9th of October, 2018

Dear Clients & Friends,

There have been some big changes recently here at Eidelman Virant Capital. We moved offices and are now located in Suite 600 in the same 8000 Maryland building in the heart of Clayton, MO. We are also pleased to introduce Abbi Marks as the newest member of our team. Abbi will be replacing Amy Jadav, who is pursuing a career in early childhood education. As Operations Manager, Abbi's responsibilities include client service, reporting, accounting, and other back office operations. Prior to joining Eidelman Virant Capital, Abbi was a Compliance Analyst at Wells Fargo Advisors. Abbi received her B.A. in Sociology and Education from Hebrew University and her M.B.A. from the Ruppin Business Academy in Israel.

Now, on to the markets. The S&P 500 Index appreciated 10.6% year-to-date through September. Much of this increase has come from growth-oriented healthcare and technology companies, a scenario that has always been challenging for our value-oriented investment approach. Other sectors, styles, and countries haven't performed this year as well as exemplified by S&P 500 Financials -1.2%, Russell 2000 Value Index +7.1%, Barclay's Aggregate Bond Index down -1.6%, and International MSCI ACWI -ex US index falling -2.7%. Given our heavy weighting in community banks and bias towards reasonably valued companies, it has been difficult to keep up. The good news is we think our portfolios are even more attractively positioned to outperform going forward.

There have been some recent positive developments on the trade front as President Trump reached a favorable trade deal with Canada and Mexico, called USCMA, formerly known as NAFTA. This agreement reduces uncertainly and provides hope for future deals. USCMA directly helps many of our specific investments such as our Canadian auto parts maker by mandating 75% of cars be made with high-wage North American labor and eliminating Canadian dairy quotas which could help our Wisconsin-based bank specializing in dairy farm lending.

Last quarter I outlined our investment in Stitch Fix (SFIX). In just 3 months, the stock more than doubled as enthusiasm surrounding their growth prospects increased and then plummeted when they reported their annual sales growth had "only" increased 25%. This growth was consistent with their guidance but fell short of expectations. In retrospect, we should have taken profits, but shares still trade at a healthy premium to our cost and we believe shares could be worth $50 per share or more if the company can hit our targets I outlined last quarter, a near doubling of the current stock price.

We also continue to be optimistic about our community bank holdings which represent about a third of our equity portfolios. Last month, David, Stan, and I attended the Raymond James bank conference, meeting face-to-face with more than forty management teams. We walked away feeling even more confident of our portfolios which contain banks with dominant market share in growth markets, have outstanding management cultures, low levels of non-performing loans, trade at attractive valuation ratios and have a high likelihood of being bought out at a substantial premium to our cost.

Along with the banks, we are confident that our current investments have the right characteristics to perform well in the coming year and over the long-term. Thank you for your continued business and feel free to contact us if you have any questions.

Sincerely,

Tom Eidelman, CFA
Managing Director

Disclosures

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