LESA SROUFE & CO INC.
VALUE ADVISORS

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First Quarter Update and Outlook

Markets rallied around the world to start the New Year. Emerging markets easily surpassed most other broad indexes, including those in the U.S. The U.S. dollar fell relative to most other currencies after reaching a 14 year high at the beginning of the year. The U.S. Federal Reserve now seems more likely to end the easy monetary policy it has promoted since the financial crash of 2008. Depending on U.S. jobs and U.S. economic growth, we'll see at least a couple of interest rate increases during the year, most expect more. High prices in many investment categories factor into the Fed's thinking, in our opinion. Though, arguably the most hated asset class, cash might actually be in demand by year-end 2017 as short term interest rates offer a positive return, after zero yields for going on eight years.

The current political environment is marked by an upset in the long established order. We find that potentially energizing if it means a more efficient, open, and effective government. We are not sure that it does, however. Long-time imbalances that have been building, such as national debt which doubled over the past eight years, promised public pension benefits that are now severely underfunded and exploding healthcare costs are but a few of the impediments to future U.S. economic growth. It may take a crisis environment to finally adequately address these problems. Most investors aren't worried. In fact, the U.S., at least decisively through 2016, remained the investment region of choice. Sometime this year, we expect the cash reserves in the Opportunistic Value Equity Strategy to benefit investor returns rather than hinder them.

During the quarter, we added two new stocks to the portfolio and sold four. We added Teva Pharmaceutical Industries ADR, an Israel-based company, to the portfolio after the stock declined in response to disappointment over weakness in its core generics business and concern over rising competition for multiple sclerosis drug therapies of which Teva is a market share leader. We believe investors are underestimating Teva's manufacturing capabilities and its financial resources to reproduce complex drugs. We also purchased Banco Bilbao Vizcaya Argentaria ADR (BBVA). BBVA is one of the largest financial institutions in Spain and in Mexico, has leading franchises in South America, and a significant presence in Turkey through its partial ownership of Garanti. The company has $775 billion in assets and over 70 million customers. We view owning BBVA as a way to participate in the future economic growth of countries such as Mexico that have significantly less banking representation than developed countries such as the U.S.

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During the quarter we sold Western Union after the company reported a large fine to the U.S. Department of Justice related to money laundering by customers and a plan to add significant debt to its balance sheet. We sold the stock modestly lower than our original price objective. We sold Copa Holdings, the Panamanian based airline after the stock appreciated significantly, reflecting a recovery in travel bookings within Central and South America. PACCAR Inc., which we sold in March, reached our price objective even though its core business of manufacturing heavy-duty trucks worldwide remains under pressure. Last, we sold the iPath S&P 500 VIX Short-Term Futures Exchange Traded Note following significantly poorer performance than its benchmark: the CBOE Market Volatility Index (VIX).

We acknowledge that investor complacency remains high and the VIX remains at near record lows. Higher volatility (along with rising investor concern) will likely produce some interesting investment opportunities, which we look forward to.

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