Frank Capital Partners LLC

Slaughterhouse Five (Hundred)

FOCUS — RESULTS — ACTIVE — NIMBLENESS — KNOWLEDGE

Frank Capital Partners LLC | Key Biscayne, FL | 973-887-7698 | www.frankfunds.com

Frank Value Fund – Protecting Capital

As of 3/31/2020	1 Month	3 Month	1 Year	3 Years Annualized
Frank Value Fund	-2.58	-1.31	1.33	-1.27
Russell Midcap Value	-22.70	-31.71	-24.13	-5.97
S&P 500 TR	-12.35	-19.60	-6.98	5.07

The Frank Value Fund protected investors' capital during the first large correction of the bear market.

Slaughterhouse-Five (Hundred)

Passive Investing and its Effects on the U.S. Stock Market

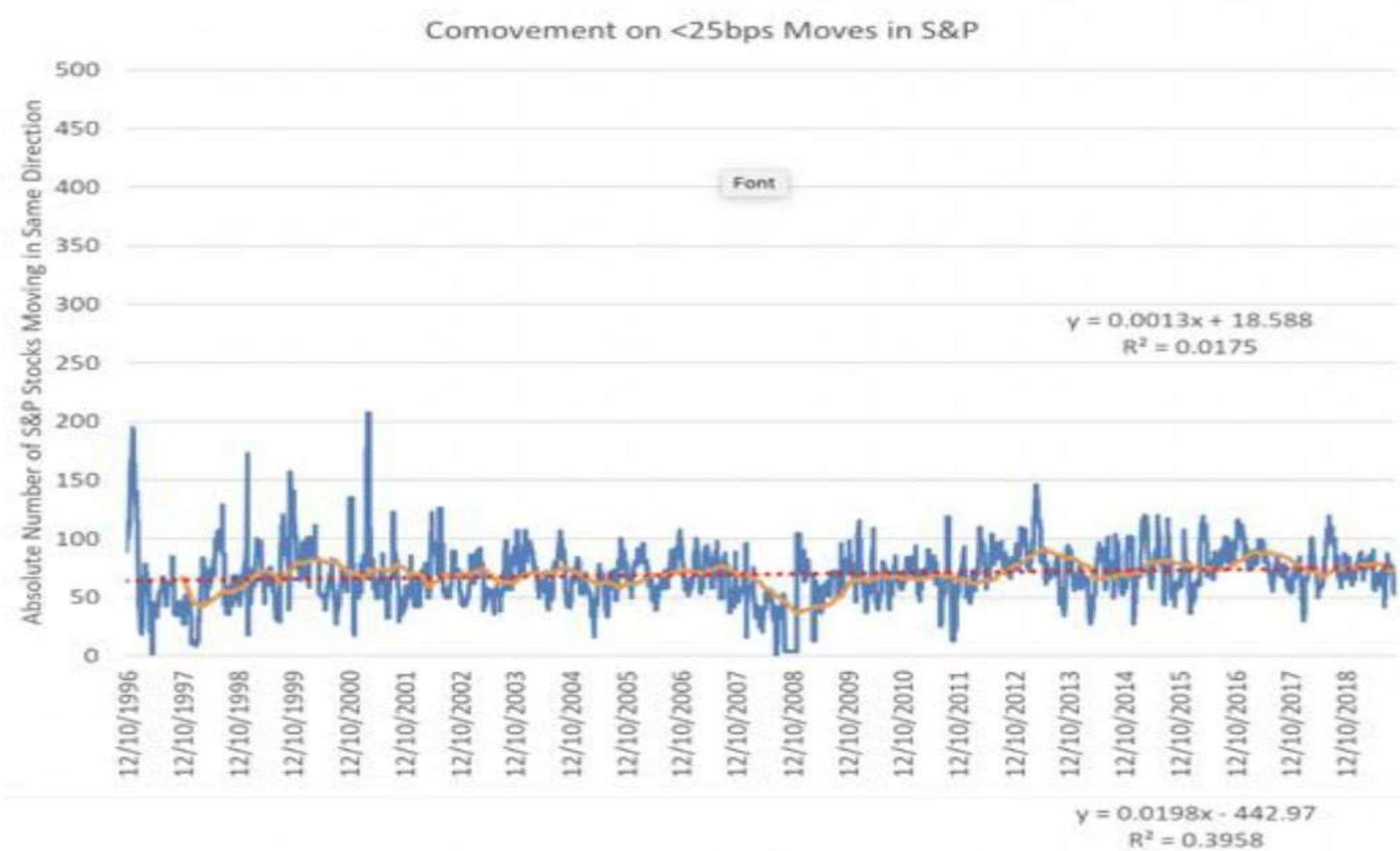
Slaughterhouse Five (Hundred) Summary

The following is a summary of the paper *Slaughterhouse Five (Hundred)* which is available for free on our website: www.frankfunds.com

These slides will cover:

- Passive investing increases co-movement on higher volatility days
- Passive ownership as a percentage of stocks has created a “roach motel”
- Why stocks have rebounded from coronavirus panic
- Accelerants in place for net declines in passive market share
- What the end game will look like for US stocks

