



## HOW TO SUCCEED AT AUCTIONS

The public markets, worldwide, are the ultimate auction houses. Bids and asks, computerized, for instantaneous offerings of corporate equities, corporate and public debt and for many commodities. Just as with auctions for art, antiques, jewellery, real estate, racehorses or prize cattle, the mood and magnitude of the buyers and their wealth play a role in pricing as does the mood of the sellers and the magnitude of the offerings. So there are successful auctions—high prices for sellers, and there are disappointing, unsuccessful auctions—low prices, but bargains for buyers. Clearly, today's fearful mood is creating an unsuccessful auction for stocks—bargains for buyers.

Equity and debt auctions can be the most frustrating because, unlike art, antique, real estate, horse or whatever auctions, their quotational electronic prices are known instantly and frequently. That can be quickly disturbing or gratifying, depending on the prices. But that very volatility is the advantage that allows you to periodically buy stocks at a discount and sell at a premium. All asset prices fluctuate, but other than stocks and bonds, you just don't know the result quarter by quarter, let alone instantly. Most auctioned assets, other than say income-producing real estate, have for us less predictable profit and loss outcomes since, unlike stocks, they are speculative assets with no revenues or earnings and are not easy to evaluate. Generally they depend on inflation to increase their prices. And their scarcity, in the case of, say, masterwork-art helps. Well, we embrace today's unsuccessful stock auction, very cheap growing businesses, compared to everything else, especially historically expensive bonds. All we need to do is wait for a better turnout of buyers with their massive amounts of cash to invest, and for fewer panicky sellers. It's coming. Inevitably. And unlike other auctions, you don't have to fret about the auctioneer hammering "sold to you" if you inadvertently scratch your head or clear your throat.

We know that our performance in the last few months has left much to be desired. We believe we've suffered more from the illiquidity and greater volatility of many of our smaller cap holdings, but that's where we are finding the best values with the greatest potential. When the markets recover, that same illiquidity should boost performance on the way up. Maybe sooner than is believed.

Not only are the stocks that we hold in our portfolios exceedingly cheap—in many cases, despite their nonsensical undervaluations, their businesses are the best they've ever been, with very high prospects for growth and very high potential for price appreciation. If these were private companies with share prices that weren't quoted moment by moment we'd be ecstatic, not stressed.

## **Fear Abounds**

The current fearful mood of investors has indeed been poor for equities, superb for bonds and other asset classes such as precious metals perceived to be safe havens. Holders of U.S. equity mutual funds have recently been selling and moving to bond funds at the highest rate since the '08 debacle. T-bill rates once again went negative. Equity markets have been declining from panicky sellers and the paucity of buyers. Fear from the problems in Euroland—a potential default by Greece, credit downgrades for Italy and Spain, potential for European bank failures, the breakup of the European Union—and the potential negative consequences for the world economy. A downgrade of the U.S. credit rating and the tug-of-war to lift the U.S. debt ceiling. Slowing world growth—perhaps a double-dip recession, or, dare we say it, even a Depression.

## **Bargains Abound**

The result of the fear is that while Greek interest rates are at record highs, U.S. treasury yields just made record lows. And bargains abound in equity land. A very unsuccessful auction—unless you are a bargain-hunting buyer with a reasonable time horizon and the temperament to suffer a little more pain before the inevitable price reversal and eventual reward. A good buyer in the stock market auction, and in any auction, needs to do the homework to ascertain the true value, and, to be a contrarian bidder, with the belief that the worse the mood of the market, the lower the risk and the better the opportunities for profit.

## **Fact Versus Fiction**

While the economic problems in Europe are real and its governments' austerity measures and potential bank insolvencies are worrisome, a global recession is unlikely, and the current prospects for the U.S., Canada and most other places is far better than in '08.

In '08 the U.S. was coming off a housing bubble. Remember mortgage lenders then lending more than the purchase price of a house. And recall the then massive sub-prime lending bubble and financial derivatives debacle. And a negative savings rate, so no wherewithal to buy. And extended bank balance sheets, so no wherewithal to lend. And corporate America overearning, way above the normal trend.

Fast forward to today. A savings rate over 5%. Bank balance sheets greatly improved. Reserve balances held by commercial banks at the Fed are at a near record high over \$1.6 trillion. U.S. corporate cash balances the highest in history with some \$2 trillion cash on hand. And well over \$8 trillion of cash in savings deposits and money market funds. Earning nothing. U.S. household balance sheets are getting better and their debt-to-income ratios too. Deleveraging. Deleveraging is good. It will be in Europe too.

