Long Cast ADVISERS LLC

Dear Friends / Clients / Investors

2016 was our first full year in business following our initiation in late 2015. During the year we established, with the help of Jim Cullen at Financial Planners Assistance, our administrative processes and procedures. We also transferred and consolidated all but one of our pre-existing “personal accounts” under the LLC (the final transfer was completed in early 2017) and, most substantially, we added our first outside clients.

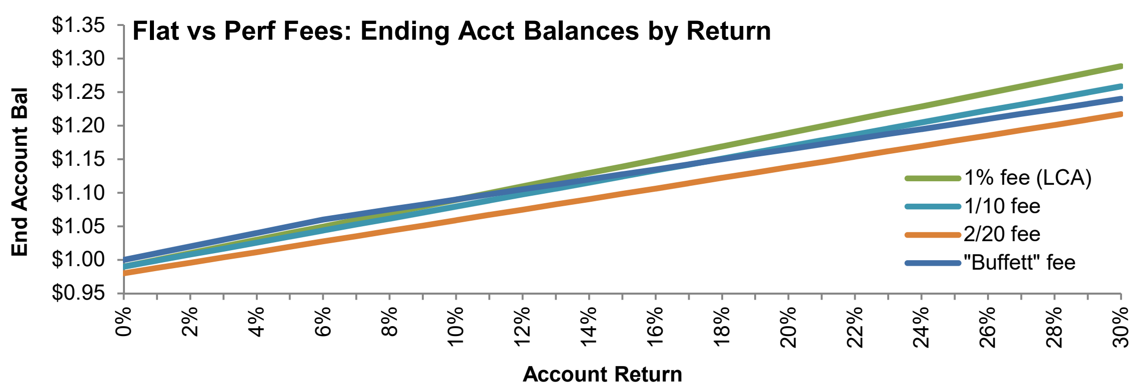
PERFORMANCE

	LCALLC Gross	LCALLC Net	R2000	S&P	Dow
	Annual Percentage Change				
2015 (2-mos)	12%	12%	-5%	-2%	-2%
2016	17%	16%	21%	12%	17%
Cumulative chg	31%	29%	15%	9%	14%

We began the year with one account under management with a modest sum and ended the year with seven accounts and $1.4M under management. Still a modest sum but a sign of progress.

Returns for these seven accounts managed by LCA ranged from 0% to 36%. These gains were determined on the basis of market values at the beginning and end of the year, adjusted for payments made to or contributions received from clients. It is not based on actual realized profits during the year, but is intended to measure the change in liquidating value for the period.

Net returns are reported after our fee of 1% / year, which we believe is an incredible value, and after commissions and costs paid to the brokers, which we do not receive. Our fee structure was determined by asking ourselves the simple but important question: “Who do we work for?” The answer is our clients. The fees are structured to leave more money in their wallets - your wallets - than there would be under a performance model.



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Since we run a portfolio of separately managed accounts (SMA's) with irregular intake periods and varying client risk profiles, variances between account returns are expected to continue. This would change if / when we transition to a partnership structure, but our preference for the moment is an SMA structure, which allows us to keep our administrative costs and fees low.

In total, in 2016 we returned 17% before fees and 16% net of fees. We were not materially different from the market and underperformed what we view as our most appropriate benchmark, the Russell 2000. Since inception, we have returned a cumulative 29% net of fees, materially ahead of our benchmarks.

We are happy with the "headline number". It's definitely better than the alternative, but the low base of capital and short operating history make all these figures somewhat irrelevant. We invest with a long term time horizon and should be judged over three year periods, or as we call it, based on our 1,000 day portfolio.

PORTFOLIO
The top-five contributors to *firm wide account returns* in 2016 (individual accounts will have varying results) were …

Envirostar (EVI)
Sterling Construction (STRL)
Fitlife Brands (FTLF). *We sold this in our client accounts earlier in the year for gains*.
ARI Network Services (ARIS)
OTC Markets (OTCM)

We have written about each of these companies extensively on our blog
thepatientinvestors.blogspot.com and encourage readers to review material there.

We have been asked by clients to compile and more substantively summarize what we own and why, but because we want to focus this letter on an introduction to our process and our going forward intentions, we will provide that in a near future note.

PATIENCE & PROCESS
At Long Cast Advisers I manage your investments to own terrific small companies whose value is assessed on how it could look three years ahead. I call it the 1,000 day portfolio. I rely on reason, math, imagination, curiosity, focus, and the mantra "what don't I know", to learn as much as possible in order to assemble a portfolio of 10-20 great little companies that we – you and I - can own for long periods of time and therefore benefit in a tax efficient manner as their values appreciate.

The process starts with in depth research but patience is one of the most important and enduring factors in this process.

