



The Smead Capital Management Laboratory



William Smead
Chief Executive Officer
Chief Investment Officer

Dear Clients and Prospective Clients:

Peter Lynch, the great investor, ran the Fidelity Magellan Fund from 1979 to 1992 and had a spectacular track record of success. One of his favorite concepts was investing in what you see going on around you. By doing follow up research, you would then invest in companies to take advantage of what you are observing. I went to New York on business last week and entered into the laboratory of America.

Upon entering the plane for my flight, I got to watch the stewardesses and steward demand that people shut off their cellular phones. For some of these people I thought it was going to take physical force. Seeing the pain of shutting them down wasn't enough. When the plane landed in New York, you would have thought that these were children waiting to open gifts on Christmas morning. The moment that the Captain gave the go ahead there was a mad rush to turn on the phones and make up for the time spent incommunicado. You might wonder why this is so important from an investment standpoint!

Last week a major research firm on Wall Street downgraded Verizon and AT&T from buy to neutral. Their reasoning went like this. As of last quarter there are more cell phone-only households in the U.S. than landline-only homes. In their mind this represented the decline in the very profitable landline business. However, my observation of these cellular addicted flyers tells us that as landlines disappear and everyone ultimately goes cellular that the two dominate companies will have amazing price raising flexibility. While you have a landline you have a choice, but when you only have a cell phone you won't cancel your service no matter what the price goes up to. Price flexibility is a major profit opportunity as are all the new services that we will pay for as our phones get more functional and sophisticated.

A second laboratory is the two homes we own. One is in North Scottsdale, AZ and the other is in Shoreline, WA. Both are soon to be a bonanza for Home Depot and other companies which are involved in the home improvement and home remodel worlds. In Scottsdale, we need to paint the inside of the house and hang paintings. Our pool has a crack on the outside that needs fixed. In Shoreline, we need new windows and carpet upstairs. We need to stain the deck and landscape and bark the yard. Our kitchen could use a remodel. We have been postponing this work as

much as possible. We at Smead Capital Management think that most Americans have been postponing the work that needs done at their homes also. When the pent up demand cuts loose, business could be quite strong!

We are very confident investors in the cellular phone industry and the home improvement market.

Best Wishes,



William Smead

The information contained in this missive represents SCM's opinions, and should not be construed as personalized or individualized investment advice. Past performance is no guarantee of future results. The securities identified and described in this missive do not represent all of the securities purchased or recommended for our clients. It should not be assumed that investing in these securities was or will be profitable. A list of all recommendations made by Smead Capital Management with in the past twelve month period is available upon request.

This Missive and others are available at www.smeadblog.com.

Get Our Best Portfolio Today!

Start investing with Smead Capital Management
with as little as a \$3,000 investment.

Call (877) 701-2883 or email info@smeadcap.com

