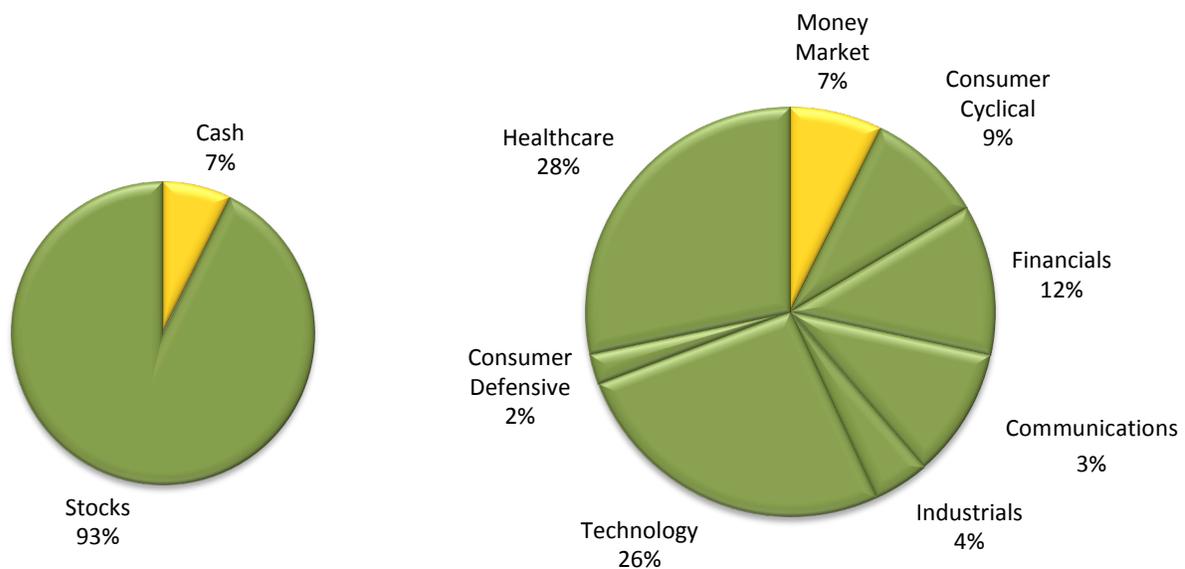


Capital Appreciation Strategy

July 2016 Investment Notes

Strategy Description: Pursues maximum long-term growth through pursuing opportunities for significant gain. The strategy seeks to invest in companies with “good businesses”. They have attributes such as recurring revenue, high-profit margins, low reinvestment requirements, defensible market positions, and products which will not become obsolete. Investments are focused on two distinct groups, leading growth companies, and deep value companies. The resulting portfolio is unique and able to pursue opportunities in diverse market environments. This strategy does not look like or move in sync with the general stock market.



Holdings as of 7/31/16:

- | | | |
|---|--|--|
| <input type="checkbox"/> Abiomed | <input type="checkbox"/> Endo | <input type="checkbox"/> Nintendo |
| <input type="checkbox"/> Alibaba | <input type="checkbox"/> Gigamon | <input type="checkbox"/> Pandora Media |
| <input type="checkbox"/> Align Technology | <input type="checkbox"/> HDFC Bank | <input type="checkbox"/> RealPage |
| <input type="checkbox"/> Banco Santander | <input type="checkbox"/> Juno | <input type="checkbox"/> SoftBank |
| <input type="checkbox"/> Barclays | <input type="checkbox"/> Kite | <input type="checkbox"/> Sprint |
| <input type="checkbox"/> BroadSoft | <input type="checkbox"/> Match Group | <input type="checkbox"/> Tencent |
| <input type="checkbox"/> Chuy's | <input type="checkbox"/> MSCI | <input type="checkbox"/> Valeant |
| <input type="checkbox"/> Citrix Systems | <input type="checkbox"/> Naspers | <input type="checkbox"/> Veeva Systems |
| <input type="checkbox"/> Criteo | <input type="checkbox"/> National Beverage | <input type="checkbox"/> Weibo |
| <input type="checkbox"/> Cynosure | <input type="checkbox"/> Nevro | <input type="checkbox"/> Zendesk |

Advisory services offered through Cravens & Company Advisors, LLC, a registered investment adviser. Securities and additional advisory services offered through FSC Securities Corporation, member FINRA/SIPC. Securities are not obligations of nor guaranteed by Progressive Savings Banks, are not FDIC insured, and involve risk including loss of principal. Listed entities are not affiliated with FSC Securities Corporation.