And, best of all, as we noted in our last letter, “Matter Over Mind”, as to what really ought to matter to equity investors, corporate earnings are at a record high. And they continue to grow. Companies have beat profit estimates for 10 straight quarters. Economic activity in the rapidly growing emerging economies is helping too.

U.S. manufacturing is picking up. The ISM index for September was 51.6, up from 50.6 in August, signalling expansion. The Philly Fed Index expanded in October at the fastest pace in 6 months, the biggest one-month rebound in 31 years. Industrial production was higher in September on growing demand for automobiles and computers. And how about those blowout U.S. auto sales in September. Ford, GM and Nissan all beat September sales estimates. Chrysler September U.S. sales were up 27%, the best since '07. Volkswagen up 36% and Mercedes U.S. sales were up 15.6%, the highest September ever. Big ticket items. So Ford intends to spend \$6 billion on plants and intends to hire 6,000 new workers in addition to the 7,000 already announced. GM is hiring too. And both have improved credit ratings outlooks. U.S. housing starts were up 15% in September over August. Retail generally has improved. Same store sales for Wal-Mart are up for 3 straight months. September U.S. retail sales were up 1.1% and chain store sales were up 5.5%, all ahead of expectations, with apparel and back to school sales better than expected. All despite, understandably, poor consumer confidence.

### **Home Sweet Home**

And the big one. Housing. Important, being the major asset for most consumers, and important because construction is a major employer. 50% of all the jobs lost in the recession came from construction and manufacturing, both of which we believe will recover. Hello Ford and GM.

U.S. Existing Home Sales for August rose to 5 million homes, more than expected, and the inventory of existing homes fell to an 8.5 months' supply from a 9.5 months' supply, all normalizing into more stable home prices. While rising in September, new housing starts are still at less than a third of the peak during the housing boom, a rate that should contribute to the declining inventory available. The median price of existing homes fell somewhat, mainly as a result of distressed property sales. As we continue to note, U.S. housing has *never* been more affordable taking into account home prices, wage incomes and the lowest 30-year fixed mortgage rate in history of about 4%, tax deductible. An incentive to bid for bargains at this disappointing auction, but only if you think what you are bidding for will rise in price. Or at least stop declining. And so they should. The Case-Shiller Index of home prices just reported the 4<sup>th</sup> consecutive month of rising prices. Houses, Warhols, racehorses, equities. Bidders need to believe that the future will reward. The increased inflation we believe to be coming from the Fed reflation will help. PPI and CPI were both higher in September, year over year. In the case of houses, rents are increasing, an incentive for renters to bid for bargain homes.

### **A Twist Of Fortune**

But bidders need to be able to get a mortgage. Which is a lot tougher to get. Banks have not only become ultra-cautious, they haven't needed to seek a riskier but higher return from mortgages when the Treasury yield curve was so positive. All they needed to do was invest their interest free depositors' funds in risk-free Treasuries for a satisfactory return.

Welcome “Operation Twist”. Not only does the Fed intend to keep interest rates near zero until mid '13, it now also will swap \$400 billion of short-term Treasuries for longer dated maturities of 6 to 30 years. This should flatten the yield curve, ultimately incenting banks to seek better longer term returns elsewhere, say, from mortgages. Auto loans and credit cards too. We have cheap money. We need easier credit conditions. Better mortgage market conditions are inevitable and a better housing market should help unemployment too.

### **Unemployment Peaking?**

As for U.S. unemployment, it appears to have stabilized. U.S. jobless claims have held steady around the 400,000 mark with the unemployment rate holding at 9.1%. In Canada the unemployment rate in September actually dropped to 7.1% from 7.3% from a healthy housing market and consumer spending. Though job creation is still positive, with private sector hirings making up for public sector declines (as it should be), cautious corporations are operating lean and mean, spending on overtime hours rather than on new employees. Any improvement in the economy will incent new hiring. As Ford and GM intend. For those who believe we could have another recession like '08, remember that in that recession GM went bankrupt and now, restructured, with \$33 billion of cash, it is growing and hiring. Remember that now ancient slogan, “What’s good for GM is good for America.”

