Mott Capital Management, LLC

101 Seventh Street
Garden City, NY 11530

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It is not often that I get to write about something like this. Generally, it is against my beliefs to boast about one's success when it comes to investing. And if I have learned anything in my nearly 25 years of watching and investing in the markets, it is that like the tide, the markets will take many of the best of investors out to sea, never to return. For Mott Capital, and our clients, the first quarter of 2017 was simply the best quarter we have had in our brief history. If 2016 was the year in which nothing went our way, then 1Q'17 was the quarter where nearly everything went our way. Nobody enjoyed this more than I did, especially given where we were a year ago.

The first quarter was a near mirror image of the second half of 2016's fourth quarter. Equity markets continued to move higher after the 2016 presidential election. Optimism continued to build, while most investors waited for a correction. I continue to believe that we have entered the next leg of what may be a very powerful bull market cycle, after nearly two years of sideways price action. All politics aside, the past eight years have been a period of pure economic stagnation. The highest year-over-year GDP growth came in 2010 at 2.7%, while every other year saw GDP less than that. In every decade since 1950, the American economy has had at least three years of growth of more than 3%. President Trump does not even need to be successful in all his ambitions to get the economy moving again. Deregulation, tax reform, and the replacement of Obamacare are all ambitious goals that could ignite an economy that is very eager to move higher. With economic growth, comes prosperity, and of course equity market gains.

This, of course, is not to suggest there will not be periods of risk adjustment and market nervousness. The Federal Reserve will continue to normalize the yield curve in 2017. For the first time in nearly a decade the Fed will not be the only game in town, and with the help of fiscal policy to support the economy and the stock market, the Fed will take full advantage fiscal policy and not wait to raise rates.

<u>Non-Annualized Performance 1/1/17 – 03/31/17</u>

MCM All-Cap Growth Composite	S&P 500 Total Return Index
9.24%	6.07%

*Net of Fees and Transaction Cost

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Investors can recognize a solid quarter when categories in the section below have been renamed from **Top Winners & Losers** to **Best & Worst Performers**. Why was the name changed? There were only two stocks in the portfolio that were down in the quarter: Verizon (VZ) and General Electric (GE). In fact, Starbucks (SBUX) was the third worst performer during the quarter, and it was up 5.17%.

MCM 3 Best & Worst Performers for 1Q'16

Skyworks Solution (SWKS) +31.23%	Verizon (VZ) -8.67%
Tesla (TSLA) +30.24%	General Electric -5.7%
Unilever (UL) +21.23%	Starbucks (SBUX) +5.17%

SWKS was the best performer in the first quarter, barely beating out TSLA. SWKS saw growth return in a big way in late 2016. In fact, the CEO Liam Griffin of the company on a conference call said, they were not only gaining market share, but they were taking it. The company executed in every way possible, and with the upcoming iPhone 8 upcycle on the way I would expect even more growth and opportunity. TSLA is perhaps one of the epic bull/bear debates in the history of the stock market. However, the bears are skating on thin ice these days, as we get closer to the launch of the Model 3, TSLA mass market car. The company raised more money from a secondary offering and now seems to be in a strong position for the launch of the mass-market Model 3. Additionally, during the quarter we learned that Tencent Holdings, a Chinese internet conglomerate, took a 5% stake in TSLA. Finally, Unilever received a takeout offer from Kraft Heinz for $50 per share, which Unilever smartly rejected. It is my opinion that the Kraft Heinz offer was a low-ball offer at a valuation less than what Kraft Heinz itself trades. My analysis suggests UL is worth at least 20-30% more than the $50 low-ball offer.

Verizon had poor quarterly results as the mobile pricing battle seems to be heating up. Mobile providers are continuing to move to unlimited data plans, which cause much higher levels of competition. The increased competition does not concern me much at this point, as I believe these data providers will have bigger roles in the future as people continue to shift away from traditional media to a mobile viewing experience. Additionally, with 5G coming in a few years, it may present VZ with a chance to reset its data pricing. General Electric continues to be a frustrating position. Every time it seems the stock is turning the corner the company gets in its own way, with dissapointing earnings. We continue to like GE for its position in the commercial and industrial side of the “internet of things.” Finally, last on our list, SBUX, showed solid returns during the quarter. SBUX had a decent quarter, but investors, for the most part, have been become very spoiled by SBUX strong success. It would seem the company fell victim to its success this last quarter with the creation of its mobile app. The mobile app has performed so well it created long waits and essentially created new business SBUX wasn't equipped to handle. I believe SBUX will be able to fix these problems, and I expect a strong 2017 for the company as they continue to grow in China, and push the limits of improving the consumer experience.

It took us nearly six months to find a replacement for Hain Celestial (HAIN), but at the end of March we finally bought a new stock. We added shares of Google (GOOGL) to the portfolio, as we believe it is an essential stock to have in the portfolio. It is a company that is completely integrated into our daily lives – from Gmail to Google Maps and YouTube. Additionally, YouTube will begin offering live TV through a bundle for $35 a month. Media continues to shift to a streaming world, and Netflix (NFLX) and YouTube continue to be the two dominant players in this space.

2017 has certainly started off extremely well. My hopes and expectations are for it to continue into the foreseeable future.

If you have any questions, please feel to reach out.

Regards,

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Year End	Total Assets Firm	Total Assets Composite	Number of Accounts	Composite Performance Net	S&P 500 Total Return	Annualized 3-Year Standard Deviation** Composite	Annualized 3-Year Standard Deviation** Benchmark	Internal Composite Dispersion
2016	1,717	1,377	17	-2.10%	11.96%	-	-	0.90%
2015	1,681	1,325	17	1.52%	1.38%	-	-	0.60%
2014†	1,026	628	8	3.82%	7.60%	-	-	N.A.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

† Performance reflects the non-annualized performance from 8/1/2014 to 12/31/2014.

** For periods with less than 36 months of composite performance, no 3-year ex-post standard deviation measurement is available.

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