July Commentary:

July provided a reward for our shift in April toward being aggressive. One month is not a reason for celebration, but July returns were more than double our best single month since November of 2013. The shift resulted from reviewing what used to work so well for us in the past and contrasting that with decisions made during what has been a frustrating past two years.

Without going into great detail, the following were areas of contrast found in our review.

- Too much emphasis on market timing.
- Managing to avoid decline instead of to take advantage of opportunities.
- Focusing on the story instead of demanding stock prices maintain upward momentum.
- Not cutting losing trades soon enough.
- Less trading.
- More emphasis on international companies.

Changes were made in all but one area. Though overweighting toward international companies has hurt returns, we have continued down this path. This overweight toward international is due to those markets and companies being less expensive and offering greater growth than the US. While large US companies have outperformed for several years, we don't see this as able to continue long term. It doesn't stand to reason for the more conservative slower growing companies to outperform the faster growing companies indefinitely. Keeping this allocation has so far been the right move as those markets have begun to rebound.

Current market indicators show the US market as expensive compared to history on most measures. There are two ways for this to work out. The market could decline to make stocks less expensive, or the companies which make up the market could increase their earnings more than expected. The market strength and the improvement in the economy make us believe the likely scenario is greater growth and inflation than is expected will prevail and in turn support current market valuations. This is certainly just a best guess, but experience has taught us the stock market tends to be a predictor of what will happen in the economy instead of vice versa.

Activity:

Bought

- General Thoughts:** Being in the middle of earnings season and being fully invested slowed down our buying. We want to react to, and invest in the companies reporting great earnings instead of buying right before the earnings are released.
- Nintendo**
 - **Description:** Nintendo and its subsidiaries develop, manufacture and distribute entertainment products. The Company is engaged in the development of hardware and software for handheld and home console video game systems.
 - **Thoughts:** Our desire to own Nintendo comes from their partial ownership in Niantic. This is the company who created and owns the software which makes the Pokemon Go game possible. This is a purchase with the potential to make us look silly as Pokemon Go has taken the world by storm but could easily be a fad. If you haven't seen how the game works have a youngster, show

it to you. It is an amazing way of bringing together the virtual world with the real world. There are potential uses for the technology which go beyond anything we can imagine. Even without Niantic, the Pokemon franchise which is owned by Nintendo has been revitalized which can translate into revenue for Nintendo through new movies, shows, and games.

Sold

- **General Thoughts:** These sells were done late in the month, and most of the proceeds were not reinvested by month end. They all share the common attribute of being some of our weaker performers even though several were positive. We love the stories, so we may buy some of them back if they start to outperform. In the mean time, we shift this money toward the market leaders.
- **Collectis**
 - **Description:** Collectis is a gene-editing company, employing its core proprietary technologies to develop products in the emerging field of immuno-oncology. Its two segments include Therapeutics and Plants.
 - **Thoughts:** This is one of 3 immunology stocks we have held. Using patients own immune system to fight cancer has shown some amazing potential in the fight against cancer. What sets them apart from the other immunology companies is that their procedure could be in a mass market pill form, while the other treatments are based on individualized treatment.
- **Charles Schwab**
 - **Description:** Charles Schwab is a savings and loan holding company, which through its subsidiaries is engaged in securities brokerage, banking, and related financial services. The Company operates in two segments namely Investor Services and Advisor Services
 - **Thoughts:** They should see a strong increase in earnings when the short-term interest rates rise. This is due to the money market mutual funds the company manages but currently has a hard time charging for due to the low rate environment.
- **Novo-Nordisk**
 - **Description:** Novo-Nordisk is a healthcare company that is engaged in the discovery, development, manufacturing and marketing of pharmaceutical products. The Company has two business segments: diabetes & obesity care and biopharmaceuticals.
 - **Thoughts:** The world and especially America is dealing with an increase in obesity. These guys make money off of that trend. Note this holding was retained in our High Quality Strategy.
- **Zoes Kitchen**
 - **Description:** Zoes Kitchen operates casual restaurant concept serving a distinct menu of fresh, wholesome, Mediterranean-inspired dishes delivered with Southern hospitality.
 - **Thoughts:** We love the food, how the company is in the middle of the move toward fast casual restaurants, and their growth potential. We dislike the valuation and the lack of upward momentum in the stock price.

