Kirr, Marbach & Company, LLC
Registered Investment Adviser

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

"What worries you, masters you."
John Locke (English philosopher)

October 5, 2017

Dear Clients:

North Korea. Russia. Charlottesville. Harvey. Irma. Maria. Las Vegas (first day of Q4). U.S. investors were bombarded with bad news. It seemed as if the apocalypse was knocking at our front door, yet stocks moved higher in the third quarter, with the S&P 500 posting its eighth consecutive quarterly gain. The S&P 500, NASDAQ and Russell 2000 all finished the third quarter at record highs, with the Dow Jones Industrial Average just shy. Volatility was extremely low, with the S&P 500's daily move of 0.3% the lowest since 1968.

With the world careening from crisis to crisis, some natural and some man-made, how were stocks able to grind higher to record territory? Were investors impervious to the bad news? No, we believe investors were properly focused on the economy and corporate profits that continue to strengthen and valuations that are elevated, but not yet worrisome. Hopes for tax reform, or at least a significant cut in the corporate tax rate, also gave stocks a late boost.

KM client equity portfolios continued to post gains in the third quarter, leading to strong absolute performance for the year-to-date. Growth continued to outperform Value in the third quarter, but the gap narrowed slightly. We continue to believe the pendulum will swing from Growth back towards Value, but obviously can't say when that will occur. We can say with certainty the road ahead will be bumpy and we'll encounter sharp corners along the way. Successful investing is a marathon, not a sprint, so we always focus our efforts on generating good *long-term* performance.

Periods ending September 30, 2017
(Total Returns-Annualized*)

	Russell 3000 Index	S&P 500 Index
Three-months	4.57%	4.48%
Nine-months	13.91%	14.24%
One-year*	18.71%	18.61%
Two-years*	16.82%	17.01%
Three-years*	10.74%	10.81%
Five-years*	14.23%	14.22%
Ten-Years*	7.57%	7.44%

The Stock Market

We again "deconstructed" the returns of our benchmark Russell 3000 Index to provide an illustrative look under the surface for the first nine-months of 2017. A stock's market capitalization is simply the price multiplied by the number of shares outstanding. Recall the Russell 3000 is a capitalization-weighted index (which means the performance of the largest capitalization stocks impacts the performance of the index itself more than the performance of the smallest capitalization stocks) comprising about 98% of the total market capitalization of the U.S. stock market. The Russell 1000 Index is comprised of the largest 1000 market capitalization stocks in the Russell 3000 (comprising 91% of the market capitalization of the Russell 3000). The Russell 2000 Index is comprised of the 2000 smallest market capitalization stocks in the Russell 3000 (comprising the remaining 9% of the market capitalization of the Russell 3000). The Russell 3000, Russell 1000 and Russell 2000 can be further broken down into "Growth" and "Value" components.

As you can see from the table below, while small-capitalization stocks (as represented by the Russell 2000) actually outperformed large-capitalization stocks (as represented by the Russell 1000) in the third quarter, ***large-capitalization stocks still outperformed small-capitalization stocks by 3.23% in the first nine months of 2017.***

Periods ending September 30, 2017

	Russell 3000 Index	Russell 1000 Index	Russell 2000 Index	Performance Gap (R1000-R2000)
Q1-2017	5.74%	6.02%	2.46%	**3.56%**
Q2-2017	3.02%	3.06%	2.46%	**0.60%**
Q3-2017	4.57%	4.48%	5.67%	**-1.19%**
YTD-2017	13.91%	14.16%	10.93%	**3.23%**

The three tables below show the performance gap between Growth and Value for the Russell 3000, Russell 1000 and Russell 2000 continued to narrow slightly in the third quarter of 2017, but remained a huge, double-digit amount ***for the first nine months of 2017.***

	Russell 3000 Index	Russell 3000 Growth Index	Russell 3000 Value Index	Performance Gap (R3000 Growth-R3000 Value)
Q1-2017	5.74%	8.62%	2.99%	**5.63%**
Q2-2017	3.02%	4.65%	1.29%	**3.36%**
Q3-2017	4.57%	5.93%	3.26%	**2.67%**
YTD-2017	13.91%	20.42%	7.72%	**12.70%**

