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"Anyone can steer the ship when the sea is calm."
Publius Syrus
(Roman author, 1st Century B.C.)

April 6, 2018

Dear Clients:

U.S. stocks sprinted from the starting gate in January before volatility returned with a vengeance towards the end of the month. Stocks were upended as calm seas gave way to a "nor'easter" caused by concerns over a global trade war, the possibility of heightened government regulation of the market-driving mega-capitalization technology stocks (which were priced for perfection), higher interest rates and a more "hawkish" Federal Reserve.

In our January 2018 client letter, we stated our ***expectation*** that "the U.S. stock market's steady, ***uninterrupted*** (emphasis added) run of record highs in 2017 is unlikely to be repeated in 2018." Since we had no way of knowing when the storm clouds would appear (and neither did anyone else), we made no ***forecast*** as to when the seas would turn rough. As we'll explain further, the distinction between expectations vs. forecasts is important to investors. Indeed, because we expected stocks to encounter turbulence at some point, we were neither surprised nor unprepared when the inevitable happened. Unlike many investors, this enabled us to focus on the signal of ***fundamentals that remain strong and supportive of higher stock prices*** and ignore the noise of panic and the Cassandras that appear like clockwork during every downdraft.

The first quarter of 2018 brought into sharp focus the fact financial assets are, by nature, risky and subject to price volatility that can become extreme. Many investors had been lulled into complacency and a false sense of security. It may seem counterintuitive, but too much calm can actually be destabilizing, as it can entice people to make huge, leveraged bets that can blow-up in the blink of an eye. You can ask the folks who had their investments wiped out when their funds that effortlessly made so much "easy" money shorting the Chicago Board Options Exchange (CBOE) Volatility Index (VIX—Wall Street's "fear gauge") during the extraordinary calm of 2017 imploded when volatility spiked in early February. Credit Suisse's VelocityShares Daily Inverse VIX Short Term ETN (XIV) and ProShares' Short VIX Short-Term Futures ETF (SVXY) each had about $2 billion in assets on Friday, February 2, 2018. The following Monday, the VIX spiked by 115.6%, its largest single-day increase ever. This led to both funds ***immediately losing about 96% of their value***. So, re-learning this important lesson was probably a good thing.

Despite the harrowing plunges and media hysterics, stocks ended the quarter just slightly lower than where they started. The S&P 500 and Dow Jones Industrial Average each fell for the first time in ten quarters. While we're never happy to show a loss, we see a path to higher prices. We think investors would be wise to continue to focus on the ***signal*** of strengthening fundamentals (earnings improvement driven by a lower corporate tax rate and business confidence/investment/"animal spirits" spurred by lower taxes and a pro-business regulatory environment) and ignore the ***noise*** (there will be plenty). Valuations have improved, with the market's P/E benefitting from both a ***lower price (P)*** and ***higher earnings (E)***. Indeed, according to Charles Schwab's Liz Ann Sonders, the forward P/E for the S&P 500 is back to its early-2016 level (see Exhibit A). We continually rank stocks owned in client portfolios in terms of upside potential vs. downside risk. On that basis, we believe our portfolio is as attractively valued as it has been in quite some time.

Exhibit A

We remain mindful of the risk factors listed in the opening paragraph and do not dismiss their importance. In addition, with investors now more focused on risk, we will not be surprised to see further extreme volatility.

Periods ending March 31, 2018
(Total Returns-Dividends Reinvested in Index-Annualized*)

	Russell 3000 Index	Russell 3000 Value Index	Russell 3000 Growth Index	S & P 500 Index
Three-Months	-0.64%	-2.82%	1.48%	-0.76%
One-year*	13.80%	6.81%	21.05%	13.98%
Three-years*	10.21%	7.87%	12.55%	10.76%
Five-years*	13.02%	10.71%	15.31%	13.29%
Ten-years*	9.61%	7.84%	11.29%	9.48%

High stock market volatility in 2018 is normal; the extraordinary calm of 2017 was not

According to Bespoke Investment Group, 2017 was the ***first calendar year in history*** where the S&P 500 saw positive total returns for each month. Not only was the trend straight up in 2017, there were no setbacks along the way. The stock market didn't suffer a 10% pullback and didn't experience a 5% or even 3% pullback, either. In fact, the S&P 500 hadn't had a 3% pullback from a high in more than 409 calendar days going back to November 4, 2016, the longest streak on record (going back to 1928).

