

Dear Fellow Shareholders,

<u>Total Return</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Pinnacle Value Fund	(11.8)%	(0.1)%	16.5%	(6.0)%	4.8%
Russell 2000	(11.0)	14.6	21.4	(4.4)	4.9
S&P 500	(4.4)%	21.8%	12.0%	1.4%	13.7%

(all returns include dividend reinvestment. Past returns do not predict future results. Results do not reflect taxes payable on distributions or redemptions of shares held in taxable accounts).

State of the Portfolio & Market Activity

After setting an all time high in late August, the benchmark R2000 fell substantially in the final quarter ending the year down 11%. The headwinds were many including rising interest rates, slowing global growth, trade/tariff conflicts, political gridlock, credit/liquidity issues and high debt levels. The impact of each was magnified by machine driven algorithms resulting in unprecedented volatility (a recent Wall Street Journal article claims high speed electronic trading now accounts for 85% of all volume). The down market contrasts sharply with the current economy which continues to show modest growth and low unemployment. We'll watch 4Q earnings carefully and what the "2019 EPS guidance" is.

The Fund was down 11.8% in 2018, slightly worse than the R2000. As you can see from the following page, contributors to Fund performance included Stage Stores, Ensco and Seacor Marine which all benefitted from higher oil prices early in the year. Computer Task Group announced a major acquisition and share repurchase while EMC rose on news of a takeover bid late in the year. Many of these reached fair value and were trimmed back or sold to lock up gains, most of which were long term.

Detractors to performance overshadowed contributors as one might expect in a down market. Woman's retailer Christopher & Banks continues through a prolonged restructuring but is making solid progress; Permian Basin Royalty is hampered by inadequate pipeline capacity to bring its products to market which should be alleviated in late 2019 as more pipelines come on stream; Dorian LPG, which owns a fleet of LPG tankers, faces excess industry capacity but recently rejected an acquisition bid as "inadequate". We added to several of these on weakness and added a few new names including American National Insurance, Diamond Offshore and Freightcar America. American National offers life insurance and annuities which should do well in a higher interest rate environment. Diamond Offshore provides offshore contract drilling services to the energy industry worldwide. This industry is consolidating and we expect Diamond to be a meaningful player here. Finally, founded in 1901, Freightcar America designs, makes, sells and leases railcars to transport bulk commodities, mostly in North America.

The R2000 is off about 23% from its all time high. To get fully invested we need one or all of 3 things: a broad market decline that takes the R2000 to new yearly lows; individual stock disappointments- earnings driven or otherwise; specific industry weakness that hurts an entire industry (we have no idea which it will be). Cash is 36% providing the firepower for any dislocations that may occur.

Tax loss selling (or not)

As a portfolio manager, holding a position with a large unrealized loss is never easy. Doing so requires large amounts of dedication, discipline and research. Obviously something is wrong, raising the question of whether the decline is permanent or temporary. Is our investment thesis intact but delayed or has it been derailed? It's indeed time consuming to deal with a large unrealized loss and often involves speaking or meeting with managements, addressing boards of directors and visiting operations. We took all these actions in 2018 and will continue to do so.

Why do it? Why not just sell and take a tax loss, a tempting and easy solution for sure. We go the extra mile for two reasons. First, selling for a tax loss benefits only those Fund shareholders who hold their shares in taxable accounts. Shareholders who hold Fund shares in non taxable retirement accounts bear the full burden of the loss. Why not sell the position, wait 30 days and buy it back, wouldn't that satisfy everyone? In theory yes but practically speaking, it's often very difficult to buy back positions that have taken months or even years to accumulate without increasing the price. We would also likely be selling our position to a competitor eager to take the shares off our hands at a bargain price. So only when we are convinced there is no hope will we sell a position for a realized loss.

Most importantly, once we've focused on a down position, we often find the situation is not terminal but salvageable. Recall that one of our key investment criteria is an unleveraged balance sheet which provides the financial flexibility to weather the storm. Very often management just needs time to fix the situation and a strong balance sheet provides that. Take a look at the list of detractors on the next page each of which is burdened by a large unrealized loss. Each has a clear pathway to better results and managements are taking specific steps to make this happen. Several have dissident shareholders with board seats who're keeping the pressure on. Of course this is no guarantee of a higher share price but we are cautiously optimistic and will continue our diligent oversight of the situation.

By now you should have received your year end statement. Should you have any questions about your account or the Fund, don't hesitate to call or write. We are positioned to invest our cash when opportunities become available and are searching diligently for such opportunities. Your portfolio manager recently bought additional Fund shares and remains a major shareholder.

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TOP 10 POSITIONS	% net assets
1. ERA Group- helicopter services	6.5
2. Dorian LPG- tanker transportation of liquid petroleum gas	5.3
3. Gulf Island Fabrication- marine construction & fabrication	5.2
4. Williams Industrial Services- engineering/design/construction	4.8
5. Kansas City Life- life policies & annuities	4.1
6. Permian Basin Royalty Trust	3.8
7. San Juan Royalty Trust	2.9
8. SWK Holdings- life sciences finance	2.5
9. EMC Insurance- regional property & casualty insurer	2.1
10. Seacor Marine- offshore supply vessels	<u>2.0</u>
Total	39.2%

YTD TOP 5 Contributors (realized & unrealized gains)

1. Stage Stores	\$216,900
2. Computer Task Group	193,800
3. Ensco	187,700
4. Seacor Marine	127,000
5. EMC Insurance	<u>122,600</u>
Total	\$848,000

YTD TOP 5 Detractors (realized & unrealized losses)

1. Williams Industries	\$1,194,000
2. Gulf Island Fabrication	1,018,100
3. Christopher & Banks	772,300
4. Permian Basin Royalty Trust	657,700
5. Dorian LPG	<u>437,900</u>
Total	\$4,080,000

SECURITY CLASSIFICATIONS

Government Money Market Funds	36.2%
Energy	17.0
Insurance	12.3
Construction & fabrication	10.0
Transportation	7.2
Closed end & exchange traded funds	5.2
Financial services	4.4
Industrial goods & services	3.8
Consumer goods & services	1.9
Real Estate	1.4
Banks & thrifts	<u>0.6</u>
Total	100.0%