

US equities had a challenging Q3 with the R2000 down 2.2% while the S&P 500 fell 5.3%. PVFIX shares rose 1.3% bringing year to date performance to down 7.7%, slightly better than the R2000 which fell 25.1%. While no one likes being down, we're grateful that most of our positions held up well during the decline. We ended the quarter with 46 major positions with a weighted average market cap of \$330 million, a security yield of 1.3% and a price to book value ratio of 90%. Cash is 35.4%, down slightly from 41.7% at June 30. Cash helped cushion the downside and is money good when reached for in moments of opportunity.

The market remains volatile and is trading lower as it attempts to ascertain future interest rates and corporate earnings. For the moment the Fed has adopted a hawkish tone on interest rates as an important means of fighting inflation. How high interest rates may go to slow the economy remains to be seen but the Fed appears adamant about getting inflation under control. Regards corporate earnings, some firms are already scaling back expectations and we may see more as the quarters unfold. Consumer demand appears to be slowing as paychecks buy less these days and stimulus money is receding. Many businesses are having trouble passing through higher material and labor costs which reduces margins. Many firms leveraged up during the good times and have too much debt with no room for error should interest rates rise further. Geopolitical tensions continue to simmer with almost daily headlines concerning Russia, China, Iran or North Korea.

Q3 portfolio activity was skewed towards security purchases as we took advantage of lower prices to add to existing positions and establish a new one. We added to Culp, Coda Octopus, Daktronics, Hurco, Miller Industries, Universal Stainless and Williams Industrial Services. We took one new position, Tri Pointe Homes, a well managed and well financed homebuilder based in Irvine, CA. Tri Pointe traded down in the wake of higher rates possibly hurting new home demand providing an attractive entry point. We trimmed positions in Bristow Group, Graham Corp. and Gulf Island Fabrication which became overweight in the portfolio. Finally, longtime position National Security went private at a very reasonable price. Virtually all positions were sold for long term capital gains which should help minimize taxes for taxable Fund accounts.

As you can see on the next page, YTD detractors to performance outweighed contributors. Our biggest detractors included Bristow Group, Culp Inc. and Williams Industrial Services. All are dealing with company specific issues which we believe managements are capable of solving although it may take a few quarters. Bristow Group is busy integrating a series of strategic acquisitions while Culp, which makes fabric for upholstered furniture and mattresses is dealing with a slowdown in consumer demand. Finally, Williams Industrial is wrestling with some operational hiccups but has several initiatives in place to win new business. Fortunately all have reasonable balance sheets providing the time required to overcome these temporary headwinds. The biggest YTD contributions came from two energy holdings, Seacor Marine and Dorian LPG which benefitted from continued investor enthusiasm for energy stocks. Gulf Island and Coda Octopus shares benefitted from recent positive earnings reports.

We are positioned to invest our cash as opportunities become available and are searching diligently for such opportunities. Your portfolio manager remains a major Fund shareholder.

<b>TOP 10 POSITIONS</b>	<b>% net assets</b>
1. Gulf Island Fabrication- engineering/design/construction	6.8
2. Graham Corp- industrial equipment for govt./ commercial clients	5.9
3. Bristow Group- helicopter services to commercial/government clients	4.9
4. Williams Industrial Service- industrial staffing & services	4.1
5. Culp Inc.- fabrics for furniture & mattress coverings	4.0
6. Powell Industries- electrical equipment & services	3.6
7. Weyco Group- wholesale & retail shoes	3.2
8. Patriot Transport- tank truck operator	2.7
9. Hurco Cos. Inc- machine tool systems	2.3
10. Seacor Marine- offshore supply vessels serving clients worldwide	<u>1.8</u>
<b>Total</b>	<b>39.3%</b>

**YTD TOP 5 Contributors (includes dividends)**

1. Dorian LPG	1.0%
2. Seacor Marine	0.7
3. Gulf Island Fabrication	0.1
4. Sabine Royalty	0.1
5. Coda Octopus	0.1%

**YTD TOP 5 Detractors (includes dividends)**

1. Williams Industrial Services	- 2.1 %
2. Bristow Group	-1.4
3. Culp Inc.	-1.4
3. Sprott Junior gold miner ETF	-0.6
4. Powell Industries	-0.6%

**SECURITY CLASSIFICATIONS**

Government Money Market Funds	35.4%
Industrial Goods & Services	14.7
Consumer Goods & Services	12.0
Construction & Fabrication	11.5
Energy	8.8
Transportation	5.2
Electronics	4.7
Closed End & Exchange Traded Funds	2.9
Insurance	1.8
Banks & Thrifts	1.7
Real Estate	<u>1.3</u>
<b>Total</b>	<b>100.0%</b>

\*Letter contents are unaudited and past returns do not predict future results. Investment return and principal value of a Fund investment may fluctuate so that shares, when redeemed, may be worth more or less than original cost. Results do not reflect taxes payable on distributions or redemptions of shares held in taxable accounts. The R2000 is an unmanaged index and unavailable for investment. Additional material including Prospectus, SAI is available at [www.pinnaclevaluefund.com](http://www.pinnaclevaluefund.com) or 1-877-369-3705 X115.