	Russell 1000 Index	Russell 1000 Growth Index	Russell 1000 Value Index	Performance Gap (R1000 Growth-R1000 Value)
Q1-2017	6.02%	8.90%	3.26%	**5.64%**
Q2-2017	3.06%	4.67%	1.34%	**3.33%**
Q3-2017	4.48%	5.90%	3.11%	**2.79%**
YTD-2017	14.16%	20.72%	7.92%	**12.80%**

	Russell 2000 Index	Russell 2000 Growth Index	Russell 2000 Value Index	Performance Gap (R2000 Growth-R2000 Value)
Q1-2017	2.46%	5.34%	-0.13%	**5.47%**
Q2-2017	2.46%	4.39%	0.67%	**3.72%**
Q3-2017	5.67%	6.22%	5.11%	**1.11%**
YTD-2017	10.93%	16.80%	5.67%	**11.13%**

Putting the four Russell tables together, we're encouraged smaller-capitalization stocks outperformed and the performance gap between Growth and Value continued to narrow slightly in the third quarter. We're hopeful these trends continue.

We'll close this section by sharing two pieces from our friends at Strategas Research Partners. Exhibit A is an update of graphs we've shown before that illustrate the outperformance of Growth vs. Value had reached extremes that ***historically*** indicated the performance pendulum swinging back in favor of Value. As noted above and shown in the graphs, while Value has started to make-up lost ground, it still has a very long way to go. We're hopeful the trend continues.

We're often asked if the market is a "bubble" that's soon to pop. With stocks at record highs and with all of the "bad stuff" going on in the world, it's a reasonable question. As always, we're focused on the ***fundamentals*** and the ***long-term.*** Exhibit B lays-out Strategas' views on where we are now versus the last two times the bubble popped (2000 and 2007). They don't see similarities between now and then and neither do we.

That said, the U.S. stock market is ***long overdue for a correction***, which could occur at any time and for any or no reason. Investors haven't endured even a 5% correction since early 2016, but this extended period of calm is an aberration. According to Crandall, Perce & Company, since 1900, 5% corrections have occurred about 3 times a year and 10% corrections about once a year, so ***corrections are a normal part of the stock landscape and nothing to fear***. Bespoke Investment Group adds it's been more than XXX trading days since the S&P 500 saw a correction of at least 5%, the longest streak since 1996. Further, since 1928 there have only been seven other streaks where the S&P 500 went longer without a 5% correction.

Review timeless truths before the next market "crisis"

We've warned of the danger to your long-term financial health of heeding the advice of "talking heads," particularly when stocks hit a rough patch. Ben Carlson of Ritholtz Wealth Management and the "A Wealth of Common Sense" blog wrote "36 Obvious Investment Truths" after he saw a headline on CNBC warning of the need to protect yourself from a 5% pullback in stocks.

Carlson's immediate response was, ***"If you're worried about protecting against 5% corrections you shouldn't be invested in stocks in the first place."*** We agree.

We have no idea when it will occur or for what reason, but we can be sure investors' resolve will be tested at some point. You can be sure the "chicken littles" will do their best to scare the bejesus out of you, so it's best to review Carlson's "obvious truths" in times of relative calm:

1. If you need to spend your money in a relatively short period of time it doesn't belong in the stock market.
2. If you want to earn higher returns you're going to have to take more risk.
3. If you want more stability you're going to have to accept lower returns.
4. Any investment strategy with high expected returns should come with the expectation of losses.
5. The stock market goes up and down.
6. If you want to hedge against stock market risk the easiest thing to do is hold more cash.
7. Risk can change shape or form but it never really goes away.
8. There's no such thing as a perfect portfolio, asset allocation or investment strategy.
9. No investor is right all the time.
10. No investment strategy can outperform at all times.