### **Vicious Circles And The Poverty Effect**

Though U.S. consumers have been paying down debt and saving more, their negative mood is still holding back their spending. But obviously not so much in September for car sales or luxury items, or even a latte at Starbucks which has had a record year. Though, real consumer spending has been negative over the past two quarters. Understandably, with consumer net worth declining from lower house prices and falling stock prices (a whopping loss of \$11.8 trillion since '07), but also from an essentially zero rate of return on household cash savings. What we call the Poverty Effect. Not only declining mood from the scary headline news but declining net worth and wherewithal which contribute to the negative mood. U.S. household net worth fell by \$150 billion to \$58.5 trillion at the end of Q2 from losses in financial and real estate assets. But with depressed total assets of \$71.8 trillion, a recovery could grow wealth materially. This Poverty Effect has derived from a vicious circle. Headline fear and recollections of the '08 recession have created low confidence, low share and housing prices, low interest rates, low investor and saver returns, lower wealth, low consumer spending, lower business expansion, low hiring intentions and low government tax receipts.

### **Virtuous Circles And The Wealth Effect**

Well, as we believe house prices are at or near bottom, and equity prices too, and that rising prices will lead to rising interest rates, we believe we are close to reversing to a Wealth Effect. That will come from a virtuous circle. Rising share prices and housing prices will create rising net worth to consumers, also leading to rising interest rates for a better return to savers, greater wherewithal to spend and a better mood to encourage it, greater business expansion leading to lower unemployment and rising personal incomes. We believe the first to turn up will likely be

equity prices. We may have already seen the lows. Oh, and recent low oil and gas prices also give consumers more wherewithal to spend.

## **Market Bottoms**

They say no bell goes off at market bottoms but we are hearing the tinkling. Q2 U.S. GDP was recently revised upwards to 1.3% and economists in a Bloomberg survey believe growth will accelerate from 1.6% in 2011 to 2.2% in 2012. After 2 years of growth. So no recession yet. Fed Chairman Bernanke believes the second half of the year should be better than the first half. Nor do we see a recession in our own Econometric Model, which typically forecasts it about 200 days in advance. Declining U.S. trade and current account deficits help too. And the Conference Board and Goldman Sachs both project over 4% real annual world growth over the next decade as emerging markets grow robustly and take a bigger share of the world economy.

As far as the auction for equities we mainly care about, it is currently “unsuccessful”, meaning bargains abound. The whole world is now trading at an 11x earnings multiple—it's an auction where everything's on sale. As an asset class, equities are being valued near where they were at the March '09 bottom, notwithstanding the economic and corporate progress since then and the resultant lower economic and corporate risk. Valuations are 25% below their five-decade average and our appraisal of fair value. S&P 500 corporate earnings are at a record high, and profit margins at an all-time high, but analysts are now downgrading their estimates for 12-month forward earnings based upon a top-down forecast for a slowing economy. We'll see. Q3 corporate earnings are starting to appear. We think low expectations could generate some positive surprises. Most, thus far, have been. Overall, Q3 earnings should achieve a record.

In our view the negatives have clearly been discounted in the market. The S&P 500 forward earnings yield is 8.7% (i.e. trading at 11.5x earnings) compared to a recent record low of 1.72% (now 2.16%) for the 10-year U.S. Treasury bond, the highest disparity ever. And the dividend yield on the S&P 500 of 2.17% recently higher than the 10-year Treasury yield, a very rare occurrence. At its current multiple, less than 5x earnings ex cash, Dell, one of our largest holdings, provides a 20% earnings yield, and the company continues to grow that hypothetical coupon. And many corporations, flush with cash, have been raising their dividends (which, despite growing 10% per year over the last 2 years, are still less than 30% of profits). And many buying back their shares. Dell, \$5 billion worth and Berkshire Hathaway, an open-ended multi-billion dollar program (as long as \$20 billion remains on the balance sheet), an unusual step for Mr. Buffett. Stock buybacks by U.S. companies are the highest since '08. Despite the European crisis and the negative outlook, corporate insiders, the most knowledgeable about the future and the valuation of their own companies, have bought more shares recently than at any time in the past 10 years.

## **Bearish Is Bullish**

From a technical standpoint, the recent flight of money from stock funds to money market funds suggests a rally lies soon ahead. Based on negative psychology, volatility, put/call ratios and the like, the current correction is likely ending. And the odds are high that, over the next year, the markets will have positive gains—pretty big ones usually. The dreadful market psychology is a positive. We've been awaiting the bottom—the point of maximum pessimism. Hays Advisory pointed out two key stats recently. In mid-September there were more Rydex fund investors investing in bearish rather than bullish funds. Over the last 20 plus years, on days when that's occurred while we've had average monetary conditions and valuation levels, the market has been up one year later 99% of the time. Moreover, early this month 50% more money was invested in the Rydex money market fund than all other Rydex funds combined—that's occurred 9 times in the last 15 years and on every single occasion the market was higher after 3 months, 6 months and 1 year, with the median 1-year return of 39%. Moreover, short sales have risen to the highest level in over 5 years, so short covering should be another source of demand for stocks into a rising market.

