



Has Anybody Here Seen My Old Friend Doomsday?

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Dear Fellow Investors:

One of my favorite songs of the late 1960's was "Abraham, Martin and John". It reminded us that a number of our country's leaders had been assassinated. Investments aren't nearly as important as life and death, but the returns most investors have been getting the last three years have been murdered by a series of doomsday predictions.

*"Has anybody here seen my old friend Abraham (wide asset allocation)
Can you tell me where he's gone?
He freed a lot of people, (of stock market gains)
But it seems the good they die young.
You know, I just looked around and he's gone."*

We wrote a piece last fall analyzing what goes on at the time very smart and successful money managers enter a period of under-performance. It is usually tied to too much popularity for them and their discipline. We believe wide asset allocation is overly popular. In our opinion the same basic asset allocation is being done by financial advisors in the smallest towns in America that is being done at the largest wealth management firms in the world. We at Smead Capital Management (SCM) believe that Malthus is being refuted once again and his theories are being used to justify risk aversion.

*"Anybody here seen my old friend John (market timers)
Can you tell me where he's gone?
He freed a lot of people, (of bull market participation)
But it seems the good they die young.
I just looked around and he's gone."*

We feel market timing and economic analysis are great for avoiding once every 50-year stock market declines. You can't create wealth with one foot out the door and a portfolio built around short-run assurance. Warren

Buffett is fond of telling students that his worst mistakes have been sins of omission, not sins of commission. America did not become great by being preoccupied with risk prevention.

“Anybody here seen my old friend Martin (macroeconomic strategy)

Can you tell me where he's gone?

He freed a lot of people (of stock market courage),

But it seems the good they die young.

I just looked around and he's gone.”

We believe the "New Normal" concept was one of the best marketing jobs in history. We feel it caused institutional and individual investors to overload bonds and avoid stocks in the very normal bull market of the last three years. "It's different this time" are words which once again have cost investors billions!

“Didn't you love the things that they stood for?

Didn't they try to find some good for you and me?

And we'll be free

Some day soon, and it's a-gonna be one day ...”

Imagine that these doomsday people were around you when you were five years old. They would have scared you away from climbing trees or riding bikes or swimming. All for the sake of protecting you from risk. Steve Jobs said it best at Stanford's 2005 graduation ceremony when he said, "We are all going to die, so take some risk"!

“Anybody here seen my old friend Bobby (commodity enthusiasts)?

Can you tell me where he's gone?

I thought I saw him walkin' up over the hill,

With Abraham (wide asset allocation), Martin (macroeconomic strategy) and John (market timers).”

Commodities have never been more popular or seen wider participation in my 32 years in the investment markets. The idea that more people existing is justification for higher commodity prices has constantly been refuted over the last 100 years. For example, we feel that if more people means perpetually rising commodity prices, they would have gone up all the time. In our opinion, China's hard landing is already happening. When China's debacle is obvious to everyone, commodities and stocks related to them will be the lepers of the investment world.

We at SCM always know that there will be a bear market in US stocks about once every five years and a 10 percent decline in stocks is likely once each year. However, stocks have been the best performing liquid asset class over the long haul and are much more likely to succeed when the masses are paying close attention to the purveyors of doomsday. Remember, they are just trying to find some good for you and me.

Best Wishes,

William Smead

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