Exhibit A


Annualized Trailing 10-Year Relative Total Return
Russell 2000 Growth - Russell 2000 Value
Avg.
-2 StDev.
+2 StDev.
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
'88
'91
'94
'97
'00
'03
'06
'09
'12
'15
1.3%

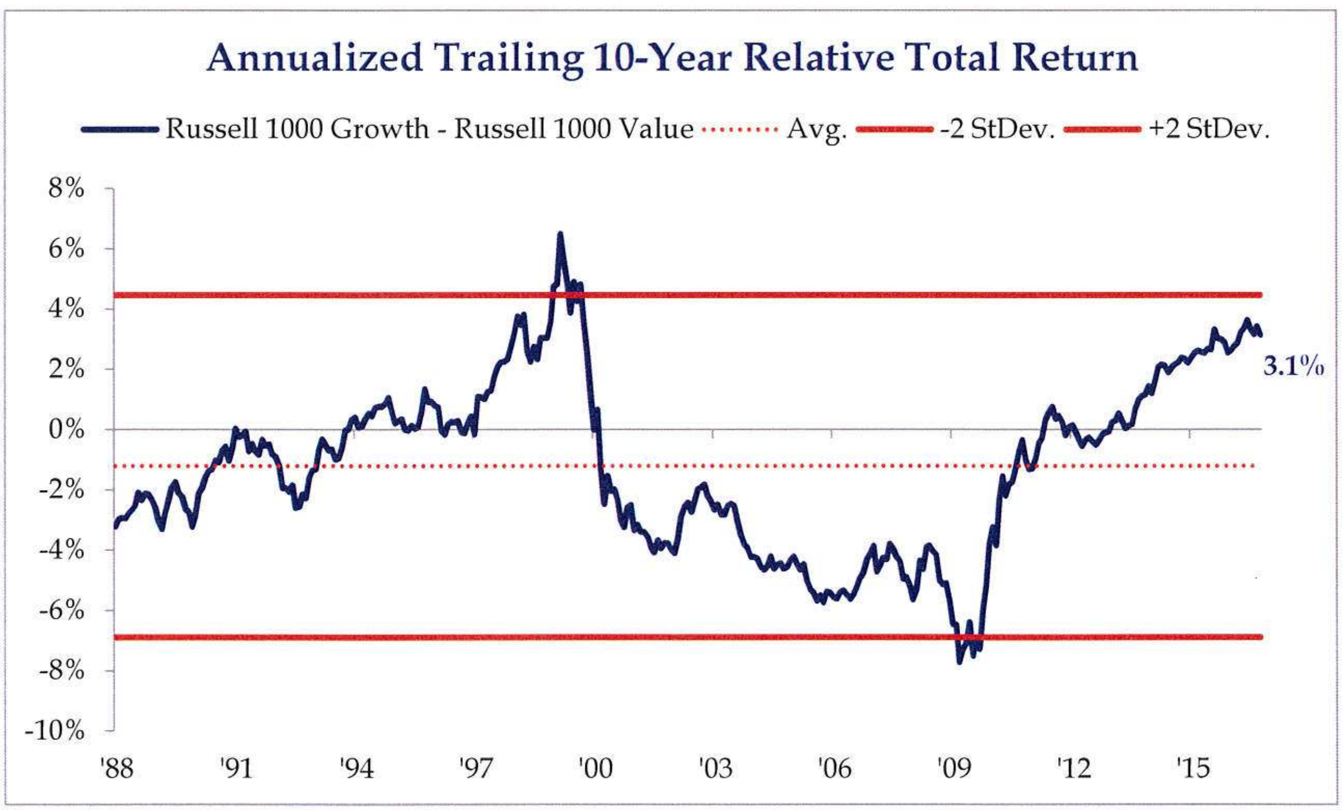
Annualized Trailing 10-Year Relative Total Return
Russell 1000 Growth - Russell 1000 Value
Avg.
-2 StDev.
+2 StDev.
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
'88
'91
'94
'97
'00
'03
'06
'09
'12
'15
3.1%

Exhibit B

Bull Market Top Checklist

	2000	2007	Current	Comments
1. Blow-off top	✓	✓	*x*	No signs of panic buying or speculative excess in public equity markets.
2. Heavy inflows into equity market funds	✓	✓	*x*	Net inflows into domestic equity mutual funds and ETFs has only recently started to rise. Inflows into bond funds remains robust.
3. Big pick-up in M&A activity	✓	✓	*x*	While M&A activity picked up meaningfully in 2015, both deal volume and deal value faded in 2016. Deal volume remains far from robust this year.
4. IPO activity	✓	✓	*x*	Despite some high-profile new issues thus far in 2017, deal volume and assets raised remain far below the pace exhibited in 2015.
5. Rising real interest rates	✓	✓	*x*	5yr-5yr breakeven expectations have turned lower over the last 3 months.
6. Weakening upward earnings revisions	✓	✓	x	Revisions have been trending upward recently.
7. Erosion in number of stocks making new highs	✓	✓	x	The market's breadth is far healthier today than it was during the period of consolidation between 2014 and early 2016.
8. Shift towards defensive leadership	✓	✓	x	Since the February low, cyclical shares have outperformed.
9. Widening credit spreads	✓	✓	*x*	High-yield and investment grade credits spreads remain tight.