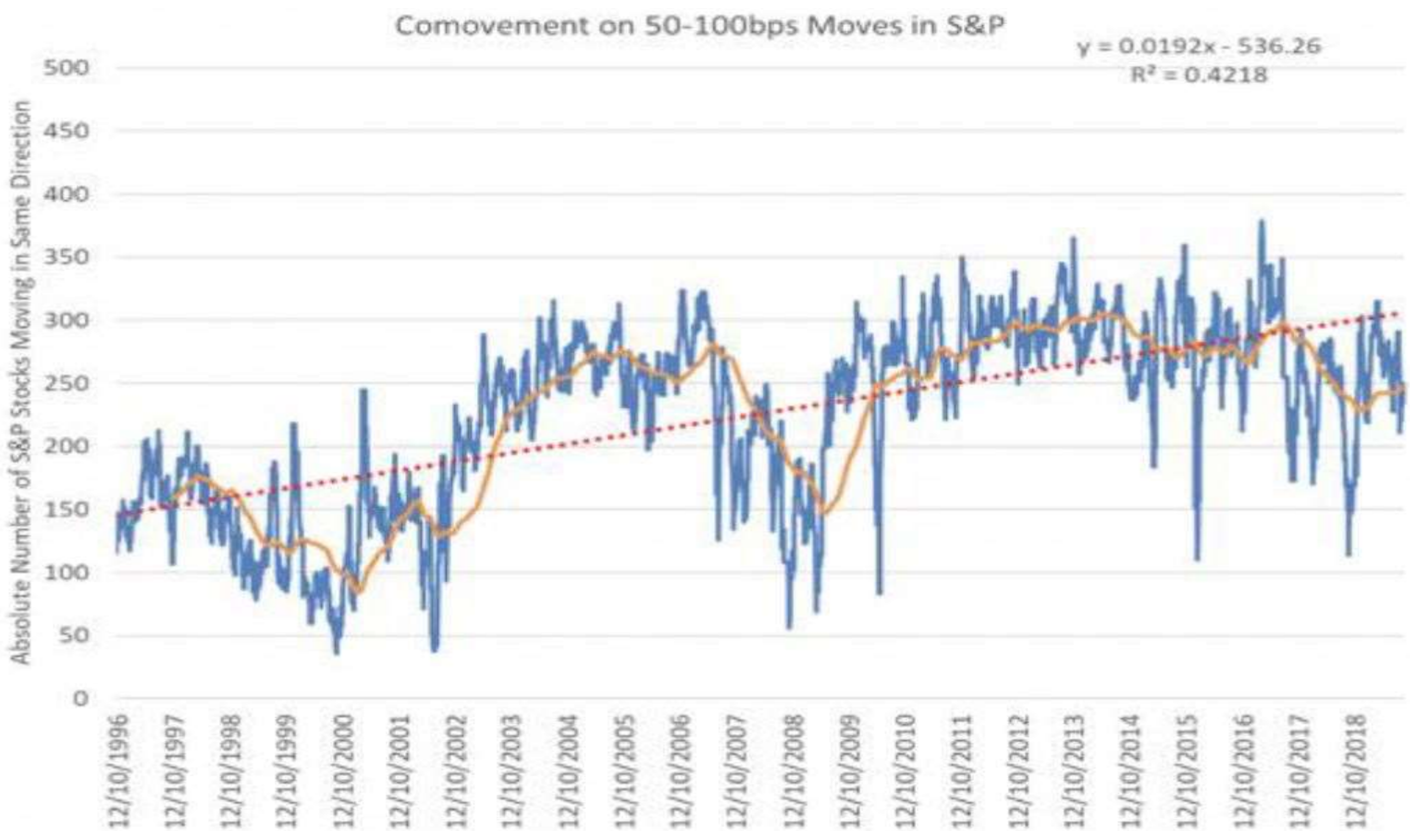
Co-Movement



Co-movement is the absolute number of S&P 500 stocks moving in the same direction. On days when the market moves <25bps, co-movement has remained stable.

