



**Dislodged**  
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**William Smead**  
Chief Executive Officer  
Chief Investment Officer

Dear Fellow Investors:

When I was 5 years old I got a life saver stuck in my throat while grocery shopping with my parents. My Dad grabbed me by the ankles and turned me upside down. He shook me a couple of times until the sweet lozenge dislodged. We just did the same thing in the US stock market in the last week.

We at Smead Capital Management believe that the market has an uninterrupted BRIC trade lozenge stuck in its throat. This lozenge causes the US stock market to choke on over-priced oil, basic materials and industrial shares. While we are seeing a textbook economic recovery, we are using much less gasoline than a year ago. We are also embarking into the world of electric cars. Why is the price of a commodity going up when its best customer is using less?

In our opinion, the answer is that the capital market participants believe as deeply in uninterrupted growth in China as I believed in the good flavor of orange and cherry flavored life savers at age five. The only way to get it out of me was to shake me and the only way to change the investment trend is to shake it with high volatility. The Chinese stock market, as represented by the Shanghai Composite, fell 1.9% last night in overseas trading. That's a decline of 20% in the last nine months, qualifying for bear market territory. Stock markets have a tendency to look out one year on economic activity.

Ignore the noise and enjoy owning America's fine companies in areas like consumer, banking and healthcare. When we get this BRIC trade out of our throats, we believe under-priced non-cyclicals will take over market leadership.

Best Wishes,

***William Smead***

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