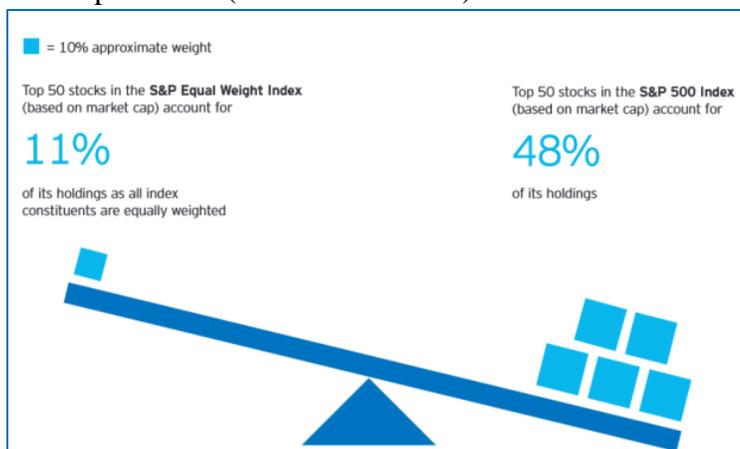


July 25th, 2017

Some Thoughts About the First Half of 2017

The five largest companies within the S&P 500 generated the bulk of the market's returns during the first six months of 2017. This can partially be explained by the significant inflows that index funds experienced over the same period. These indices are market cap-weighted, meaning that the largest companies are given significantly more weight than smaller companies are when calculating performance. For example, Apple—the largest U.S. public company—makes up ~3.6% of the S&P 500, whereas AutoNation, which is the smallest stock in the S&P 500, accounts for a measly .013% of the index. **This means that Apple's weighting is 276 times that of AutoNation.** As money flows into index funds, these vehicles become “forced buyers” of, mainly, the largest companies in the indices, being mandated to purchase stocks in the exact proportion that the index they track prescribes, regardless of a given company's underlying fundamentals. Company XYZ could be on the verge of bankruptcy, but if it has a 1% weighting in the S&P 500, index funds must purchase a 1% position in that company as new money pours in. This indiscriminate buying has, in part, caused some of the largest companies that constitute the S&P 500 to trade at levels that cannot be justified by traditional valuation methodologies. The current market environment is starting to become eerily reminiscent of previous manias we have experienced (more on that later).



As money is allocated to index funds, this disproportionately benefits shareholders of the largest companies. However, should index funds experience outflows, these same companies (in theory) will be the most adversely impacted. *It is worth noting that we are currently finding the greatest investment opportunities in companies that either are outside of the major indices or have small index weightings, as these stocks are not artificially inflated by the aforementioned forced buying pools.* Logic would also dictate that these same companies would be the least negatively

impacted when index fund flows reverse. In addition, these companies are not as well-covered by Wall Street analysts, leading to further valuation discrepancies.

A number of market pundits have been becoming concerned about the dominance of a few high-flying names. Facebook, Amazon, Apple, and Netflix all increased by more than 30% in the first half of 2017 alone. What is of greater concern to us, however, is some of their valuations. Netflix has a market capitalization of roughly \$80 billion and sports a price-to-earnings ratio of over 28x. Compare that to HBO parent Time Warner, whose market capitalization is roughly \$77 billion and whose price-to-earnings ratio is ~18x. Tesla, which produced 85,000 vehicles in 2016 and lost well over \$600 million, has a market capitalization of more than \$50 billion. Compare that to Ford, which sold more than 2.6 million cars in the U.S. alone in that same year and has a market capitalization of ~\$45 billion and a price-to-earnings ratio of less than 8x. Even Tesla's CEO and largest shareholder, Elon Musk, recently commented that his company's shares are trading at a price "higher than we have any right to deserve." However, he went on record as saying that except to pay taxes, he is not selling his shares: "I'm going down with the ship."

It's Deja Vu All Over Again!

