MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

1st Quarter, March 31, 2019			
	3/31/19	**% Change 1st Quarter**	**% Change Year to date**
Dow Jones Industrials	25,928.68	11.81 % *	11.81 % *
S & P 500	2,834.40	13.65 % *	13.65 % *
Russell 2000	1,539.74	14.58 % *	14.58 % *
BC Aggregate BD Index		2.94 %	2.94 %
10 YR Treasury Yield	2.41 %		
30 YR Treasury Yield	2.81 %		

* *Includes reinvested dividends*

Generally Accepted Accounting Principles

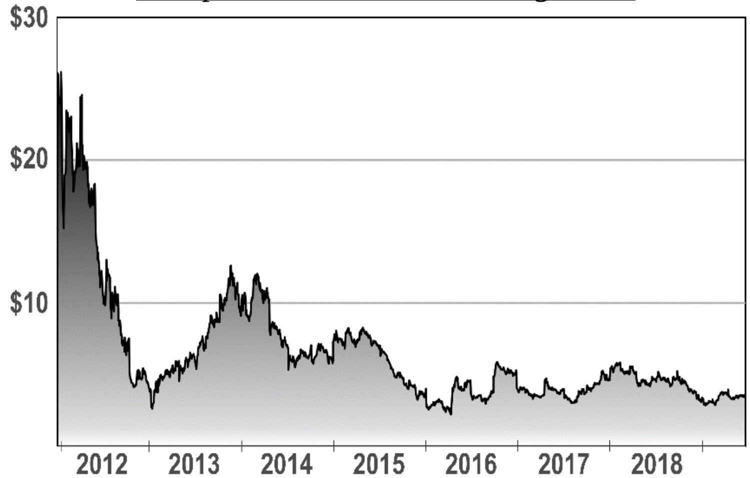
With the US equity markets poised to set new high records, it may seem like an odd time to discuss the rather dry topic of Generally Accepted Accounting Principles (GAAP). These principles are a set of rules governing corporate accounting and financial reporting in the United States. All publicly traded companies are required to follow GAAP principles and procedures. Over the last twenty years, there has been a growing tendency to use certain non-GAAP metrics to supplement standard financial reporting. While originally used by analysts internally for merger and private equity analysis, companies noticed and began supplementing their reports with customized metrics. In the purest form, adding information should increase transparency and be a net positive. It is now common for companies to report "adjusted earnings" along with GAAP earnings.

One of the strengths of GAAP accounting is that it allows for performance comparisons between companies and industries. With customized reporting, comparisons become more difficult. It is human nature for executives to emphasize good news and minimize bad news. Since companies calculate their own "adjusted numbers," the potential for coloring the numbers is significant. Very real expenses like marketing cost, pension expense, stock grants, recurring acquisition cost and executive bonuses are sometimes excluded. There is not a uniform standard for non-GAAP reporting.

A prime example of the risk of alternative metric reporting is Groupon Inc. In 2010, as the company prepared for its Initial Public Offering, they used a metric called "adjusted consolidated segment operating income." Using this non-GAAP metric, they promoted a $60.6 million gain in

2010 which excluded a litany of actual costs such as marketing costs totaling $263 million and other significant acquisition costs. Using GAAP accounting, Groupon actually lost approximately $456 million over the same period in 2010. While Groupon had its reasons for the aggressive posture, the clarity of GAAP accounting proved more prescient as shown in the graph below of the company's share price.

Groupon Inc. Historical Closing Prices



On March 9th, 2019, the current bull market turned ten. As the bull market has extended, the use of more aggressive accounting metrics has proliferated and now the emphasis on adjusted earnings seems more commonplace than GAAP earnings. We cannot control the use of adjusted metrics nor can we predict when the bull market will end. We can, however, remain disciplined in *our* valuation process. In the end, stocks will find the right valuations. The use of strict and conservative accounting metrics will help us to manage risk, identify inflated pricing and minimize the jarring corrections that will periodically occur.