11. Almost any investor can outperform for a short period of time.

12. Size is the enemy of outperformance.

13. Brilliance doesn't always translate into better investment results.

14. "I don't know" is almost always the correct answer when someone asks you what's going to happen in the markets.

15. Watching your friends get rich makes it difficult to stick with a sound investment plan.

16. If you invest in index funds you cannot outperform the market.

17. If you invest in active funds there's a high probability you will underperform index funds.

18. If you are a buy and hold investor you will take part in all of the gains but you also take part in all of the losses.

19. For buy and hold to truly work you have to do both when markets are falling.

20. Proper diversification means always having to say you're sorry about part of your portfolio.

21. Day trading is hard.

22. Outperforming the market is hard (but that doesn't mean it's impossible).

23. There is no signal known to man that can consistently get you out right before the market falls and get you back in right before it rises again.

24. Most back tests work better on a spreadsheet than in the real world because of competition, taxes, transaction costs and the fact that you can't back test your emotions.

25. Compound interest is amazing but it takes a really long time to work.

26. Investing based on what every billionaire hedge fund manager says is a great way to drive yourself insane.

27. It's almost impossible to tell if you're being disciplined or irrational by holding on when your investment strategy is underperforming.

28. Reasonable investment advice doesn't really change all that much but most of the time people don't want to hear reasonable investment advice.

29. The best investment process is the one that fits your personality enough to allow you to see it through any market environment.

30. Successful investing is more about behavior and temperament than IQ or education.

31. Stock-picking is more fun but asset allocation will have more to do with your overall performance.

32. Don't be surprised when we have bear markets or recessions. Everything is cyclical.

33. You are not Warren Buffett.

34. The market doesn't care how you feel about a stock or what price you paid for it.

35. The market doesn't owe you high returns just because you need them.

36. Predicting the future is hard.

Congratulations to Collin Foster, CFA

Collin joined KM in 2015 as a Research Analyst/Equity Trader. He recently passed Level 3 of the CFA Program and was awarded the designation of Chartered Financial Analyst (CFA).

The CFA Program is administered by the CFA Institute. First introduced in 1963, the Chartered Financial Analyst designation, or CFA charter, has become the most respected and recognized investment credential in the world. To earn a CFA charter, you must have four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA Program. The CFA Program is organized into three levels, each culminating in a six-hour exam. The CFA Program reflects a broad Candidate Body of Knowledge™ (CBOK) developed and continuously updated by active practitioners to ensure that charterholders possess knowledge grounded in the real world of today's global investment industry.

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 2017 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

Past performance is not a guarantee of future results.

The Russell 3000 Index is an unmanaged, capitalization-weighted index generally representative of the U.S. stock market. This index cannot be invested in directly.

The Russell 1000 Index is an unmanaged, capitalization-weighted index generally representative of the U.S. market for large-capitalization stocks. It is a subset of the Russell 3000 Index. This index cannot be invested in directly.

The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. This index cannot be invested in directly.

The Russell 1000 Value Index is an unmanaged, capitalization-weighted index that measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. This index cannot be invested in directly.

The Russell 2000 Index is an unmanaged, capitalization-weighted index general representative of the U.S. market for small-capitalization stocks. It is a subset of the Russell 3000 Index. This index cannot be invested in directly.

The Russell 2000 Growth Index is an unmanaged, capitalization-weighted index that measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values. This index cannot be invested in directly.

The Russell 2000 Value Index is an unmanaged, capitalization-weighted index that measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. This index cannot be invested in directly.

The S&P 500 Index is an unmanaged, capitalization-weighted index generally representative of the U.S. market for large capitalization stocks. This index cannot be invested in directly.