There have been similar periods when investors have become enamored with a particular group of stocks and bid them up to inconceivable heights only to subsequently see them crash and burn. During the 1960s, a group of stocks affectionately dubbed the "Nifty Fifty" were considered to be one-decision stocks: Buy them and never sell them since they were thought to be impervious to any economic slowdown. Stocks such as Avon Products, Eastman Kodak, Sears Roebuck, Xerox, and Polaroid were members of this group. Polaroid, which was the premier growth stock of that period, commanded a price-to-earnings ratio of 100x. When the economy slid into a prolonged recession in the mid-1970s, these companies were unable to grow their earnings, and the vast majority of stocks in this group lost 60% or more of their value. A number of them went out of business, and more than a few never reached the highs established during that period.

The late 1990s witnessed investor fascination with Internet stocks. At the apex, because the valuations accorded to most of these businesses could not be justified utilizing any commonly used analytical methodologies, analysts invented new ways of valuing companies, such as "eyeballs," and largely abandoned tried-and-true valuation methods such as price-to-earnings and price-to-book. In justifying these valuations, analysts frequently uttered the five most dangerous words in an investor's lexicon: "It is different this time." The NASDAQ, a technology-laden index that contained a great many Internet companies, gained 85.6% in 1999, the biggest annual percentage gain for a major market index in U.S. history. On March 10, 2000, the NASDAQ peaked at 5,132.52—and subsequently fell 78% during the following 30 months.



Whether the current lofty valuations accorded to many of the mega-technology companies are excessive will be answered in due course. We began warning of the inevitable collapse of Internet stocks at least two years before the bubble burst. Before they snap, stretched valuations can last longer and become far more excessive than many could ever imagine. While it is painful to underperform the market, we will not abandon our strategy of purchasing undervalued businesses that has served us so well for so long.

Performance Results and a Look Ahead

Most of our accounts underperformed the S&P 500 during the latest quarter, mainly due to our high-cash position and lack of exposure to "FANG" stocks. In a robust bull market, a large cash component, in all likelihood, will impede performance, particularly in a low-interest environment. So why keep all this cash? There are a number of reasons, but the most important is that we want the optionality that cash provides. As we

have indicated in previous letters, when the stock market has a tremendous dislocation—as it did in 1974, in 1987, and during the financial crisis if you don't have cash, you can't take advantage of incredible bargains such as in 2008-2009, when CBS sold for \$10 per share and Saks Fifth Avenue for under \$2 per share—both of which subsequently increased in value more than fivefold. We are willing to let cash weigh on our performance in bull markets. It is true that we might underperform, but we believe that a good investor can more than make up for it during severe market disturbances. Remember that market corrections are an investor's best friend: Without them, investors could never buy high-quality businesses at bargain basement prices.

Glimmers of Hope?

There are some encouraging signs that after a long hiatus, value stocks could soon begin outperforming growth stocks. On June 9, stocks like Apple, Amazon.com, and Alphabet fell more than 3%. According to Goldman Sachs, this group had contributed approximately 40% of the S&P 500's gain through the early part of June. This decline continued into the early part of July. One of the most expensive stocks as well as one of the year's best performers, Tesla, hit an all-time high of \$386.99 on June 23. On July 20, however, the shares closed at \$329.92.



Financial stocks were among the best performers during the latter part of 2016 and were among the worst performers during the early part of this year. On June 28, the Federal Reserve announced its “stress test” results: 33 of 34 banks had passed and were permitted, in certain instances, to return a significant amount of capital to shareholders. Bank of America, for example, increased its dividend 60% to \$0.12 per quarter and will buy back \$12 billion of common stock during the current year. This positive event has enabled financials to resume an upward bias.

Look for more of the same in the years to come. The banks are overcapitalized. Furthermore, in a friendlier regulatory landscape, with the possibility of a rising interest rate environment and perhaps some corporate tax relief, banking could be among the best-performing sectors.