Further, according to Crandall, Pierce, since 1900, 5% corrections have occurred about 3 times a year and 10% corrections about once a year, so stocks were ***long overdue*** for a pullback. Remember, ***1) corrections are a normal part of the stock landscape and nothing to fear and 2) headlines and talking heads are noise to be ignored***.

The S&P 500 reached an all-time high on January 26, coinciding with or causing bullish investor sentiment readings to reach a post-crash high and flows into equity funds to surge to $100 billion, the biggest monthly inflow on record, according to *The Wall Street Journal*.

Virtually on cue, stocks soon encountered violent turbulence, leading to a 10% decline over the next ***13 days***. The plunge featured the headline-grabbing two steepest declines (in points) in the history of the Dow Jones Industrial Average, 1,175.21 (-4.6%) on February 5 and 1,032.89 (-4.1%) on February 8 (though neither decline ranked in the top 100, in percentage terms). The S&P 500 saw 23 daily moves of +/- 1% in the first quarter compared to 48 in all of 2016 and just 8 in 2017.

Predictably, investor sentiment and equity fund flows immediately turned negative. According to Bespoke, the two-month (end of January to end of March) decline in bullish sentiment of 15.6 percentage points ranks as the largest drop in the history of the data series going back to 1987. As Warren Buffett said, "A climate of fear is your friend when investing; a euphoric world is your enemy." Indeed, while past performance is no guarantee of future results, the table below from Bespoke (Exhibit B) shows stocks have generally performed well following sharp declines in sentiment.

According to Bespoke, February marked the first down month for the S&P 500 on a total return basis in fifteen months, ***only the sixth time in history*** the S&P 500 had gains for 10 or more consecutive months. Again, past performance is not a guarantee of future results, but the table below from Bespoke (Exhibit C) shows in the one-month, three-months, six-months and one-year periods following the first down month, the S&P 500 was up in every time, averaging +4.65%, +10.48%, +18.18% and +25.47%, respectively.

Hopefully the tit-for-tat trade spat with China doesn't morph into a full-blown trade war

The U.S. and China have the two largest economies in the world. According to a report from Charles Schwab, the total volume of world trade has nearly quadrupled since the early 1990s, which means the global economy is more interconnected than ever before. Additionally, we're finally experiencing a synchronized global economic expansion. Any disruption to the flow of goods

