



*“Over the years, I have found it very profitable to be fearful when others are greedy and become greedy when others are fearful.”*

*Warren Buffett*

### ***Governing Principles***

- We consider your decision to invest with us a tremendous responsibility. Your assets are treated/handled as though they were our very own. We own the same investments you do. With objectives aligned, we view our relationship as an investment partnership.
- We are strong believers in the benefits of a value driven, long-term investment process. We invest as though we would be holding our positions for the next 3 to 5 years, resulting in low portfolio turnover, which historically has produced higher after-tax returns. Remember, investors make money in the long run, while traders attempt to make money in the short run. We are investors.
- We select our investments based upon the discount at which they are currently valued relative to their private market or intrinsic value. We believe that this affords us and our investment partners two important opportunities:
  - 1) depressed prices often incorporate lower investor/market expectations, which may provide a buffer or margin of safety against the risk of further price declines
  - 2) the belief that the greater the discount at which you buy an asset, the greater the potential for increased appreciation
- We will concentrate assets in our best ideas and utilize diversification as a means to ensure proper portfolio balance.
- We will hold cash positions during market periods that afford us little new buying opportunities. This should not be mistaken as an attempt to market-time. We do not believe in timing the market. Our decision to hold cash is due to a lack of appropriate investment opportunities.
- We will communicate with our investment partners as candidly and frequently as possible.

*“It’s tough to make predictions, especially about the future...”*

*Yogi Berra*

## ***Philosophy***

- We look to achieve superior long-term investment results by investing in assets (equities, bonds, mutual funds, and exchange-traded funds) that are trading at a discount to their private market value or intrinsic value. This combined with strong finances, proven management, and an understandable business model reassure us and our investment partners that we are purchasing stakes in companies that are undervalued, safe, and in the hands of trusted managers. We believe this places our portfolio in a strong position should any of the following two scenarios occur:
  - 1) a short-term market decline, which can temporarily impact the value of our investments; however, since our investments are purchased at a discount to the private market or intrinsic value, the market decline should prove temporary and eventually right itself as the market recognizes the true value of our investments.
  - 2) the market eventually recognizes the company’s true private market value or intrinsic value, causing our investment to appreciate substantially.
- We ignore what has become “market noise”. We do not focus on the short-lived investor pessimism or quarterly earnings reports that temporarily affect the market. We use the projection of future revenues and earnings as research tools, but recognize their short-comings in terms of reliability. Instead, through fundamental analysis we study the quality and quantity of a company’s resources, cash-flows, track record of earnings and dividend growth, competitive advantage, and management, to determine how a specific investment will create value for our investment partners.
- Regardless of the investment vehicle (equities, bonds, cash, mutual fund, exchange-traded funds), our investment process is guided by our deep conviction to the value philosophy and fundamental analytical research.

*“When you change the price of a company, you change how you speak of it as an investment”*

*Unknown*

## ***Process***

- **Investment Idea Generation:** Our process is built on a team approach. In addition to portfolio managers, we consider ourselves analysts and actively contribute to the pool of investment ideas. We formally meet with our firm’s analyst team and industry consultants on a weekly basis, with everyone participating in the discussion, reviewing potential new ideas, sell candidates, and current holdings. The weekly meeting is led by our senior investment committee, whose goal is to provide the guidance and oversight to an investment process that in the end produces the best opportunities for investment. The Committee is comprised of our most senior investment professionals, whose experience totals over 150 years and includes members who hold the Charter Financial Analyst (CFA) designation.
- **Portfolio Development:** After determining your risk comfort level, net worth, age, income needs, savings, and other specific information, we generate an individually tailored portfolio using the appropriate investments from our internally developed Buy/Hold/Sell list. Due to our value bias, we are price sensitive in terms of our purchases, therefore we find that most buys often occur when the market creates opportunities for us to deploy capital. Investments are not constrained by market capitalization considerations, as we will examine all areas of the marketplace to find value.
- **Sell Discipline:** As businesses grow and evolve, they often change shape and even direction. Our sell discipline focuses on allowing a business to grow as long as it adheres to basic philosophical principles outlined in the aforementioned commentary and maintains a reasonable valuation. The following represents triggers for potential sales or trimming:
  - 1) A specific investment appreciates, causing an overweight situation
  - 2) the investment becomes grossly overvalued, to the point that the expectation for overly optimistic future earnings has been incorporated into the higher stock price
  - 3) our original analysis was flawed

*“Many of our peers would say this is too extreme. It may well be, but we prefer wearing belts and suspenders in the stewardship of your money and ours.”*

*Tweedy Browne*

## **Conclusion**

- Simply put our goal is to provide our investment partners with the finest money management results given a reasonable level of risk and couple that with the highest level of personal service. Our conviction to the value driven long-term investment process that we described in the aforementioned commentary is based on substantial research and overwhelming supporting data from published studies by some of the world’s finest minds. Interestingly all of the studies manage to validate the principles first described in the 1934 edition of Benjamin Graham’s *Security Analysis*. Specific evidence can be found in the following papers:
  - *What Has Worked In Investing*  
by Tweedy Browne
  - *Searching for Rational Investors In a Perfect Storm*  
by Louis Lowenstein
  - *The Superinvestors of Graham-and-Doddsville*  
by Warren Buffett

*Copies can be made available on request*

The most compelling evidence of the success of our process is the number of multi-generation clients our firm has had the fortune of serving.

- We remain steadfast in our belief that a value driven long-term investment process will produce the best tax considerate results with the lowest exposure to market risk over your investment life cycle. There will be periods of under-performance as markets and investors head down the slippery slope of speculation, but we believe that these periods will prove only temporary. Eventually the markets will return to more normalized levels; reversion to the mean is a powerful force, one that we wish to be in position to take advantage of rather than run from.