Amazon: A Lesson in the Importance of Patience and Sticking to Your Convictions

In May of this year, Amazon celebrated its 20th anniversary as a public company. In that time shares have increased from under \$2 (split-adjusted) to over \$1,000 per share. This spectacular return earned investors a gain that is 155 times what the S&P returned over that same period. A \$10,000 investment made at Amazon's IPO would be worth ~\$5 million today.

However, this spectacular gain was not a steady one, and hanging on to this position would have required the patience of Job. Amazon is a textbook case for why investors, if they have conviction in a particular investment, are in many instances better off ignoring short-term market fluctuations and the ingrained human tendency to take action and sell when faced with losses. According to Michael Batnick, director of research at Ritholz Wealth Management, Amazon has suffered at least 20% pullbacks in 16 of its 20 years on the public markets. The drawdowns were more than 40% apiece in nearly half of these instances, including a 64% plunge in 2008 and a loss of 95% of the company's value in the wake of the tech bubble's bursting. Investors who panicked and sold shares during any of these times are surely kicking themselves now.

Amazon: Is It Becoming Too Powerful? Is Government Intervention on the Horizon?

Amazon has disrupted the retail sector in ways that were never believed possible. Its relentless quest to get consumers the lowest prices has upended entire established business models in sectors ranging from books to apparel to electronics. When Amazon recently announced the purchase of Whole Foods in a \$13.7 billion transaction that gave the online giant access to 400 physical locations, grocery store stocks plunged. Amazon's reputation for disruption and cutthroat pricing is so great that the company's mere filing of a trademark to provide consumers with prepared food kits caused the stock for the newly listed company Blue Apron to decline by 11%. Even businesses once thought of as "Amazon-immune" or "Amazon-resistant," like Home Depot, are now beginning to feel the pressure. Home Depot's stock price dropped by over 4% the day Amazon announced that it would start selling the Sears Kenmore brand on its website. All this begs the question: Is Amazon becoming too powerful? Has the company crossed the line into becoming a monopolist?

Lina Khan, who is a legal fellow with the Open Markets Program at New America and the author of



“Amazon's Antitrust Paradox,” published by the *Yale Law Journal* not long ago, recently authored an op-ed that appeared in the *New York Times* discussing this very issue—and why our current antitrust laws are not designed for a company like Amazon. We have placed excerpts from her well-reasoned argument below:

Amazon will argue to federal authorities, most likely the Federal Trade Commission, that the deal should be blessed because the combined entity's share of the American grocery market will be less than 5 percent. But antitrust officials would be naïve to view this deal as simply about groceries. Buying Whole Foods will enable Amazon to leverage and amplify the extraordinary power it enjoys in online markets and delivery, making an even greater share of commerce part of its fief.

The company has established its level of dominance because of the failings of our current antitrust laws. To understand why, you first need to understand the scope of Amazon's power. It has captured 43 percent of all internet retail sales in the United States, with half of all online shopping searches starting on Amazon. In 2016, it had over \$63 billion in revenue from online sales in the United States — or more than the next 10 top online retailers combined. It controls 74 percent of e-book sales, is the largest seller of clothes online and is set to soon become the biggest apparel retailer in the country...

In building this vast empire, Amazon chased growth over paying dividends, pricing key goods and services below cost to chase out competitors. It invested heavily to buy out innovators like Diapers.com after waging price wars. (Amazon followed its acquisition by raising prices.) ... Think of Amazon as a 21st-century version of the 19th-century railroads that connected consumers and producers. Because of their gatekeeper role, railroads had power to discriminate, both among users and in favor of their own wares. These middlemen could tax the farmers and oil producers who depended on their rails — or deny them a ride and sink their livelihoods.

In several key ways, Amazon uses its power as the railroads did. By integrating across business lines, Amazon now competes with the companies that rely on its platform. This decision to not only host and transport goods but to also directly make and sell them gives rise to a conflict of interest, positioning Amazon to give preferential treatment to itself. The vast troves of information it collects enable it to self-deal with great finesse. News accounts tell how Amazon exploits data collected on the businesses using its platform to go head-to-head with them.

