



PR Campaign



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Dear Clients and Prospective Clients:

We at Smead Capital Management love how gullible and short-term oriented most investors are. One of our favorite ways to understand this is when a company is the subject of a major public relations (PR) campaign. The PR campaign is almost always the product of someone that wants to gain some kind of financial advantage by smearing the company involved. A few examples would probably be helpful.

Did any of you see the documentary six years ago called, "Super Size Me"? A young man ate three meals a day at McDonald's for six weeks and had to super-size his order if the employee asked him "Would you like to Super Size this?". He gained 23 pounds and saw his cholesterol shoot through the roof. McDonald's was viewed as evil at that time and their stock bottomed out around \$15 per share. Today it is closer to \$55/share.

WalMart has been the recipient of a major, multi-year PR campaign to present them as evil to support a nationwide attempt at unionization. First, the campaign convinced everyone that small business owners in the areas where WalMart put their stores were being knocked out of business. Second, WalMart was vilified for doing what thousands of companies across America do by employing some of their workers for less than 30 hours per week to avoid paying benefits to them. Everyone learned to hate both McDonald's and WalMart, but a funny thing happened on the way to the public opinion forum. We've had an ugly recession and economic contraction and it just so happens that when people tighten their belt and look to save money on fast food and just about everything else, they come running to these two great companies. Notice how the PR campaigns have disappeared from the news. Notice how well the stocks have done in a quantum difficult environment.

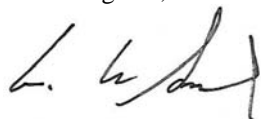
This brings us to today's great PR campaign to smear the makers of Pharmaceutical products. President Obama seeks to cut the annual cost of healthcare in the U.S. significantly during his time in office. Most gullible Americans and short-term oriented investors believe that the high cost of drugs is the reason that healthcare is so expensive in the U.S. They think that the employees of drug companies care about nothing besides profits and know that if the prices of drugs were fixed by the government and all our healthcare was rationed, then everything would be alright.

The truth is that healthcare is getting more and more expensive because more and more people are demanding it, expensive technology keeps improving it and massive numbers of people over the age of 60 are living way longer than any prior generation. These older folks want quality of life and long life as well. This means they will have to put up with chronic illnesses that are most cost effectively treated with pharmaceutical products. The PR campaign

is lead by trial lawyers, who have this wonderful love/hate relationship with the drug companies. They smear the drug companies to win verdicts in jury trials for the damaging side effects of any number of drugs. They then quietly root for the success of the pharmaceutical companies so that the drug companies can afford to pay the judgements that come from the future less than perfect, but effective medicines.

Just like McDonald's and WalMart used to have depressed price to earnings multiples because of successful negative PR campaigns, the finest big pharma and biotechnology companies have them today. Will the story play out any different over the next few years?

Warm Regards,



William Smead

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