Exhibit B

Largest Two Month Declines in Expects Higher Stock Prices

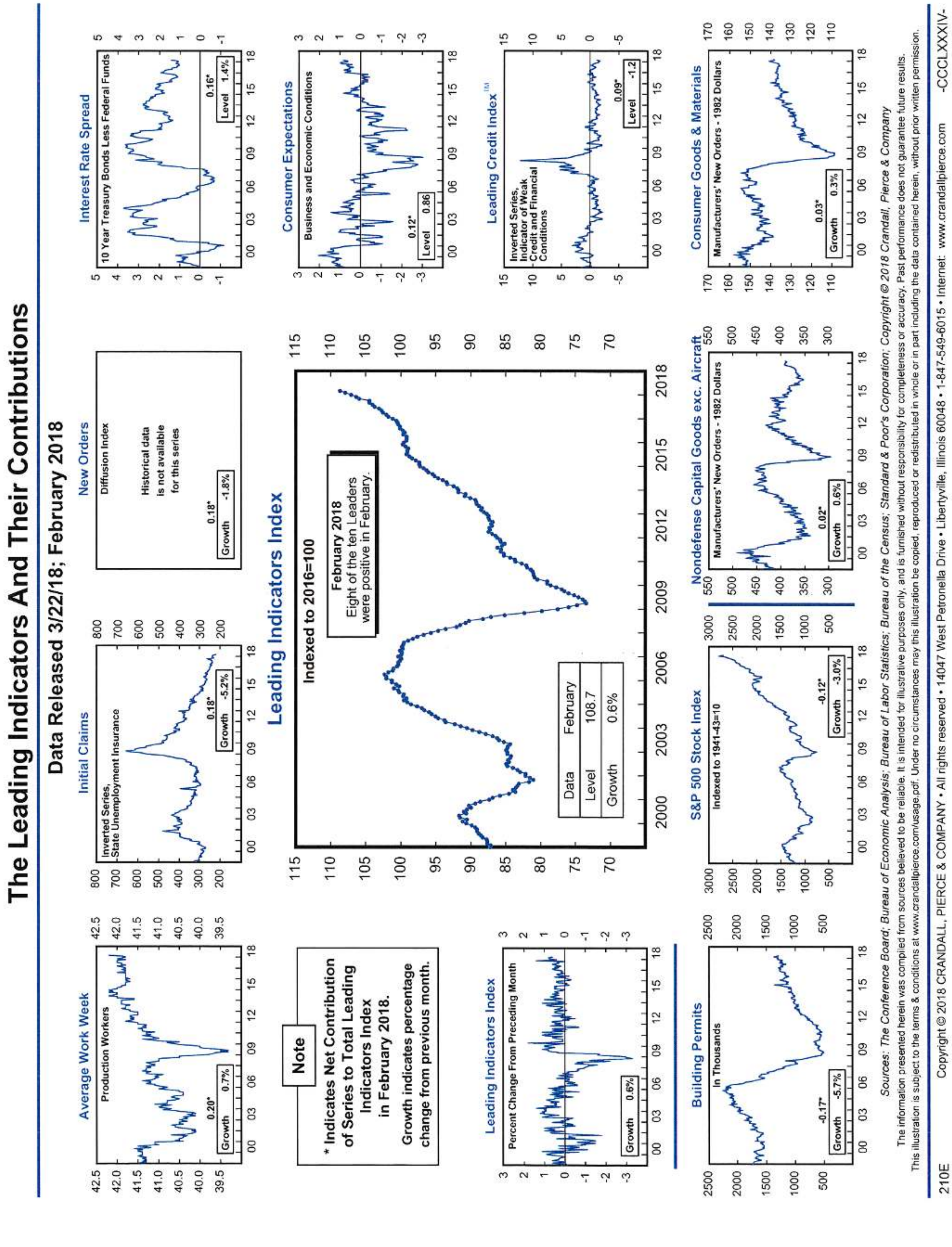
Month Ending	Two Month Decline in Positive Sentiment	S&P 500 Performance (%) One Month	Three Month	Six Month
8/31/90	-13.3	-5.12	-0.11	13.80
4/30/97	-14.8	5.86	19.09	14.14
9/30/98	-11.7	8.03	20.87	26.49
6/30/02	-10.2	-7.90	-17.63	-11.11
3/31/07	-10.6	4.33	5.81	7.45
6/30/12	-10.5	1.26	5.76	4.70
3/31/18	-15.6			
Average		**1.08**	**5.63**	**9.24**
Median		**2.79**	**5.78**	**10.63**

Exhibit C

S&P 500 Total Retun Index: Streaks of 10+ Months Without a Decline

Month Ending	Up Months in a Row	Percent Change (%) During Streak	Next Month	Percent Change After First Down Month... One Month	Three Months	Six Months	One Year	Max Decline	Max Gain
3/31/36	12	83.04	-7.45	4.91	16.28	27.50	24.38	0.00	35.58
5/31/50	12	41.65	-5.27	1.48	11.93	19.65	27.31	-5.71	28.94
7/31/54	11	39.20	-2.99	8.72	16.11	25.98	50.96	0.00	46.70
5/31/59	15	50.08	-0.10	3.75	-1.97	4.03	0.61	-8.55	3.83
9/30/95	10	31.69	-0.36	4.39	10.02	13.76	24.10	0.00	22.24
1/31/18	15	36.22	-3.69						
			Average	4.65	10.48	18.18	25.47	-2.85	27.46

