FRANK VALUE FUND

UNCONSTRAINED INVESTING IN US EQUITIES

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Q4 16 LETTER TO SHAREHOLDERS

The Frank Value Fund Investor Class returned 3.56% in 2016 compared to 11.96% for the S&P 500 TR Index. Please see the end of this letter for more performance information.

Having lived through and studied the tech stock bubble of the late 1990s, my career has already encompassed three bubbles and two busts (so far). I have seen and read examples of the manic, euphoric stampede into tech issues in 1999, and I have also witnessed the aftermath of permanently impaired retirement accounts. Later, in 2008, I watched hundred-year-old banks fail, unceremoniously closing their doors and booting bewildered employees into the streets. Real estate investors, again manic and blinded by greed, had overextended themselves and finished underwater on mortgages and related investments, permanently impairing their capital and respective retirement nest eggs.

On a happier note, I have also experienced and read about value investors persevering though investment manias, sticking to their disciplines as shareholders fled chasing hot performance. Those who remained with the fundamental investors both protected and grew capital while The Next Big Thing turned out to be The Next Big Bust. I have read dozens of books like *Irrational Exuberance* and *This Time is Different* which detail investors succumbing to euphoric emotions and the aftermath of a bubble burst. The last sixteen years I have been involved in the financial markets have been marked by extreme boom and bust cycles, caused perhaps by an interventionist Federal Reserve, and it is clearly a more volatile and extreme era that continues to this day. As interest rates are now going up like they did during the last two bubble bursts, we will see which investors, companies, and sectors of the economy have become overheated during the prolonged period of lower than necessary interest rates. Low rates encourage risk-taking, both good and bad. Higher rates separate the sustainable ventures from the dangerous.

In 2009, when the Frank Value Fund was 100% invested in stocks, there was desperate selling of US equities. Sellers were accepting lower and lower prices because price action was down, the economy was forecasted to shrink, and scary headlines bemoaning unemployment and company losses were the norm. Our assessment of company valuations indicated that these fears were more than priced in, and our knowledge of the business cycle harbored a belief that the economy and company profits would grow over the long-term. Since valuations were extremely low, we took advantage of the mass selling and panic, and were rewarded with large gains in the next five years, including two years (2009 and 2013) of nearly 50% annual returns on our money.

After the November election, 2016 turned into the opposite of the conditions we observed in 2009. Investors, for a multitude of non-fundamental reasons, turned euphoric, breaking the record for ETF inflows in November, and surpassing the record again in December. More buyers went into stock market ETFs in those two months than all of 2015 combined! Headlines are declaring a renewed strength in the US economy, whereas we observe the same 2-3% tepid growth as before the election. Valuations, when calculated by the most reliable metrics of long-term returns like P/S, P/B, CAPE, and Market Capitalization / GDP are more than twice as high as 2009 and in some cases two standard deviations above their mean levels. Numerous prominent bears are capitulating, piling into stocks at these record valuations as the consensus gloats there is no recession “in sight.”

My experience tells me when investors are all on one-side of the boat like 1999, 2007, or today, there is nothing but risk and downside in those popular, “can’t miss” trades, whether they were tech issues in 1999, real-estate and related

financial products in 2007, or the popular index products and ETFs of today. The consensus has never predicted a major stock market decline, a recession, or any other negative event because the consensus is there to sell financial products to the masses. Nothing sells like a good story chock full of optimism.

Though my views are cautious, I remain long-term optimistic. I believe in the strength of the US economic model, and I watch entrepreneurial, American Dream stories like Shake Shack and Shutterstock, eager to buy them at reasonable valuations. But since we started selling more stocks than we were buying in 2014, valuations have only become more risky and unreasonable. Just because we are early does not mean stocks will remain in a new era of lofty valuations. Renowned economist Irving Fisher declared stocks in a "permanently higher plateau" just before the stock market crash of 1929. For Frank Value Fund shareholders this means leaving the final 20-30% upside on the table is a prudent approach when all the recent gains and more will be eliminated in a return to average valuations. We will not abandon our discipline for short-term gains. As the late, legendary junk-bond trader Larry McCarthy used to say "Most people quit when they are three feet from the gold." Now is not the time to quit our discipline and chase the crowd over the cliff, no matter how enjoyable the run may seem. Sometimes our strategy forces us against the grain, like aggressively buying in 2009 or being in the lonely conservative group in 2017. In either case, we are looking for great companies trading at reasonable valuations. When the numbers make sense, we will buy.

Major fundamental changes in the fourth quarter were higher interest rates, higher inflation, and higher wage growth. These are tough hurdles for companies to clear, regardless of promised positive changes in the tax code. All possible worlds of good have been priced-in, but any possible downside has been ignored. We will be watching fourth quarter earnings season for declines in margins due to wages rising faster than revenues, higher interest costs, and reduced stock repurchases due to rising rates. The consumer is now burdened by higher healthcare costs, higher prices of goods, and higher personal interest costs. In the meantime, should the Trump administration approach healthcare like a cannonball smashes a target, we are tracking several names that meet our quality metrics that are close to meeting our valuation discipline. Those healthcare stocks are certainly not the norm when it comes to reasonable valuations. We are still witness to the most pervasive, prolonged, and downright nonsensical valuations I have seen in my career.

I am just as impatient for gains as you are. Since my family's money is alongside yours, I have more skin in the game than most asset managers. This leads me to an extremely different approach than passive indexing, but it also differentiates us from other active managers and value investors. The lemming-march into ETFs and passive benchmark products has changed both the behavior and valuation of much of the underlying stocks. My active peers still giving credence to the benchmark are, in my opinion, taking large unnecessary risks just to stay correlated to the benchmark and benefit from the over-eager ETF flows. When valuations return to historical norms, Frank Value Fund shareholders will be quite pleased that our correlation is at an all-time low relative to the benchmarks! Our structure allows us to maintain this positioning and I believe we will be rewarded disproportionately for our stance.

Thank you for your investments.

Sincerely,

Brian Frank

Lead Portfolio Manager

Frank Value Fund

Performance as of 12/31/16	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)	3.56	0.26	9.12	9.12	5.96	7.14	136.05
Class C (FNKCX)	2.74	-0.50	8.30	8.37*	5.21*	N/A	N/A
Institutional Class (FNKIX)	3.77	0.52	9.40	9.37*	6.21*	N/A	N/A
S&P 500 Total Return	11.96	8.86	14.64	12.82	6.94	8.07	162.98

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

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