Five Mile River Investment Management, LLC   January 25, 2017
Quarterly Letter
Year End 2016

PERFORMANCE

	FMR Performance		Dow Jones	S&P 500
	Taxable	Retirement	Industrial	Dividends*
2016 Q1	0.01%	2.91%	0.76%	1.34%
2016 Q2	9.19%	5.93%	1.39%	2.45%
2016 Q3	-0.91%	-0.29%	2.11%	3.85%
2016 Q4	1.88%	0.01%	7.94%	3.81%
2016 FY	**10.04%**	**8.52%**	**12.59%**	**11.93%**

Unexpected and overdue events punctuated the end of 2016. The final months saw the World Series win by the Chicago Cubs and the election of Donald Trump, events not even on the radar earlier in the year. Then in December came the Federal Reserve's announcement of an interest rate increase to **.75%,** an event long overdue (only the second increase in almost ten years). At the same time, Fed Chair Yellen gave much needed clarity and announced that there would likely be three more rate increases in 2017. Finally, stronger than expected corporate profits were an upside surprise (November report), rising over 5% for the 3rd quarter, reversing a two-year decline.

FMR had very solid performance in 2016, and is well positioned for 2017 and beyond. FMR manages taxable and tax-exempt client portfolios across three different value-based styles: Growth, Income and Balanced. Individual account performance varies based on client preference for portfolio style.

Review of 2016's Fourth Quarter

Both the U.S. stock market and the U.S. dollar strengthened considerably in the weeks following the election during the 4th quarter, with the stock market making new all-time highs. Positive momentum and new highs continued in January. For FMR, as investment advisors with a Value Investment Style, it is exciting to see value managers as a group decisively out-perform the Growth Investment Style during the 4th quarter of 2016. This is the first time in seven years that value managers have out-performed growth managers, and this paradigm should continue. Why? The fact that the economy (GDP) has grown at less than 2% over the past seven years helps to explain why investors gravitated, during this time, to high-growth technology and internet based companies.

Four new fiscal policy proposals, that each have the potential for boosting faster GDP growth, are being advocated by the new administration:

1. reducing corporate and individual tax rates
2. providing a tax holiday for returning to the U.S. the $2.7 trillion of cash trapped offshore (repatriation)
3. joint private and government infra-structure building projects
4. the immediate removal of both company and economy-stifling regulations

Any one of the proposals above, if enacted, can broaden the recovery across many market segments. The market has definitely begun to price-in the effect of these positives, even though they are likely to be challenged in Congress with modifications and inevitable delays. However, the fourth initiative is already being acted upon through executive orders.

Companies are now announcing their 4th quarter profits, which are continuing the 3rd quarter advance, rising roughly +6% to +7%. And managements are projecting, on average, a 10% profit gain for 2017. Significantly, in making these 2017 forecasts, managements have **not** adjusted their profit outlook for the many benefits of the proposed new fiscal policies.

The Return of Value Investing

As part of FMR's value approach, stocks are selected based on free cash flow and their opportunity for sustainable dividend growth. FMR's Dividend Growth Strategy produced strong results across FMR accounts in 2016, and most met or exceeded the FMR forecast of 6% to 8% return for last year. This performance was the direct result of FMR's value stock selection using the Dividend Growth Strategy, and **90% of our portfolio holdings raised their dividends on average 7%!**

The energy sector is one of the cornerstones of FMR's Value Dividend Growth Strategy. Our full exposure across investments in the energy sector positions client portfolios very favorably as we look to 2017 and beyond. Energy stocks represent only 7.5% of the S&P. The average FMR account has an overweighting in energy, and energy was the best preforming sector in 2016, a clear plus for FMR accounts. FMR taxable accounts have a higher energy weighting than tax-exempt accounts because of positions in Master Limited Partnerships (MLPs are not eligible for tax-exempt accounts). Oil price cycles tend to last 7 to 12 years, so one year of strong performance in 2016 only marks the beginning of this longer trend.

2017 Outlook

FMR's base forecast for 2017 continues to be a 6% to 8% return with further upside if effective new pro-growth tax policies are enacted. We humbly submit our short-term guidance with your understanding that we focus most of our time on finding the best long-term value and dividend growth stocks for FMR client portfolios. Our portfolio company selections are based on those companies' three to five year cash flow forecasts.

While rising interest rates are one of the key leading indicators for economic recovery, this typically has a short-term negative effect on dividend paying stocks, and 2016 was no different. However, this effect is most often temporary. The vast majority of dividend growth stocks, while temporarily hurt by the prospect of rising interest rates during the fall of 2016, rallied at year-end, and have continued to attract new money through January. On the other hand, bond prices declined sharply throughout the 4th quarter of 2016, which continued into the New Year (rising interest rates and bond values are inversely correlated). Consequently, it appears to us that the 34-year bull market in bonds ended last August, 2016.

Also, remember, historically stocks' rally on average for 30 months AFTER rates start rising, suggesting this bull market for stocks extends well into 2018. Also a positive for stocks is that pension funds and foundation assets (+$5 trillion) are over-weighted in bond positions that are now a net negative to their performance. Money in pension funds and foundations will continue to "asset allocate" away from bonds, a portion of which will flow back into equity investments.

In Conclusion

Writing this letter on January 25th, it is noteworthy that the Dow has closed above 20,000 for the first time ever, along with new highs for the S & P 500, and the NASDAQ. We are including in this letter an Addendum that goes into some detail explaining both the significance and the short-comings of the DOW and the S&P indices.

Even though market corrections are inevitable in all bull markets, the continuation of rising corporate profits and enactment of policy changes, such as tax reform, should bolster income and growth (GDP), all ingredients for continued strength in the stock market.

As always, we welcome your comments and questions. We wish you a prosperous and healthy New Year.

Lee Todd Martha

**The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies. This index is used for a comparison for FMR accounts.*