



Vision Makes a Difference



William Smead
Chief Executive Officer
Chief Investment Officer

Dear Fellow Investors:

Thanksgiving break I read a book by Professor Thomas Sowell titled "A Conflict of Visions". He explains that most of the political and economic debates of the last three hundred years come down to two conflicting underlying visions of how we should operate. Understanding these visions could tell us at Smead Capital Management and you as investors where we could be going over the coming years in the markets.

Sowell sees people accepting either a constrained or unconstrained vision of the future. Adam Smith's "Invisible hand" and "laissez-fair economics" were poster children for the constrained vision. Constrained visionaries believe in respecting systems, processes and repeated history to bring moral outcomes. They believe each person acting in their own self interest will create the most public and social good.

Unconstrained visionaries believe that as human beings advance intellectually, they should expose an enlightened minority who can lead. Their leadership should have sincerity and a moral vision to benefit everyone. The unconstrained vision is best exemplified by William Godwin's "Enquiry Concerning Political Justice". To Godwin, man's understanding and disposition were capable of intentionally creating social benefits. Godwin regarded the "intention" to benefit others as being "of the essence of virtue".

Much of the debate and nervousness surrounding our current markets can be tied to these conflicting visions. Policymakers have used numerous Keynesian (Unconstrained) economic policy maneuvers to intervene in the markets the last 15 months. Enlightened economists seriously doubt the constrained view that individuals acting in the marketplace on their own self interest will heal our economy. Conservative (Constrained) economists believe lower home prices, stock prices, low interest rates and abundant cheap labor are ingredients for a long lasting recovery.

Therefore, both visions are at work and those who don't agree with the opposition vision seem to believe we are going "into Hell in a hand basket". Tea Party folks are scared to death of heavy-handed government intervention. Those with the unconstrained view fear that residential real estate markets and the lending institutions crippled by their weakness can't heal themselves. They are willing to pay the price down the road for running huge government deficits. They feel that this is a once in a lifetime opportunity to use the economic difficulty to get us headed down the right path for the future. Both visions are attracted to the emerging markets and commodities like gold and oil. Adam Smith fans (constrained) can see the "invisible hand" in worldwide growth and Godwin's Backers

(unconstrained) love the "enlightened" feeling they get from being cutting edge worldwide investors. Unfortunately, it looks much like the 1998 tech stock cutting edge to us.

Investors in common stocks have put premiums on those sectors which appear to have the most to gain from the unconstrained or enlightened view of the future. We must admit we like the idea that the companies which operate with the best systems, processes and have the best histories will provide the most future success for the least amount of capital. Our view assumes that enlightened reason almost always comes at too high a price and doesn't work often enough to generate market beating returns.

It took me the first ten years in the investment business to learn to get away from investing by trying to predict the future and assuming that humans are getting better as they get more sophisticated. We want to rely on owning great companies for long-term holding periods and let both of the conflicting visions fall where they may.

Warm Holiday Season Regards,

William Smead

The information contained in this missive represents SCM's opinions, and should not be construed as personalized or individualized investment advice. Past performance is no guarantee of future results. The securities identified and described in this missive do not represent all of the securities purchased or recommended for our clients. It should not be assumed that investing in these securities was or will be profitable. A list of all recommendations made by Smead Capital Management with in the past twelve month period is available upon request.

This Missive and others are available at www.smeadblog.com.