



Summer Bargains Galore

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Chief Executive Officer
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Dear Fellow Investors:

While China's economy is hitting the wall and investors are beginning to deal with what we believe is a major bear market in commodities, it is time to stop and examine some of the bargains created by the recent correction.

We have said many times that valuation matters. We believe one of the biggest bargains currently is Aflac (AFL). They are the largest seller of supplemental health insurance in Japan and the US. Japan and the US are probably the two countries which would benefit more from a decline in commodity prices than any others in the world. Aflac sells at 7.5 times 2011 First Call consensus earnings estimates and has dropped from a high of \$58 per share earlier in the year. It appears to us that Aflac's stock price takes a dive every time that Greece and other PIG countries dominate the economic news cycle. Aflac has a huge international bond portfolio. A tiny percentage of that is in the weaker European countries. While investors moan about these concerns they are ignoring a powerful positive force in the US. As health insurance costs rise for businesses, deductibles will go up. As deductibles rise and the expense gets too great, companies will offer Aflac's supplemental health policies in their benefits package. If Aflac has the same kind of success in the US they've had from rising deductibles in Japan, it could be huge.

We have argued for two years that Ebay continues to be the most underrated success story in the US. Marked improvements in their marketplace business are causing an acceleration in earnings. This is happening at the same time as PayPal is growing revenues at the rate of 20-25% year to year. We believe that the in-store payment system in the US is going to get revolutionized in the next five years. PayPal's growth is yet to include being a major payment player at physical stores. With the experiences and technology advantages they have from the online world, we believe they will get their fair share. Ebay trades at 14.5 times operating earnings for calendar 2011 First Call consensus. This doesn't include the \$5 per share in cash on the balance sheet. They have wisely harvested Skype and gained further entry into the intersection of the virtual and real economy by purchasing GSI Commerce.

Our sum of the parts analysis of the company looks like this:

EBAY Sum-of-the-Parts Model					Value per
	<u>Rev</u>	<u>Earnings</u>	<u>Per Share</u>	<u>Mkt Cap</u>	<u>Share</u>
EBAY: Marketplace	\$6,000	\$1,798	\$1.39	\$25,996	\$20.03
EBAY: Payments	\$4,250	\$689	\$0.53	\$22,135	\$17.06
GSI Commerce	\$1,000	\$113	\$0.09	\$2,577	\$1.99
TOTAL	\$11,250	\$2,600	\$2.00	\$50,709	

SOTP Value:	\$39.08
add Net Cash/sh:	\$5.21
Total:	\$44

Disney's First Call consensus estimates for fiscal 2011 and fiscal 2012 are around \$2.56 and \$2.99. Do you have any idea how many kids have had trips to Disneyworld and Disneyland postponed by the economic cleansing of the last three years? We believe oil prices will decline in the next year and lower gasoline prices could unleash pent-up demand for Disney vacations similar to what happened in the mid 1980's. The stock has been under pressure as worries about a settlement between the NFL owners and players has been slow to happen. In our opinion, there is probably more certainty of where Disney is going in the next twenty years than any company in the US. This certainty should mean a premium multiple of 18 times the \$2.99 per share earnings estimate or around \$54 per share. We look for a big ramp up in dividends in Disney as well as many of our other companies.

After the original economic disappointment, we feel China's slowdown will be the best non-government stimulus package ever invented. We believe the upcoming commodity bear market will usher in a great era for non-cyclical US companies and a sustained period of non-inflationary prosperity.

Best Wishes,

William Smead

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