



Bill's Ark



William Smead
Chief Executive Officer
Chief Investment Officer

Dear Clients and Prospective Clients:

Found in the Old Testament book of Genesis in chapter 6 is the story of Noah and the flood. God is described as “very angry” with the behavior of the people he created and instead of eliminating everyone and everything he chose to extend grace to a man named Noah, his wife, sons and their spouses. Once God chose Noah he gave him marching orders to build an Ark. This huge boat was to be 450 feet long, 75 feet high and 45 feet tall. Noah and his three sons obediently spent over 100 years building the Ark and explained to people that they needed to turn from their wicked ways and join his family in the boat.

This might have been the most difficult task ever set in front of a mortal man in history. There is no evidence in the first five chapters of the bible that it had ever rained before. Life spans were very long in Noah's time (600-770 years), but it took about 20% of his life to build the Ark. Noah had no formal religion or community support mechanism surrounding him and his family. He had to be the ultimate contrarian and perform the whole time as if he were going to be right all along. When the flood finally receded and Noah was vindicated, God provided a rainbow as a sign that he would never drown everyone again and as a reminder to his people.

At Smead Capital Management we formed a company two years ago based on a series of things we believe about investing. We are building a mutual fund and separate account management business at SCM which is our Ark. Here are ways that we believe our work is similar to Noah's task:

- 1) It hasn't been easy to make money in stocks since early 1998 and that is equivalent to not raining for a long time.
- 2) Many retired investors wonder if they have the time to invest in the project.
- 3) The percentage of market participants who are actually long-term buyers and holders of good quality securities has become a small minority of overall participants.
- 4) Some financial institutions and some households are drowning in the lending and borrowing sins they've committed over the last ten years.
- 5) Aspects of our stock picking discipline which have generated big advantages over long periods of time have temporarily been postponed by the worst bear market since the 1930's.
- 6) The economy that follows the aftermath of this economic and stock market flood could be more pleasing because market participants will be more humble and less debt ridden. This reduces economic swings going forward and makes us all more vigilant of the behaviors which caused the problems in the first place.

Unlike us, Noah didn't have 24 hour news coverage of his project and massive amounts of information on the outcome of current human behaviors multiplying on the internet. His critics probably started out numerable, but lost interest quickly and had very little power to sway public opinion. Besides, he looked nuts right from the beginning. Our critics grow more numerous as time goes on even though all recorded economic history shows that time is a great healer and investment results revert to the mean. We at SCM are looking forward to our rainbows in the stock market over the next five to ten years when we believe the doors will open to the "Next Great U.S. Stock Market".

Warm Regards,



William Smead

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