Exhibit D



The Leading Indicators And Their Contributions
Data Released 3/22/18; February 2018
Average Work Week
Production Workers
Growth 0.7%
0.20*
Initial Claims
Inverted Series, State Unemployment Insurance
Growth -5.2%
0.18*
New Orders
Diffusion Index
Historical data is not available for this series
Growth -1.8%
0.18*
Interest Rate Spread
10 Year Treasury Bonds Less Federal Funds
Level 1.4%
0.16*
Note
* Indicates Net Contribution of Series to Total Leading Indicators Index in February 2018.
Growth indicates percentage change from previous month.
Leading Indicators Index
Indexed to 2016=100
February 2018
Eight of the ten Leaders were positive in February.
Data | February
Level | 108.7
Growth | 0.6%
Consumer Expectations
Business and Economic Conditions
Level 0.86
0.12*
Leading Indicators Index
Percent Change From Preceding Month
Growth 0.6%
Leading Credit Index
Inverted Series, Indicator of Weak Credit and Financial Conditions
Level -1.2
0.09*
Building Permits
In Thousands
Growth -5.7%
-0.17*
S&P 500 Stock Index
Indexed to 1941-43=10
Growth -3.0%
-0.12*
Nondefense Capital Goods exc. Aircraft
Manufacturers' New Orders - 1982 Dollars
Growth 0.6%
0.02*
Consumer Goods & Materials
Manufacturers' New Orders - 1982 Dollars
Growth 0.3%
0.03*
Sources: The Conference Board; Bureau of Economic Analysis; Bureau of Labor Statistics; Bureau of the Census; Standard & Poor's Corporation; Copyright © 2018 Crandall, Pierce & Company
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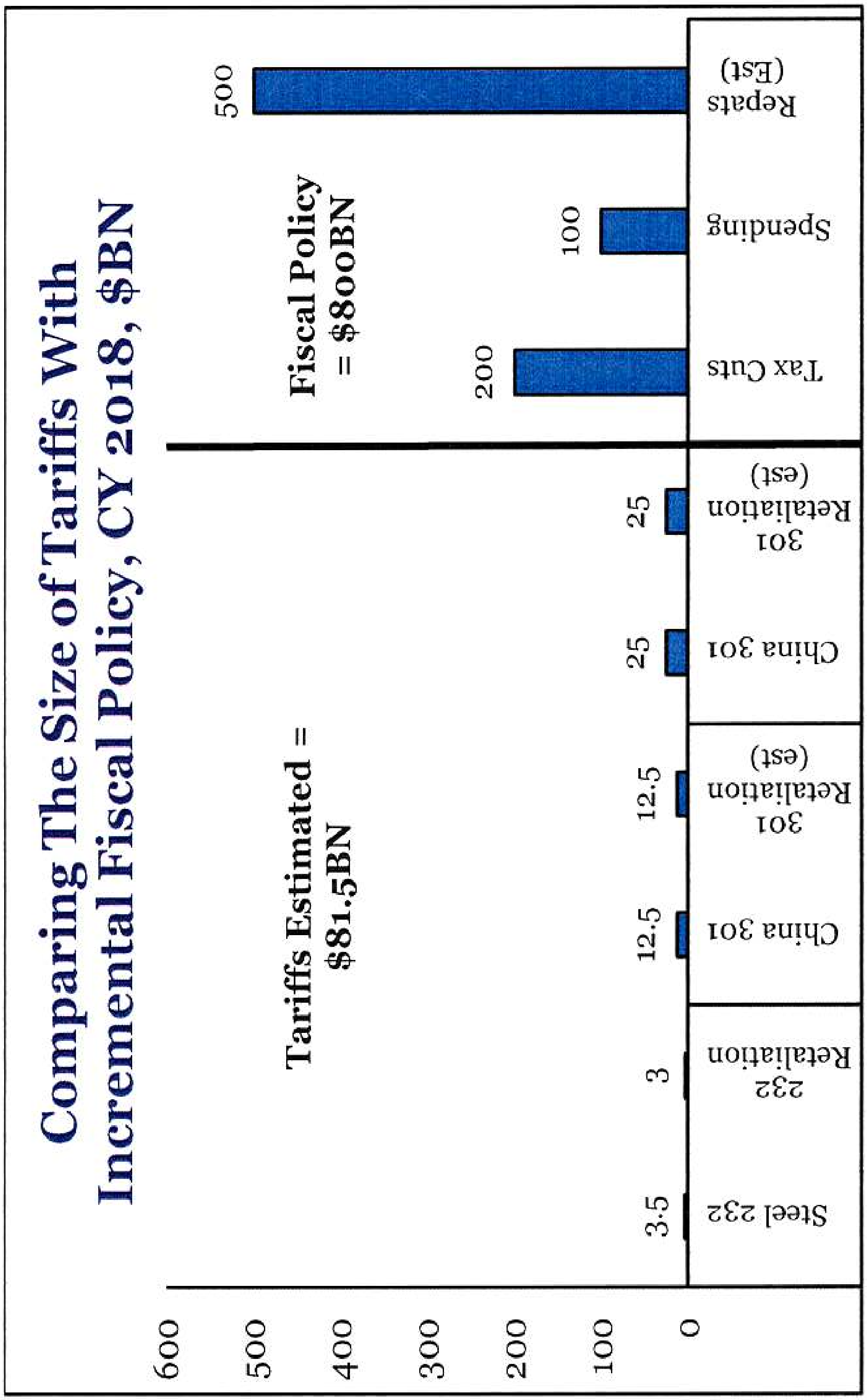
Exhibit E