## **Cheap And Healthy**

The large-cap indexes are significantly undervalued. Though our TRIM™ level on the S&P was broken for a day on October 3, that level held and induced a large rally. Our TRAC™ is positive again as a number of markets and sectors appear to be set to inflect up from key support levels.

We pointed out in our last quarterly letter that valuation risk was low for our holdings. It's even lower now after their recent declines. At the same time, our companies also have lower than average financial risk since they operate with clean or cash laden balance sheets. And operational risks appear below average as they operate in safe jurisdictions and/or are low cost operators and/or operate with stable profit margins that have potential upside. Meanwhile, potential tailwinds are also in place from our macro views that could push overall sectors up—like a recovery in tech spending, or rising energy prices. And since our holdings trade so far below our conservative appraisals, our expectations are for outsized gains.

Our largest positions, namely Dell, Corridor Resources, Manito Energy, Orca Exploration, St Andrew Goldfields, Xcite Energy, Pivot Acquisition, Fortress Paper, Microsoft and Specialty Foods, have never been better.

*Dell* is delivering record free cash flow quarter after quarter. The company now has a market value of about \$28 billion. If it never grows again but simply maintains \$4.2 billion of annual free cash flow, Dell would accumulate \$21 billion of cash in 5 years in addition to its current \$8.5 billion net cash hoard. That would represent as much in cash as its current total market value—that is, we'd be getting Dell's profitable business for free. Therefore, even without a lift in its depressed 5x earnings multiple, Dell would be a double in 5 years. However, the business continues to grow, and if it grows by only 8% per year then Dell would accumulate over \$25 billion of cash over the next 5 years and be worth nearly \$75 billion (at a reasonable 12x multiple, based on a discounted cash-flow model of its free cash flow). That's a total of

\$100 billion of value versus \$28 billion today or a return of 30% per year. Better still, we believe the earnings multiple improvement should come within 2 years, which could provide us a 2-year double, for a potential annualized return in excess of 40%.

While *Corridor Resources* has been affected by very poor natural gas prices, those prices are unsustainably low, well below the marginal cost of North American production. The current storage level is below last year's level and most oil and gas companies are emphasizing oil development, not gas. We expect a significant rebound in natural gas prices. Meanwhile, Corridor, a low-cost producer, gets a premium price selling its quality gas into the New England market for a net-back equivalent to the Nymex price, higher than most North American basins. Furthermore, Corridor has three world-class projects (the Frederick Brook shale with a gas resource of 59 Tcf, Old Harry in the Gulf of St. Lawrence with a potential recoverable resource of 2 billion bbls of oil, and Anticosti Island with 19 billion bbls of potential oil from its oil shale) all of which should have partners in the next several months to advance these projects. Management has never been as confident about its Frederick Brook shale project as it is today, and the appraisal well it is now drilling should continue to validate the project and be an enticement for a potential partner, likely to be announced by year end. At two-thirds of its hard reserve value and less than 25% of its risk-adjusted Net Asset Value, Corridor remains materially undervalued. The company should achieve a double-digit value over the next 3 years, multiples of its current share price.

*Manitok Energy*, an exploration and production company active in the central Alberta foothills, recently announced a major acquisition in its core area. Its partner in the \$85 million deal, led by former members of the management team at Peyto Exploration and Development, has a sterling reputation and their endorsement of Manitok is a serious vote of confidence. The acquisition should add 1300 boe/d net to Manitok, more than doubling both its current production rate and immediate drilling inventory. Upon completion of the acquisition, Manitok remains sufficiently well-capitalized to almost double its production again by the end of 2012 through cash flow and existing credit facilities. This dramatic production growth should result in an appraisal value that's more than 2.5 times the current share price over the next twelve months.

*Orca Exploration* just announced record production in the month of August and that the government of Tanzania intends to ramp up its infrastructure allowing Orca to substantially increase production over the next 2 years. Orca trades at one-third of its NAV, and, as in the case of its predecessor Pan-Ocean, we believe it's only a matter of time before Orca monetizes its assets. There are several world-class players developing reserves in the region, such as British Gas, who could acquire them. Meanwhile, the cash flow that the company is capable of generating in 2013 could more than triple the share price to our appraised value in a couple of years. Orca could also generate even more value from its exploration wells in Italy shortly and from Songo Songo West in 2012.

