MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

2nd Quarter, June 30, 2017	6/30/17	% Change 2nd Quarter	% Change Year to date
Dow Jones Industrials	21,349.63	3.95 % *	9.35 % *
S & P 500	2,423.41	3.09 % *	9.34 % *
Russell 2000	1,415.36	2.46 % *	4.99 % *
BC Aggregate BD Index		1.45 %	2.27 %
10 YR Treasury Yield	2.31 %		
30 YR Treasury Yield	2.84 %		

* *Includes reinvested dividends*

Dividends and Cheerios

> "Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies."
>
> *Benjamin Graham*

Corporate dividend policy involves a trade-off: continued earnings growth requires investments while dividend payment removes cash (investing capital) from the balance sheet. We are searching for companies that have balanced the capital decision well over time. Growth companies like II-VI and Edwards Lifesciences have properly channeled all of their cash flow and capital into maintaining above market growth rates. As value investors, we try to buy companies with significant growth rates at a discount. Other companies, like General Mills, have generated enough surplus cash flow and capital to maintain long term growth while distributing excess cash to shareholders in the form of dividends.

General Mills (GIS) traces its origins to a single flour mill built in 1866 on the Mississippi River in Minneapolis, Minnesota. The company's longevity can be attributed to its ability to adapt to changing consumer needs. Early on, General Mills understood the importance of communicating and connecting with consumers. In 1921, the persona of Betty Crocker was created to answer letters from customers, and Americans were soon sending 7,000 letters a day to Betty Crocker. It took a team of two dozen professionals to respond to the letters by mail and over the radio. In 1924, Wheaties was rolled out followed by Bisquick in 1931 and "Cherrioats" in 1941. General Mills and its predecessor company have paid a dividend for 117 consecutive years.

Today, after 150 years of growth, the seven largest brands for General Mills are Cheerios, Betty Crocker, Pillsbury, Nature Valley, Yoplait, Old El Paso and Häagen-Dazs. Each brand generates more than $1 billion in annual retail sales. Understanding and adapting to consumer behavior, General Mills has been carefully building its organic brands. This group includes Annie's, Cascadian Farms, Epic, Liberté and Muir Glen. The organic division is targeting sales of $1 billion in 2019.

Anxiety with legacy brand pricing and the new world order of distribution have pushed General Mills and other food producers to multi-year lows. Uncertainty causes mispricing and at $54 per share, we believe the markets have mispriced General Mills. The company prospered through the Great Depression and continually innovated and adapted through World Wars, recessions and changing consumer habits. With a 52 week range of $53-$72, General Mills is trading near its low, yielding 3.6%.

Dividends have always been an important component of Total Return. High quality companies with a long history of paying and growing dividends should anchor a well-diversified portfolio. Our proprietary dividend/growth model suggests General Mills is trading at a deep discount to its intrinsic value.