Frank Capital Partners LLC

Frank Value Fund
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FRNKX, FNKCX, FNKIX

Fourth Quarter, 2015

To our fellow shareholders,

The Frank Value Fund Investor Class returned -6.21% in 2015 versus 1.38% for the S&P 500 Total Return Index. In the fourth quarter, the Frank Value Fund Investor Class returned -0.04% compared to 7.04% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

We quoted the Russell Indices last quarter to demonstrate the gap between growth and value stocks in 2015. This continued in the fourth quarter with the 2015 returns as follows:

Russell 1000 Value: -3.83
Russell 1000 Growth: 5.67

Russell 2000 Value: -7.47
Russell 2000 Growth: -1.38

The penalty for doing your fundamental homework and investing in value stocks in 2015 was harsh. This harkened back to 1999 when value investors suffered losing years as the NASDAQ zoomed to euphoric highs. Current market conditions parallel those of 1999-2000, and the "easy" gains growth investors piled up in 2015 may prove to be as fleeting as those in the tech bubble. Fundamentally, it is a clear argument.

Four pillars are at the core of company valuations: Revenue growth, margin expansion, credit conditions, and macroeconomic indicators. Imagine these four principles as the limbs on the Black Knight from the film *Monty Python and the Holy Grail.* As King Arthur battles the Black Knight, Arthur inflicts mortal wound after wound upon his opponent, eventually removing both his arms and legs. The Black Knight, amazingly, refuses to yield, hopping around on stubs, shouting "I'll bite your legs off" at a victorious and departing Arthur. Over the past eighteen months, each of these four pillars have been removed from the bull market, and each of these pillars is necessary for expanding stock multiples. Fundamentally, there are few reasons to invest in stocks that have come down in price because fundamentals are weakening, which calls for a compression in valuation multiples.

Instead, low or negative revenue growth, contracting margins, tightening credit conditions, and weak macroeconomic indicators have been met with excuses and apathy. Firms are reporting their revenues adjusting for a strong US dollar, but management makes no mention if the company can successfully offset foreign exchange pressure by raising prices. I believe these revenue declines are more permanent than management teams are acknowledging. The currency pressure in international markets is in the face of recessionary conditions! Businesses will more likely have to lower prices to maintain their customer bases in places like Brazil and China, exacerbating pressure on the top line rather than offsetting FX losses.

A lower percentage of workers in the United States actively looking for jobs means a more competitive labor pool. Numerous companies like Wal-Mart raised wages in 2015, which is a lift for their employees, but puts pressure on profit margins (costs up, revenues flat.) Since the consumer is struggling from rising healthcare expenses only partially offset by lower gasoline prices (which will not repeat), companies forced to raise wages have been unable to maintain their margins by increasing top-line growth. Even if revenues were flat, decreasing profit margins mean profits go down. This occurs without a recession or negative event at the macro level. A recession would have an even more negative effect on profits.

To distract investors from weakening operations, and, more obviously, because rates were near 0%, management teams for a bewildering amount of companies embarked on aggressive, debt-fueled stock repurchase plans in the past few years. In 2015, well before the Federal Reserve raised the rates it controls, bond market investors effectively raised the borrowing rates on high yield and investment grade borrowers. This makes future repurchase programs and mergers and acquisitions activity much more difficult to accomplish. Easy money is no longer available to fuel the mass obfuscation of investors as well as facilitate business expansion plans. Refinancing in the future will be at higher rates, making interest expenses likely to increase even if debt levels remain the same.

Finally, as the Black Knight hops around on his one remaining leg, King Arthur looks ready to make his final cut. The macroeconomic picture in the United States is certainly tepid, but conditions appear to be worsening, with the odds of recession steadily increasing in the past few months. I believe a recession is completely unnecessary to see multiple contraction in the US stock market because the median multiple is off-the-chart high, while growth is nowhere near what it was in the late 1990s. A recession would merely increase the severity in multiple contraction needed to return stock valuations to more rational levels.

It's not all bad though! We are King Arthur in this beleaguered metaphor after all, and there are a few corporations that have discounted more than their fair share of difficulties. This makes them great investments and likely to generate acceptable returns in the next decade unlike the majority of alternatives. These same companies ended 2015 in the red, as a reminder there is often pain associated with long-term gain. The Frank Value Fund's large cash position insulated us from the full force of losing value stocks in 2015, and the cash provides us with the ability to act when multiples contract more. We are fully prepared to act and act aggressively when our investment process shows valuations are at appropriate levels. Until then, I thank you for your patience and trust in our process and ability. No one more than me despises trailing the market averages and posting negative returns, even if the value indices and my value peers are suffering along with me. Our goals and desires remain the same since inception: make money for our family and our shareholders by avoiding foolish long-term decisions like buying high and selling low.

Summary of Q4 15 activity:

Q4 Sales: American Public Education (NASDAQ: APEI)

We eliminated our position in American Public Education to avoid thesis creep. This is a fancy way of saying APEI went from growing profits at a cheap multiple to declining profits at a cheap multiple. We still believe American Public is a great company in the sinister industry of for-profit education, but the overall reach of the industry is in steep, sharp decline. APEI will most likely survive the contraction with their strong cash position and zero debt, but when the industry resumes growth it will be off a much smaller base – that scenario implies more downside for APEI.

Q4 Purchases: None

Most of the stocks with negative returns in 2015 also had decreases in their profits. In many cases, especially in energy companies, the stock decline was less severe than the decline in the underlying fundamentals. This indicates that stocks have some catching up to do unless conditions improve greatly from here. We will be ever vigilant and have a long list of names that are close to fitting our process. Should there be further price declines or growth in profits we will act regardless of what the "market" is doing.

Thank you for your investments.

Very truly yours,
Brian Frank
Frank Value Fund Portfolio Manager

Performance as of 12/31/15	Average Annualized Total Returns						Total Return
	1 Yr. %	3 Yr. %	5 Yr. %	7 Yr. %	10 Yr. %	Since 7/21/04 %	Since 7/21/04 %
Investor Class (FRNKX)	-6.21	11.08	10.04	15.03	7.19	7.46	127.93
Class C (FNKCX)	-6.85	10.28	9.25	14.28*	6.44*	6.71*	
Institutional Class (FNKIX)	-5.91	11.42	10.32	15.28*	7.44*	7.71*	
S&P 500 Total Return	1.38	15.13	12.56	14.81	7.30	7.74	134.88

* Represents an estimate based on the performance of the fund's oldest share class, adjusted for fees.

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Non-FDIC insured. May lose value. No bank guarantee. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling 1-800-869-1679. Please read it carefully before you invest or send money.

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