Kirr, Marbach & Company, LLC
Registered Investment Adviser

Mark D. Foster, CFA
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"One cool judgement is worth a thousand hasty counsels. The thing to do is to supply light and not heat."
— Woodrow Wilson

October 9, 2015

Dear Clients:

As we noted in our Q2-2015 client letter, 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%. As we're all acutely aware, that calm was shattered in August, as shockwaves from China's surprise currency devaluation and accompanying fears about global economic growth quickly hammered stock, commodity and currency markets in the U.S. and abroad.

We are invested alongside you, so completely understand your pain and anxiety caused by this harrowing drop. We're as frustrated as you about this ***short-term*** weakness, but our goal always is to generate outstanding ***long-term*** performance. We understand the long road to reaching that destination will be bumpy, but that doesn't make these periods any easier to take. ***We're encouraged U.S. stocks have rallied meaningfully at the start of Q4-2015, but expect extreme volatility to be a fact of investors' lives going forward.***

Though the newspaper headlines and talking heads blared *ad nauseam* about U.S. stocks suffering their worst quarterly loss since Q3-2011, we don't believe the sky is falling. We'd make the following points:

- **The stock market is *not* the economy.** The U.S. economy remains on solid footing and we don't expect a recession anytime soon. The chart in Exhibit A shows the Leading Economic Indicators Index is still in an uptrend. Bear markets are typically associated with recessions, so we do not anticipate a more serious decline.
- **The stock market has experienced a correction (>10% decline), bear market (>20% decline) and/or recession almost half the time.** The chart in Exhibit B shows these negative events have occurred about 45.3% of the time. In other words, they are part of the normal investment landscape, so are nothing out of the ordinary or something to fear. It had been 46 months since the last correction, so U.S. stocks were overdue. In addition, the chart in Exhibit C shows since 1950, the S&P 500 has had negative returns in 15 calendar years (i.e. 23% of the time). Finally, Exhibit D shows the range of returns by calendar year for the S&P 500 since 1935. On average for almost 80 calendar years, the S&P 500 moved in a range of -9.5% to 15.3% during a calendar year. This shows how unusual the placidity of the first half of 2015 was and what we've experienced through the first three quarters of 2015 is well within historical averages.
- **The stock market has survived many crises and gone on to new highs.** Exhibit E lists 119 crises since 1896. Perhaps the China currency devaluation/global economic growth scare will be #120.
- **As long-term investors, we try to let volatility be our friend.** Similar to other episodes of intense volatility since the depths of the global financial crisis, instead of wringing our hands, we're using this period of investor unease/panic to upgrade the quality of our portfolio.

In addition, we're not making excuses for our weak relative and absolute performance in 2015, but it's important to recognize the extreme divergence in performance between the largest-capitalization and smaller-capitalization stocks in Q3-2015. In times of market stress, smaller-capitalization stocks tend to suffer from the perception they are relatively "riskier" and the fact lower trading liquidity can lead to higher price volatility. 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 90% of the weight of the Russell 3000, while the stocks in the Russell 2000 (2/3 of the stocks) comprise only 10%.***

The performance disparity based on market capitalization can be clearly seen in the table below. For the quarter ending September 30, 2015, the ***Russell 2000 Index underperformed the Russell 1000 Index by 5.09%, an enormous performance gap.*** KM client portfolios have significant representation outside of the largest 1000 stocks sailed into some stiff performance headwinds in the third quarter of 2015.

Periods ending September 30, 2015

	Russell 3000 Index	Russell 1000 Index	Russell 2000 Index	Performance Gap (R2000 vs. R1000)
3-months	-7.25%	-6.83%	-11.92%	**-5.09%**
9-months	-5.45%	-5.24%	-7.73%	**-2.49%**

Periods ending September 30, 2015
(Total Returns—Annualized*)

	Russell 3000 Index	S&P 500 Index
3-months	-7.25%	-6.44%
9-months	-5.45%	-5.29%
One-year*	-0.49%	-0.61%
Three-years*	12.53%	12.40%
Five-years*	13.28%	13.34%
Ten-years*	6.92%	6.80%

We've established it's been a tough environment in 2015, 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 still like what we own and remain fully invested. While stock prices are lower, nothing that has happened in China over the past couple months has impaired the long-term value of the companies we own. It's critically important to maintain a disciplined investment approach, particularly in a headline-driven market, so we're tightening our seatbelts.

