LESA SROUFE & CO INC.
VALUE ADVISORS

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Second Quarter Update and Outlook

Value stocks handily beat growth stocks in the second quarter and first half of 2016, as measured by the Russell Growth and Value Indexes. This significant rotation after years of growth stock leadership may have been prompted by a number of factors including the large divergence in valuations, disappointing earnings relative to high expectations for faster growing companies, and simply, slowing growth among most industry sectors consistent with the slow growing U.S. and world economies. While interest rate sensitive sectors such as utilities performed strongly during the quarter and first half of 2016, so did sectors that are often correlated with inflation, such as energy, industrial metals, and gold and silver.

The U.S. stock market almost ended the quarter on a soft note as volatility over the spectacular surprise of the Brexit vote outcome roiled world markets. The follow-up consensus view that central banks' future actions will support asset prices resulted in a sharp rebound in valuations just in time for quarter's end. We wonder what would happen to the financial markets if the major central banks changed their rhetoric from reassuring investors to acknowledging their monetary limitations. A couple of U.S. records were reached just after the end of the quarter: the 10-year U.S. Treasury yield touched a record low of 1.38% and the U.S. territory of Puerto Rico defaulted on its guaranteed debt. Also, gold and silver, often considered safe haven investments (in addition to U.S. Treasuries), have rebounded sharply in 2016 after four previous years of declines.

During the second quarter we added two new stocks to the model portfolio and added to one of our existing investments. We purchased Micron Technology, a manufacturer of technology-related semiconductor systems operating a wide variety of products including computers, smartphones and other mobile devices, automotive and a wide variety of industrial products. We believe Micron may be nearing a cyclical trough for the pricing of its memory (DRAM) products. That combined with a successful completion of its conversion to a new 3D NAND flash product later this year, should mark an upturn in Micron Technology's prospects. We purchased Abercrombie & Fitch, after having sold it earlier in the year. The company is a youth-oriented men's and women's clothing retailer operating under its namesake, Abercrombie & Fitch, as well as the Hollister brand. For three years Abercrombie & Fitch has been reworking its product offerings, store layouts and online technology to better align the company with the realities of today's retail environment. We believe the company continues to make significant progress, which is not reflected in the stock's current price. We also added to our position in Deutsche Bank. We acknowledge the bank epitomizes just about everything wrong with the banking industry as well as uncertainties related to Brexit. In our opinion, the stock's depressed valuation does not reflect the significant progress management has made in strengthening and de-risking its balance sheet, streamlining its business portfolio, and completing the payment of fines associated with its actions during the financial crisis of 2008.

Many U.S. investment categories such as real estate and the broad U.S. stock market do not adequately discount the possibility of a change in trends that could eventually include rising interest rates and/or a

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further slowing in the U.S. economy. Investor complacency heretofore has been well compensated by rising valuations. The Opportunistic Value Equity Strategy holds considerable cash reserves to take advantage of the opportunities that will arise from this expected reset when it comes. Nevertheless, the LSC Equity Strategy investment returns have been gratifying during the recent increase in market volatility and elevated uncertainty around the world.

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