And like the railroads of yore, Amazon dictates terms and prices to those dependent on its rails. During negotiations with the publisher Hachette over e-book pricing, Amazon showed its might by effectively disabling sales of thousands of Hachette's books overnight...

Amazon's purchase of Whole Foods will expand its dominance and heighten conflicts of interest. Prime memberships will enable Amazon to extend its online dominance into physical retail — using stores for pick-up, for example — and to use physical stores to entrench its power online. By bundling services and integrating grocery stores into its logistics network, the company will be able to shut out or disfavor rival grocers and food delivery services.

Amazon was accelerating investment to position itself as a direct competitor in the fresh foods delivery market; this deal would allow Amazon to potentially thwart future innovations. Start-ups will be less likely to enter the field against such an integrated competitor.

Antitrust laws, which were passed by Congress to prevent these kinds of concentrations of private power, have been largely reduced to a technical tool to keep prices low. The change in thinking traces back to the Chicago School revolution of the 1970s, which ushered in decades of mergers and consolidation. Embodying this “consumer welfare” regime, Amazon has largely avoided government scrutiny by devoting its business strategy and rhetoric to reducing prices. The company has marched toward monopoly by exploiting the defects of contemporary antitrust law.

Preventing Amazon from concentrating even more control will require that antitrust enforcers block the company's bid for Whole Foods. But lawmakers and officials should go even further, embracing the original goals of antitrust law and adopting a competition policy fit for the digital age. Unless we recover our antimonopoly tradition, Amazon will centralize exceptional control. Amazon's market capitalization grew by more than \$11 billion on the day the Whole Foods deal was announced. Wall Street recognizes the reality of Amazon's market dominance. Antitrust enforcers should as well.

Amazon: Will the Government Reign It In?

Will the government do something to prevent Amazon from having too much power? One prominent investor believes so. Hedge fund manager Doug Kass has warned that government intervention could be coming. Accordingly, he announced, he is shorting Amazon stock, as he has learned that there have been early discussions in Washington about possible antitrust opposition to Amazon's business practices, pricing strategy, and expansion announcements.

Kass believes that if these discussions become public, Amazon's stock could fall 10%. However, he has warned, there might ultimately not be any serious government intervention that seeks to limit Amazon's growth. One important point he has raised is that the Trump administration is hostile to Amazon founder Jeff Bezos due to his ownership of the *Washington Post*, which has been critical of Trump. It is also worth mentioning that this is not the first time Kass has expressed a negative view of the online retail giant: In October 2014, he warned investors to avoid Amazon at all costs—and since that time, Amazon's stock has tripled in price.

Retail Stocks: Anecdotal Signs of a Bottom?

This past year has been painful for shareholders of brick-and-mortar retailers, whose shares have been under enormous pressure as a result of online retailing. The S&P Retail ETF was down ~9% through July 20, versus an 11% increase in the S&P 500. However, for contrarian investors, there may be glimmers of hope signaling that the worst is over. ProShare Advisors, the 10th-largest ETF provider by assets, is launching a double- and triple-levered ETF designed to rise on days when retail stocks decline. It will also be introducing an ETF that bets on online retailers and shorts traditional ones. These types of products, because they take so long to come to market, have historically been a good contraindicator that the trend they are betting on is nearing its climax. For example, the launching of the Market Vectors Rare Earth/Strategic Metals ETF in late 2010 marked the peak of a frenzy in producers of materials such as yttrium. In addition, the Global X YieldCo Index ETF, which invests in public companies spun off by parents in the renewable energy industry, was launched in May 2015, peaked four days later, and has fallen 22% since.

Article Excerpts and Commentary

In the following section, you'll find excerpts from two articles we recently read that we think you'll find interesting.

The Michael Milken Project

The only worthwhile recent innovation in finance is the ATM machine, quipped Paul Volcker in 2009. "It helps people," Volcker said at a *Wall Street Journal* conference, and "prevents visits to the bank." It was a clever and memorable line, as befits a former chairman of the Federal Reserve System Board of Governors. It was also totally wrong.

