Plumb Funds

3Q2018

Commentary

10/10/2018

Thomas G. Plumb, CFA
Lead Fund Portfolio Manager
President, CEO, Chairman

The third quarter of 2018 was marked with a strong domestic stock market, weak Chinese equity market and rising US interest rates.

Rising rates puts pressure on bond prices and the Chinese decline put pressure on international stock indices so the Bloomberg Barclays Aggregate Bond Index and MSCI All-Cap World Ex-U.S Indices posted more modest 0.02% and 0.71% returns for the three months, respectively. The S&P 500 returned 7.7% for the three months reflecting the continued leadership of the US markets.

Headlines this last month included stories about the tenth anniversary of Lehman's failure and questioned the sustainability of the extended stock market recovery since the financial crisis. Certainly most domestic stock indices are at or near all-time highs, but not compared to their underlying earnings. Corporate earnings have continued their robust growth and preliminary indications are for this to continue for the rest of this year and possibly through next year. In fact, the stock market has not kept up with earning's increases this year and we have actually seen a decline in price/earnings ratios (P/E ratio).

However, concerns abound with the Federal Reserve committed to continued uptick in short-term interest rates, international trade issues and the anniversary of the tax cuts coming up at the end of this year. Early indications are that the trade and debt issues are taking affect in China as some key indicators of economic growth are portending a significant slowdown that has already resulted in announced stimulus programs.

Here in the states, rising short-term interest rates have historically had a dampening effect on our domestic economy and stock markets. In fact, all of our most recent recessions have followed periods where the 2-year U.S. Treasury rate surpassed the 10-year rate. As the Fed hikes short-term rates and the difference between short and long-term interest rates continues to converge, some are concerned that this is a precursor to the end of the current business cycle. While it is true that recessions have frequently followed yield curve inversions, the time between the two events has varied significantly. In some instances, several years passed before recessionary conditions surfaced.

Today, unemployment stands at 3.9% and inflation (as measured by the CPI ex food and energy) is up modestly over 2% from a year ago. In addition to other positive economic indicators, those figures indicate a well-functioning economy. Corporate earnings have been very strong in 2018 and forward estimates indicate that current conditions have a chance to continue for some time.

Plumb Funds

High expectations, escalating trade wars, emerging market turmoil and rising interest rates have the ability to disrupt positive market momentum and represent risks worth monitoring. For that reason, investors should not become overly complacent about risk. Even if risk is not readily detectable, it is always present in the world of investments.

For now we will continue with our basic investment strategy: Investing in stocks with disruptive growth characteristics that should continue to allow the companies to grow faster than the overall economies that they serve while modifying the volatility of equity investments by investing in short-term or variable rate bonds with minimal interest rate risk.

All of us are wishing you a good fall and will continue to strive to meet your financial goals.

Sincerely,

Tom Plumb

Thomas G. Plumb, CFA
Lead Fund Portfolio Manager

Thomas G. Plumb is the founding principal of Wisconsin Capital Management, LLC (formerly Thompson Plumb & Associates), which began in 1984. In addition to his roles with the Funds, Tom maintains an ownership interest in and serves as the president of SVA Plumb Financial, LLC, an affiliated entity.

Tom formerly was the lead portfolio manager of Dreyfus Premier Balanced Opportunity Fund. He earned a bachelor of business administration from the University of Wisconsin-Madison in 1975, is a member of the Madison Investment Management Society and holds the Chartered Financial Analyst designation.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained on www.plumbfunds.com or by calling 1-866-987-7888. Read it carefully before investing.

Opinions expressed are those of the author as of July 31, 2018 and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance does not guarantee future results. Index performance is not illustrative of Plumb Funds' performance. Please call 866-987-7888 for performance of the funds or or visit https://www.plumbfunds.com/funds/plumb-equity-fund for the Equity Fund or https://www.plumbfunds.com/funds/plumb-balanced-fund for the Balanced Fund.

References to other funds should not be interpreted as an offer of these securities.

Mutual fund investing involves risk. Principal loss is possible. The fund may invest in small and mid sized companies which involve additional risks such as limited liquidity and greater volatility. The funds invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. Because the funds may invest in ETFs, they are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market

may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. The fund may also use options and future contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors. The Plumb Balanced Fund will invest in debt securities, which typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.

Diversification does not assure a profit nor protect against loss in a declining market.

The price-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

You cannot invest directly in an index. The S&P 500 Index is an unmanaged market-capitalization-weighted index based on the average weighted performance of 500 widely held common stocks. The Morgan Stanley Capital International All Country World Index Ex-U.S. (MSCI ACWI Ex-U.S.) is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The Bloomberg Barclays US Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type.

CPI - Consumer Price Index: a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

Plumb Funds are distributed by Quasar Distributors, LLC, distributor.