J.L. BAINBRIDGE
& COMPANY, INC.

2017 ANNUAL REPORT

INVESTMENT RESULTS

For 2017 J. L. Bainbridge & Company, Inc. achieved a +27.7% rate of return on all monies managed in its equity investment program. In conjunction with returns in its equity program for 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 returns of +16.9%, -3.3%, -8.8%, +12.9%, +14.3%, +4.7%, +12.8%, +3.3%, -37%, +34.2%, +18.3%, +3.6%, +15.6%, +41.8%, +12%, -2.7% and +5.8% respectively, a January 1, 2000 investment of $250,000 has grown to a December 31, 2017 value of $1,014,337. This equates to an increase of 305% over the past eighteen years or 8.1% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee. The return over the past eighteen years for the S&P 500 is 158% including reinvested dividends or 5.4% compounded annually.

INVESTMENT REVIEW

As stated over and over since we founded our investment service thirty-seven years ago, we are totally focused on the objective to earn an average double-digit compounded return over each five year period because we understand the impact this will have on clients' wherewithal to meet their financial goals.

At the end of 2016, although our average compounded return for the five year period 2012 through 2016 was 14.1%, our average compounded return for 2015 and 2016 was only 1.4%. This return was due to extremely low interest rates worldwide which drove investors to favor higher dividend paying stocks such as utilities and consumer non-durables. In this environment, high quality growth stocks which are the heart of our program were ignored. While we were not happy with our short-term results, we refused to deviate from our proven investment strategy and were confident this was a temporary situation. Patience paid off handsomely last year and our average compounded return over the past five years is 15.3%.

Our investment portfolio typically includes from fifteen to twenty stocks because these are all we can find that meet our stringent criteria and are available at an attractive price. We closely monitor these companies and only sell when a business changes or the stock price becomes fully valued. In 2017, we sold Cardinal Health and CVS Health because the pharmaceutical distribution and retail businesses slowed dramatically. On the other hand, we sold Boeing because the stock price became very rich when its price to earnings (PE) ratio reached 21. To our surprise, Boeing's stock continued to appreciate and today has a lofty PE of 27. While we were somewhat disappointed to see their stock rise after our sale, our investment philosophy is based on minimizing risk, and the fact is a high PE equates to high risk. Minimizing risk has always been extremely important to our ability to achieve our objective of a double-digit compounded return over each five period.

INVESTMENT STRATEGY

With last year's high return and the constant hype of the media that the stock market is overvalued and due for a decline, many clients are nervous about the potential for a major stock market decline. While a minor stock market correction can occur anytime, unequivocally, OUR VIEW IS THAT THE RISK OF A SERIOUS STOCK MARKET DECLINE IS NOT PRESENT IN TODAY'S INVESTMENT ENVIRONMENT. Significant stock market selloffs are due to the following factors:

Inflation and interest rates reach a high such as the double-digit rates in the mid-70s which drove down stock prices.

In order to prevent high inflation during a period of economic expansion, the Federal Reserve tightens the money supply which causes interest rates to rise and the economy to fall into recession which results in a large stock market decline.

Asset prices reach a bubble level such as the technology bubble in 1999 and 2000 and the housing bubble of 2007. In both cases when the bubbles burst, the stock market drops precipitously.

None of these conditions are present today, and more importantly, none are on the horizon looking out over the next several years. The question today is why is the media full of dire prognostications that a scary major decline is eminent. There are two reasons, first by scaring their listeners they cause people to tune in more often and the resultant larger audiences attract more advertising dollars. The other reason relates to the fact most so-called experts rely on rearview mirror thinking to project the future. Hence if looking backward reveals that past market advances have stalled much sooner than today's nine-year advance, obviously the current rally cannot last much longer regardless of today's favorable investment climate. However, the environment that prevailed prior to the last three decades was much different. Then, the United States was isolated from the rest of the world, unions were powerful and companies could simply raise prices to cover higher labor costs. This led to a boom and bust cycle resulting in higher interest rates, recession, declining profits and stock market setbacks which were often severe. This is not today's situation. We are in an intensely competitive world economy where companies are not free to raise prices. Hence, they strongly resist labor union demands and over time these unions have lost bargaining power. In addition, unforeseen rapid technological advances over the last three decades have enabled companies to offset rising cost by lowering expenses and thus avoiding price increases. Consequently, the Federal Reserve has no reason to drive the economy into recession. Given the above, in our opinion while there will be stock market corrections, they will be unpredictable as always, relatively mild and of short duration. This does not mean they will not be unsettling because the doom and gloom drums will be pounding furiously.

