



The Vision Thing II

May 15, 2012



William Smead

Chief Executive Officer
Chief Investment Officer

Dear Fellow Investors:

In May of 2010 we wrote about how important it was for the companies which meet our eight criteria to have a strong vision and clear agenda for their business. When President George Herbert Walker Bush ran for re-election in 1992, he was criticized for not casting a vision for our country. In the aftermath, he called it "the vision thing". We at Smead Capital Management (SCM) believe that every five to ten years those who manage money need to "cast a vision" of where they want to take investors and then backtrack from there to put a portfolio together to best take advantage of the vision cast. We believe there are three main roadblocks to the casting of a vision for the execution of a portfolio plan. In the absence of more attractive titles, we will call these roadblocks fog, bog and smog.

Vision is all about seeing clearly and fog inhibits the ability of folks to see anything other than what is right in front of them. The time frames used by today's individual and institutional investors are creating fog. For example, Warren Buffett was uncomfortable with any six to twelve month projections about Berkshire Hathaway shares at the annual meeting last Saturday in Omaha. He was very confident about where they might be in five to ten years! Short-term predictions have a tendency to be foggy and long-term vision can be much clearer, in our opinion. To cast a vision for investing you need longer time frames.

Many in money management might have the vision for five to ten years, but they are stuck in a bog. They might have realized wisely in the early 2000's that US common stocks were going to perform relatively poorly, so they moved to a position of wide asset allocation. The theory was that by spreading your nets widely you would always be catching some fish somewhere. This was a good idea early on, but now that it is being practiced by virtually every major financial organization and institution in the US, there is a great deal of net being used and very few asset classes catching fish. Worse yet, the five-year outlook for some of the normal fishing holes (think bonds, commodities, etc.) is downright dismal and disheartening. However, so much marketing, posturing and so many computer models have been put in place that the embarrassment of casting a new vision makes a money management professional feel like their legs are three-feet deep in mud.

The third roadblock is smog. Another description is pollution. Clients are scared from looking in the investment rearview mirror and they are allowing their attitudes to get polluted. They are attempting to limit the vision of their

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money manager by giving severe push back when vision enters the conversation. There is a cottage industry which exists today to pollute the minds of money managers and their clients. Go online, on TV or listen to the radio and you will hear a steady diet of negative smog and pollution. Most of it is concerned with the same one-year time frames that the vision caster must avoid. In many cases, these smog producers are part of one's own research team or are a manager of a fund that you normally use to execute your long-term vision. We won't name names, but in most cases these negative nabobs are becoming wealthy from other people's misery. If that were the worst part things would be okay. Unfortunately, they have polluted the lungs and minds of financial professionals and their clients and shoved their legs deeper into the bog.

Our vision is that the best performing asset class of the next ten years will be large-cap US stocks. And we believe that domestically-oriented companies will significantly outperform those which depend more heavily on foreign revenue and profits. Lastly, we believe that most money managers are blocked from joining us because of fog, bog and smog. We'd like you to get elected and re-elected. Don't forget "the vision thing".

Best Wishes,

William Smead

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