Bill Miller, CFA
Portfolio Manager

The long bull market that began in March 2009 continued to climb to new all-time highs in the third quarter of 2017. Despite more than tripling in the past nearly 8 years, the market has engendered little enthusiasm from the general public, which persists in favoring bonds over U.S. equities as the flows into those two asset classes attest. Among professional investors there is the usual mix of bulls, bears, and those who describe themselves as cautiously this or that, but again without, it appears, much conviction.

A former colleague once quipped that my usual market view alternated between bullish and very bullish. While not accurate, that was a good line and it is mostly correct as it pertains to my 35 years of managing money. It is completely correct about my views since March 2009. I continue to believe the path of least resistance for U.S. equities is higher and that this bull market probably has several more years to run. It will likely end the way bull markets typically end: when the economy turns down leading to a decline in earnings and returns on capital, or when the investing alternatives provide better risk-adjusted value than stocks. Both look to be a long way off.

The global economy has now entered a synchronized expansion for the first time in many years, and the usual macro fears are largely absent. This has underpinned a global bull market in stocks without (yet) triggering a significant rise in interest rates. Commodities prices remain firm for the most part, and oil has been getting stronger since mid-year. Mario Draghi said a week or so ago that significant monetary accommodation was still appropriate and Janet Yellen continues to repeat that Federal Reserve tightening will be "gradual." Inflation is still below the Fed's 2% target and returns on cash or bonds provide little competition for stocks. Places such as Sweden and Germany are booming, yet their short rates are still negative. Valuations in the U.S. are not demanding, in my opinion, at around 19x earnings compared to over 40x for benchmark treasuries. Earnings in the U.S. have grown double digits this year, and have served to underpin a market that has seen the S&P 500 rise 15.86% through mid-October.

One of the remarkable features of this year's market action has been the almost total lack of volatility in equities compared to historic norms. So far this year we have not had even a 3% correction in the S&P, and, if that holds for another few weeks, this will be the least volatile year on record.[1] The always excellent Charlie Bilello of Pension Partners points out that October has historically been the most volatile month of the year, and this year it is heading on a path to be the least volatile month ever. Many people think volatility is due to spike after being quiescent for so long, but the empirical data does not support that. Volatility is not mean reverting, but rather clusters, as the founder of fractal geometry Benoit Mandelbrot demonstrated. So what is most likely is for volatility to remain low until some event triggers a move higher, and low volatility is good for stocks, especially given the risk and volatility phobia that has afflicted most investors since the financial crisis.

[1] Based on the Chicago Board Options Exchange VIX Index

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We have believed that there has been a very large gap between perceived and real risk since this bull market began and that just being and staying long stocks that in general have above market volatility—and hence above market perceived risk—would be a rewarding strategy. That has turned out to be right, and the Opportunity Trust and Income Fund have greatly benefited from that.

We continue to believe that the fundamentals support U.S. equities and that stocks will beat bonds and cash over the next few years. There will likely be the sporadic outbreaks of fear such as we saw in the first few months of 2016, probably due to geopolitical events, since things in the global economy are going well. We would expect to use such occasions to invest in companies that have been overly discounted in any such decline. We appreciate your support and continue to work hard on your behalf.

Bill Miller, CFA

October 15, 2017

S&P 500 2553.17

About Miller Value Funds

We think and invest differently in our pursuit of long-term outperformance. We believe that our edge comes from understanding and capitalizing on human behavioral tendencies. We value research from uncommon sources to help us understand the market as a complex adaptive system. Our investment approach remains consistent: we value businesses and invest in them for the long term.

The **S&P 500 Index** is a market capitalization-weighted index of 500 widely held common stocks. It is not possible to invest directly in an index.
Earnings growth is not representative of the Funds' future performance.

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