



Musings of Warren, Charlie and Bill



William Smead
Chief Executive Officer
Chief Investment Officer

Dear Clients and Prospective Clients:

I believe that an individual's income is close to the average of their ten best friends. This could be why an estimated 35,000 people sought to make friends with Warren Buffett and Charlie Munger in Omaha on Saturday at the Berkshire Hathaway Annual Meeting. Buffett is the Chairman and Chief Investment Officer of Berkshire and is the world's third wealthiest man, while Charlie is Vice-Chairman and has a \$1.5 Billion net worth (which is not chump change). Even at the ages of 78 and 85, respectively, these two billionaire investors can hand out the wisdom.

What I find the most interesting about what these men say about investing is the clarity and simplicity of their investment decisions. Unfortunately for most investors, the part that holds most people back from imitating these great investors is the patience, contrarianism and humility associated with executing a non-widely diversified buy and hold common stock investing style. At Smead Capital Management we seek to practice these virtues.

Here are examples from last weekend of these separating virtues:

On the subject of patience, Charlie Munger said Friday, "I think the reality is that if you hold a stock for a long long term even though it's screamingly successful as an investment, you will have huge declines in the value of that stock two or three times in half a century. And I don't think that should bother long term holders all that much."

While everyone is scared to death of banks, the ultra contrary Buffett said, "I would love to buy all of US Bancorp or I would love to buy all of Wells Fargo, if we were allowed to do it." Buffett spoke again about Wells Fargo and the \$9 price it had earlier this year. "If I had put all my net worth in one stock, that would be the stock." This is a stock he started buying in the last major financial crisis in 1991.

On the search for a Chief Investment Officer to replace him in the future, Buffett shared that he has found four good potential replacements. Instead of chasing recent out-performance (like most investors do), he shared that none of them had beaten the S&P 500 Index last year (which means they lost more than 37% of their beginning year value). He and Munger also added that sitting on large amounts of cash to avoid last year's decline did not impress them or influence their decision.

On another note of humility, Warren had to eat some humble pie. "Buffett said Saturday that he was 'disappointed' when Moody's cut its Berkshire ratings, though he said the decision was lamentable mostly because it led to a loss

of 'bragging rights' - not because it will materially raise Berkshire's borrowing costs." Maybe it is God's way of getting him back for undercutting the municipal bond insurance companies and then using information they had shared with him to compete in the bond insurance business in the middle of the panic and the credit crisis last year. Warren needs to relearn the Mike Milken lesson of the junk bond era of the 1980's. Leave some business for everyone else and not just crumbs.

On simplicity, both men reiterated that if you need a calculator for making an investment decision or if your investment relies on computing some sophisticated mathematical formula, in their minds it is a bad idea. I always told my kids that all the math you need to learn to make a great deal of money in investing or in business is learned by the end of 7th grade.

Reading and listening to these two great investors over the weekend makes those of us at SCM that much more excited about the great companies we own, the investors who are along with us for the ride and how much money we could make in the aftermath of the recent fire sale in the stock market. You supply the patience and we'll supply what we think are the great companies because the stock market has already handed out the humility!

Best Wishes,



William Smead

The information contained in this missive represents SCM's opinions, and should not be construed as personalized or individualized investment advice. Past performance is no guarantee of future results. 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.

This Missive and others are available at www.smeadblog.com.

Get Our Best Portfolio Today!

Start investing with Smead Capital Management
with as little as a \$3,000 investment.

Call (877) 701-2883 or email info@smeadcap.com