Interest Rates and the Bond Market

The U.S. government bond market experienced significantly less volatility than the stock market. The yield on the 10-Year U.S. Treasury bond declined by 0.3%, but corporate credit spreads widened to offset the lower yields. The Federal Reserve decided ***not*** to raise rates at its September meeting, unintentionally ***adding*** to investor uncertainty and unease as it cited recent global turbulence. We continue to feel good about the credits we own, given our expectations that the Fed will likely hike interest rates before year-end. We think that the eventual rise is already baked into the markets and has the potential to be viewed as a positive.

Summary

We're not happy with our absolute and relative performance thus far in 2015, but have been here many times before. We can't say when this storm will end, but they don't last forever. In the meantime, we'll work hard to make-up lost ground. We're invested alongside 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 2015 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,

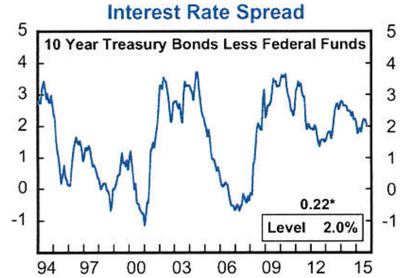
Kirr, Marbach & Company, LLC

Exhibit A

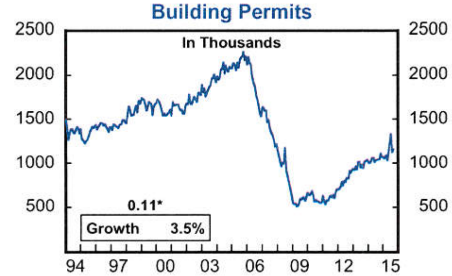
The Leading Indicators And Their Contributions

Data Released 9/18/15; August 2015

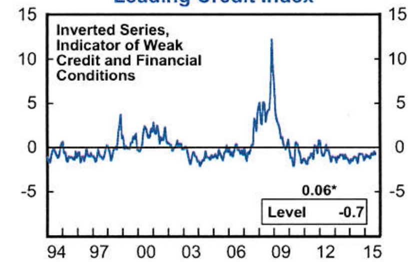
Interest Rate Spread



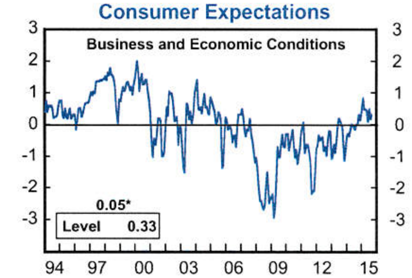
Building Permits



Leading Credit Index™



Consumer Expectations

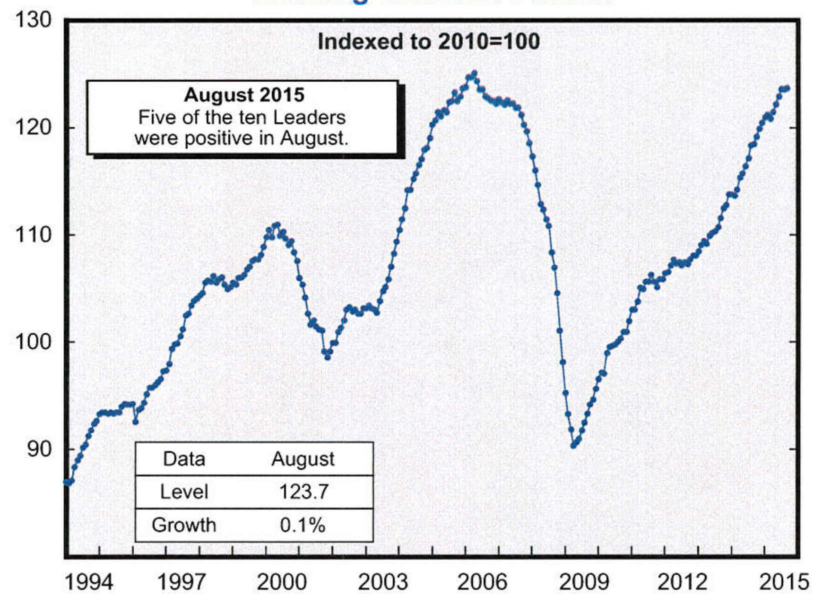


Note

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

Growth indicates percentage change from previous month.

