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Dear Fellow Investors, September 2016

In our first semiannual letter dated March 2016, we described our foundational commitment to value investing and discussed the three hallmarks we look for when deciding to invest in a company: value, quality, and analyzability. We also touched on our view of the relationship between price volatility and risk (which might be different than you'd expect…).

In this letter, we will delve more deeply into the principles of value investing and examine why index funds are not all they're cracked up to be. We will also take a look at our current equity and bond portfolios to give you a sense of value investing in action. But first, let's look at why value investing isn't about following the crowd or getting "likes."

What… No Group Hug?

"The most common cause of low prices is pessimism—sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer."

-Warren Buffett

Going the value investment route requires strength and resilience. We value investors are independent-minded types, often converse by nature. We surely don't become value investors for the group hugs. In fact, one can go long stretches of time without any positive returns. Unlike in some other fields of work, in investing we can do the same thing as yesterday but accomplish completely different reported results. In the long run, the research and analysis we perform should overcome market dynamics; the fundamentals ultimately materialize. But in the short run, the euphoric or depressive behavior of Mr. Market can appear to trump effort and insight. Often, neither the optimism nor pessimism is rational.

The Multi-Trillion-Dollar Index Fund Industry

"Investing is a popularity contest, and the most dangerous thing is to buy something at the peak of its popularity."

-Howard Marks

Momentum investing, such as the use of index funds, is a strategy based on following trends without concern for the importance of fundamental value. The 10 largest stocks by Market Cap in the S&P 500 gained nearly 23% while the mean of the remaining 490 stocks in the Index fell 3.5%.

This was the largest divergence in performance since 1999, when the Internet bubble was approaching its peak. Indexes like the popular S&P Index are not actively managed.

The S&P 500 Index largely weighs its holdings by their market capitalization. As a result, the largest companies continue to increase in market capitalization because $1 out of every $5 invested in the market today are managed by index funds that are compensated to mimic the S&P 500. This encourages active managers to stay close to the desired index, a phenomenon called "closet indexing." Investors pay for active management but get index-like results because the company fears client reaction if returns diverge sharply from the benchmark.

What is Your Goal?

"Whenever you find yourself on the side of the majority, it is time to pause and reflect."

-*Mark Twain*

Because value investing is at least as much art as it is science, we believe it is foolish to suggest it can be routinized. In short, it's all a matter of what you're trying to accomplish. Anyone can achieve average investment performance by investing in an index fund that buys a little of everything. Remember, your goal in investing isn't to earn average returns; you want to do better than average. That's why you hired Del Principe | O'Brien Financial Advisors to implement our rigid value investment discipline.

That being said, the JDP Equity Portfolio has had multiple winners (or "contributors" as we like to call them) despite the bubble in index funds.

Major Holding for JDP Equity Portfolio
Year to Date Stock Performance September 2016

CONTRIBUTORS		DETRACTORS	
QCOM	27%	FCAU/RACE**	-13%
YHOO	43%	CVRR***	-35%
GLW	31%		
BRK-B	15%		
KKR	32%		
MIC	30%		
BAX	27%		
LCI*	12%		

* based on first day of purchase. Since April lows LCI is up over 94%
** combined post spinoff return
*** based on the highest average cost of any client in JDP Portfolio

Fundamentals

At the core of our philosophy is a focus on the underlying value of the companies we invest in. We think it is important for you to know why we own them and to know what the possible risks are. The following are brief sketches of a few of the companies in our portfolio—both contributors and detractors. Investing isn't always going to be roses, but remember: the up and down is useful to us investors. We stand to gain in the long run if the underlying value of these companies is sound. (Please note: Ownership percentages vary based on our clients' particular needs.)

Lannett Company INC. (LCI) | Ownership: 1%–12%

Lannett Company Inc. (LCI) was named the Fastest Growing Company in the United States according to the Forbes 2015 Edition. LCI develops, manufactures, and distributes generic pharmaceutical products for a wide range of medical conditions. In 2008, LCI made a strategic acquisition of Cody Labs, which is one of seven companies in the United States that is allowed under the U.S. Drug Enforcement Administration to import raw poppy, a controlled substance commonly used in the field of pain management.

