Long Cast ADVISERS LLC

Dear Friends:

Cumulative returns on accounts managed by Long Cast Advisers decreased 7% in 4Q18, net of applicable fees. This was better than the baseline market indices. Returns for separate accounts managed by LCA ranged from flat to down 11% for the quarter.

For the full year, cumulative returns declined 8% across all accounts, mixed against the baseline market indices. Returns for separate accounts managed by LCA ranged from flat to down 14%.

Since inception three years ago, we have returned a cumulative 66% net of fees, or 17% CAGR, ahead of the baseline market indices. Because our portfolio is comprised of just a handful of typically very small businesses, it is expected that returns will vary considerably from the baseline.

During 2018 LCA grew its client base by 40% and welcomed its first institutional investors. My clients are fund managers, tech professionals, finance professionals, artists, musicians, entrepreneurs and retirees who found me through my writing, through referrals or through long-time relationships.

My clients allocate to me a portion of their investable savings seeking unordinary returns through the ownership of well researched and well understood small-, micro- or nano-cap securities. Importantly, they all share the expectation of long term and patient compounding of capital. As I continue to grow my business, I will continue to welcome those who share this intention and as I've done in the past, reject those who do not.

PERFORMANCE / PORTFOLIO HOLDINGS

	LCALLC Gross*	Net LCALLC	R2000	S&P	Dow
	Annual Percentage Change				
2015 (2-mos)	12%	12%	-5%	-2%	-2%
2016	17%	16%	21%	12%	17%
2017	38%	36%	15%	22%	28%
1Q18	-1%	-1%	0%	-1%	-2%
2Q18	-7%	-7%	8%	3%	1%
3Q18	9%	9%	4%	8%	10%
4Q18	-7%	-7%	-20%	-14%	-11%
2018	-8%	-8%	-11%	-4%	-3%
Cumulative chg	66%	63%	17%	27%	41%
Count	38	38	38	38	38
CAGR	17%	17%	5%	8%	11%

Largest contributors to returns in the quarter were **Cynergistek (CTEK)** and a new position, **Intelsys (INS)**, offset by declines in **Quest Resource Holdings (QRHC)** and **Passur Aerospace (PSSR)**. For these long-time holdings, I have the same questions, issues, concerns and expectations as I had three months ago so I refer you to the 3Q18 letter for thoughts on those companies.

AVRAM FISHER PRINCIPAL | 917.697.4910 | AVI@LONGCASTADVISERS.COM | LONGCASTADVISERS.COM

To be clear, I've not been idle. I constantly seek questions and sources that enable me to unlock more information on the companies we own to try to gauge whether or not they remain on the expected track and if they deviate, which way they are going.

I have been particularly busy on Passur, where I have collected publicly available contract documents going back to 2010, in Austin, TX; Dallas / Fort Worth, TX; Broward County, Fl; Detroit, MI; Minneapolis / St. Paul, MN; for the NYNJPA; and elsewhere. There is evidence that contracts are getting larger and that sales efforts are working.

Passur has a lot of attributes to like: It solves a legitimate problem with a large TAM, it has long operating history to analyze, large inside ownership, and over a long period a history of generating cash and reinvesting it at high rates of return, etc. But as I've gotten to know it over the last three years, it is also of late exhibiting aspects I do not like, namely it appears very top-heavy and focused on "big name" executive hires while neglecting the foundational labor base of a strong enterprise.

I would feel much more comfortable with the investment were there more diversity in Management and on the Board and if HR were elevated to a strategic role, the kinds of things seen in successful modern enterprises[1].

Diversity here is not an issue of "political correctness" but of "group-think avoidance". When the Chairman hires only people who look like him, act like him, or think like him, and he concurrently funds their paychecks, it could crowd out dissent that is necessary to ensure that proper consideration has been paid to alternatives.

The need for alternatives at Passur can be observed by the destruction of book value under the current strategy. I have said before and I will say again that its critical for small businesses to invest ahead of growth, and there are indications from larger contracts that growth is forthcoming, but it appears that lower cost, more structurally durable and more financially sustainable alternatives could have been considered to help increase the opportunities for success.