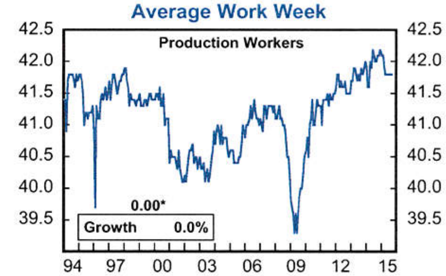
Leading Indicators Index



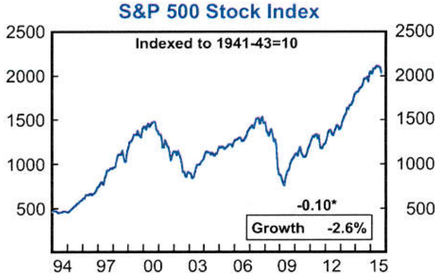
Consumer Goods & Materials

Leading Indicators Index

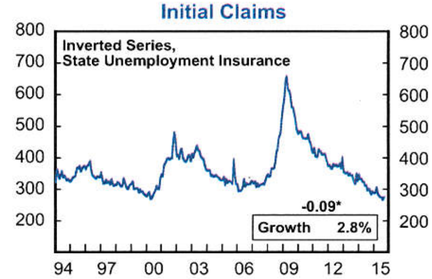
Average Work Week



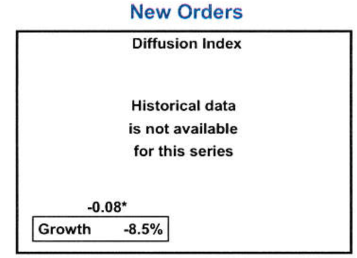
S&P 500 Stock Index



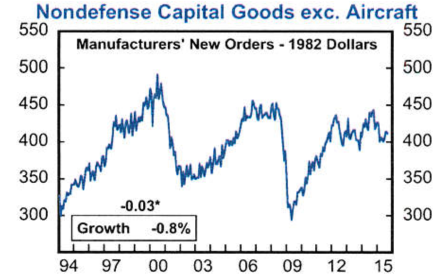
Initial Claims



New Orders



Nondefense Capital Goods exc. Aircraft

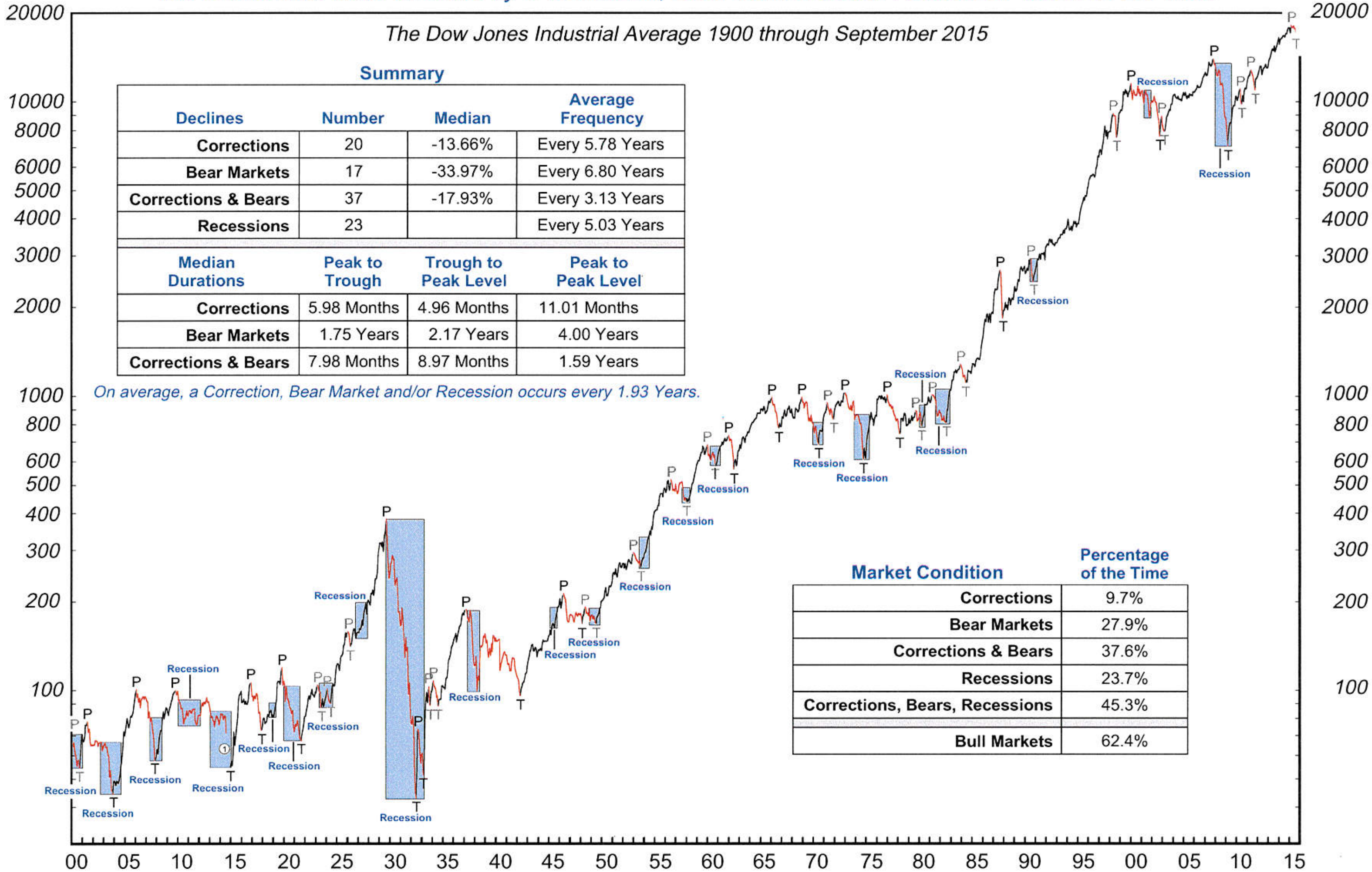


Sources: The Conference Board; Bureau of Economic Analysis; Bureau of Labor Statistics; Bureau of the Census; Standard & Poor's Corporation; Copyright © 2015 Crandall, Pierce & Company

Why Have a Disciplined Investment Approach?

The Market has been affected by a Correction, Bear Market and/or Recession 45.3% of the time.

The Dow Jones Industrial Average 1900 through September 2015



Summary

Declines	Number	Median	Average Frequency
Corrections	20	-13.66%	Every 5.78 Years
Bear Markets	17	-33.97%	Every 6.80 Years
Corrections & Bears	37	-17.93%	Every 3.13 Years
Recessions	23		Every 5.03 Years

Median Durations	Peak to Trough	Trough to Peak Level	Peak to Peak Level
Corrections	5.98 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

