

PERCEPTIONS

2nd Quarter, June 30, 2014			
	6/30/14	% Change 2nd Quarter	% Change Year
Dow Jones Industrials	16,826.60	2.83 % *	2.68 % *
S & P 500	1,960.23	5.23 % *	7.14 % *
Russell 2000	1,192.96	2.05 % *	3.19 % *
BC Aggregate BD Index		2.04 %	3.93 %
10 YR Treasury Yield	2.51 %		
30 YR Treasury Yield	3.38 %		

* *Includes reinvested dividends*

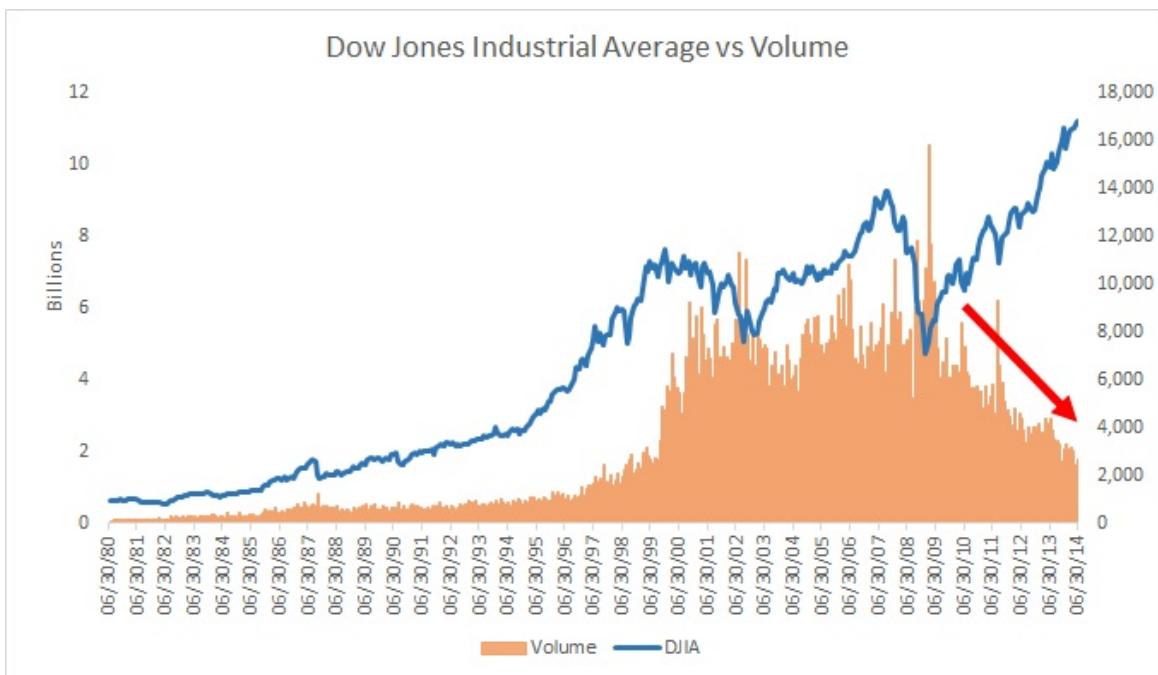
Price Discovery and Volume

Our great grandfather owned a fish store on the North Side of Pittsburgh in the early twentieth century. As youngsters, we were often entertained by my grandmother's stories about growing up while living over the fish store. One story in particular demonstrates how pricing and liquidity drive the modern equity markets. As the tale is told, a customer walked into the store and asked our great grandfather the price of mackerel. Our great grandfather replied that mackerel was 13 cents a pound. The customer complained that mackerel was only 11 cents a pound at a competitor right down the street. Our great grandfather, somewhat irritated, suggested that the customer just stroll over to the competitor and buy the fish there. The customer explained that he could not buy the fish at the competitor's because the competitor was out of mackerel. To which our great grandfather replied that when *he* is out of mackerel, he charges only 9 cents a pound.

Price discovery is the process of determining the prices of securities in the market place through competitive bids and offerings. The process is sensitive to many factors, but none is more important than the number of buyers and sellers. Volume is a yardstick that we use to measure interest in a specific stock and the market in general. The higher the level of interest and activity in the market, the truer the price discovery process.

In May of this year, US Stock trading volume fell to a seven year low with an average daily volume of 5.7 billion shares. June followed with an anemic 5.8 billion share average, which included a trading spike on the last day of June as the Russell indexes rebalanced (an annual event). To place the decline in perspective, the U.S. stock trading average volume was 7.8 billion share per day in 2011 and 6.4 billion in 2012.

This pattern, in place since 2011, has been highlighted in the accompanying chart. Below you will see the average daily volume for the Dow Jones Industrial Stocks.



While markets can and do move higher on light volume, caution is warranted when sell volume encounters little or no support. Small capitalization stocks are inherently more volatile than larger cap stocks, but we have begun to notice stock specific disturbances in this sector. It is interesting to note that for the quarter, the Russell 2000 (representing small cap stocks) was up 2.05% compared to the gain of 5.23% in the S&P 500 (representing large cap stocks).

Herein lies both opportunities and risk for value investors. Price discovery is very different from valuation. When the spread between the two begins to widen, value investors need to have the discipline to buy value at a discount and sell assets when premiums are extended. Low volume can distort price discovery, making core value research all the more important in the current low volume environment.

A small cap stock we are currently buying, Bolt Technology, has been discounted by the low trading volume. As noted above, small cap stocks are particularly vulnerable to low volume and thin markets. While sellers were aggressively moving out of Bolt Technologies, buyers were on the sidelines waiting for an entry point. On May 9th, 2014, Raymond Soto, Chairman and CEO of the company, purchased 5,000 shares at \$16.22, very close to the bottom of the 52 week trading range. One of the best indicators for bottom formations is insider buying, and the May 9th purchase was significant.

Bolt Technology Corporation, headquartered in Norwalk, Connecticut, provides products used in the marine seismic exploration industry and also develops, manufactures, and sells remotely operated underwater robotic vehicles (ROVs.) Revenue and earnings have posted strong gains through the first nine months of Bolt's June fiscal year with revenue up 34% and earnings increasing 64%. The SeaBotix division, acquired in 2011, sells a significant amount of ROVs to government entities and sales do fluctuate quarter to quarter.

In the marine seismic division, Bolt's main product is the air gun, used in seismic exploration to create acoustic waves. These waves are converted to digital form and used to model and visualize the subsurface through the creation of spatial representations. The Company is currently working with WesternGeco, a subsidiary of Schlumberger, to develop an environmentally friendly source for seismic surveys. If successful, the product would be a significant development in the marine seismic industry and could boost sales.

Bolt Technology has a strong balance sheet, little debt, and cash exceeding total liabilities. The financial resources are sufficient to conduct research and development and search for small niche acquisitions. In fiscal 2013, the Company paid \$0.78/share in dividends or approximately 4.5%.

In the current environment of low volume, price discovery has left a gap between market price and intrinsic value. While mackerel is no longer 13 cents a pound, there is still value trawling the waters off the coast of Norwalk, Connecticut.