Source: Mike Green

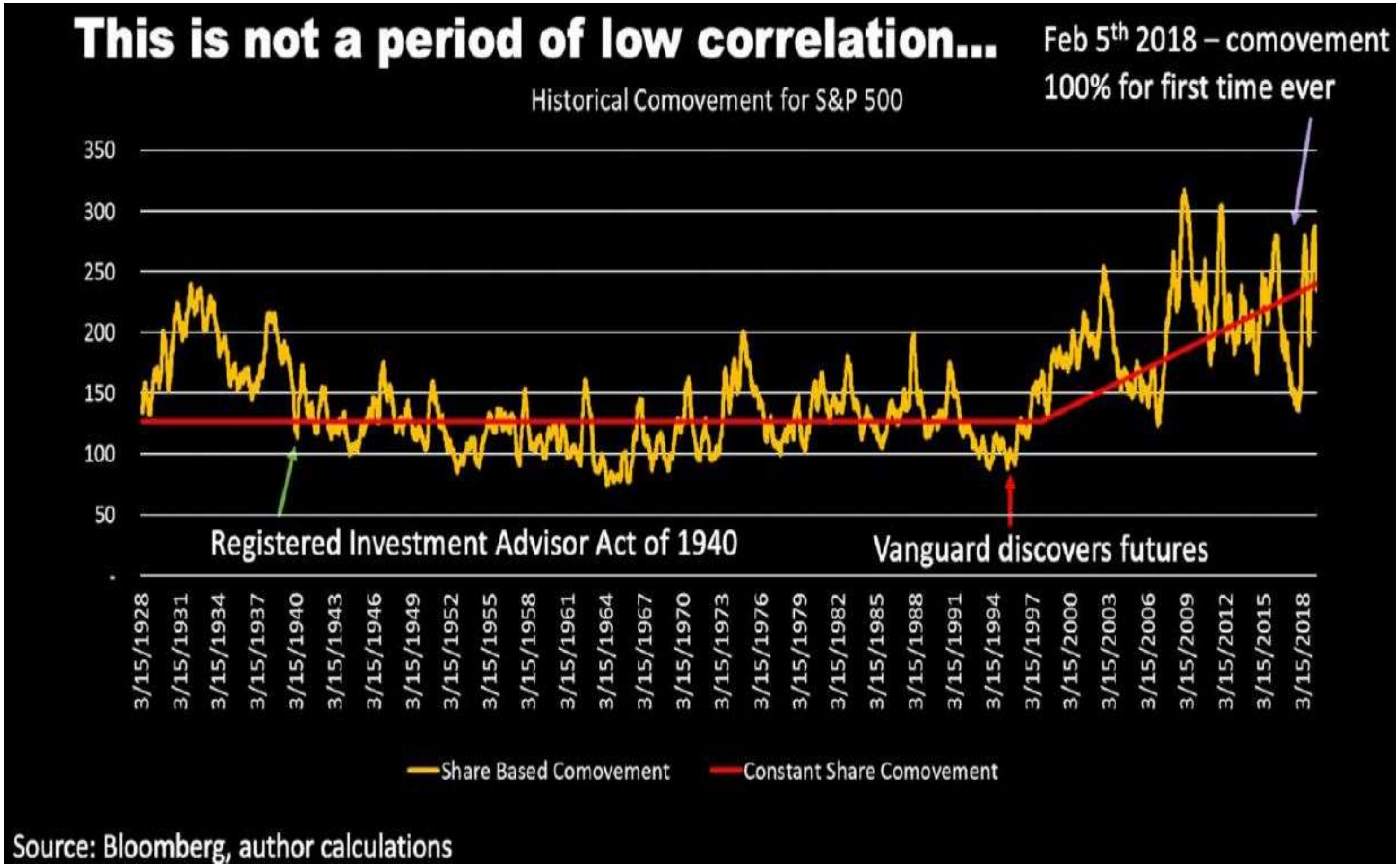
Co-Movement



However on more volatile days when the S&P moves 50-100bps, there is a clear upward trend in co-movement. This trend aligns with the increase in passive market share. Passive has increased from 5% of assets under management of equity funds in 1995 to over 47% in 2018.

Source: Mike Green

Co-Movement



During the VIX explosion in February 2018, co-movement reached 100% for the first time. Notably, this was in a bull market. The crash of 1929 and 1987 did not have 100% co-movement. We believe this extreme co-movement is due to dominating passive vehicles

Source: Mike Green

Passive Roach Motel

WDFC Stats	Shares	Percentage
Total Shares out	13.7M	100%
Vanguard	1.5M	11%
Blackrock	2.0M	15%
State Street	0.4M	3%
Total Passive	**3.9M**	**29%**
Biggest Active Holder	0.9M	7%

If passive had to sell 10% of its position it would be 0.4M shares which means the biggest active holder would have to increase its position by 43%. This small decline in passive market share would cause the stock to either plummet in value or halt trading. Active holders cannot absorb even small percentage drops in passive ownership. Since passive has increased market share every year, stocks have never encountered a situation where passive holders are net selling.

“Passive is a simple algorithm – if money goes in it buys, if money comes out it sells.” – Mike Green. This is like a roach motel. Passive has an easy time buying by elevating stock prices. However when passive needs to sell it will be extremely disruptive and painful to stock prices as there are no fundamental buyers at these valuations.