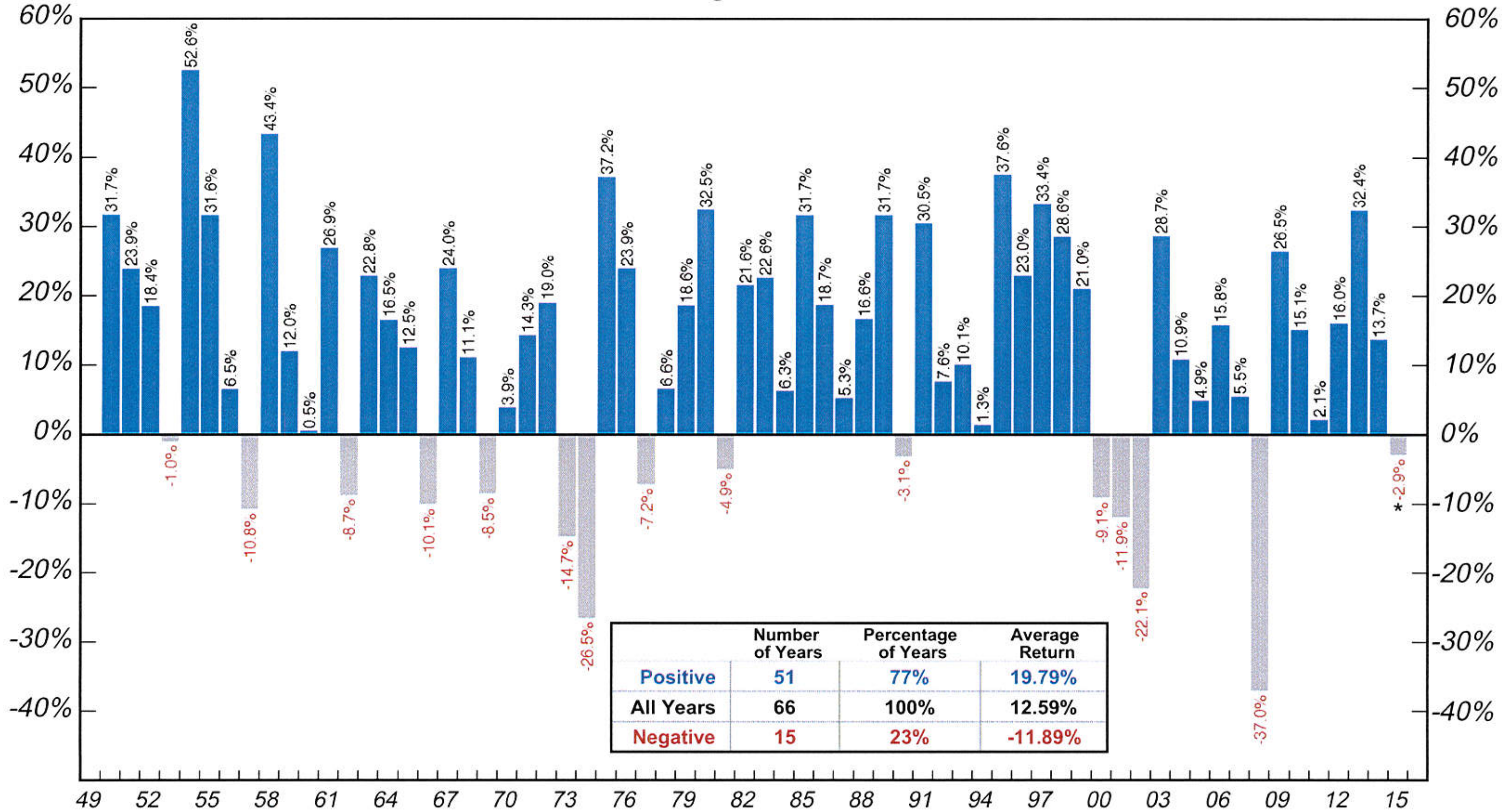
On average, a Correction, Bear Market and/or Recession occurs every 1.93 Years.

Market Condition	Percentage of the Time
Corrections	9.7%
Bear Markets	27.9%
Corrections & Bears	37.6%
Recessions	23.7%
Corrections, Bears, Recessions	45.3%
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. ①The Stock Exchange was closed due to World War I.
Sources: Dow Jones & Company; National Bureau of Economic Research • Copyright © 2015 Crandall, Pierce & Company • All rights reserved.

Standard & Poor's 500 Stock Index
Total Return: Calendar Years 1950 - 2015*
Percentage Gain or Loss



	Number of Years	Percentage of Years	Average Return
Positive	51	77%	19.79%
All Years	66	100%	12.59%
Negative	15	23%	-11.89%

