YOSEMITE CAPITAL MANAGEMENT

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COMMENTARY

"The lowest form of popular culture - lack of information, misinformation, disinformation, and a contempt for the truth or the reality of most people's lives - has overrun real journalism. Today, ordinary Americans are being stuffed with garbage." **—** Carl Bernstein

Dear Financial News Media,

As an independent news media, you serve a vital role in a free society: to inform citizens without interference from the government. In the United States, your right to communicate is protected by the First Amendment to the United States Constitution:

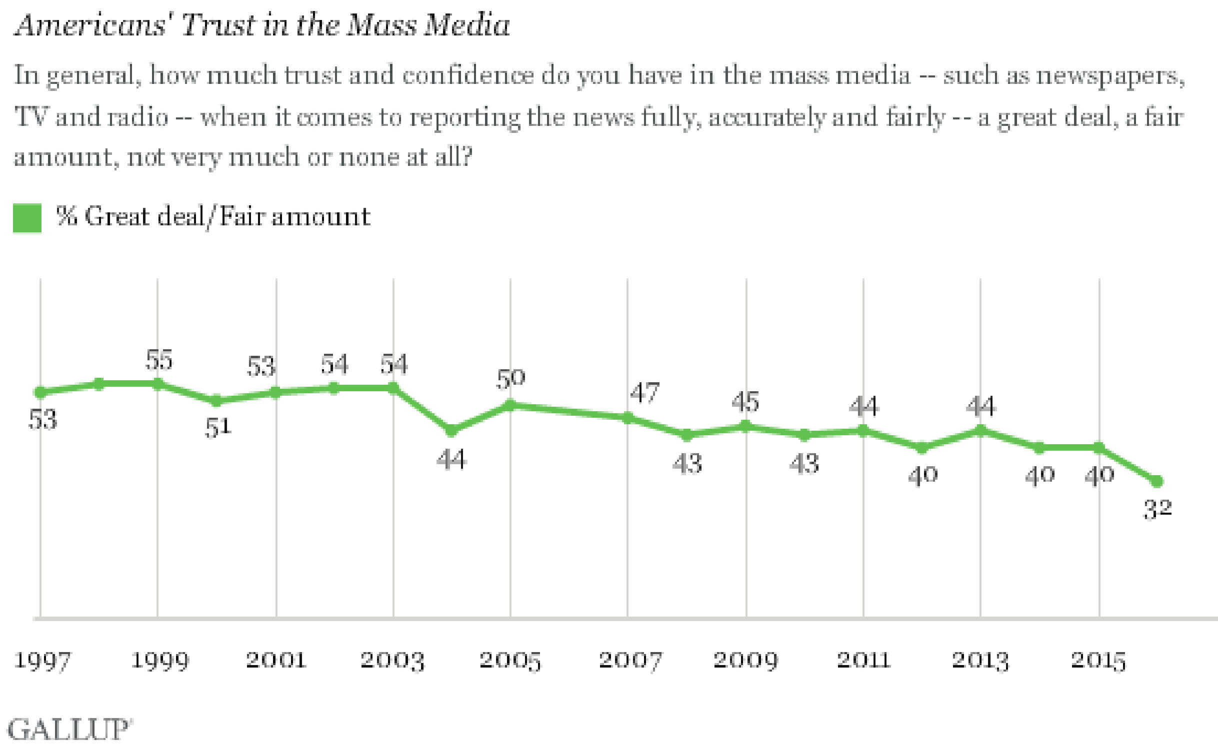
> ***Congress shall make no law*** respecting an establishment of religion, or prohibiting the free exercise thereof; or ***abridging the freedom of speech, or of the press***; or the right of the people peaceably to assemble, and to petition the government for a redress of grievances.

However, all freedoms and privileges entail ***responsibility***. You are very quick to defend your freedom when that comes under attack - as we all should - but fall short on responsibility when using this freedom to report on the financial markets. This can be seen in ***widespread careless, misleading, and emotional reporting***, ranging from the simple use of terminology to how data is presented to general interpretation and attitudes to analysis.

This failure to act responsibly has damaged your credibility, which, as Gallup states, is "a stunning development for an institution designed to inform the public". (See Exhibit 1; while this applies to the mass media, no doubt the scenario applies broadly to the financial news media as well.)

