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Remick Capital, LLC

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Quarterly Newsletter

1st Quarter - 2009

Market Overview:

The markets continued their awkward and volatile dance for the first few months of 2009. The US stock market again melted down in the first two months of the year and then staged a nice rally halfway through March and into the second quarter. The government has been rolling out a variety of plans that will attempt to stabilize the financial and housing sectors of the economy. I am cautiously optimistic about the latest initiatives, but even if well executed, they are no miracle cure. To be clear, I believe ***there is no miracle cure***. We have some economic pain to endure before our system gets back on track, and that is as it should be. Luckily, for most of our investments, success will not depend very much upon the economy growing in the near future. On aggregate our investments appear to be priced and well fortified for a massive recession, while anything short of this should end very profitably for us.

Below is a summary of Remick Capital composite account performance compared to some widely referenced market indices for stocks and bonds:

Returns* ended 3/31/2009:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index *(Ticker: VTI)*	-10.69%	-37.81%	-13.15%
MSCI World Index *(Ticker: EFA)*	-14.00%	-46.39%	-14.47%
Lehman Aggregate Bond Index *(Ticker: AGG)*	-0.15%	+3.29%	+5.71%
Remick Capital *(Account Composite)*	**-8.87%**	**-32.89%**	**N/A**

I certainly do not impress anyone at parties with the above figures. While our accounts continue to eke out a gain when compared to the US stock market average, our negative performance has been, frankly, pretty negative. I am not sure whether I see the light at the end of the tunnel, but I am pretty sure by the time I do our portfolio companies will have already rallied up from their very depressed levels. My strategy continues to be to buy a group of very cheap companies that I think can weather the storm and grow their values over the coming years. Recent values have been some of the most amazing bargains I have ever seen and nearly as great as some of the most extreme bargains I have read about in the past. Hopefully that is the sign that the stock market slump is nearing an end.

Investment Updates:

Below I have summarized some of our investments and their results for the quarter. I like to say that I invest for the long term (which is true), but I think it is good to get a feel for the quarterly happenings in our holdings as the long term is simply a summation of a bunch of shorter periods.

Nicholas Financial (NASDAQ: NICK) – There was no meaningful news for Nicholas this quarter. The shares rose greater than 25% during the quarter but remain at what I consider to be a very cheap price. I will continue to watch their results closely as the worsening employment picture begins to hit Nicholas especially hard. However, I believe the current price to be a marker of the deteriorated economy rather than any remotely realistic valuation of company worth and, as such, will continue to take advantage of the low price to buy more as conditions warrant.

* The **Wilshire 5000 Index** is a collection of stocks that is designed to approximate the returns of the entire US Stock Market.
The **MSCI World Index** is a collection of stocks that is designed to approximate the returns of the global stock market with US stocks removed.
The **Lehman Aggregate Bond Index** is a collection of bonds that is designed to approximate the returns of the entire US Bond market.
All above returns are based on Exchange Traded Fund (ETF) market returns to make the numbers representative of actual investor returns.
For Remick Capital performance data, please see our performance disclosure document for the basis of results.

Wells Fargo (NYSE: WFC) – Wells Fargo stock went from $30/share, to $8/share, and back to $15/share this quarter. At the quarter's close, they announced their 1st quarter results and will show record profits; the stock is now nearing $30/share. While the media continues to focus on Wells Fargo's 'solvency,' they are missing the big picture that now is a ***great*** time to be a bank. Today banks can borrow at record low rates from savings deposits, and lend at healthy rates due to the absence of banks willing to lend. Creditworthy borrowers who are interested in getting loans do not have as many choices as before, and Wells Fargo is near the top of the list. The earnings power of Wells Fargo is growing quickly, and once the market realizes that this too shall pass, these shares should move much higher to reflect their value.

Update: As Wells Fargo shares moved above $25, we have sold out of our ownership of the common stock and focused our investment on two series of Wells Fargo preferred stock. While I believe Wells' common stock is still very cheap, the recent government actions have made the preferred stock a much better risk reward investment.

Sears Holdings (NASDAQ: SHLD) – Sears stock rallied quite nicely this quarter. As I have looked more and more at this situation, I am even more confident Sears will be a survivor and the market has irrationally priced not only Sears stock but also Sears bonds, the latter of which were actively purchased during the quarter for our accounts.