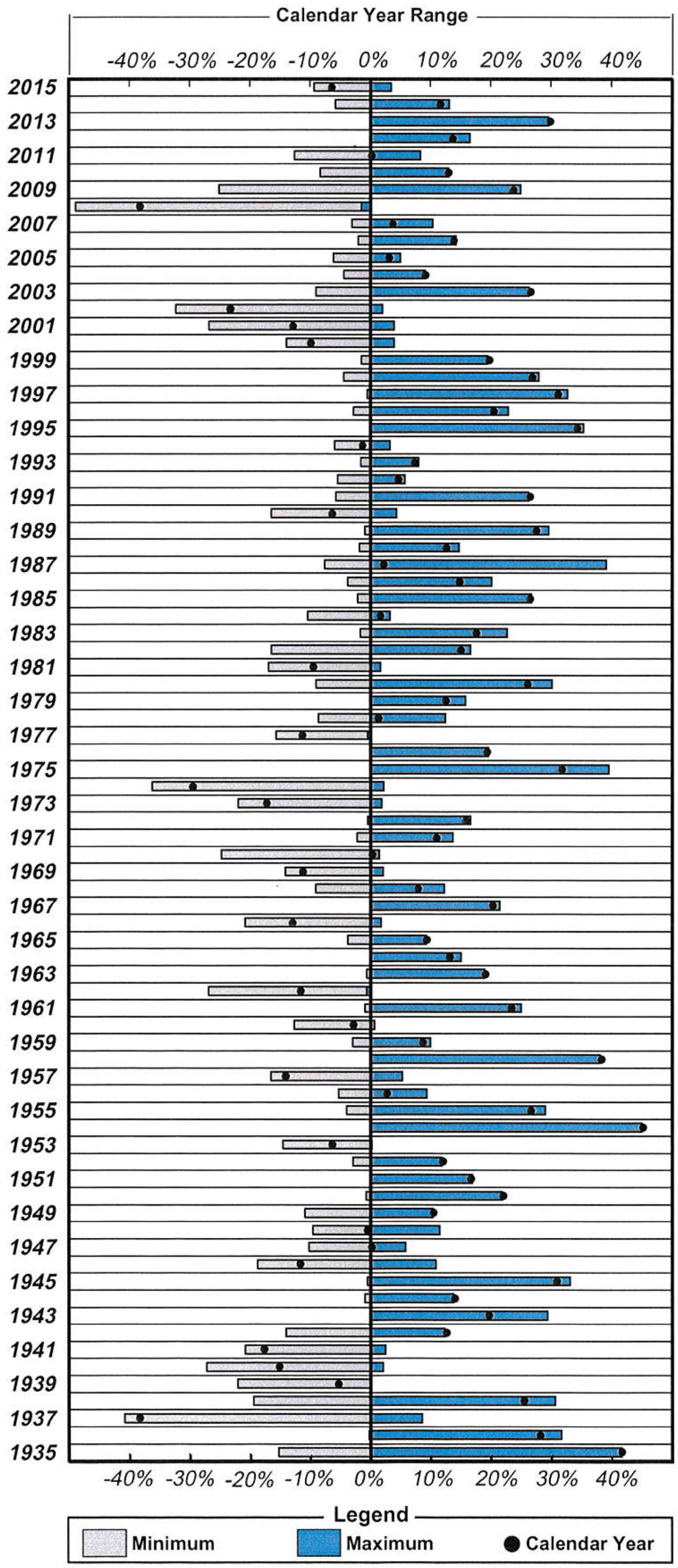
*Year to date - through August 31, 2015

Sources: Standard & Poor's Corporation; Copyright © 2015 Crandall, Pierce & Company • All rights reserved.

