

Quarterly Newsletter

1st Quarter - 2010

Market Overview:

The markets were uncharacteristically mellow this quarter given recent history. A small amount of volatility followed the New Year as budget problems in Europe, which have been simmering for many years, were brought into focus. For now at least, it seems these few wobbles have been mostly ignored by the markets and stock prices rose steadily higher.

I wanted to provide a brief update on Remick Capital to give everyone a status update on how my business has changed a bit over the last few years. At this time Remick has 21 client accounts in six states and assets under management of over \$1.5 million. All new accounts have come only by word of mouth, and, happily for me, there have been zero withdrawals by clients for any reason since I opened for business 3 years ago. The long term orientation modeled by my clients is very much appreciated. On a separate note, the Remick Capital annual meeting will be hosted on May 13th @ 6:00pm. See details here: [Annual Meeting Flyer](#).

Below is a table designed to summarize the most recent returns for some key investment markets compared to the Remick Capital account composite. The *Wilshire 5000* represents the aggregate US stock market, the *MSCI World* represents the entire developed world stock market excluding the US, and the *Lehman Aggregate Bond* is a representation of the entire US Bond market. These market indices are listed so you can keep your own portfolio performance in perspective.

Returns* ended 3/31/2010:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index (Ticker: VTI)	+6.04%	+52.93%	-3.42%
MSCI World Index (Ticker: EFA)	+0.74%	+53.81%	-7.08%
Lehman Aggregate Bond Index (Ticker: AGG)	+1.62%	+7.18%	+6.00%
Remick Capital (Account Composite)	+6.59%	+119.23%	+14.52%

Below I have highlighted the [three major goals](#) I always strive to achieve for Remick Capital accounts as well as a delineation of my performance towards these goals. As these are long term goals (3-5+ years), clients should judge my performance over time based on the criteria below:

Remick Capital Investment Objectives:	1 Year	3 Year
#1: Don't Lose Money	Pass	Pass
#2: Outperform US Stock Market	Pass	Pass
#3: Provide Clients with a Real Return of 10%	Pass	Pass

As always, please note that the performance results of the recent past (whether good or bad) should never be forecasted into the future. While it has been (and will likely continue to be) a very volatile ride, I am confident that over time the table above will continue to show more green than red and our accounts will continue to outperform the market averages, albeit by a smaller magnitude, in the future. Thank you for coming along for the ride and entrusting me with your capital.

* 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 the [performance disclosure](#) document for the basis of results.

Investment Updates:

Below I have summarized some of our investments and related company news for the quarter.

Fairfax Financial (FRFHF) – During the 1st quarter Fairfax announced another large acquisition by purchasing Zenith (a workers' compensation insurer) for a bit over \$1 Billion. In just a few years Fairfax has transformed from a struggling Canadian insurer into a global giant with more than \$30 billion in assets and footprints in Jordan, Brazil, India, China, Poland, and Singapore. I am just as excited about the future of Fairfax as I was when I bought my first shares several years ago, and I am looking forward to what the future holds for the company.

Berkshire Hathaway (BRK.b) – In last quarter's letter I shared that Berkshire had recently become a very large position in our accounts. During the 1st quarter Berkshire split their shares 50 to 1 bringing the share price down from \$3500 to \$70. This process has made the shares more accessible to many investors who desire increased trading volume that comes with a lower share price (and 50 times more shares outstanding) which has helped to revalue Berkshire shares a bit closer to fair value. We continue to hold our shares even though they are not quite as cheap as they were 6 months ago.

I still believe that Berkshire is a very safe, secure, and well managed 'blue chip' company. I am very confident that earnings growth as we recover from the downturn will be solid, and the risk of any permanent loss on this investment is near zero.

Sears Holdings (SHLD / SSRAP / Sears Bonds) – Sears results have continued to be fair during the past year. The last [chairman's letter](#) from the company provides a great overview of Sears' results and some excellent commentary, and I would encourage anyone interested to review Mr. Lampert's letter as opposed to me rehashing it here. Suffice it to say while Sears has struggled in the past years, I believe their performance, when viewed properly, has exceeded many of their peers, and, 10 years from now, stock and bond holders will see the wisdom of some of the decisions made.

Getting Your House in Order... Now

As the economy plods forward on its measured pace to recovery (hopefully) I thought now might be the time to reiterate some thoughts about preparing for the *next* economic downturn. The idea of preparation is critical when investing, and it carries over to your personal financial situation as well. Being prepared to weather economic storms in your personal life will provide all sorts of benefits both financially and psychologically. When your portfolio is strong, your income is secure, and your nerves are calm; that is the best time to buy a financial umbrella for the storms that will come; and make no mistake, the storms *will* come again. Having a safety net when things collapse will provide a secure backstop for decision making during tough times.

"In anticipation of precipitation, I stack chips for a rainy day." – Jay-Z

Like a squirrel saving nuts during harvest only to draw down the supplies during winter, we as investors need to stack our chips high during the boom times so we can draw them down when emergencies and economic collapses threaten our way of life.