Fairfax Financial (NYSE/TORONTO: FFH) – If you have followed my comments on Fairfax and Odyssey Re in previous quarters, you are well briefed on the situation. Fairfax has increased the exposure of their portfolio to stocks and added some risky corporate bonds and municipals while decreasing some of their economic hedges, but overall they continue to watch for investment opportunities while waiting for the insurance market prices to become reasonable. Time is on our side here. Fairfax and Odyssey Re stock dropped more than 25% this quarter and then began to rebound. I am completely unconcerned about these price movements as these companies are executing well and still remain very cheap with respect to their true values.

Better Lucky than Good

I have talked before about the difficulty of separating luck from skill when it comes to investing. Many intelligent decisions will end up with poor results and many poor decisions may work out well. It is human nature to believe in your own superiority after a string of good results and to despair after a string of poor outcomes. An engineer would say deem that the results from investing have a low 'signal-to-noise ratio' meaning that it is hard to distinguish the real information from the background noise.

This quarter when Wells Fargo was plummeting I wished to buy more shares. Given that our accounts were basically fully invested with no cash on the sidelines after the initial drop, I had to sell another holding to buy more Wells Fargo shares. I chose to liquidate our Accredited Mortgage Loan REIT (AHHAP) holding, due to its higher risk profile, in order to buy a lower risk and very cheap Wells Fargo. Two weeks later, Accredited announced a suspension of their dividend and the stock opened at $4 and change (from $6), and shares now trade at $1. Accredited's parent company just declared bankruptcy after the quarter's close. There was no question in my mind that selling AHHAP at $6 and buying Wells Fargo stock at $10 was a good decision; that was ***skill*** you could say. But the nagging feeling remains that ***if*** Wells Fargo had stayed at $20, I likely would not have sold any AHHAP shares. Today we would be sitting on nearly worthless shares of a delisted company with no dividend to console us. Was I lucky or good? We will never know.

My point here is not to convince those reading that I am a lucky advisor with no skill (talk about bad marketing). It is only to relay how muddy the water is with respect to investing decisions. There are a lot of potential outcomes in every single choice. Great companies can fail; subpar companies can transform and become world beaters. Not everything can be foretold and forecasted; there are a ton of possible outcomes.

A few of the spectacular failures in 2008 were companies owned substantially by employees and executives. How can a company run into such problems when the people running the show have so much on the line? While many will point to this as a proof point that these people were all incompetents, the truth is much grayer. Sometimes bad stuff just happens. Sometimes the bad stuff is outside of the realm of what anyone thought was possible. And yes, sometimes people are incompetent. Fairfax's investment team and CEO have been worrying about what happened in 2008 since 2003. What unfolded in 2008 has made Fairfax a lot of money and protected our investment in an incredible way. However, few people ***today*** talk about how much criticism Fairfax received for these preparations when they were just viewed as an added cost before. If you were betting that the housing market was going to collapse since 2005, not only did you lose a lot of money by insuring against this, but it has been a lonely 4 years of everyone laughing at you.

Fairfax lost 50% of their money on their financial market hedge from 2004 to 2007 before making 10 times back their original investment. They may appear to be geniuses ***now***, but we cannot ever forget the fortitude it takes to lose $100+ million on a bet that everyone around you is ***not*** making. If the financial meltdown we have witnessed would have played out differently, would Fairfax be viewed so positively? It is a tough question with no answers.

Even Warren Buffett who has inarguably one of the best long term investing records in history was viewed as being old and stodgy for not buying more stocks in 2002 with his large cash hoard. I am guessing that none of those critical of his 'obvious' mistake have called to apologize for their arrogance after aggregate stock prices in March went below those of 2002 – ***seven years*** later.

This leads to an interesting question that the media brings up on occasion. Of all these big and sophisticated banks the media asks, "Where were the risk managers?" The answer is that all the real risk managers were fired 5 years ago after the problems they kept highlighting never came to fruition. It is a fine line between a good cautious person and a paranoid loon who cannot see when the data does not fit their model... try being cautious and wrong for five years on Wall Street and see how long you retain your clients! The shortness of most companies' (and peoples') viewpoint does not allow for much paranoia without results. We all know ***that guy*** who built the bomb shelter in 1970, and we all think he is a loon, right? But I bet if we ever need that bomb shelter, he will be our new best friend, and everyone will be praising his wisdom, foresight, and preparation.

