MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

1st Quarter, March 31, 2017

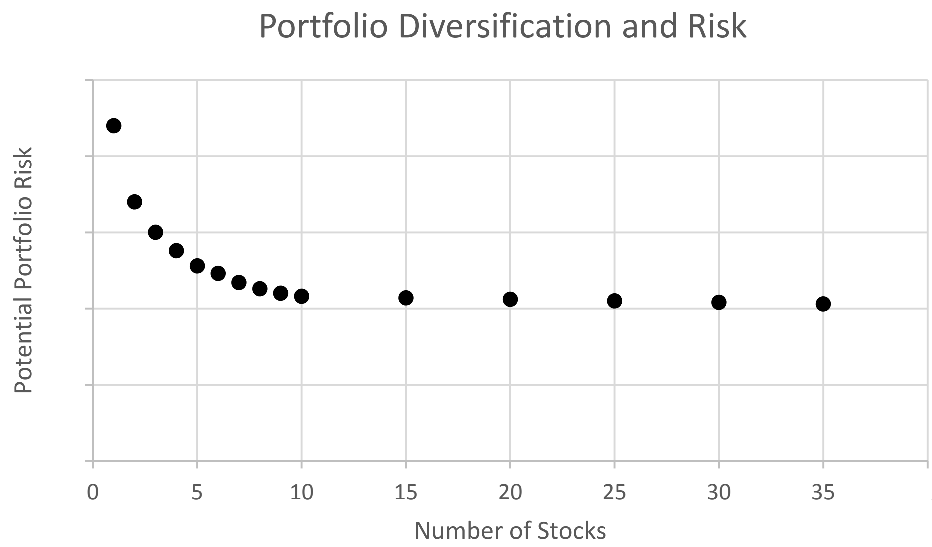
	3/31/17	**% Change 1st Quarter**	**% Change Year to date**
Dow Jones Industrials	20,663.22	5.19 % *	5.19 % *
S & P 500	2,362.72	6.07 % *	6.07 % *
Russell 2000	1,385.92	2.47 % *	2.47 % *
BC Aggregate BD Index		0.82 %	0.82 %
10 YR Treasury Yield	2.389 %		
30 YR Treasury Yield	3.020 %		

* *Includes reinvested dividends*

Unsystematic Risk

As portfolio managers with a value orientation, risk analysis is constant. There are two broad categories of risk affecting portfolios: systematic and unsystematic. Systematic risk is macro in nature; characteristic of the entire market. These systematic risks include inflation, wars, recession, a change in interest rates, government policies or adverse weather events. These risks are beyond the control of individual companies; there is little a portfolio manager can do to control systematic risk.

Unsystematic risk (also known as diversifiable risk) is company or industry specific. A company's earnings power, balance sheet and various financial return calculations have a significant impact on the performance of that company's share price. In construction a portfolio, unsystematic risk can be reduced through exhaustive equity research. The risk associated with individual equities is further reduced by constructing a diversified portfolio of assets. The chart below illustrates the impact of diversifying; as the number of securities added to a portfolio increases, unsystematic risk decreases. Of course, the securities need to be spread across various industries.



Through our bottom up style of security selection and meticulous detail to building portfolios of individual equity and fixed income positions, we mitigate unsystematic risk. In addition, the selection of individual positions allows us to customize your portfolio to match your risk profile and objectives.

S&P 500 / Concentration Risk

A standard benchmark and one of the most popular passive investing tools is the S&P 500 with its corresponding S&P 500 indexing products. The S&P 500 Index tracks the 500 most widely held stocks on either the New York Stock Exchange or the NASDAQ Market. It is considered to be a representative benchmark because it captures approximately 80% of the total US market capitalization. The S&P Index uses a market capitalization weighting, which is the number of outstanding shares multiplied by the current price. Apple Inc. at $740 billion has the largest market cap weighting in the index: AutoNation with a market cap of $4 billion is one of the smallest.

Understanding composition and weighting in various indices is important in evaluating risk. Since 2009, the popularity of passive investing has masked some diversification risk creeping into the S&P 500. As of the second week of April, just 10 stocks out of the 500 were responsible for more than 50% of the total S&P 500 gain for the year. Perhaps even more surprisingly, just 3 stocks (Apple, Amazon and Facebook) accounted for almost 33% of the total S&P 500 year to date gains. The S&P 500 is rising on a very narrow base, concentrated in technology stocks.

With multiple derivative products modeled around the S&P 500, momentum investing begins to exaggerate price movement in the strongest stocks. The S&P 500 index trade becomes very crowded and valuation research goes out of the window. Eventually, a corrective event will occur as we witnessed in 1973-1974, 1987, 1990, 2000 and 2008.

Low interest rates and highly correlated markets have combined to drive passive investing and the S&P 500 since 2009. Our view of the investing landscape suggests caution is now warranted in the passive investing strategies. We will continue to monitor your portfolio for risk and stay properly diversified in individually selected issues.