



One Up on Wall Street

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Chief Executive Officer
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Dear Fellow Investors:

Peter Lynch went to the mall with his wife back in the days when he ran Fidelity Magellan. The purpose was to see what stores were getting good traffic and creating a buzz. For Lynch, this was the beginning of the research process. Peter felt this was an advantage the average individual investor had over the professionals on Wall Street.

At Smead Capital Management (SCM), we like to buy wonderful companies in the Warren Buffett-Charlie Munger tradition. We like to buy most of the position during periods of maximum pessimism ala John Templeton. We use our proprietary eight criteria for selecting stocks. Finally, we get super excited when the current evidence hints that we are onto something, getting good traffic and creating a buzz.

Here is one historical example and a few current ones. At the beginning of 2010, we began traveling around the US to talk to institutional investors and consulting firms about our stock portfolio. Every major city in America was supposed to be suffering from an anemic economic recovery, but we were seeing women everywhere sporting brand new leather boots and designer skinny jeans. During those same trips in 2010-2011, we saw long lines at coffee shops and at fast food restaurants all over the country. This was evidence that Wall Street was underestimating the consumer. As time went by these long lines spread to other categories.

Where does the traffic and buzz look interesting today? My wife and I stood in line with 3000 people to get into the grand opening of the new Cabela's (CAB) store in Marysville, Washington about 20 miles north of Seattle on April 19th. First quarter earnings were up sharply, despite a fall off in catalog and online sales. They are opening stores in Colorado, Canada and near Yakima, Washington soon. Besides, you can't buy hunting rifles online. We believe the balance sheet is stellar, free cash flow is gushing and their credit card operation is outperforming everyone in retail including Nordstrom. We didn't see anyone in the crowd from Wall Street.

Have you used eBay (EBAY), PayPal, StubHub, Bill-Me-Later or Craigslist lately? You are not alone. PayPal has 110 million registered users and is available this year at 2000 Home Depot (HD) locations. eBay is seeing big traction from power-sellers. StubHub and Craigslist defend you from scalpers at sports events. Other than owning 28 percent of Craigslist, this is all a wholly-owned eBay phenomena. The fact that eBay trades for 14 times consensus 2012 earnings estimates, adjusted for net cash, is unexplainable to us.

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Lastly, the front page of the Arizona Republic on April 27 included a story on a 20-percent increase in the price of the average Phoenix area home in the last six months. Since Phoenix was one of our biggest housing disasters (along with Miami and Las Vegas) in the US from 2006-2010, this is a huge piece of anecdotal evidence. It causes us to be interested in the traffic and buzz which could be coming for housing-related stocks like Wells Fargo (WFC), Bank of America (BAC), Home Depot and Gannett (GCI). Who knows, maybe being an optimist who looks at interesting store traffic and buzz could put us “One Up On Wall Street”.

Best Wishes,

William Smead

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