Exhibit D

Range of Returns - By Calendar Year

The Standard & Poor's 500 Stock Index 1935 - 2015*



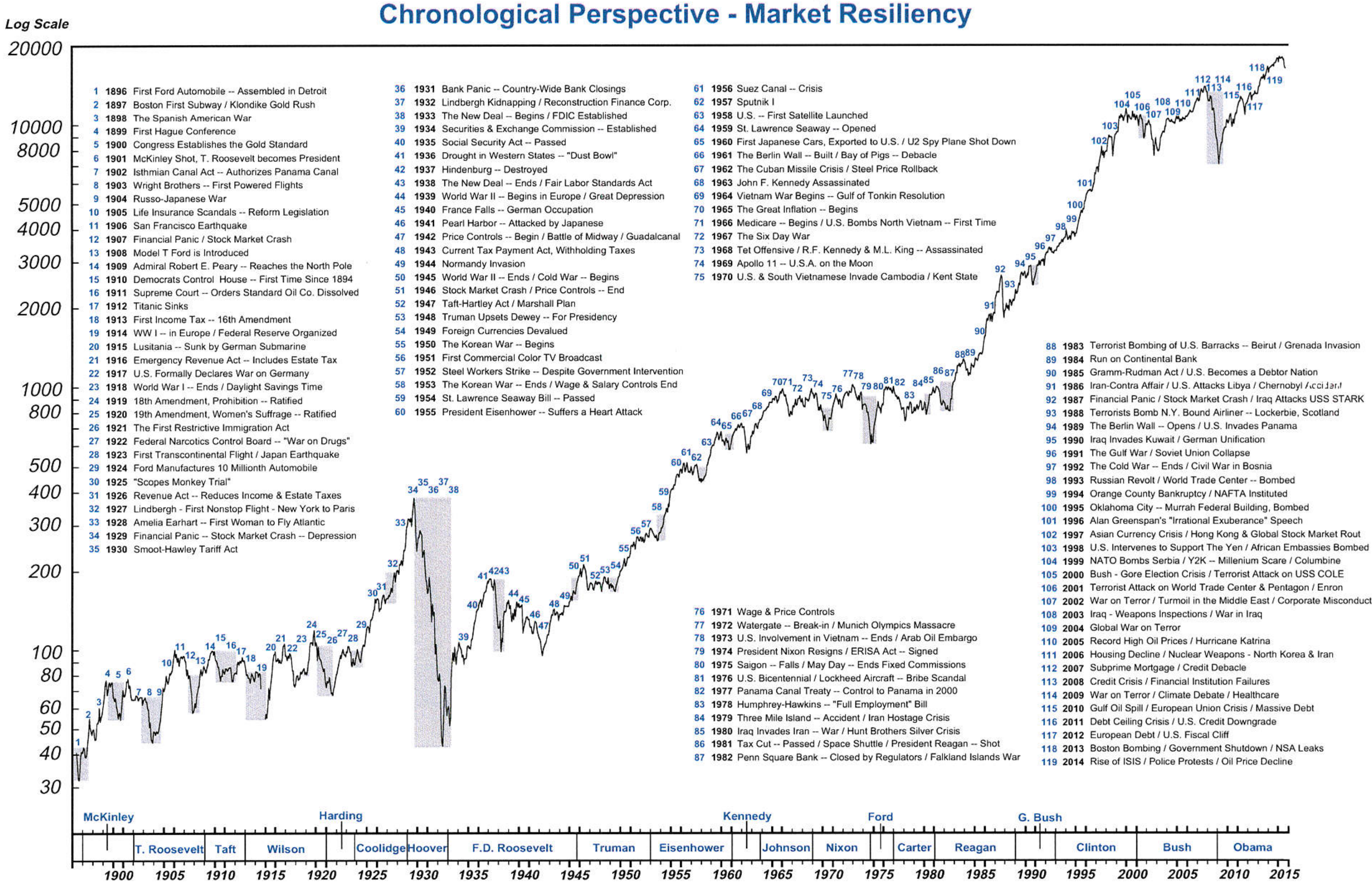
Calendar Year Range					
Minimum Date	Minimum Return	Maximum Return	Maximum Date	Calendar Year Return	Year
8/25/2015	-9.3%	3.5%	5/21/2015	-6.7%	2015
2/3/2014	-5.8%	13.1%	12/29/2014	11.4%	2014
1/8/2013	2.2%	29.6%	12/31/2013	29.6%	2013
1/3/2012	1.5%	16.6%	9/14/2012	13.4%	2012
10/3/2011	-12.6%	8.4%	4/29/2011	0.0%	2011
7/2/2010	-8.3%	13.0%	12/29/2010	12.8%	2010
3/9/2009	-25.1%	24.9%	12/28/2009	23.5%	2009
11/20/2008	-48.8%	-1.4%	1/2/2008	-38.5%	2008
3/5/2007	-3.1%	10.4%	10/9/2007	3.5%	2007
6/13/2006	-2.0%	14.3%	12/15/2006	13.6%	2006
4/20/2005	-6.1%	5.0%	12/14/2005	3.0%	2005
8/12/2004	-4.4%	9.1%	12/30/2004	9.0%	2004
3/11/03	-9.0%	26.4%	12/31/03	26.4%	2003
10/9/02	-32.3%	2.1%	1/4/02	-23.4%	2002
9/21/01	-26.8%	4.0%	1/30/01	-13.0%	2001
12/20/00	-13.9%	4.0%	3/24/00	-10.1%	2000
1/14/99	-1.4%	19.5%	12/31/99	19.5%	1999
1/9/98	-4.4%	28.0%	12/29/98	26.7%	1998
1/2/97	-0.5%	32.8%	12/5/97	31.0%	1997
1/10/96	-2.8%	22.9%	11/25/96	20.3%	1996
1/3/95	0.0%	35.4%	12/13/95	34.1%	1995
4/4/94	-5.9%	3.3%	2/2/94	-1.5%	1994
1/8/93	-1.5%	8.1%	12/28/93	7.1%	1993
4/8/92	-5.4%	5.8%	12/18/92	4.5%	1992
1/9/91	-5.7%	26.3%	12/31/91	26.3%	1991
10/11/90	-16.4%	4.4%	7/16/90	-6.6%	1990
1/3/89	-0.9%	29.6%	10/9/89	27.3%	1989
1/20/88	-1.8%	14.8%	10/21/88	12.4%	1988
12/4/87	-7.5%	39.1%	8/25/87	2.0%	1987
1/22/86	-3.7%	20.2%	12/2/86	14.6%	1986
1/4/85	-2.1%	26.8%	12/16/85	26.3%	1985
7/24/84	-10.4%	3.3%	11/6/84	1.4%	1984
1/3/83	-1.6%	22.8%	10/10/83	17.3%	1983
8/12/82	-16.4%	16.7%	11/9/82	14.8%	1982
9/25/81	-16.9%	1.7%	1/6/81	-9.7%	1981
3/27/80	-9.0%	30.2%	11/28/80	25.8%	1980
2/27/79	0.0%	15.8%	10/5/79	12.3%	1979
3/6/78	-8.6%	12.5%	9/12/78	1.1%	1978
11/2/77	-15.6%	-0.4%	1/3/77	-11.5%	1977
1/2/76	0.8%	19.6%	9/21/76	19.1%	1976
1/8/75	2.2%	39.5%	7/15/75	31.5%	1975
10/3/74	-36.2%	2.3%	1/3/74	-29.7%	1974
12/5/73	-21.9%	1.9%	1/11/73	-17.4%	1973
1/3/72	-0.4%	16.7%	12/11/72	15.6%	1972