Exhibit 1, Americans' Trust in Mass Media Sinks to New Low

"Gallup began asking this question in 1972, and on a yearly basis since 1997. Over the history of the entire trend, Americans' trust and confidence hit its highest point in 1976, at 72%"



Source: Gallup, "Americans' Trust in Mass Media Sinks to New Low", September 14, 2016
http://news.gallup.com/poll/195542/americans-trust-mass-media-sinks-new-low.aspx

Additionally, you disrespect your community by not fulfilling one of the major reasons for your existence – to properly inform market participants of the news of our times. Limited and sensational reporting contributes to financial illiteracy, fosters America's cultural and educational decline, and makes the phrase "ethics in journalism" an oxymoron.

We, as fiduciaries working on behalf of our clients, have to undo what you disseminate, correct your mistakes and misinformation, provide context and perspective that you fail to provide, and calm the emotions you blatantly stoke.

Therefore, we respectfully ask you to please do your job responsibly. You can start by incorporating the guidelines below in your reporting.

TERMINOLOGY

Realize that the terms "decline" and "loss" are not synonyms, nor are the terms "gain" and "profit".

A decline is simply and solely a price that is lower than before. A loss occurs only when a security is sold. Many people experience a decline in the market value of their portfolio without experiencing a loss.

Likewise, a gain is simply and solely a price that is higher than before. A profit occurs only when a security is sold. Many people experience a gain in the market value of their portfolio (sometimes year after year after year) without experiencing a profit, which might not occur for many years in the future.

Realize the terms "investors" and "speculators" are not synonyms.

Investors and speculators operate very differently from each other. The most notable difference is their time horizon, with investors usually having a longer holding period (perhaps at least year and often decades) and speculators having a shorter holding period (perhaps up to a few months down to a few seconds for humans and fractions of seconds for computers). Other attributes such as the risks they take, the kinds of securities they use, the degree of their diversification, and the size of their positions may also define differences.

Regardless, market activities and events affect investors and speculators differently (as explained in the General Attitudes section below). Therefore it is incorrect to ascribe the term "investors" to all market participants.

Remember that correlation is not necessarily causation.

Short term market events do not necessarily have a clear cause, even when something seems "obvious". Just because "this" occurred then "that" happened does not mean "this" caused "that". There are many factors that come into play when something happens, which means there can be complicated interactions that obfuscate a simple connection between discrete events. Especially in the short term, financial markets are driven more by psychology, which often can't be easily deciphered, than fundamentals, which usually change gradually.

PRESENTATION OF DATA

Use percentage changes instead of point or price changes of an index, average, or security.

Percentages provide context, while points or prices lack context for proper understanding. Large round points or prices have no intrinsic significance.

Focus on the trend of data instead of the absolute value of the most recent data point.

The trend of data provides context, as variations of data points within a trend may be just noise with no special significance. With many data sets, whether the trend is rising or flat or falling is far more important than the absolute value of the latest data point.

Present growth charts on a logarithmic scale instead of an arithmetic scale.

Logarithmic scales provide context via proportions in order to discern rates of change, while arithmetic scales do not provide context since they depict only absolute change. For growth of anything (prices, earnings, GDP, debt, etc.) over time, rates of change are far more important than absolute change.

Use the S&P 500 Index as the most relevant measure of the domestic stock market, not the Dow Jones Industrial Average (DJIA) or the NASDAQ Composite Index.

The whole market is capitalization weighted by definition, and the S&P 500 is by design a capitalization weighted index that reasonably approximates the American public's total returns.

The DJIA consists of only 30 large companies and is a price-weighted average (not an index) which distorts changes in favor of stocks with the highest prices. This is a seriously flawed approach that renders the DJIA useless as a current gauge of the broad domestic stock market. One redeeming feature of the DJIA is its history dating from 1896 has some use for older market studies.

The NASDAQ Composite Index is a collection of stocks (including some foreign stocks) that simply happen to be listed on the NASDAQ exchange and thus is not designed to reflect the broad domestic stock market. This is analogous to the New York Stock Exchange Composite, which is similarly a collection of stocks that simply happen to be listed on the New York Stock Exchange, yet you rarely if ever cite this as a broad domestic market gauge.

GENERAL INTERPRETAION AND ATTITUDES

Strive to inform and not agitate or sensationalize.