Source: Frank Capital Partners LLC, company filings.

Coronavirus Rebound

- Passive inflows continued during the market rout. Now that company stock repurchases are slowing, passive is only pillar holding up stocks.

- Flows will drive market higher until passive investor needs money / withdraws in retirement (target date funds).

- It is clear fundamentals have deteriorated. Earnings are slashed or non-existent, unemployment is at record levels, and the credit cycle appears to have turned with a large increase in Chapter 11 filings.

    - Passive does not analyze fundaments. If money comes in, passive vehicles buy stocks. Since passive dominates stock market flows, this simple algorithm pushes prices higher.

Accelerants for Endgame

- CARES Act allows for penalty-free borrowing from retirement accounts. This accelerates the inevitable reversal of passive flows.

- Many companies are cutting 401k matching programs, further stemming the flow into passive vehicles.

- Target-date funds went from $0 in 2003 to $2.7 trillion in 2019. As median age in these funds rises, funds rebalance into fixed income. This will result in net sales of equities which will continue as US demographics shift.

- When passive sells there is no one left to buy. The decline will be more volatile and steeper than March 2020.

    - As investors realize this, there will be attempts get out first and to front-run, exacerbating the effect.

What the Endgame Looks Like

"Based on historical ratio of total market cap over GDP (currently at **139.4%**), it is likely to return -1.1% a year from this level of valuation, including dividends." In every bear market in US history this number has declined to at least 75%.

