Same Old Story

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Dear Fellow Investors:

As you might have guessed by now, we are voracious readers here at Smead Capital Management. We saw Robert Prechter of Elliott Wave Theory fame interviewed on Bloomberg and then read the transcript of his interview. He has been pretty negative for the 29 years I have been in the investment business. He gained his notoriety for predicting the 1987 Crash and the 2007-2009 Meltdown that bottomed in March of this year. What the interviewers never share with you is that he stayed bearish from 1987 to 2007, but as open-minded absorbers of financial market information, we read the pessimists also.

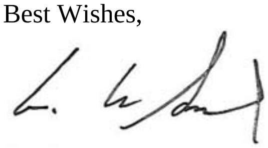
He, as you might have already guessed, is bearish on the U.S. stock market. His two main reasons are what we would like to talk about. First, he said that too many stocks were making 52-week highs on the NYSE and to him that is dangerous. Secondly, he mentioned that traders had swung from 2% bullish in March to 92% bullish in October. It is easy to refute his first point. The market went down so much between September 18th and October 10th last year that it is highly likely that you will get a large number of 52-week new highs in stocks. Therefore, trying to call this an excessive amount of enthusiasm is like telling a University of Washington football fan that beating USC is all we should expect from our new Coach, Steve Sarkisian. What has happened up to this point in the Greatest Bull Market that Nobody Loved is a good start.

We are also not afraid of his second point. Traders are very short-term in nature and we think are dominated by what we call, Closet Bears. The Closet Bears are invested in U.S. stocks through long positions in Oil and Basic Materials. They believe in a worldwide pickup in the economy led by China and India and want to own only those investments which benefit from a weak dollar. They believe that U.S. economic dominance is over and if you are going to be long in the U.S. stock market, it better be with one foot out the door and have inflation protection attached. Mr. Prechter argues for a major bottom in the U.S. dollar, which could kill the Oil and Materials play. Lastly, the traders like the volatility of the popular large cap cyclical stocks.

Prechter's advice could be a blessing to all those BRIC traders out there long Oil and Basic Materials. However, other market participants like individual investors, endowments and pension plans are dramatically under-invested in U.S. large cap stocks (after years of diversifying away from the asset class). The American Association of Individual Investors shows that last week their naturally optimistic members are more bearish than bullish (41% Bears to 35% Bulls). During the week that ended on September 23rd, investors poured in $12.9 billion in bond mutual funds and liquidated $2 billion in U.S. equity funds. This market rally continues despite the fact that investors have continued to sell their stocks.

Our conclusion is what it almost always is. Be fearful when others are greedy and greedy when others are fearful. Investors are greedy by asking bonds and the BRIC trade to continue to be a good place to invest and are fearful of buying large cap U.S. stocks that don't benefit from the BRIC trade. We like our portfolio and appreciate Robert Prechter's concern, regardless of how consistently bearish he has been. "It's the same old story. Same old song and dance, my friend."

Best Wishes,



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