Comparing The Size of Tariffs With Incremental Fiscal Policy, CY 2018, $BN
Tariffs Estimated = $81.5BN
Fiscal Policy = $800BN
600
500
400
300
200
100
0
3.5
3
12.5
12.5
25
25
200
100
500
Steel 232
232 Retaliation
China 301
301 Retaliation (est)
China 301
301 Retaliation (est)
Tax Cuts
Spending
Repats (Est)

could wreak havoc on manufacturing supply chains (that can cross multiple borders) and have negative implications for growth, inflation, productivity and real incomes.

Protectionist campaign rhetoric has become policy, which has understandably made investors nervous and was a proximate cause for the market's swoon. The current trade spat began with the Trump administration's levying of tariffs on steel and aluminum product imports. This was soon followed by the announcement the U.S. would institute 25% tariffs on $50 billion of imports from China, which was immediately met by an announcement China would levy tariffs on $50 billion of imports from the U.S. Not to be outdone, the president announced by tweet the U.S. would double-down and target an additional $100 billion of imports from China. Where it stops, nobody knows.

We hope/believe much of this talk is "saber-rattling" and posturing ahead of negotiations that will occur between the U.S. and China in the coming weeks, before tariffs are actually implemented. Nobody is suggesting the complaints against China's trade/industrial policies aren't legitimate. The Chinese government provides big subsidies to companies important to its state-led plan and is pretty loose regarding intellectual property protections. Additionally, China has an ambitious plan known as Made in China 2025, the goal of which is to dominate several cutting-edge technologies.

