



September 13, 2019

Mr. & Mrs. Example Client
 123 Main Street
 Ann Arbor, MI 48103

Dear Alice and Bob:

Our current economic expansion which started in June 2009 is now the longest in U.S. history according to the National Bureau of Economic Research. This record-setting run seems to prove the old academic wisdom that “expansions don’t die of old age.” They do, however, run out of cheap available fuel such as unemployed workers or business investments that were placed on the backburner in the past downturn. At this point, the expansion is operating totally on its own momentum with the very big exception that, unlike expansions past, this one has not had to contend with rising interest rates.

The stock market’s continued strength probably owes more to falling interest rates than to economic growth. In a world where investment-grade corporate bonds yield less than inflation and where European sovereign debts trade at negative interest rates, the equity of a business growing only as fast as inflation looks appealing at prices that investors would have scoffed at historically. We are increasingly seeing blue chip stocks at high valuations being pitched as relatively cheap alternatives to bonds. Confusing blue chip stocks with investment-grade bonds is a dangerous game and one that we do not intend to play. We are working hard to be selective in an environment where people are inventing reasons to buy old assets at new, higher prices.

We are very pleased with the performance of your portfolio over the past three months and year-to-date. For the three month period ended August 31, your 10.5% gain significantly outpaced the 6.9% return on the S&P 500. That brings your performance to 22.8% so far in 2019, again well ahead of the S&P’s substantial 18.3% rise.

The results for the quarter:

<u>Portfolio Name</u>	<u>Current Quarter</u>	<u>Previous Quarter</u>	<u>Deposits/ Withdrawals</u>	<u>Investment Results Amount</u>	<u>Percent</u>
Trust	\$1,038,195	\$969,076	-\$30,000	\$99,119	10.2
Alice IRA R/O	950,065	877,502	0	72,563	8.3
Alice Roth	98,544	83,295	0	15,249	18.3
Alice 401(k)	127,292	124,382	0	2,910	2.3
Bob IRA	1,527,125	1,358,414	140	168,571	12.4
Bob Roth	<u>25,655</u>	<u>23,629</u>	<u>0</u>	<u>2,026</u>	8.6
Total	\$3,766,876	\$3,436,298	-\$29,860	\$360,438	10.5
Petoskey Capital - Alice IRA R/O	\$210,624	\$205,112	\$0	\$5,512	
Petoskey Capital - Bob IRA	<u>210,624</u>	<u>205,112</u>	<u>0</u>	<u>5,512</u>	
Petoskey Capital Total	\$421,248	\$410,224	\$0	\$11,024	
Grand Total	\$4,188,124	\$3,846,522	-\$29,860	\$371,462	

There was a small deposit into Bob's IRA in the quarter which represented a settlement check for a class-action lawsuit.

At the end of June, KAR Auction Services completed a long-planned spinoff of its salvage auction business, IAA. With the spinoff, each KAR shareholder received one share of IAA stock, which conveniently enough trades under the ticker "IAA." KAR continues to house the whole-car auction business as well as a financing operation that primarily supports that business. We like both KAR and IAA but will watch closely for opportunities as the market weighs in on what it feels is the appropriate valuation for each. So far, the market response has been positive for both. The strategic thinking behind the spinoff makes sense to us. Each company is a leader in its industry with interesting growth prospects, but their opportunities are different. This leads to differing optimal capital structures and priorities for capital allocation. This was a long time coming, so we are pleased the spinoff has finally been completed.

We sold Supernus Pharmaceuticals because the company's two marketed drugs are suffering from increasing competition and payor scrutiny, while its development efforts have also stumbled. A generic competitor to the company's lead drug appears poised to enter the market much sooner than we previously expected. Growth had already tailed off sharply in recent quarters. The company still has two late-stage development assets that could rescue its stock, but these have not progressed as quickly as we would like to see. One asset in particular has experienced repeated delays. Drug development is always a risky proposition. A string of delays tends to resolve in ultimate failure. The passage of time has failed to de-risk this investment as much as we expected. If anything, the opposite has happened. We decided to move on.

We decided to swap Signature Bank for another bank stock with a clearer catalyst for appreciation over the next couple of years, TCF Financial. Signature Bank had three factors going for it – a low valuation, the hiring of new banking teams to reinvigorate growth, and a favorable relative position in the current environment of falling interest rates. There were also a couple negatives: heavy exposure to the weakening real estate market in its home market of New York City and entry into new lending businesses. We felt the negatives were manageable, but are now ready to act on a stock we have been monitoring that has greater growth visibility, TCF.

The new TCF represents the merger of the former TCF and the former Chemical Financial, effective August 1st. Chemical is technically the surviving entity even though it took the TCF name. Chemical has achieved impressive growth, especially through mergers. Legacy TCF isn't as impressive, but there have been noteworthy changes over the past few years under its new management. These include winding down its volatile auto-lending business and improving its asset-liability management, a strength of Chemical Bank.

TCF's valuation is even more favorable than Signature's, and the cost-saving moves from the merger should boost profitability over the next two years regardless of the interest-rate environment.

We also trimmed Roper Technologies in Alice's IRA R/O.

An electronic invoice in the amount of \$7,713 is being sent to Fidelity for investment management services for the period September 1 through November 30, 2019. The Securities and Exchange Commission requires each Registered Investment Advisor to inform clients as to how management fees are calculated so that they can verify the calculation themselves if they wish since Fidelity does not do this.

When calculating your management fee rate, we include the value of your Petoskey holding which has the effect of reducing your overall rate. This lower fee rate is then applied to the value of your portfolio at the beginning of the quarter, \$3,766,876, excluding Petoskey Capital Fund. The fee is calculated as one-fourth of our annual rate of 1% of the first million dollars, 0.8% of the next \$2 million, and 0.7% of the balance, with the fee prorated over each of the accounts. It has been allocated as follows: Trust, \$2,126; Alice's IRA R/O \$1,946; Alice's Roth, \$201; Alice's 401(k), \$260; Bob's IRA \$3,128; Bob's Roth, \$52. The fees for both of your Roth accounts will be taken from the Trust.

If there are any changes in your financial situation or investment objectives you think we should be aware of, please let us know. As always, whenever I can be of help to you, please don't hesitate to give me a phone call or e-mail (MilesP@investprovident.com).

Sincerely,

Miles G. Putnam, CFA

MGP/drp
Enc.