



The Wizard of Oz October 25, 2010



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Dear Fellow Investors:

Once upon a time there were institutional and individual investors named Dorothy. She was hit by two financial tornados and knocked unconscious. These tornados fell on the Wicked Witch of the East (Alan Greenspan) and Dorothy ended these crises wearing Alan's ruby slippers (massive liquidity in the US financial system). All she wanted was to reach home (her financial goals).

Fortunately for Dorothy, numerous good witches in the media told her that there is a place called the Emerald Country (China). At the heart of the Emerald Country is a Wizard (Centralized Government), who can not only successfully run a planned economy in a capitalistic way, but could help Dorothy reach her financial dreams. One of the good witches told her that to get to the Emerald Country she should follow the "Yellow Brick Road" (buy gold).

Along her way to see the Wizard of Oz, Dorothy made three friends. First, she met a Scarecrow (Bill Gross). He told Dorothy to invest in the one thing that didn't require a brain, his bond fund (Pimco Total Return). Then she ran into a Tin Man (Jimmy Rogers) who had no heart. He told her to invest in commodities so that she could take advantage of other people's misery and be heartless like the Tin Man. Lastly, she made friends with a Cowardly Lion (David Rosenberg). He told her to invest in fear. The Cowardly Lion was precluded from participating in investment markets which require courage.

Along the way to the Emerald Country (China) to see the Wizard, Dorothy ran into the Wicked Witch of the West (Meredith Whitney). The wicked witch told Dorothy she would be captured and her financial goals would be ruined because the US banking system would never repair itself. The wicked witch sent in flying monkeys (hedge funds and high frequency traders) to try and scare Dorothy away from going to see the Wizard. Other flying monkeys urged Dorothy to own the "reflation trade" and over-emphasize all sectors and companies which benefit directly from uninterrupted growth in the Emerald Country (China). All the flying monkeys kept one foot out the door at all times and turnover in investments hit record highs. She also ventured into Munchkin Land and had the leader of the Lollipop Guild (Peter Schiff) remind her to "follow the yellow brick road" (buy gold) and to own it outside the US to insure financial survival.

All along the way, Dorothy had her dog, Toto (the media), coaching her. In the fall of 2010, Toto had a good witch (Becky Quick) take an entourage to the Emerald Country. In this entourage was the Oracle of Omaha (Warren Buffett) and the expectation was that this would be the coronation of the success of the Emerald Country and its leader the Wizard of Oz. As Dorothy approached the Wizard with her cowardly friends behind her, Toto had one of

his own, (David Barboza from the New York Times) pull the curtain back to reveal that there was no Wizard. http://www.nytimes.com/2010/10/20/business/global/20ghost.html?_r=1&scp=1&sq=China%20Ghost%20towns&st=cse). A bunch of old Communists were behind the curtain funding the building of infrastructure that nobody wants or needs. They had artificially inflated the price of all commodities related to construction and created temporary demand for everything from Oil to Earth Movers. These old communists didn't have any more chance of running a planned economy than their Soviet brethren did between 1950 and 1990. However, they knew if the truth came out and their construction-based economy was about to melt like Las Vegas and Phoenix did between 2006 and 2009, that massive social unrest would arise in the land.

Dorothy was incredibly disappointed that wide asset allocation and Emerald Country related sectors like basic materials, heavy industrial, commodities, emerging markets and natural resource export countries couldn't meet her financial needs. Fortunately, Smead Capital Management came by and told Dorothy that all she had to do was click her heals together, buy recession resistant large cap US common stocks and chant, "there's no place like home, there's no place like home". We believe that Dorothy will wake up to find Auntie Em (Jeremy Grantham) telling her that if she stuck to large cap US quality the next seven years she will live happily ever after.

Best Wishes,

William Smead

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