While researching stocks, history unfolds in “spreadsheet time” but *investing* in stocks, the future unfolds in “human time”. The difference is important to understand.

In spreadsheet time, with a few hours of reading financial statements, one can review and analyze a decade’s worth of capital allocation decisions (the good, bad and ugly) and in one sitting, make an initial assessment of their results.

Mistakes can be made in spreadsheet time, but with research, listening to competitors, customers, regulators and other experts, they can be minimized. And by asking “what don’t I know” we can free our minds, curiosity and imagination - *highly* overlooked qualities for investors - to explore new areas of research and analysis.

Investment decisions aren’t made in one sitting. I talk with management to understand their long term intentions, goals and strategies. I try to talk with customers and competitors as well. These are all essential to our process and when we find companies that offer a high probability of capital growth over time and at a reasonable price, and the company aligns with our client’s values, we may make a decision to invest.

When we invest, we move from spreadsheet time to *human time*, where I believe most mistakes are made. In spreadsheet time 10-years can unfold in one sitting, but how many times do we get up and walk around in one year of human time? How many emotions and biases do we experience in a year or even just a week of human time? Every tick of the stock market offers an opportunity to experience and act on doubt, fear, shame or greed. It is best to avoid that.

There are many aspects of our lives that drive us to act with immediacy. Perhaps we’re wired for it. Certainly when I get my teeth into a stock idea, I track down leads like a dog on a hunt. But once I’m invested, I don’t want to make any more decisions. I just want to wait. Patience, in human time, will be one of the most important and enduring factors in this process.

For more details on our process, I have copied the section from our ADV form that summarizes how we do what we do and added it as an appendix to this letter. The entire ADV document is available in-full via the IARD “broker check” website, under our firm name: Long Cast Advisers.

IN CONCLUSION
A friend of mine – a financial adviser at a large wirehouse (I don’t hold that against him; he is an excellent person nonetheless) - recently saw the HBO documentary “Becoming Warren Buffett” and said to me with some dismay, “I realized after watching it that I can’t ever be Warren Buffett.”

I told him that’s the best lesson he could ever hope for.

So many investors young and old worship WB, want to be like WB, consider WWWBD, etc.

But investing is the ultimate decision business, and as WB said at the 2013 BRK meeting; "Making decisions is hard." (He added: "Caffeine and sugar help. That's why I drink coke and eat peanut brittle" … and he also added it's why his life outside investing is basically on auto pilot).

Making decisions is hard. Doing it based on what other people think is irrefutably impossible. There's only so far anyone can get in life trying to be someone else. But I firmly believe there's no limit to how far anyone can go when they become themselves, and excel at it.

Look forward to hearing from you

/ Avi
February 2017
Brooklyn NY

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APPENDIX: investment Process Copied from ADV Part 2B

Our equity investment process is based on “bottoms up” fundamental analysis to identify interesting and undervalued companies that are overlooked and under-appreciated or well-known companies trading below our assessment of fair value.

Our investment process, which is described below, builds on our experience in public and private equity analysis, as an institutional investment analyst, former private investigator and as an individual investor since 1996.

Methods of finding companies. We seek to buy great companies – or companies with the opportunity for greatness – that are small and trading at inexpensive prices that don’t reflect what we believe to be the future long term value, with the intention of owning them for long periods.

In our experience, the companies we like best tend to fall within four buckets:

1. Compounders. Small businesses that generate cash that is reinvested at high rates of return. We like to buy these while they are small and own them forever.
2. Misunderstood. These companies may look terrible but there is a pathway to excellence that most investors do not see or understand because of lack of patience, imagination or due diligence.
3. Turnarounds. These companies have historically underperformed but a change in strategy or management (or both) provides a pathway to success that is not currently valued in the stock price.
4. Simply overlooked. There are roughly 30,000 publicly traded companies in the investment universe. Who has time to look at all of them? We look in areas that are under followed and under owned and occasionally find small companies that are growing, priced reasonably but for any variety of reasons haven’t been “discovered” by other investors. We buy them when they are lonely and sell them when they are discovered.

To find these companies, we read a lot. We may occasionally use screening software. We often simply look at various industries on Yahoo! Finance and research the lists, company by company, until we narrow them down to “interesting sounding businesses”. Notably, we are business investors, not stock traders and everday, we marvel at the incredible ability to become part owners of terrific businesses anywhere in the world, simply on account of a public “bid” and “ask”.

Method of narrowing companies (aka, what is an “interesting sounding business?”). Interesting can be many things to many people, but to us, it is usually a business that solves a specific and essential problem, has an operating history that we can track and is managed towards profit and cash flow.