Highlighted Holdings

- **Banco Santander**
 - **Description:** Banco Santander is a commercial bank. The Company offers retail banking, wholesale banking, asset management and insurance services.
 - **Thoughts:** Banco Santander's bounce was hampered by the Brexit. They have a global franchise with significant exposure to Latin America which is rebounding. Though current earnings are low, the earnings potential of the European banks is tremendous. We will see if they can renew their upward move, if not we will move on.

□ **Endo**

- **Description:** Endo is a specialty healthcare company. The Company is engaged in developing, manufacturing, marketing and distribution of branded pharmaceutical and generic products as well as medical devices.
- **Thoughts:** Our deep value drug companies, Endo and Valeant are great examples of companies with significant earnings which are in the headlines with bad news. They exemplify the term “headline risk”. But our patience will be determined on how they react to their earnings report in early August.

□ **Match Group**

- **Description:** Match Group is engaged in providing dating products. It operates approximately over 45 brands, including Match, OkCupid, Tinder, Meetic, Twoo, OurTime, BlackPeopleMeet & FriendScout24 designed to increase likelihood of finding a romantic connection.
- **Thoughts:** Finding a monopoly is hard, but Match is building one. They own most of the popular online dating sites including Tinder.

□ **Naspers**

- **Description:** Naspers is a multinational media group engaged in operating media and internet platforms. Its operations include internet services and ecommerce including online classifieds, online retail and payments pay television and print media.
- **Thoughts:** Softbank, Tencent, Alibaba, and Naspers make up 13% of our investments. While the names are not common to most Americans, they are all large companies who are major players in internet related businesses and private investment markets around the world. For example they all have ownership in the “Uber” of China and separately the “Uber” of India. They all have core businesses but also focus on investing in the “next big thing”, buying or investing in companies with potential to be the leading growth companies of tomorrow.

□ **Softbank**

- **Description:** SoftBank along with its subsidiaries provides mobile telecommunication services, sale of mobile handsets and accessories, fixed-line telecommunication services, internet-based advertising and data and broadband services.
- **Thoughts:** Softbank’s stock had rough July due to purchasing UK based ARM Holdings. We actually like this purchase. The decline in the British Pound made the purchase less expensive. ARM has a great business, they receive royalties from their chip designs. They are a key beneficiary of the internet of things movement, smart phones, and the new wave of sensors being used in cars. The market didn’t like it, but the deal is for cash so all of the future earnings from this profitable company will go to softback shareholders. Also see Naspers above.

□ **Sprint**

- **Description:** Sprint is a communications company offering wireless and wireline communications products and services to individual consumers, businesses, government subscribers and resellers.
- **Thoughts:** Sprint had a huge month up 35% for the month of July and 78% since our initial purchase on March 30, 2016. They showed increasing traction in their fight to take customers from Verizon and AT&T. This is the kind of move in the stock price and turnaround in the business we are hoping for when buying beaten down companies.

Cravens & Company Advisors, LLC is a wholly-owned subsidiary of Progressive Savings Bank. Investing involves risk including the potential loss of principal. Investing involves risk including the potential loss of principal. International investing involves additional risks including risks associated to foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments. The two main risks associated with fixed income investing are interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risks refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax and other government regulations, as well as other factors. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of FSC Securities Corporation. There can be no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis do not represent the actual or expected future performance of any investment product.