The greatest innovation in the recent history of finance was not the ATM, whatever the benefits of skipping the teller's line. It was the junk bond. To this day, high-yield bonds, as they are now more genteelly known, remain a brilliant innovation because they elegantly solve a simple yet ubiquitous problem: They give companies with less than stellar credit ratings access to capital.

These bonds created and grew entire industries, such as wireless communications and cable television, just as they created and grew immense pools of wealth. Their invention— combined with the packaging of credit card receivables, mortgage payments, and car loans into securitized products that loosened lending for individuals — has done nothing less than bring about the democratization of finance.

This fact would be an interesting distraction if it were the whole story. But it's not, for the man behind the junk bond industry is a 70-year-old ex-convict banned for life from the game he invented, and one of the greatest comeback stories Wall Street has ever seen.

Mike Milken "revolutionized the way companies — in particular, companies involved in corporate transactions — were financed," says David Boies, super litigator and co-founder of law firm Boies Schiller Flexner... Milken's innovation was to realize, in the 1970s, when he was only in his 20s and a graduate student at the University of Pennsylvania's Wharton School, that investors could make more money on a risk-adjusted basis from buying the bonds issued by companies with lower credit ratings than they could by investing in the bonds of triple-A-rated companies. Milken also realized that there was an extremely limited supply of such bonds — a supply that was unlikely to meet investor demand once his discovery became public knowledge.

Armed with that insight, Milken and the firm he had joined — scrappy Drexel Burnham Lambert, successor to a Philadelphia firm once controlled by J.P. Morgan — set out to create a new supply of these so-called junk bonds by persuading often-ignored companies to issue bonds underwritten by Drexel Burnham. Not only did the firm underwrite these bonds for corporations that could not get financing from more traditional sources — banks, insurance companies, and the public equity markets — the firm’s rock star, Milken, pioneered the use of these securities to finance the huge ambitions of corporate raiders, like Carl Icahn and T. Boone Pickens, and of private equity firms, such as Kohlberg Kravis Roberts & Co. and Texas Pacific Group...

Before long, the previously unknown Drexel Burnham was both advising and financing these raiders and private equity firms in their acquisition sprees. The firm was reaping huge fees, and Milken was getting rich beyond the wildest dreams of a kid who grew up in Encino, California, son of an accountant and a doting mother and housewife. But he remained hypercompetitive throughout his tenure at Drexel, perhaps to a fault. In 1986 the firm paid Milken nearly \$295 million, but he still managed to complain that he had gotten cheated out of \$15,000 he thought Drexel owed him. The next year the firm paid him \$550 million...

Nothing leads to excess like success. In April 1990, after four years of investigation and prosecution, Milken agreed to plead guilty to six charges of criminal violation of securities laws — technical violations, as opposed to the original 98-count indictment that charged him with conspiracy and insider trading — and to pay a \$600 million fine. He paid an additional \$500 million to Drexel’s private investors who lost money when the firm was shuttered and then liquidated, also in 1990, in part as a result of Milken’s wrongdoing. He denied any miscreant behavior for years before ultimately settling with federal prosecutors...

Yet Milken’s creation endured long after his jail term ended. Junk bonds remain an incredibly important innovation, despite the hubris (and illegality) that Milken engaged in, and a source of huge annual profits for Wall Street, which reaps a fee of about 3 percent on each underwritten offering.

The Street derives countless more billions of dollars from trading high-yield bonds in the secondary markets. “The markets continue to grow,” says David Solomon, president and co-chief operating officer of Goldman Sachs Group. “Generally, the conventional wisdom was that nobody would want a bond unless it was investment grade, and he basically said, ‘You should be able to price that risk.’ He basically turned a bunch of academic theory into a practical business...”

