



Bull Markets in Oats and Hay



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Dear Clients and Prospective Clients:

The biggest pollution problem in the United States in 1900 was urban horse manure. Horses need to eat. According to one estimate each urban horse probably consumed on the order of 1.4 tons of oats and 2.4 tons of hay per year. This also means that a great deal of those tons of oats and hay were converted to manure. The estimates are that horses disposed of between 15 - 30 pounds of manure a day. Eighty-six percent of local transportation was by horse and buggy. Remember, there were only 4100 automobiles sold in the U.S. in 1900. Automobiles were even named after horse drawn buggies, a "carriage" or "car" for short!

Technology solved the urban horse manure pollution problem. By 1925 Americans had purchased 3.7 million cars in a single year and by 1929 there were 26.5 million autos in use in the U.S. How do you think the price of horse drawn carriages, oats and hay did from 1900 to 1930? I ask this question for a simple reason. Why do many of the "experts" and many of the portfolio managers that I admire invest heavily in the idea that a limited supply of Oil and Gas will result in higher prices? And why are they so excited about the companies who make a living supplying drilling equipment and oil rigs to the oil and gas industry?

Our popular new President, Barack Obama, has laid out ambitious goals for gas mileage and even Bill O'Reilly thinks they are a good idea! The only way that those goals can be reached is by dramatically increasing the number of hybrid and electric-only vehicles in use. Today's number one polluter in major cities in America is the gasoline fueled internal combustion engine. When the sun shines for a week straight in Seattle (yes, that actually happens a few times each year), a brown haze engulfs the low horizon. In cities like Beijing, you can barely see in the distance.

The only bear market rally going on in Wall Street today is the rally in the share price of oil and gas related companies. At Smead Capital Management we believe technology will eviscerate a great deal of demand for oil in the next ten years, just as it did for oats and hay just after 1900. We are happy to be under-represented in oil and gas companies, but are looking for investments in electricity that meet our strict criteria. And that is no manure.

Best Wishes,

William Smead

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