



Lots of Experts at Extremes



William Smead
Chief Executive Officer
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Dear Clients and Prospective Clients:

When a market has been strong, there is no limit to the number of people who will tell you how good it is going to be for the foreseeable future. When a market has gone down for a long time, a multitude will tell you how far down it is going and how long the downtrend will last.

At Smead Capital Management we have developed a term for this that we call a "Well-Known Fact". By definition (Smead Unabridged Dictionary), a "Well-Known Fact" is a body of economic information which is known by all market participants and has been acted upon by nearly everyone who could care or has the financial wherewithal to care to act. It is best understood through the comments of former Intel CEO, Andy Grove, who said that the best advice he ever got in business came from a professor at the City College of New York. The professor said, "When everyone knows that something is so, nobody knows nothin'." By nothin' the professor infers nothing that could do you any good. When everyone believes a fact and has acted on it to an extreme, nothing good can come to you from believing it from an investment standpoint.

Here is a series of "Well-Known Facts" from recent history. Also noted are the assets that were purchased to act on the Well-Known Fact and the end result of the extreme:

Fact 1: ***The Internet will change our lives*** -- Asset Purchased: Tech Stocks -- Result: From the peak of early 2000, tech stocks fell 80% in 2.5 years.

Fact 2: ***Residential Real Estate only goes up*** -- Asset Purchased: Homes in sunshine states of Arizona, Florida, Nevada and California -- Result: 40-50% price drops and a majority of the nation's foreclosures.

Fact 3: ***Brazil, Russia, India and China (BRIC) will grow faster than the industrialized world*** -- Assets Purchased: Commodities and Emerging Market Mutual Funds -- Result: Commodities drop 60-80% and Emerging Markets fall 50-70%.

At the extreme, whatever value that is connected to the assets involved with the "well-known fact" doesn't matter in either direction and there is no shortage of both expert and non-expert opinion on how high or low the asset prices will go. Henry Blodgett saw the moon for Qualcomm and internet stocks in 1999. No shortage of cable shows taught you to "Flip this House" in 2005. And in 2008, Goldman Sachs' Oil analyst put a \$200-250 price possibility on a

barrel of oil. Not to mention T. Boone Pickens, who has been attempting to talk oil prices up since it peaked at \$147 per barrel last year.

In the opinion of SCM, here is the new "Well-Known Fact".

Fact 4: *The massive amount of borrowing attached to homes and personal finances in the U.S. over the last ten years dooms us to a three to four-year recession/depression which is not treatable by policy makers and could ultimately cause a total collapse of our financial system.* -- Assets Purchased: U.S. Treasury Bills, Notes and Bonds; Gold and "virtuous non-U.S. currencies". -- Assets Sold: Common Stocks including the finest companies in America. -- Experts: Nouriel Roubini, Jimmie Rogers, Marc Faber, etc., etc., etc.

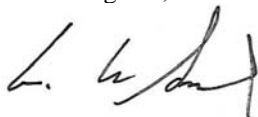
The T-bills and gold are easy for us to see through. There is a bubble of fear and uncertainty. Therefore, any asset which seems to give protection against fear will get way over-priced at the height of the fear. We wonder how people are going to feel about earning little or no interest for years. I drove by a guy on Pima Road in North Scottsdale today selling Safes on the side of the road. Gun sales are through the roof. These actually make more sense to me than the money-market funds, savings accounts, CD's and T-bills. If the premier U.S. companies don't survive and prosper, there will be no tax revenue to insure deposits, back money-market funds and redeem government debt. If our Disney, Abbott Labs and Walmart don't make it, you need a one-acre garden, a nearby water supply and a set of big guns and lots of ammo.

As bad as this decline has beaten our stocks in the short-run, you'd think that we wouldn't love it just as much as the other "well-known facts". You'd be wrong. This one is possibly setting up faithful and persevering blue-chip stock investors for the positive ride of their lifetime. First, today's Wall Street Journal is talking about an additional decline of more than 20% off a stock market which has been pummeled more than any market other than the 1929-32 "Great Depression" decline. Second, sentiment polls from the American Association of Individual Investors and Bespoke Research show that a MAJORITY of market participants believe that the stock market will fall more than 20% from here. Third, our wonderful and well-trained clients have called me more times in the last two weeks to tell me that the market is going down more and is going down for another one to two years. All these prognostications coming from folks we've worked for years and have never had an personal opinion about the short-term stock market direction prior to this year. Fourth, there is more cash on the sidelines in money-market funds relative to total U.S. stock market capitalization than any time in the last 60 years.

We could go on all day with additional evidence, but we think you get the picture. We believe there has probably never been a better day to buy quality U.S. stocks (for a two to three-year holding period) in our lifetime than today. The reason is that everyone knows that the opposite is so and, therefore, "nobody knows nothin'."

BUY-BUY-BUY

Warm Regards,



William Smead

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.

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