What’s remarkable about Mike Milken is that he’s still spoken of on Wall Street in mostly glowing terms, despite having served nearly two years in prison and despite not having been involved in the industry for more than 25 years. One reason is that the business Milken created remains vital and important. Another reason is that many of the people who worked for him or with him at Drexel — whether they be billionaires Leon Black, Marc Rowan, and Josh Harris, co-founders of Apollo Global Management; billionaire Tony Ressler, founder of Ares Capital Management; billionaire Ken Moelis, founder of Moelis & Co.; and John Danhaki and Jonathan Sokoloff, the wealthy co-founders of Leonard Green & Partners — have gone on to extremely successful careers of their own and credit part of their success to Milken...

Milken’s personal narrative is one of “the great reversals,” says author and former Wall Street investment banker Michael Thomas: “Empowerment through disempowerment. You become disempowered in one sphere but empowered and almost as influential” in another. Milken is responsible in large part for such philanthropic efforts as the Milken Institute, a Santa Monica, California-based, highfalutin think tank whose annual conference attracts more than 3,500 people from 50 countries (“It’s the West Coast Davos,” Thomas says); the Milken Family Foundation, established in 1982 to support innovations in education, public health, and medical research; the Prostate Cancer Foundation, which gives away millions of dollars annually to scientists searching for a cure to the disease that famously afflicted Milken himself (and now is in remission); and the Milken Scholars Program, which provides four-year college scholarships to the nation’s best and brightest students...

Drexel's first junk bond financing, in April 1977, was a \$30 million bond for Texas International, a small oil exploration company. Milken went on to finance Rupert Murdoch as he transformed News Corp. into an international powerhouse and Craig McCaw as he built a nationwide cellular communications company with 2 million subscribers before selling it in 1994 to AT&T for \$11.5 billion. Milken helped billionaire entrepreneur John Malone grow his cable television empire and helped Bill McGowan create MCI, which competed with AT&T in the long-distance phone market. He helped create Viacom, Time Warner Cable, Telemundo, and Metromedia. Milken got billionaire Ron Perelman the money he needed to buy Revlon — the deal that put him on the map — and got Ted Turner the \$1.4 billion he needed to buy MGM and start his cable TV empire...

In January 1993, when Milken finished serving his prison sentence in the renovated army barracks in ironically named Pleasanton, California, 30 miles northeast of San Jose, he went in for a routine medical examination. Although at age 46 he seemed in good health, he insisted on getting tested for prostate cancer. The test and a subsequent biopsy confirmed Milken's worst fears: He had a particularly virulent form of prostate cancer, which kills 30 percent of its victims within two years of the diagnosis. The cancer had spread to his lymph nodes and registered 9 out of 10 on the Gleason scale, which gauges a cancer's aggressiveness. He was given 18 months to live and told to get his affairs in order. (His own father had died of melanoma, despite Milken's intense effort to find a cure.) ...

Milken created the Prostate Cancer Foundation — first called the Association for the Cure of Cancer of the Prostate — soon after his diagnosis. His goal was nothing less than to change the way cancer research was being done, just as he had changed the way finance was done. He identified the best scientists and doctors and got them funding as quickly as possible, often within 90 days. Their research was made public, and Milken encouraged them to collaborate with drug companies to help design new treatments. His message: "Act with a sense of urgency."

Since its launch the foundation has raised more than \$660 million and provided funding to more than 2,000 research projects at more than 200 cancer centers and universities in 19 countries around the world. Thanks to Milken, some 23 "chemically distinct" anti-prostate cancer medicines have been developed. A 2004 *Fortune* cover story hailed Milken as "the man who changed medicine..."

Excerpt from an article that appeared in Institutional Investor in May 2017

California Says Tesla Is Too Big to Fail

Even as Wall Street bulls tout Tesla's stock, almost a conspiracy of silence has surrounded the most interesting questions. One of these concerns what happens when 300,000 customers who deposited \$1,000 each for the forthcoming Tesla Model 3 learn that the \$7,500 federal tax credit will expire before they can get their hands on it. Now we know. Tesla may not be too big to fail as far as the federal government is concerned, but it certainly is too big to fail as far as California politicians are concerned.