11/23/71	-2.2%	13.7%	4/28/71	10.8%	1971
5/26/70	-24.7%	1.5%	1/5/70	0.1%	1970
12/17/69	-14.1%	2.2%	5/14/69	-11.4%	1969
3/5/68	-9.1%	12.3%	11/29/68	7.7%	1968
1/3/67	0.1%	21.5%	9/25/67	20.1%	1967
10/7/66	-20.8%	1.8%	2/9/66	-13.1%	1966
6/28/65	-3.7%	9.3%	11/15/65	9.1%	1965
1/2/64	0.5%	15.0%	11/20/64	13.0%	1964
1/2/63	-0.6%	18.9%	12/31/63	18.9%	1963
6/26/62	-26.9%	-0.6%	1/3/62	-11.8%	1962
1/3/61	-0.9%	25.0%	12/12/61	23.1%	1961
10/25/60	-12.7%	0.8%	1/5/60	-3.0%	1960
2/9/59	-3.0%	10.0%	8/3/59	8.5%	1959
1/2/58	0.9%	38.1%	12/31/58	38.1%	1958
10/22/57	-16.5%	5.3%	7/15/57	-14.3%	1957
1/23/56	-5.2%	9.4%	8/2/56	2.6%	1956
1/17/55	-3.9%	29.0%	11/14/55	26.4%	1955
1/11/54	0.0%	45.0%	12/31/54	45.0%	1954
9/14/53	-14.5%	0.3%	1/5/53	-6.6%	1953
2/20/52	-2.9%	11.9%	12/30/52	11.8%	1952
1/3/51	1.4%	16.9%	10/15/51	16.5%	1951
1/14/50	-0.7%	21.9%	12/29/50	21.8%	1950
6/13/49	-10.9%	10.5%	12/30/49	10.3%	1949
3/16/48	-9.5%	11.5%	6/15/48	-0.7%	1948
5/19/47	-10.2%	5.9%	2/8/47	0.0%	1947
10/9/46	-18.7%	10.9%	5/29/46	-11.9%	1946
1/23/45	-0.5%	33.1%	12/10/45	30.7%	1945
2/7/44	-0.9%	13.8%	12/29/44	13.8%	1944
1/2/43	0.7%	29.4%	7/14/43	19.4%	1943
4/28/42	-14.0%	12.4%	12/31/42	12.4%	1942
12/23/41	-20.8%	2.6%	1/10/41	-17.9%	1941
6/5/40	-27.2%	2.2%	1/3/40	-15.3%	1940
4/10/39	-22.0%	0.2%	1/4/39	-5.5%	1939
3/31/38	-19.4%	30.7%	11/9/38	25.2%	1938
11/24/37	-40.8%	8.7%	3/10/37	-38.6%	1937
1/2/36	-0.2%	31.7%	11/9/36	27.9%	1936
3/14/35	-15.2%	41.7%	11/19/35	41.4%	1935
Average	-9.5%	15.3%		8.3%	Average
Median	-5.8%	13.0%		11.4%	Median

Note: Return is measured by Capital Appreciation.

Exhibit E

The Dow Jones Industrial Average: 1896-2015

Chronological Perspective - Market Resiliency



Shaded areas represent recessionary periods. • 2015 data is preliminary through September.

Data Sources: Dow Jones & Company; The Federal Reserve Board; The National Bureau of Economic Research • Copyright © 2015 Crandall, Pierce & Company • All rights reserved.

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