While I do not mean to compare investing with preparing for nuclear winter, investing ***is*** about preparing for (not predicting) the future. There are certain things that ***will*** happen given some time. We will have recessions, there will be wars, there will be bubbles in prices, and there will huge declines as well. As an investor, if you are investing for 20 or 30 years in the future you must always invest as though all of these things will happen ***this year*** because they eventually will. These things are rare, but they are a certainty over a reasonable time frame. My goal for investing is to have investments that do well under a variety of circumstances so that the vast majority are, what I call, ***survivors***. No matter how bad the economy gets, I want our companies and investments to be the ones who get to the other side of the abyss to reap more profits in the future. I thought our investment in Accredited would be a survivor. I was wrong. Luckily we did not have to pay for my mistake as Accredited was one of our few investments that was profitable over the last 2 years, and then we sold (just) in time.

I hope the above helps everyone understand my thinking on this topic a little better. For those who can take a longer view and make an unpopular bet when the price is right, there will be many investment opportunities, and it is these on which I strive to capitalize at Remick Capital. As I have said before, I will make the investments that I think are the right investments regardless of how ***I*** may look if they do not pan out. I appreciate that my clients understand and embrace this idea. Sometimes I will get lucky, sometimes I will be unlucky, but hopefully over time the research I put into our ideas will manifest itself as superior return on investment.

Capital Request

I sent a letter to clients and potential clients on March 8th with a request for additional funds given all of the opportunities I was seeing in the market. As I sent the letter I was not sure what response I would get from clients for whom, on average, I have not made money in the past couple of years. To my pleasure I received a ton of positive feedback and quite a lot of new investment funds as well. Within 2 weeks the amount of new money that was submitted was more than 25% of the total assets that Remick Capital managed before I sent the letter. The response was yet another reminder of the great long term orientation of Remick Capital clients, and I sincerely appreciate it.

In the letter I highlighted two investment ideas that I thought were near 'can't miss' selections even in the current economy. One was our long time holding in Fairfax Financial (and its subsidiary Odyssey Re), and the other was Wells Fargo (common and preferred stock), which became our largest holding shortly after my letter went out. Since that letter Wells Fargo common and preferred stock are up 100-150% and Fairfax is up 15%.

I had many heated discussions during the market lows in March with other investors mostly on the topic of Wells Fargo. Many investors I knew had sworn off investing in banks completely and many had problems with specific things about Wells Fargo in particular. Their concerns were about what would happen if unemployment reached 15%, if house prices dropped another 50%, if Wells Fargo were hiding losses in their accounting, or if the government chose to nationalize the banks and wipe out the stockholders (us) of Wells Fargo. These discussions nearly always ended with me thinking the other person just did not 'get' it. And with them thinking the same thing about me. My ruling is Wells has run the best bank in the country, they generate more profit as a % of the capital base than almost any bank in the country, their management has a big stake in the company, and, after years of reading about the company and its managers, I felt they were fully aligned with their shareholders.

Is it possible that Wells Fargo can fail? Yes. ***Anything*** is possible. I do however feel it more likely that other very solid companies would fail far before Wells Fargo. Most importantly, at $10/share, buying Wells Fargo was well worth the (small) risk we were taking.

After the quarter closed, Warren Buffett's company had an annual meeting with a long Q&A and discussion. Buffett stated that when Wells Fargo reached $9/share, he told a classroom of students that he was speaking to at the time that if he had to put his entire net worth into a single company, he said on that day it would have been Wells Fargo at $9. He then stated he would buy the entire company if he could, but the regulators would of course not let him. These are strong words from the world's greatest investor. Now that Wells Fargo stock is at $25/share, it may not be as powerful of a statement that it would have been at the time, but it is good to hear some agreement on the company from the largest private shareholder and one of the most successful investors of all time.

There will always be risks and scary headlines right when an investment gets to be extremely cheap, and this past time with Wells Fargo is a perfect case study. In 3 years, I think people will look back at how ***obvious*** it was, but it was not so obvious in real time when nearly everyone you know is calling you an idiot for buying a bank. As my clients know, I am not a stranger to being called names, and when it comes to investing the only people whose opinions I care about are my own and my clients. Thankfully, none of my clients were calling me names this time around!

The economy will no doubt throw us all some more curveballs, and I think there will continue to be many opportunities to profit by being independent and unconventional. We live in interesting times.

As always, my money will be invested right alongside yours so you can be sure that I will work diligently to make sure our investments will be profitable ones, regardless of the market conditions. I appreciate the trust you have placed in Remick Capital as your Investment Advisor; I will work hard to make our relationship as profitable as possible.

If you ever have any questions about this report, your investments, or anything financially related in general, please do not hesitate to call me.

Sincerely,

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