Shikiar

October 15, 2018

Dear Client:

Enclosed please find your investment performance and portfolio report for the third quarter of 2018. In it you will find third quarter performance for 2018, as well as annualized return and cumulative investment performance since inception. Additionally, the report provides the market value of the portfolio as of September 30, 2018, asset allocation, a complete listing of security positions, cost basis, and a year-to-date capital gain/loss report.

The U.S. equity market continued its upward climb in the third quarter, posting its biggest gain since the fourth quarter of 2013. Both the Standard & Poor's (S&P) 500 Index and the Dow Jones Industrial Average (DJIA) have advanced in eleven of the past twelve quarters, while the NASDAQ Composite posted its ninth consecutive quarterly rise. Commodity prices were mixed with copper, gold and silver trading lower, and crude oil higher for the fifth consecutive quarter to approximately $80 per barrel, a noteworthy recovery of nearly $50 per barrel from its recessionary, over-supplied low in 2008.

On September 26th, the U.S. Federal Reserve raised the federal funds rate by one-quarter of one percentage point to a range of 2-2.25%. This was the third hike of the year and the eighth since the U.S. central bank started raising rates in 2015. A further increase of one-quarter of one percentage point is widely forecasted for December. Federal Reserve Chairman Jerome ("Jay") Powell maintained that the economic outlook remains "remarkably positive." Additionally, he sees little urgency to accelerate rate increases and opined that the Fed will be data-dependent in determining the extent and pace of future hikes. The yield on the 10-year U.S. Treasury note, the market bellwether, is now approximately 3.15%, a seven-year high. That being said, however, a longer-term perspective reveals that interest rates are still relatively low and should not yet be interruptive of the current economic expansion. The following chart providing a 60-year overview reveals exceptionally low rates from 2009 through 2018, a departure from previous decades.

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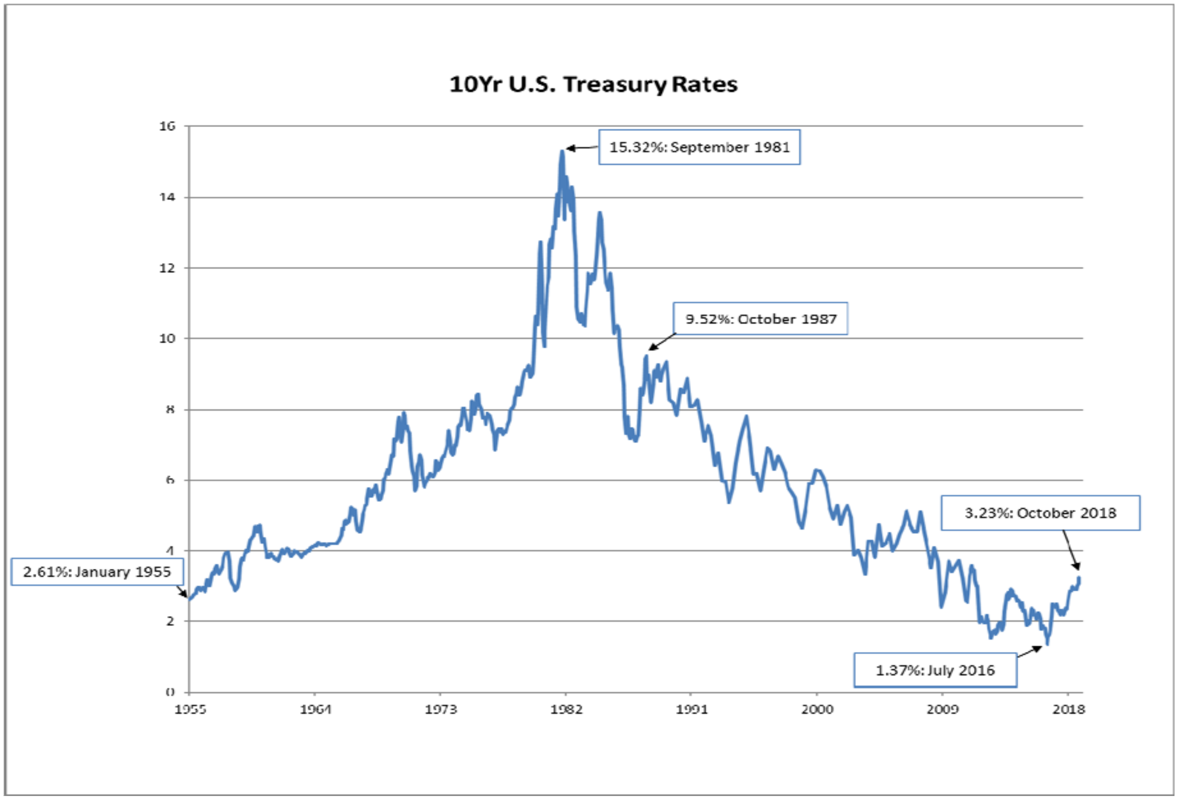


