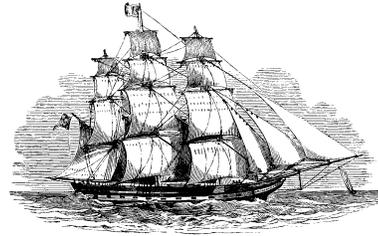


Pilot Capital Management, Inc.

195 Stock St., Suite 124
Hanover, PA 17331
717-633-9541 (Phone)
717-633-9741 (Fax)
Greg.Staub.PCM@comcast.net
Matt.Staub.PCM@comcast.net
www.PilotCapitalManagement.com



PILOT CAPITAL MANAGEMENT QUARTERLY INVESTMENT COMMENTARY

Date: October 15, 2016
From: Greg Staub, CFA, Ph.D.; Matthew Staub, CFA
To: Pilot Capital Clients & Friends

Dear Clients and Friends,

Your reports for the third quarter of 2016 are enclosed. This letter gives a review of the quarter and briefly summarizes our current investment views.

Third Quarter 2016 Market Review

Market/Index	2015 Close	As of Sep. 30 th	Month Change	Quarter Change	Year-to-Date Change
DJIA	17425.03	18308.15	-0.50%	2.11%	5.07%
S&P 500	2043.94	2168.27	-0.12%	3.31%	6.08%
Russell 2000	1135.89	1251.65	0.95%	8.66%	10.19%
Global Dow	2336.45	2459.66	0.59%	6.36%	5.27%
Fed Funds	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps	0 bps
10-Yr Treasury	2.26%	1.59%	1 bps	-20 bps	-67 bps

The second quarter provided a bumpy ride for investors. Following the upheaval caused by the Brexit vote in late June, July kicked off the third quarter by ending the month in favorable fashion, as each of the indexes listed here posted month-to-month gains, led by the Russell 2000 (5.90%) and the Nasdaq (6.60%). Stocks held their own for July, despite falling energy shares, as crude oil prices (WTI) sank from around \$49 per barrel to under \$42 by the close of July. As money moved into equities, bond yields remained on the low side as the yield on 10-year Treasuries remained below 1.60%, closing July at just about where it started at 1.45%.

The dog days of summer saw light trading in August, but that didn't stop the markets from moving sharply. By the middle of the month, the Dow, S&P 500, and Nasdaq had surged to all-time highs — the first time since 1999 that all three indexes reached a new high at the same time. Yet by the end of August, each of the indexes listed here saw their values fall back to about where they were at the beginning of the month. The large-cap Dow and S&P 500 fell ever so slightly from July's closing values, while the Russell 2000 and Global Dow posted modest gains for the month. Crude oil fell below \$40 per barrel during the month, but rebounded to close the month at about \$45 per barrel. Bond prices fell as the yield on 10-year Treasuries reached 1.60%.

For the month, September ended about where it began for equities. Of the indexes listed here, there was relatively little movement during the month, except for the Russell 2000 and the Nasdaq, each of which posted gains for the month close to or over 1.0%. Overall, the third quarter proved to be a good month for stocks as the indexes listed here posted notable gains, led by the Nasdaq, the Russell 2000, and the Global Dow. Long-term bond yields measured by 10-year Treasuries hovered around 1.60% for September, closing the month and quarter at 1.59% — just about where they ended the second quarter. Gold lost value, closing the second quarter at \$1,318.80, down from its June closing value of \$1,324.90. Crude oil (WTI) ended the second quarter at about \$48.59 per barrel, just about the same price it ended the third quarter (\$48.05).

Investment Commentary

The high-yield bond market staged a dramatic comeback in the middle quarters of 2016. From March 31st to September 30th our managers in this area performed very well – Loomis Sayles Bond (LSBDX) +7%, Osterweis Strategic Income (OSTIX) +8.7%, and Guggenheim Macro Opportunities (GIOIX) +7.6%. Their performance compared very favorably to Vanguard Total Bond Index (BND) +1.6%.

Those that attended our Winter Investment Briefing will recall that, back in February, we believed spreads between high-yield bonds and treasury bonds had blown out to a level only seen in recessions, yet there was neither a concrete recession nor any sign of one and we thought that high-yield bonds presented an opportunity at that those levels. As of this writing, yield spreads have continued to narrow to the point that we have eliminated our position in GIOIX, reducing our exposure in the high-yield area.

We are concerned about rising levels of leverage, ongoing troubles in the banking sector, and uncertainty surrounding upcoming political events—including the U.S. presidential election, the Italian constitutional referendum, and key European elections.

Should yield spreads continue to narrow, we will further reduce or eliminate our high-yield exposure. Any reductions in our allocation to non-traditional and high-yield bond funds (GIOIX, LSBDX, OSTIX) will be redirected to total return managers such as Guggenheim Total Return (GIBIX) or Doubleline Total Return (DBLTX) which exhibit lower risk profiles.

The middle of the year also brought a welcome outperformance from our value managers. Dodge & Cox Stock (+14%) and Oakmark Select (+12.8%) compared to 5.7% for the S&P 500, which we believe is starting to show drag from the overvaluation of a handful of large growth stocks that have driven the index over the past few years. Much of this outperformance stemmed from holdings of financial stocks. We expect the outperformance to hold through the 4th quarter providing that the Federal Reserve actually does raise interest rates in December providing rate relief to US banks.

To close, as the tumultuous U.S. election cycle comes to a climax we would caution investors to not read too much into the investment implications of the election outcome. History tells us that who, or what party holds the Presidency has very little impact on subsequent market returns. Times like the present, however, are excellent environments for creating opportunity as markets overreact.

Thank you for your continued trust and confidence in Pilot Capital Management. As always, should there be any questions, please don't hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Staub". The signature is fluid and cursive, with the first name "Greg" written in a larger, more prominent script than the last name "Staub".

Greg Staub, CFA, Ph.D.
President

A handwritten signature in black ink, appearing to read "Matthew Staub". The signature is fluid and cursive, with the first name "Matthew" written in a larger, more prominent script than the last name "Staub".

Matthew Staub, CFA
Vice President