Frank Capital Partners LLC

Frank Value Fund
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FRNKX, FNKCX, FNKIX

First Quarter, 2016

To our fellow shareholders,

The Frank Value Fund Investor Class returned 2.99% in Q1 2016 versus 1.35% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

Stock Are Not Bonds

In the middle of February 2016, the major indices were down around 10% YTD and the Frank Value Fund was nearly flat. Our conservative approached vaulted the fund to number one in its Morningstar category as well as winning our ninth *Wall Street Journal* Category King award. This performance justified all the pain and suffering of watching growth outperform value as well as rejecting innumerable sub-optimal investments throughout 2015. Central Banks around the world launched a coordinated effort in the last 45 days of the first quarter, with the ECB and BOJ cutting short-term rates into negative territory and the Fed fleeing its previously telegraphed forecast of four rate hikes in 2016. Markets staged an outsized Pavlovian response resulting in the greatest intra-quarter recovery of all time, or in nine decades, depending on the source.

Rather than discouragement at the reversal, we are emboldened. Volatility is back, and our strategy has been positioned correctly all along. Fundamentals have deteriorated while stocks have marched ceaselessly upwards in the past 45 days, and yet we feel no temptation to join the crowd buying stocks just because Central Banks are acting. Because earnings are declining yet prices are increasing, according to *Bloomberg*, the Price/EBITDA ratio for the S&P 500 is now above the March 2000 all-time peak! Welcome to the most expensive US stock market in history.

Most investors are familiar with the tremendous bear market of 2001-02 that wiped out countless technology and telecom stocks, resulting in a 40% decline in the S&P 500 and an even greater drop for the NASDAQ. However, the sands of time have clouded the collective memory to this startling fact: according to the St. Louis Fed, during the Tech Bubble the previous four quarterly Real GDP prints in 1999 were 7.1%, 5.3%, 3.3%, and 3.2%. Currently, during the Central Bank Bubble, the previous four quarterly Real GDP prints in 2015 were 1.4%, 2.0%, 3.9%, and 0.6%. The first quarter of 2016 is tracking around 0.5%. Growth is negligible at the macro level, and in our micro research we are seeing both sectors and companies poised for revenue and operating income declines in Q1 16. Yet, the median stock trades at a higher valuation than when the economy was growing significantly faster in 1999 with the Internet revolutionizing the world. The conclusion here is asset prices are completely disconnected from fundamentals, and Central Banks have succeeded in driving up stock prices similar to the risky levels of fixed income. However, stocks are not bonds.

Global government bond yields are now mostly 0% or negative. These Central Bank induced yields are harmful, and I believe banks are reflecting this perilous situation. Clearly, with global banks trading below book value, they are the losers in a negative interest rate policy, showing the unintended consequences of a reckless, centrally-planned economy. Logically though, bonds are telling you roughly what you should expect to make over the life of the bond via the coupon payment (zero.) Stocks, on the other hand, do not explicitly tell you what you will make over the next 5 – 10 years. Company-by-company valuation can give you the key to unlock the mystery of longer-term returns from stocks. This is hard work with incomplete information, and one must be aware of economic cycles (recession and growth) in order to correctly value a company for the long-term.

Low valuation is the reason why stocks can go up even in the middle of a deep recession like 2009, and high valuation is the reason stocks return zero or negative over ten-years like 2000 to 2010. In short-term periods the central bankers might have the illusion of control, with the Alan Greenspan put or manic response to hints of further quantitative easing, but in

the long-term there is a business cycle. As this cycle appears to be slowing and turning negative, valuations must account for that. Usually stocks anticipate slowdowns or declines in earnings. This time earnings declines have preceded any significant movement in stocks. I believe central banks are at the limits of their influence, and most equities are trading at bubble-like valuations with nothing but aggressive stock repurchase programs protecting them from a gap down towards realistic valuations. Markets may squeeze higher here, but we are focused on Q1 earnings reports as they roll out here in April and May. Barring stunning improvement in both revenue growth and margins, we believe most blue chip and small cap companies are dangerously overvalued. Stocks can and will correct in order to reflect this, and quite unlike bonds, being priced for 0% rates means stocks can decline massively as expectations are lowered. If you hold your 0% bond to maturity you at least get your principal back. If you hold a stock priced for 0 returns over the next ten years, you could be forced to sell down 40-50% at the lows.

In 2012, after a tough year for our value strategy, we wrote how the longer our value stocks remained out of favor, the sharper the rebound will be. In 2013 our shareholders were rewarded for their patience, as the compression of value stocks acted like a coiled spring, and Frank Value Fund returns bounced over 40%. To borrow from author Nassim Taleb, today we view the suppression of volatility like the coiling of the spring. Participants were scared and angry at central bankers during the normal and healthy decline of barely 10% in January to February 2016. Central banks buckled under popular pressure and saved the day, but it came at a significant price. They are pushing volatility into the future as it cannot be suppressed forever. The Frank Value Fund is positioned accordingly, and while the market was declining in January, we had stocks like our gold miners showing gains.

Summary of Q1 16 activity:

Q1 Sales: RPX Corp (NASDAQ: RPXC)
When cash is a large part of the investment thesis, investors must watch management closely for how they use company cash. Rather than buy back stock with its cash hoard, the managers of RPXC made a questionable acquisition using most of the cash on the balance sheet. Rather than stick around and hope things went correctly, we exited our position in February.

Q1 Purchases: None

Even at the February lows stocks were not discounting the full economic cycle nor contraction in margins. Both recession and margin compression are probable in the next few years. Until we are compensated for such risks, we will not risk our capital. We remind our shareholders that we can act quickly when opportunities do arise, and our cash position can jump around from quarter to quarter.

Sincerely,
Brian Frank
Frank Value Fund Portfolio Manager

Performance as of 3/31/16	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)	(-0.05)	7.90	9.07	16.78	6.82	7.57	134.74
Class C (FNKCX)	(-0.79)	7.10	8.28	16.03*	6.07*	6.82*	
Institutional Class (FNKIX)	0.25	8.21	9.33	17.03*	7.07*	7.82*	
S&P 500 Total Return	1.78	11.81	11.57	16.95	7.00	7.69	138.05

* 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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