Source: Federal Reserve Bank of St. Louis

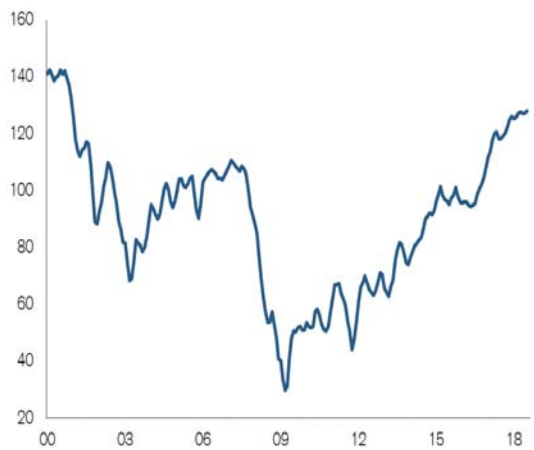
In contrast to the broad-based gains in U.S. equities, many overseas markets did not fare nearly as well during the third quarter and year-to-date. The benchmark Shanghai Composite Index has declined this year by approximately 23%. Intensifying trade tensions and imposed tariffs by the U.S. are starting to take a toll on China's economy, as cautious foreign demand and sluggish domestic consumption have caused their manufacturers to scale back production. Nevertheless, we anticipate that the Chinese government, as in the past, will move to support the economy. To wit, on four separate occasions this year, China's central bank has trimmed the deposits commercial banks are required to hold in reserve in order to accelerate lending and economic growth. In the Eurozone, stock market indices also declined during the quarter and year-to-date amid heightened political uncertainty, including the UK's ongoing negotiations to exit the European Union ("Brexit"). Italy unveiled a 2019 budget deficit target that has encountered stiff opposition from European Union (EU) officials, who maintain it will violate the bloc's fiscal rules. Italy and the EU continue to bicker, with Rome, to date, refusing to acquiesce, resulting in a significant upward move in the Italian 10-year bond yield to approximately 3.60%. This sharp increase contrasts to the German bund (their treasury equivalent) which presently yields 0.51%. Italy is the third largest economy in the Eurozone with its financial integrity and investor confidence of paramount importance. Emerging stock and bond markets have thus far also had a rocky year. Higher U.S. interest rates have weighed heavily on dollar-denominated emerging market debt. Recent rampant inflation in Argentina and significant deficit concerns in Turkey have added to the overall malaise.

On our shores, macroeconomic trends remain favorable, due in part to substantially lower corporate tax rates, which have resulted in our companies becoming more competitive versus their foreign less-taxed corporate competitors. Manufacturing activity remains robust, with the Institute for Supply Management's (ISM) Purchasing Manager's Index (PMI) reaching a 14-year high. Consumer confidence is at an 18-year peak, employment growth remains steady, averaging approximately 200,000 net new jobs per month, and wage growth is steadily accelerating. Regulatory changes, such as the partial rollback of Dodd-Frank, have also proved to be a fillip, particularly for small banks and businesses. The National Federation of Independent Business (NFIB) Small Business Optimism Index reached a record level in August, surpassing its previous highwater mark in July 1983. The two charts below clearly demonstrate this trend.

NFIB Small Business Optimism

Note: 3-month moving average
Source: NFIB, Haver Analytics®, Credit Suisse

Conference Board Consumer Confidence



Note: 3-month moving average
Source: The Conference Board, Haver Analytics®, Credit Suisse

The enactment of tax reform continues to favorably impact U.S. corporations, as rates have been reduced from 35% to 21%. The savings will likely result in increased capital expenditures, continued job growth, and higher wages. Companies are also benefiting from a reduction in the tax rate for U.S. corporate cash held offshore and repatriated, which is estimated to total over $2 trillion. We have seen evidence that corporations positively impacted by both tax modifications have redeployed their combined tax savings by engaging in a record high dollar value of mergers and acquisitions (M&A), increased dividends and share repurchases of their own stock in the open market. It is worth noting that the absolute number of publicly traded companies has declined significantly over recent years, due to M&A, leveraged buyouts (going private) and a sharply reduced number of Initial Public Offerings (IPO's). This, along with the increase in overall global liquidity, has helped to buttress the stock market.

We continue to maintain a constructive view on U.S. equities. Recently released economic data reinforce our contention that there is little likelihood of a recession in the foreseeable future. Corporate earnings, a key determinant of stock market performance, continues in an uptrend. Companies in the S&P 500 Index are expected to report a 20% gain year-over-year in 2018 and further growth in 2019. What would cause us to be more risk averse? In no particular order, we would need to witness sharply higher interest rates and inflation, a more hawkish Federal Reserve interest rate policy, lower year-over-year corporate earnings (adjusting for tax changes), continued emerging market duress, unabated tariff issues, negative geopolitical events, et al. We have noted some recent softness in global automobile sales after a period of record levels and have observed a reduction in housing starts and sales which is partially explained by elevated existing prices, slightly higher interest rates and a trend toward renting rather than buying. We will also be closely monitoring the U.S. midterm elections on November 6th. Our strategy continues to be "steady as she goes," albeit being keenly aware that an "amber light" could flash at any time in the future. If and when it does, know we will take the appropriate action. No doubt there will be periodic market corrections which at times may appear unnerving. Most of the time, corrections are generally in a range of 5-10%. Rest assured that whenever they do occur, we will thoughtfully navigate through them.

SAM Inc. has achieved solid investment results thus far in 2018. Our investment style, asset allocation, risk disciplines and stock selection have been and continue to be well matched for the present market environment. We maintain an unwavering commitment to proprietary research as well as an extremely stringent investment selection process. SAM Inc. portfolios are thoughtfully constructed with growth and dividend paying stocks, higher yielding common and preferred equities as well as corporate and municipal bonds, where appropriate. Our portfolio companies manifest attractive, sustainable long-term fundamentals including the following: leading market share, strong balance sheets, free cash flow, earnings growth, cash dividends, share repurchases, and well-respected managements. We remain steadfastly focused on achieving our overarching objective – preservation of capital coupled with a performance goal of comfortably exceeding the risk-free rate of return plus inflation, and we remain confident in realizing this investment goal in 2018 as well as over a complete market cycle.

As always, the experienced team at SAM welcomes your questions and greatly appreciates your confidence in our organization.

Very truly yours,

Stuart A. Shikiar
President