Provide relevant fact-based headlines and stories devoid of emotional or hysterical words like "bloodbath", "crisis", "meltdown", "mayhem", etc. State or explain relevant facts in a story without hyperbole or judgement.

Present events more from the perspective of and impact on long term investors instead of short term speculators.

Often the context of a longer term perspective is appropriate. Not all market participants are short term speculators (as explained in the Terminology section above), and maybe not even the majority. While there is obviously a large amount of daily activity by speculators who seek to profit from short term price movements (which is not a bad thing per se), there are many investors who seek to profit from the long term growth of their assets' underlying earnings and dividends. Each of these broad groups benefits in different ways from different market events.

Present facts about what the market has done without judging a rising stock market as "good" and a declining stock market as "bad".

A rising market, especially one without downside volatility, hurts long term investors who are making contributions because higher prices mean lower long term gains. A rising market also hurts short term speculators who are shorting overpriced securities, which interferes with the price discovery function of open markets.

A declining market helps long term investors by offering lower entry points for greater long term gains. A declining market also helps short term speculators with positions based on the trend, which facilitates the price discovery function.

Stop emphasizing forecasts, both in presenting them and comparing actual reports to them.

Making accurate numerous short term forecasts is not necessary for long term investment success. When reporting a data release that is different from consensus forecasts, remember that a data point cannot fall short of or exceed forecasts; rather, it is the forecasts and forecasters that are wrong.

Demonstrate the credibility of the forecaster if you must present a forecast, and NEVER present a forecast from anyone who is consistently wrong.

Demonstrate the credibility of the forecaster by providing a reasonably complete record of his or her previous forecasts. Otherwise one cannot know if any given forecast could be taken seriously. And there is absolutely no reason to present as serious news a forecast from anyone who is consistently wrong.

Realize there is no such thing as "experts" when applied to people in the financial markets.

There are people with more knowledge than most and even a few with wisdom. But there is nobody who meets the definition of "expert" by having "comprehensive and authoritative knowledge" of the financial markets, especially in regard to what the future might hold.

Stop idolizing and worshiping people as gurus who know the answers or whose words should be given deference.

There is no one who can possibly be all things to all people or know everything others want to know. Responsible people in the financial markets take responsibility for their own actions and never blindly rely on anyone else.

Stop highlighting anyone's status as a billionaire, Nobel Prize holder, or academic.

None of these things per se prove that the status holder has any special insight into the actual workings of the economy, financial markets, or (perhaps especially) investment management. None of these things per se suggests that anyone else should mimic what they do, or implies that expertise or credibility in one area means expertise or credibility in other areas, or is an indication that what they say or do is even newsworthy.

And if someone has special insight or expertise or credibility or something that is newsworthy, they would have that completely aside from their status and not because of it.

Educate your audience and raise their knowledge instead of dumbing down to the lowest common denominator.

Simplifying the complex so more people understand is very worthwhile, but that is very different than pandering to ignorance. Stop contributing to America's cultural and educational decline on its way to idiocracy.

ANALYSIS

Provide intelligent, reasonably complete, and fact-based analysis – and not emotional reaction – that includes context and perspective in an effort to inform and educate.

Objectively conveying how an event fits in the longer term is usually important for better understanding the subject.

Anything that is emotionally charged or based on a bias (perma-bullishness, political, doom-and-gloom, etc.) is a disservice to all. Such an approach might be considered preying on the ignorant and uneducated, an activity your general newsroom colleagues decry when "greedy corporations" do the same.

Injecting politics into everything is usually ridiculous because the financial markets rarely act solely because of what the political class says or does.

In conclusion, please try to live up to your responsibilities and put the greater good above all else, especially if you believe journalism is a noble profession. If our society is to ever to become the best it can be, we need that from you.

Sincerely,

John Kleponis, CFA
Chief Investment Officer

Paul Heckler
Managing Director

Past performance is not indicative of future results. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the issues mentioned. This information contained herein, while not guaranteed as to accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are subject to change without notice.

The S&P500 Index is designed and maintained by Standard & Poor's (a division of The McGraw-Hill Companies), is a free-float market capitalization weighted index that includes 500 leading companies in leading industries of the U.S. economy, and is intended to be an ideal proxy for the total market. This index is calculated on a total return basis with dividends reinvested and is not available for direct investment.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). This index is calculated on a total return basis with interest reinvested and is not available for direct investment.