While the stock market has been subject to large swings depending on the temperature of that day's trade tensions, there is little evidence the current tit-for-tat spat has negatively impacted economic activity, ***yet***. Exhibit D shows the Leading Economic Index remains in a strong uptrend. Thus far, this has been a display of brinksmanship and a high-stakes game of "chicken." ***If*** it stops here, the damage should be limited. Strategas estimates the negative impact of tariffs (currently pegged at $81.5 billion, but changing daily) would be dwarfed by fiscal policy stimulus (tax cuts, spending increases and repatriation of cash held overseas) of about $800 billion (Exhibit E). However, if the hardliners prevail and this spat turns into a war, all bets are off. In particular, Reuters pointed out China has the "nuclear option" as America's largest foreign creditor, with holdings of U.S. Treasury securities of about $1.17 ***trillion*** as of the end of January. That's a huge stick few are currently talking about.

Expectations vs. Forecasts/Why We Listen to Bad Forecasts

Morgan Housel is an insightful financial journalist. He recently wrote of the important difference between expectations and forecasts. According to Housel, while "an expectation is an acknowledgement of how things worked in the past and will likely work in the future, a forecast is strapping that idea to a specific point in time." Housel believes it is more useful to have expectations without specific forecasts. The benefit is, "when you expect something to happen over time, you're not surprised when it comes." Therefore, "it forces you to invest with room for error and psychologically prepares you for inevitable disappointments."

The key is what each does to investor behavior. "If I expect recessions, I'm not surprised when they come. But since I don't know when they'll come, I won't take any action in my portfolio that tries to navigate around the next recession. And those actions tend to be the root of most bad investment decisions for amateurs and professionals alike." In sum, "if you want to take fewer actions without being willfully blind to the future, just have expectations. It's intellectual humility in an industry that doesn't have enough." Amen.

Housel also opined on why we listen to bad/outlandish forecasts, particularly during stressful times. He wrote "when you mix high stakes with uncertainty, the more likely people are to heed wild predictions of danger, just in case." According to Housel, it's "part desperation, part risk management." Further, "the correlation between high stakes and people's willingness to believe quackery is high and it's pretty rational."

For investors, the stakes are high and the markets/economies are confusing, even in the best of times. When things seem to be coming apart at the seams, recognize your survival instinct engages and makes you vulnerable to off-the-wall talk. As Housel says, "when things are calm, people believe what they tell themselves. When things are crazy, they believe what other people tell them."

Summary

"May you live in interesting times" is purported to be a translation of a traditional Chinese curse and may be appropriate now, on several levels. According to Bespoke, from Election Day 2016 through the S&P 500's all-time record high on January 26, the index added $6.3 trillion in market capitalization to take its total market cap to $25.5 trillion. Since then, the index has lost about $2.3 trillion (the 25 largest-cap S&P 500 stocks losing about $1 trillion, or 40% of the total loss), surrendering more than one-third of the post-election gains.

Like him or not, this president is all about the "ratings." As Benjamin Graham said, the stock market is a voting (or ratings) machine, over the short-term. We think the market is saying it favors certainty over uncertainty and cool over heat. We hope the rest of 2018 is less "interesting," but will be prepared for whatever happens.

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). KM filed its Forms ADV-Parts 1, 2A and 2B on March 22, 2018. 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.

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 3000 Value Index is an unmanaged, capitalization-weighted index that measures the performance of the value segment of the U.S. equity universe. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower expected growth values. This index cannot be invested in directly.

The Russell 3000 Growth Index is an unmanaged, capitalization-weighted index that measures the performance of the growth segment of the U.S. equity universe. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher 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.

The Dow Jones Industrial Average ("DJIA") is an unmanaged, price-weighted index comprised of common stocks of thirty major industrial companies. This index cannot be invested in directly.

The Conference Board Leading Economic Index® (LEI) for the U.S. is one of the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. The ten components of Leading Economic Index for the U.S. include:

- Average weekly hours, manufacturing
- Average weekly initial claims for unemployment insurance
- Manufacturers' new orders, consumer goods and materials
- ISM Index of New Orders
- Manufacturers' new orders, nondefense capital goods excluding aircraft orders
- Building permits, new private housing units
- Stock prices, 500 common stocks
- Leading Credit Index™
- Interest rate spread, 10-year Treasury bonds less federal funds
- Average consumer expectations for business conditions