When stocks trade on fundamentals again, they will return to valuations 40-70% below current prices.

Source: Gurufocus.com

What the Endgame Looks Like

In the late 1960s and early 1970s, a group of fifty popular large companies were viewed as being the quintessential investments. All one had to do is buy and hold them forever and one would make money. These businesses and their shares were so good, the sentiment was, that one could pay any price for them and they would still turn out to be great investments. Since price was no object and investors were clamoring to buy, the prices rose to absurd levels versus the profits of the Nifty Fifty. The recession of 1973-74 resulted in the following declines of the high valuation, high growth stocks:

Stock	Decline	Stock	Decline
Du Pont	-58.4%	IBM	-58.8%
Eastman Kodak	-62.1%	McDonalds	-72.4%
Exxon	-46.9%	Mobil	-59.8%
Ford Motor	-64.8%	Motorola	-54.3%
General Electric	-60.5%	PepsiCo	-67.0%
General Motors	-71.2%	Philip Morris	-50.3%
Goodyear	-63.0%	Polaroid	-90.2%
Sears	-66.2%	Sony	-80.9%

How is S&P 500 indexing any different than the Nifty 50?

Source: Hussman Funds

What the Endgame Looks Like

A 65-year old person attempting to draw $30,000 per year out of a 60-40 investment account worth $500,000 cannot make it past age 72 if stocks collapse 50%

Date	Portfolio Type	$ Bonds	% Bonds	$ Stocks	% Stocks	Annual Contribution $	Stock Return	Bond Return	Total Value
12/31/2020	60-40	200,000	40%	300,000	60%				500,000
1/1/2021	60-40	200,000	40%	300,000	60%				500,000
12/31/2021	60-40	150,000	56%	150,000	56%	(30,000)	-50%	-10%	270,000
1/1/2022	60-40	108,000	40%	162,000	60%				270,000
12/31/2022	60-40	98,640	43%	162,960	70%	(30,000)	8%	8%	231,600
1/1/2023	60-40	92,640	40%	138,960	60%				231,600
12/31/2023	60-40	95,419	51%	120,077	65%	(30,000)	8%	3%	185,496
1/1/2024	60-40	74,198	40%	111,298	60%				185,496
12/31/2024	60-40	76,424	56%	90,201	66%	(30,000)	8%	3%	136,626
1/1/2025	60-40	54,650	40%	81,975	60%				136,626
12/31/2025	60-40	56,290	66%	58,533	69%	(30,000)	8%	3%	84,823
1/1/2026	60-40	33,929	40%	50,894	60%				84,823
12/31/2026	60-40	34,947	117%	24,966	83%	(30,000)	8%	3%	29,913
1/1/20207	60-40	11,965	40%	17,948	60%				29,913
12/31/2027	60-40	12,324	-44%	(10,617)	38%	(30,000)	8%	3%	(28,293)
1/1/2028	60-40	(11,317)	40%	(16,976)	60%				(28,293)
12/31/2028	60-40	(11,657)	13%	(48,334)	54%	(30,000)	8%	3%	(89,990)
1/1/2029	60-40	(35,996)	40%	(53,994)	60%				(89,990)
12/31/2029	60-40	(37,076)	24%	(88,314)	57%	(30,000)	8%	3%	(155,389)
1/1/2030	60-40	(62,156)	40%	(93,234)	60%				(155,389)
12/31/2030	50-50	(64,020)	28%	(130,692)	58%	(30,000)	8%	3%	(224,713)

Most retirement accounts cannot survive a 50% decline in equities without drastic lifestyle changes.

Source: Frank Capital Partners LLC

Disclosures

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. You may obtain performance data current to the most recent month-end by calling the Fund at 1-888-217-5426 or visiting our website at www.frankfunds.com. Returns include reinvestment of any dividends and capital gain distributions.

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 1-888-217-5426. Please read it carefully before you invest or send money.

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