This leaves one danger remaining which is asset bubbles brought about by greedy unrealistic investors. The good news is bubbles do not often occur, take years to form and can be detected. Furthermore, they mostly impact speculators, and therefore conservative investment programs such as ours while impacted in the short-term, recover quickly. For example, our program recovered from the technology bubble within a few months while the NASDAQ took sixteen years to regain its losses and many speculative holdings never recovered. Fortunately, today there are no bubbles to be concerned with.

Another important aspect of investment success is remaining invested when like today the prevailing view of the media is negative. 2017 is an excellent example. At the beginning of the year a Wall Street Journal survey of sixteen leading stock market strategists (Notice they no longer call themselves experts or gurus.) revealed the average 2017 return for the S&P 500 was projected to be only 5.4%. Investors following this advice could have decided to exit the stock market and wait for better times. These investors would have missed out on one of the stock market's best years. Since no one can predict the future, knowing the current investment climate is very upbeat, one must remain fully invested in order to reap the rewards.

Lastly, the recently passed tax reform that lowers the corporate tax rate from 35% to 21% is extremely positive. This will make American companies more competitive around the world, stimulate economic growth and greatly increase earnings particularly for most of the companies in our portfolio which typically pay a high tax rate. For example, United Rental's projected 2018 earnings per share increases from $13.10 to $15.25 due to lower taxes, and the projected appreciation potential this year increases from 22% to 48%. While the exact impact of the reduction in the corporate tax rate will not be known until later this month when companies report 2017 results and provide their outlook for 2018 results, our analysis of each of the companies in our portfolio indicates earnings on average will increase an additional 12% to 14%. Couple this with normal average growth of around 12% and the average earnings per share 2018 growth for our portfolio is an astounding 25% to 27%.

CONCLUSION

As stated earlier, in our opinion the risk of a major stock market decline is very small, but a short-term decline could occur. In order to protect against such a decline, we have approximately one-sixth of our portfolio invested in Hospitality Properties Trust and Select Income Reality Trust which provide dividend yields of 7% and 8% respectively. In the event of a stock market set back, their high dividend yields will tend to prevent their stocks from declining. Our strategy in this scenario would be to sell these and reinvest the proceeds to take advantage of lower prices of quality growth stock that would be available after such a stock market selloff.

Despite today's highly favorable investment environment, pessimism is prevalent and dominated by the same rearview mirror thinking that after nine years of rising stock prices and last year's big stock market advance, a disastrous decline has to be on the horizon. Relative to last year's 27.7% advance, this year's corporate tax reduction effectively mitigates its impact on the valuation of the stocks in our portfolio. Specifically, at the beginning of 2017 the average PE ratio against projected 2017 earnings was 13.3, and the current PE ratio against projected 2018 earnings is 13.9. Thus, our portfolio remains well below the average PE of around 17 for the S&P 500 and the potential 2018 return for our holdings is a remarkable 49%. While we do not expect to reach this return, we are extremely well positioned to achieve an average double-digit compounded return over the next several years. With economic growth worldwide, low inflation, low interest rates, reasonable stock prices and robust earnings growth, the investment climate could hardly be better. The only requirement to reaping the reward is to ignore the negative media and remain invested.

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Enhancing Clients' Lives

At J.L. Bainbridge & Company, Inc. our business is dedicated to "enhancing clients' lives" by providing long term professional money management service totally focused on helping clients finance their children's education, build and preserve the resources for an enhanced retirement and achieve a meaningful higher standard of living.

The foundation of J.L. Bainbridge & Company, Inc.'s business philosophy is based on the full understanding that our future and success is completely dependent on client satisfaction and delivering to clients a consistent long term investment service of the highest level of quality, competence and integrity.

Our commitment to "enhancing clients' lives" is a guiding light that governs our professional daily activities and demands every decision and action be assessed as to exposure to investment risk as well as the long term benefit to our clients.

Managing more than $700 million for our clients worldwide.

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