I have written letters to the Board and Management reflecting my concerns about diversity, and a few other issues. I hope they will pay heed to the constructive criticism. Time will tell how well they monetize the value of their assets but thus far, either they've done a poor job monetizing those assets or I've done a poor job evaluating them. If Invuity taught me anything, it's that a good product $\neq$ a good company but advocacy, patience and buying at a low valuation can lead to positive outcomes over time.

[1] Barrons recently posted an article on how more diverse companies tend to outperform under a variety of metrics, I suspect largely through the diversity of opinions innate in a diverse population.

Our new position, Intelsys, was mentioned in the 3Q18 letter as the "payments platform company". I wrote up a presentation on it for the MOI 2019 "Best Ideas Conference" posted it on the LCA website with little comment or fanfare, and the stock went up +60%. This is unusual.

I think the company is unusual as well, in the way its run and in the way it's been operated through its +30 year history. The presentation is easy enough to access and as owners of the business, I hope you enjoy reading it.

ADVISORY BOARD

On a non-portfolio update, LCA now has a small advisory board, with three professionals kind enough to support me with their time and counsel on a limited basis for specific issues.

One is a portfolio manager, one an "off street" research professional and one a former public company CEO and long-time executive, who also served in the army with my father. They all ask terrific questions that challenge me when I am in too familiar territory to notice new things, or in unfamiliar territory and seek guidance. It seems important to note that none are clients; I think their independence is part of the value. I'm fortunate to have them in my corner.

I will follow in the near future with some required year-end administrative documents (privacy policies, ADV's, et al). Obviously, if you have questions about our holdings or anything regarding your account, I'm happy to chat.

CONCLUDING THOUGHTS

Management is a most human endeavor. Were we ants, management would resolve to pheromones. Were we bighorn sheep, it would resolve to ramming heads. Were we a pack of wolves, it would resolve to family hierarchies.

Unleashing "animal instincts" has its value in certain areas, but not where thought, reason and intentionality ought to prevail. Unfortunately, it is easy enough to observe in the modern world organizations still managing on these baser instincts.

I speak here of management not because it is one of the biggest arbiters of success or failure in a company, perhaps even more so than the company's product or service itself, but because I think at the core of management is intentionality. Is the intention of management to "build a great company" or "make great customer experiences" or "make a lot of money." I think these things make a difference.

I want to share here something a CEO wrote me awhile back while I was doing due diligence on their company, in response to the question why they are recently so successful:

Long Cast
ADVISERS LLC

“Luck has a lot to do with it. Most CEOs will not admit that: If they are successful it must be because they are the smartest and work hardest. If they are unsuccessful, it must be someone else’s fault or they were just the victim of unlucky circumstances.”

This CEO, who I will not name, is implementing a 40-hour training program throughout his company so that every employee can have a better understanding of what the company does beyond their own roles, in order to engender a culture and a mission.

Here in contrast is a response from an executive of another company on what it will take to succeed: “It all boils down to growing the top line”. This is not a comment out of context. This is the strategy articulated.

There are those that are process oriented – put the right ingredients together, slowly and patiently follow a proscribed method, and at some point you’ll have a cake – and some that are goal oriented – let’s make a cake out whatever we have around. I have observed that only a resourceful expert with experience in the kitchen can bake a cake with what they have around.

Or to use a more personal analogy, I have been playing chess for +30 years and I can tell you it’s very hard to move pieces around the board and get it right consistently. Yet, there are plenty of CEOs, (and sports general managers, and politicians and other forms of gadabouts) who think they just need that one thing, that one move, and they’ll get it right. I think there’s an animal instinct to that notion, or maybe it’s just ego.

I prefer companies managed by executives who understand the need to pull the right ingredients together and implement a long-term strategy based on inexpensive bets vs the pie in the sky notion that “just this one thing will get it right.” The realities of life and businesses seem at odds with that notion.

As always, I appreciate your entrusting me with your capital and the responsibility associated with being its steward. If you know anyone seeking a small-cap focused investment manager, please send them my way. If you have any comments or questions, please don’t hesitate to write.

Sincerely / Avi
January, 2019
Brooklyn, NY

AVRAM FISHER PRINCIPAL | 917.697.4910 | AVI@LONGCASTADVISERS.COM | LONGCASTADVISERS.COM