with increasing short-term interest rates. Indeed, with inflation continuing to be tame and with recent economic readings weakening, expectations of higher rates continue to be pushed out. The yield on the 10-Year U.S. Treasury Bond started 2015 at 2.17%, declined to 1.64% by the end of January and hit 2.24% early in March (before closing the first quarter at 1.92%). Bond yields, like stocks, exhibited tremendous volatility in the first quarter. Bond investors were laser-focused on the timing and magnitude of the Fed's planned increase in rates. When the Fed ultimately starts to make its move, we still think that it will continue to be a slow, drawn-out process. We are comfortable with the bonds we own and think they offer excellent long-term value.

Summary

With uncertainty surrounding Fed policy, the strength of the economy and corporate earnings likely to persist, we expect the stock and bond markets to remain "choppy" and volatile. It's always important to keep focus on the long-term, never more so than in times like these.

KM's 40th Anniversary

On May 1, 2015, Kirr, Marbach & Company will celebrate its 40th Anniversary in business. It hardly seems possible it's been this long. It would ***not*** have been possible without the trust and confidence you've placed in us each day and the hard work and dedication of our employees. This is a milestone very few firms in our business reach and we cannot thank you enough!

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