As enthusiast site GreenCarReports.com says frankly of AB 1184, a bill recently passed by the state Assembly and awaiting Senate action: "CA bill would make up for federal electric-car incentives as they expire."

Yep, the law clearly is designed to help an electric-vehicle manufacturer about to exhaust the federal credit, a category that includes only Tesla. (The credit starts phasing out with the 200,000th car sold.) The bill specifies a car that gets at least 200 miles per charge—as the new Tesla Model 3, at 215 miles, just does...

For a high-end car, the rebate could be \$10,000, \$20,000 or even \$30,000. In a state that accounts for half of all electric-vehicle sales, this vig would be determined by politically appointed air-quality regulators...

A company like Tesla could only happen in California—or maybe Vladimir Putin’s Russia.

Let’s see, then-Rep. Henry Waxman and state Treasurer Bill Lockyer strong-armed Toyota into providing Tesla its giant local factory on the cheap. Hardly a year passes without Mr. Lockyer or his successor signing off on fresh tax favors. These include \$174 million in sales-tax suspensions for Tesla’s equipment purchases via a state agency pretending to be the purchaser. Tesla has banked tens of millions from California’s existing green-car rebates, and hundreds of millions in state zero-emissions credits. When Nevada outbid California for a battery plant in 2014, the Sacramento Bee instructed the faithful: “That shouldn’t happen again.” Expect local Democrats to dig deep when Mr. Musk goes shopping for his promised truck plant later this year...

AB 1184 must still pass the California Senate. It still needs funding through the state cap-and-trade program, thereby shifting its cost to other energy users. Gov. Jerry Brown still needs to sign the bill—Mr. Brown who recently decided his swan song will be a global climate conference in San Francisco in September 2018, where he can be expected to tout California’s green-car leadership. Perhaps not accidentally, the bill would take effect the same month, landing just as Tesla might be facing its Waterloo over the federal credit’s disappearance for Model 3 customers.

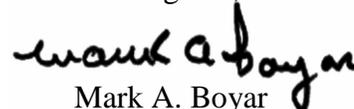
But here’s where we must eat a little crow. Seven years ago, we cautioned against the idea that Mr. Musk’s California “political allies-of-the-moment represent some kind of commitment to the company’s long-term success.” We were obviously wrong. California Democrats have so lashed themselves to Tesla, there’s no amount of taxpayer money they won’t spend to keep it afloat.

No, the company isn’t a bankruptcy risk as long as investors keep supplying fresh capital to let it make and sell cars at a loss. But Tesla has always been, in large measure, a public-policy bet. The shares have been on a shaky ride lately amid Mr. Musk’s Model 3 Hail Mary. AB 1184 may be just the signal investors need that California’s deep pockets are behind the company—at least until they’re not.

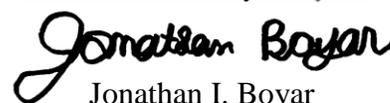
Excerpt from The Wall Street Journal from July 21, 2017

If you have any questions or comments, please do not hesitate to call.

Best regards,



Mark A. Boyar



Jonathan I. Boyar

IMPORTANT DISCLAIMER

Past performance is no guarantee of future results. Investing in equities and fixed income involves risk, including the possible loss of principal. The S&P 500 Index is included to allow you to compare your returns against an unmanaged capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks representing all major industries. The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The NASDAQ Composite is a market-capitalization weighted index of the more than 3,000 common equities listed on the NASDAQ stock exchange. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The volatility of the above-referenced indices may be materially different from that of your account(s), and the holdings in your account(s) may differ significantly from the securities that comprise the above-referenced indices. Your results are reported gross of fees. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.50% annual investment advisory fee would be \$15,566 in the first year, and cumulative effects of \$88,488 over five years and \$209,051 over ten years. This material is intended as a broad overview of Boyar Asset Management's, philosophy and process and is subject to change without notice. Account holdings and characteristics may vary since investment objectives, tax considerations and other factors differ from account to account.