More specifically, we look for businesses with an “engine”. By engine, we mean a product or service that is “sticky” or resonates, or has a scale that requires customers’ use, or has the opportunity to achieve these attributes. For example Facebook – a company we do not own - is a company whose engine broadly defined is its service as a daily newspaper for an individual’s community. That attracts sticky users, which attracts advertisers, which generates revenues and cash flow, etc.

Traditional financial analysis starts after we have winnowed the pool. After narrowing our list of "interesting sounding businesses" we move onto the company's income statement, balance sheet and cash flow to assess how profitably the company is achieving its agenda and generally whether it has a history of growing assets faster than liabilities. We seek consistency. This phase is conducted by reading SEC filings of the company and its competitors.

When we read these filings, we think vertically and horizontally. This means we try to understand a business' supply chain and its competitors and its customers and put together a picture of its place in the in the industry. It is a method similar to some extent to Porter's Five Forces analysis. It helps us to uncover questions to solve further down the road.

We think about the opportunities and risks related to its historical operating performance and what effort and capital may be required to achieve a profitable future.

We look at balance sheet management as a measure of stability, cash flow generation as the most critical form of profit and the allocation of capital to generate said cash as the most important decisions facing its managers.

Occasionally, in the absence of profits, we may look at companies with assets on or off the balance sheet that can be profitably monetized in the future.

Method of more deeply assessing companies. If we are comfortable with the financial profile and its profitability - or opportunity for future profitability - we consider management's agenda and objectives: Can the managers or executives articulate what they do, why they do it, how they intend to operate in the future? What are their goals for the company? Have they achieved them in the past and can they continue to achieve them in the future? What is changing and how will they navigate these changes? This phase is conducted via more reading and talking with management.

We also try to understand what customers, competitors and employees think about the service, product or business. We review websites, customer reviews, conduct interviews with experts and / or attend conferences. This is "learning by walking around."

And we think about the qualitative issues as well. From our prior experiences in public and provide equity analysis and also as a private investigator, we place an emphasis and importance on the qualitative aspects of managements' backgrounds, skills and experiences. This is an especially important and useful process in small cap investing,

In our experience, even as managers change jobs, they bring with them patterns of behavior that generally fall into two buckets: success and failure. These behaviors may or may not correlate with business success and failure but they help form a picture of expectations. This phase is conducted by talking with people who work with or have in the past worked with the managers of the companies and / or through our own analysis and assessment of manager's histories.

We aim to invest in companies where managers have a history of success, and / or have an intense focus on profitability and cash flow, and / or where a culture ROIC permeates its entirety.

And finally, valuation. We assess what we would pay for such a company and compare that to what the market is offering it at. We tend to use comparable multiple analysis and or private market valuations to assess this attribute.

We look for long term returns in excess of 15% CAGR, meaning we buy when we believe the market is significantly mis-valuing an asset.

We look for catalysts to unlock the value, but we are not market timers and unfortunately we do not have the ability to see the future, so we offset those inadequacies with patience and continual monitoring of our investments.

We say "no" a lot. At any point during our analysis, we may stop and say "no" for any number of reasons, such as because the investment idea is not differentiated enough; or does not have a sustainable advantage; or is not managed properly; or we learn something intrinsically negative about the company, etc. The sunken cost of our time spent analyzing a company is nothing compared to the sunken cost of ours and our clients capital into an idea that is not appropriate.

When we are right – when the "thesis works" - we let our winners ride.

We believe patient long term investing has two benefits:
- It offsets our inability to see the future
- It is a tax advantaged strategy

However, mistakes will happen. There are ample opportunities to screw up in the investment world but broadly speaking, there are really just two types of mistakes.

1. *Buying the wrong company*. A "wrong company" is a company whose operations are performing materially below our expectations or whose management decisions are imprudent or not likely to generate value for shareholders, and where we had expected otherwise.

   If / when we believe we have made a mistake buying the wrong company, we do not "hold onto our losers" hoping they will come back; we eat our losses and move on.

2. *Not buying the right company*. We say "no" to a lot of investment ideas – often for the right reason – but occasionally we pass on companies where we realize in retrospect, we should have said "yes".

In either case, whenever we make a mistake, we stick our noses in them to best understand what went wrong and why, and how our process failed, so we can avoid future mistakes. But we try as hard as possible to overcome the emotional impact of looking to the stock market for signals on what is "right" or "wrong" because were we to do that, we would always be wrong.

In all cases, we will communicate with our clients the attributes that make an investment compelling and - if we've made a mistake - an honest accounting of what went wrong. We would happily discuss these successes and failures (the successes more happily) and what we have learned with you at your convenience.

Patient investing requires patience. Some investments work quickly and we are not ideologically opposed to owning things for short periods if the expected returns quickly materialize. However, for the most part, we expect to own securities for long periods. We expect clients to be as patient as we are. Note that investing in securities involves a risk of loss.