



## The New Salt

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Dear Fellow Investors:

As value investors and proponents of low turnover portfolios, we at Smead Capital Management are concerned about becoming New Age Visionaries. Fortunately, we are in tune with investing great Warren Buffett, who came out with his annual letter over the weekend. As veteran Buffett watchers, we can see that he is out “New Aging” the “New Agers” and identifying Oil as the “New Salt”.

Once upon a time, people packed their meats in salt to preserve them. For this reason, salt was a very precious commodity. My cousins (Schmied's and Krutz's) moved to Hutchinson, Kansas in about 1875, because Jay Gould bought a salt plant there and one of my cousins had a management position with Gould's company. Gould was the Carl Icahn/Ron Burkle of his day and ironically, his core business was the railroad business. He owned peripheral businesses which could somehow contribute to rail line activity. However, instead of putting a high price on salt at the time (which folks did), they should have been preparing for the emergence of ice boxes and refrigeration. When those “New Age” technologies came along, salt lost a great deal of importance and prices reflected the loss of demand.

In the early 1900's, horses and oats were highly valued commodities because humans and goods were transported in those days by horse drawn wagons. In a wonderful paper called, “From Horse Power to Horsepower”, author Eric Morris shared how horses and oats became the “New Salt”. In the year 1900, four thousand automobiles were sold in the US. Instead of putting high prices on oats and horses, folks should have been prepared for their prices to drop as auto sales in the US hit 3.5 million in 1925. To be a New Age thinker back then you had to be thinking of gas stations, convenience stores and motels for newly mobile Americans.

This brings us to Buffett's Annual Letter. Berkshire Hathaway is taking a large and capital intensive position in the Electric/Natural Gas Utility Industry via Mid-American Energy and the US Railroad Industry via its purchase of the Burlington Northern/Santa Fe Railroad. Berkshire also owns a company, BYD, which makes electric auto engines in China. And Berkshire is selling shares of oil company, Conoco Phillips, to buy the railroad. Buffett obviously thinks that Oil is the “New Salt”. He has already stated publicly that we will all be driving electric cars in twenty years. Railroads transport coal and much of our electricity is made out of coal. Therefore, his company is now one of the largest companies providing fuel and engines to electric cars.

Buffett reminded everyone in his letter that you should be concerned about the profitability of your companies over the next ten to twenty years, not the next 10 to 20 weeks. Short holding periods for industries with bright near-term futures are very popular just like they were in 1999 for tech stocks. Poor longer-term fundamentals could put investors into a Cinderella position, where you run out of time and everything turns into pumpkins and mice. Wayne Gretzky was once asked why he was such a great hockey player and he answered, "A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be." At SCM, we believe that Oil is the "New Salt" for this very reason.

Best Wishes,

***William Smead***

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