## Two Bears, One Bull

**William Smead**
Chief Executive Officer
Chief Investment Officer

Dear Clients and Prospective Clients:

We at Smead Capital Management are not afraid to admire people who disagree with us. If someone sincerely believes that the stock market is going to do poorly over the next two years, puts their money where their mouth is and sticks to their guns, we have nothing against them. We don't agree with them, but we can accept their position. They are Bears on the market and they most likely believe that price earnings ratios didn't get low enough in March to justify a bottom or they believe that the debt accumulated in the last ten years will stifle economic growth and retard the financial system. They go by names like Roubini, Faber, Tice and Rogers. We have no problem with them and we think that the way they have scared everyone is going to make long-term buy and hold investors like us a ton of money.

However, there is a second kind of Bear in the marketplace and we consider them to be dishonest Bears. They are the hedge fund managers, mutual fund managers and individual investors who temporarily own some stocks, but own them with one foot out the door the entire time. This is the "Fast Money" crowd and they are looking for something to own for six weeks to three months. Jim Cramer is there poster child and the discount brokers and stock exchanges are their sponsors. They are the worst kind of momentum investors. We consider them bears because the way they are organized and postured makes for very little likelihood that they or their clients would gain the benefits from holding common stocks for many years. After all, over long stretches of time a significant part of what you make from owning common stocks comes from dividends. In affect they rent stocks rather than own them. They whip around ETFs, are attracted to momentum markets like Gold and Oil and love high levels of volatility. Included in this category are the hyper-inflation folks who are invested in commodity oriented common stocks and think they are going to make a great deal of money from an economic comeback that ruins everything with high levels of inflation like in the late 1970's and early 1980's.

We normally wouldn't really care about these "Closet Bears". Unfortunately, in this market cycle, they have ended up with way more of the existing capital than normal. It makes sense because after the decline from October of 2007 to March of 2009 most humans who have the courage to participate want to get out of the way quickly if things turn sour again. So you have the "Real Bears" who are in cash and short stocks, mortified from what happened this year. Then you have the "Closet Bears" long stocks for two months at a time with one foot out the door all along.

To be a "Real Bull" you have to be fully invested in quality stocks which are selected based on how well they might do over the long term. Peter Lynch is our poster child. He was asked in early March about the stock market and he said, "I'm the wrong guy to ask because I'm always bullish." Watch on T.V. and in what you read. If you see a hedge fund or mutual fund manager say that they are bullish on the market and then explain that they are long Oil, Gold and Basic Materials, you are staring a bear in the face!

Warm Regards,

William Smead

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