Late last year, LCI purchased Kremers Urban based out of Seymour, Indiana. The leveraged acquisition of Kremers Urban provides LCI with a stronger product pipeline (11 products under FDA review) and greater research capabilities (17 drugs pending FDA approval). This allows LCI to penetrate the niche specialty drug development market that it previously did not have access to. In light of recent politic rhetoric, we believe the purchase of LCI has an incredible margin of safety.

Transocean Ltd. (RIG) | Ownership: 1%–13%

Transocean Ltd. (RIG), together with its subsidiaries, provides offshore drilling services for oil and gas wells in deepwater environments worldwide. Patiently, we have been purchasing the debt of RIG's 12/15/2041 debentures at $69. With a 9.1% coupon rate, we are gobbling as much of this debt as we can with a yield of 13.1%, not including redemption yield. Due to RIG's cyclical industry, we believe that the emotion of the short-term speculator has created an opportunity to lock in 13% returns for the next 25 years at a material discount. To us, this is monumental.

Fiat Chrysler Automobiles N.V. (FCAU) | Ownership: 1%– 9%

Despite its name, Fiat Chrysler Automobiles N.V. (FCAU) does not generate profitability from either Fiat or Chrysler. Some would say it might be more practical to change the name to Maserati Jeep Ram Automotive. Fiat's CEO, Sergio Marchionne, has proven to be one of the premier leaders in the automotive industry. Over the last 18 years, Mr. Marchionne has compounded shareholders' capital at 21% annualized. In 1996, if you invested $1 when Marchionne became CEO of Alusuisse, it would be $32 today. In future letters, we will highlight managers that have a history of compounding shareholders' wealth.

CVR Refining (CVRR) | Ownership: 3%–8%

CVR Refining, (CVRR) is a small independent energy company that operates two crude oil refineries in the Midwest (Coffeyville, Kansas and Wynnewood, Oklahoma). As a variable rate master limited partnership, CVRR has made it clear they will only distribute what they can on a quarterly basis. This prevents CVRR from distributing cash when there isn't enough available to allocate, which allows them to be sustainable over the long term. In this type of environment, we will gladly trade a few quarters without a dividend distribution for the greater good of the business.

The EPA's mandate of Renewable Identification Numbers (RINs) will cause numerous refineries to go out of business if something does not change quickly. Fortunately, CVRR has a much stronger balance sheet than their industry peers. CVRR CEO, Jack Lipinski, spoke about the difficulties of the present refining situation in the company's July 28, Q2 2016 Earnings Call:

"RINs continue to be an egregious tax on our business, and have become our single largest operating expense, exceeding labor, maintenance and energy cost. As a matter of fact, RINs have doubled our labor cost. Since 2013, we spent nearly $500 million on RINs, and we estimate our RINs exposure in 2016 to be approximately $200 million to $235 million."

For clients that are in tax shelters such as IRAs or pension plans, we believe that waiting for the EPA to rule on the situation is the best choice at this time. This is a cyclical industry; our experience in these situations shows that patience usually wins out.

JDP Bond Portfolio

"The road to long-term investment success runs through risk control more than through aggressiveness."

-*Howard Marks*

At the beginning of each month, we update our Bond Portfolio so current and future clients know what to expect.

JDP Bond Portfolio by Month (2016)

Month	Yield*	Month	Yield*	Month	Yield*
September	5.9	June	6.1	March	6.2
August	5.9	May	6.2	February	6.5
July	5.7	April	6.1	January	6.6

*Does not include redemption

The Power of Monthly Deposits

This year alone, clients who are in the contributing stages of their lives and who auto deposit monthly have gained 11% to 17% more than clients who contribute annually to their portfolio. This is very discouraging considering the market will go through a depressive state and certain clients are not in a situation to take advantage of it. Think of it like this: Depositing $450 each month instead of waiting to deposit a lump sum of $5,500 in time for Tax Day means that those monthly deposits are available for investment when the timing is right. We encourage our clients who are seeking maximum returns to create an auto deposit so we can compound at the highest rate possible. We'll take a closer look at the power of compounding in a future letter.

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."

-Paul Samuelson

My great hope for these letters is that they are useful to you. Contact me if you want to discuss any of these topics further. I want to do everything I can to empower you as an investor and to build a long-term relationship in service of your investment goals. I am grateful for your ongoing confidence and support, and I'm working diligently to remain worthy of it.

Cordially,

Joseph Del Principe