*St Andrew Goldfields*, the largest landholder in the prolific Timmins, Ontario mine camp, just announced that it produced a record quarter of production and that it should again next quarter—it's just getting started. 2012 production should surpass 100,000 ounces, another positive milestone. Costs should come down toward \$800 per ounce and with gold prices above \$1600, near record highs, we expect strong profitability and cash generation. The company is well financed enabling it to pursue its production growth and a reasonably aggressive exploration plan. Meanwhile, St Andrew has traded down to one-third of its NAV, a NAV that could rise materially with exploration success. At a gold price of \$1600, St Andrew would have cash per share equivalent to today's share price in 3 years with its gold operations generating about \$.18 per share of free cash flow—providing a total value over 4 times today's share price.

*Xcite Energy*, after making one of the biggest discoveries in years in the U.K. North Sea, is sitting on a substantial reserve and best-case contingent resource base that was appraised by third party engineers at approximately \$1.35 billion. Financing (both debt and equity) should be completed before year end to fully fund the development of the Bentley field, with drilling to establish first production to begin shortly thereafter. Given the heightened uncertainty in the market, Xcite currently trades at approximately one-third of its NAV. However, once the project financing has been put in place and production commences, Xcite's intrinsic value should become apparent. If the shares continue to remain at a depressed valuation, the company would become a clear acquisition candidate. A larger E&P company could pay a considerable premium to today's share price and still make an accretive acquisition. The company's value by the middle of next year should be 3 to 4 times today's share price.

*Pivot* continues to grow its revenues and profits. This IT company, in which we hold convertible debentures, is private but expected to IPO in the next several months, and while we wait, we collect the 12% coupon. The company's revenues and profits have exceeded our expectations so far. When the IPO does occur, we stand to at least double our value based on the conversion price formula.

*Fortress Paper's* NBHK pulp mill in Thurso, Quebec is on track to be converted to a dissolving pulp mill by early November. Full production capacity of the premium-priced dissolving pulp should be reached by early next year. In 2012, the company's two other plants, the banknote and security paper printer in Switzerland and the specialty wallpaper plant in Germany, are both expected to have a positive impact on the company's bottom line. At current dissolving pulp prices, the company should earn over \$100 million next year, valuing the company currently at about 6x earnings. At a minimum, the fair value for this unique set of assets is almost double the current share price. However, it could be substantially higher if dissolving pulp prices remain robust and management is able to successfully acquire one or more mills, adding incremental dissolving pulp capacity.

*Microsoft* continues to grow its fair market value. Windows 8 is set to launch in 2012 and should boost prospects. Like most big-cap stocks, the previous multi-year experience for Microsoft shareholders has been disappointing when its share price substantially exceeded fair value. The shares were overpriced. Now, however, with fair value well above the share price, and the company trading at only about 8x earnings ex the cash on hand, the potential for strong returns is high and we expect a 30% per year return over the next 2 years.

*Specialty Foods*' free cash flow should allow it to have cash in excess of all debt by mid-2012. The debentures we hold are convertible into equity and we expect Specialty Foods' value to be well in excess of the debt levels. We would like to see the company enter into a new contract with its hotdog licensor, Nathan's Famous. But if no new contract is reached prior to expiration in March of 2014, the company should still support a converted equity value well in excess of our carrying price.

Our patience will ultimately be rewarded—these are growing companies, all well financed (most have net cash on hand), trading at unsustainably low valuations.

Insiders have large stakes (hence a vested interest) in all of these companies and there's been recent insider buying in St Andrew, Corridor, Manitok, Xcite and Dell.

We merely need the stock market to cooperate. The Venture Exchange has fallen dramatically recently (47% from its March high to the recent low) and coupled with its decline in '08 is back to '03 levels. The discounts to fair value for our holdings should not last. If the share prices do not increase, the share prices of companies like Dell and St Andrew will be equal to their cash on hand in about 3 or 4 years, a highly unlikely scenario. These are not risky businesses, even though the volatile and depressed share prices would have one believe otherwise.

For all accounts we recently added *American Eagle*, a leading U.S. teen retailer that trades at 8x earnings, ex its cash hoard, at 80% of its no-growth valuation with a generous 3.5% dividend yield. The company has room to boost its margins back to its historical average offering us a potential profit of more than 30% annually over the next 2 years. In our big-cap mandated accounts we also added *Lowe's*, *Oracle* and *Hasbro*—all dominant, growing franchises trading at floors in our work, well below their fair market values.

### **Income Holdings**

In our income accounts we continue to hold: *Specialty Foods* convertible debentures where the company has the wherewithal to fully repay our debentures; *Student Transportation* shares, an extraordinarily steady school busing business; *High River* debentures, maturing at year end—it's the only non-project debt of the company, with material asset and earnings coverage; *CompuCredit* notes, the company having more cash than next year's put-price for our debentures; *Advantex* debentures which are fully secured by the company's receivables; *Pivot Acquisition* convertible debentures—with substantial interest coverage from a fast growing company led by a world-class management team; *Southern Pacific Resources* convertible debentures where the company's low-risk oil sands assets generously cover the overall debt;

*Dynacor* debentures, maturing at year end—the only debt of the company, secured and well covered by assets and earnings; and *Lender Processing Services* senior notes, the company being far and away the market share leader in its mortgage servicing field and should generate enough free cash to retire the notes even if sales remain flat.

We recently added 3 new income positions: Brookfield Real Estate Services common shares, Retrocomm Mid-Market REIT shares and Smith & Wesson 9.5% January '16 notes.

*Brookfield Real Estate Services* is a realtor network operator whose common shares yield 9%. Concerns regarding Canadian residential real estate prices have mispriced the shares even though the company's revenue is primarily driven by fixed fees paid by brokers and the dividend payout ratio is conservative. Our fair value in 2 years coincides with a more reasonable 7% yield, leaving the company's fair value more than 40% above today's share price.

*Retrocomm*, an owner of commercial real estate, trades well below our appraisal. With its new strategic shareholder and board member now managing the properties, we see material upside to both occupancy levels and rental rates. There's a potential 50% lift to our Fair Market Value over the next 3 years, or 14% per year with a 10.6% dividend yield while we wait.

*Smith & Wesson* 9.5% January '16 unsecured notes have an 11% yield to maturity. The company is a leading firearm manufacturer with a long history. The notes we purchased are part of a small issue which represents only 2 years worth of the company's after-tax free cash flow. Bonds with similar credit metrics (e.g. under 1x leverage, 8x interest coverage) trade at single-digit yields, which translates into a price 15% higher for these notes. Even without a market repricing, the notes still yield 11% per year.

Our income holdings are safe because the issuers have solid, well financed, profitable operations. And most of our bond/debenture holdings have well above market yields and, in some instances, offer upside-to-maturity values and potential conversion privileges which could lead to substantial capital gains.

## **Value Will Out**

Most people who follow stocks focus on their prices. Obviously we do too. But, we carefully monitor the "values"—that's what we get paid for—to appraise companies. And, even though share prices have been extremely volatile, mostly to the downside, the company values are not falling—indeed, most are rising. Bottom line, don't believe the share prices. Most times they're accurate but on occasion, particularly in unusual times such as these, in a period of indiscriminate selling, stock prices can be extremely misleading.

Most companies normally don't detach far from their FMV for more than a year. In the case of Dell, our top big-cap weighting, it's now been detached for over a year. For some other holdings even longer. In the meantime, their FMV's are climbing smartly. We expect the ascent back up to reality is not far off.

## **Expert Tips On How To Succeed At Auctions**

“Be fearful when others are greedy. Be greedy when others are fearful.” Warren Buffett

“Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.” John Templeton

“The time to buy is when there is blood in the streets.” Baron Rothschild

“The loser is the trend-chasing, comfort seeking investor. The market doesn’t reward comfort. It rewards discomfort.” Rob Arnott

“Longer-term investing should employ discipline, not emotion.” Brian G. Belski

“The stock market has predicted nine of the last five recessions.” Economist Paul Samuelson

“Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble...to give way to hope, fear and greed.” Benjamin Graham

“Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal.” Benjamin Graham

“Worry about what the business is worth, not about what the pieces of paper are selling for today.” Chris Browne

“If you are right about the business, you’ll end up making money, no matter what the market does.” Warren Buffett

“In the short run, the market is a voting machine but in the long run it is a weighing machine.” Benjamin Graham

“The individual investor should act consistently as an investor and not as a speculator.” Benjamin Graham

“Value Will Out.” All value investors

Herbert Abramson and  
Randall Abramson, CFA  
October 21, 2011

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