Below I highlight a few ways that, depending on your situation, may be good to think about now in terms of preparing for difficult times.

Repay high rate debt:

The biggest thing I tell people to do before they invest (with me or anywhere else) is to repay credit card debts. I hope my readers do not have any outstanding balances, but even other kinds of debts can be wise to pay off before putting more money into the market or into savings. Car loans, 2nd mortgages, student loans, and personal lines of credit are all kinds of debt that (depending on the rate) may be good to pay down sooner rather than later.

Often times, people confuse themselves by thinking “If I can invest at 10%, why would I pay down my 7% car loan?” However, the key variable in making the decision to pay off a loan is to consider both the rate of your alternatives and the relative *safety*. Paying down a car loan is at 7% makes you a *risk free* 7% ‘return’ but investing in stocks may provide you a *risky* 10% return. To elaborate a bit, paying down debt reduces future interest costs at a rate equivalent to the rate of interest on a loan, so there is in effect no difference to investing your money at 7% or paying down debt at 7%; and the debt pay down is a guaranteed return!

Put simply, it is always a good time to reduce risk and pay off higher rate debts. Reducing interest costs that you incur each month will help you have more financial flexibility during the next downturn and may allow you to get a great deal on an investment, house, or car that you would not be able to get without cash in hand.

Maximize tax free savings:

With all the uncertainty in the world taxes are about the only constant. Maximizing 401(k)/403(b), IRA (if eligible), and Health Saving Account (HSA) contributions are all ways to *guarantee* above average *after tax* returns. There are few guarantees in life, but maximizing tax advantaged savings is one of the few options. As I tell all potential clients, you should maximize your tax advantaged savings contributions before sending money my way in taxable accounts – it is a better deal for you in the long run. It is pretty hard to beat tax free returns, so you should not pass up on these kinds of opportunities!

Rebuild Emergency Savings:

Another rule I strongly encourage people to follow is to have at least 6 months of liquid assets (cash, FDIC savings, Money Market Fund, etc) ready for ‘just in case’ type moments. When bonuses run dry and hours at the job run short, such an emergency fund has a way of slowly depleting. Now is the time to reverse that trend. Perhaps, of the preparation ideas I listed, this is actually the most important. While many folks think that emergencies can be paid for with a quick bank loan or a harvesting of lines of credit, it is a truism that credit has a tendency to disappear right when it is needed most; this among many things was a critical lesson from the recent financial crisis.

Perhaps it is human nature that makes people most aggressive with their personal finances (more debt, more consumption, less savings, etc) right when things always look the brightest in the economy. However, like objects in the mirror of a car, the storms on the horizon are often closer than they appear.

Perhaps none of the above applies to you. If so, excellent. However, I always think a gentle reminder is important to make when it comes to financial conservatism. It is one of the simple ways in life that most people (in the US at least) can help reduce anxiety in their life and create a solid base for the future.

As I have said before, having long term thinking clients is necessary in my attempt to generate solid and safe investment returns. As a testament to this long term thinking, during the worst bear market for stocks in the US in 75 years, I experienced precisely \$0 in withdrawals from my clients. It may be that I am just lucky, or that I am actually a hypnotist and have brainwashed you all, but I would like to think the client patience that I witnessed partially stems from me telling clients not to expect access to their funds for 5-7 years, not to use stocks as emergency savings plans, only to invest money for the long term that you do not need for a long time, and not to panic just because stock prices wiggle around. Perhaps a dose of each has been the secret to the long term focus I have seen.

It's the Leverage Stupid

I hope readers do not take my conservative mumblings as a sign that the apocalypse is upon us. Our economy is extremely dynamic and, despite the myriad of problems we have, the people of the US live very well; just imagine how great things could be if we can solve our big problems? It is enough to make even a curmudgeon an optimist.

However, the fundamental dynamic that has also created so much perceived growth and wealth over the past 30 years has been an unprecedented expansion of debt at the individual, corporate, and government level. No matter what the folks on CNBC say, this is completely unsustainable and will reverse one way or another. We can deleverage by increasing our savings and slowing growth, we can inflate our debts away by printing money and debasing our currency, or we can kick the can down the road and create a bigger problem for our children, or our older selves – none of these are fun in the long term.

There is a delicate balance needed in our economy to slowly unwind excess debt at all levels without causing a deflationary spiral (where lower prices encourage more saving and thus prices collapse in a death spiral as unemployment rockets up). There are positive signs on this front as private borrowing is dropping fast (offset by a smaller increase in government spending) and our savings rate is increasing, but the next 5-10 years will likely be characterized by very volatile long term interest rates, high unemployment, and a growing chorus of people (both in finance and government) who did not foresee this current crisis attempting to explain how we get out of it likely in a way that suits their own interests. It will be a very confusing and uncertain time in which debt levels must be reduced.

As I have said before, our country has misallocated resources for an extremely long time, the payment for our economic trespasses will be proportional to the crime, and future growth should be viewed with caution for this reason.

As always there will be an opportunity for excellent companies to grow profits and market share in this environment just as it was possible for many of our investments to generate positive returns during the 2007-2009 economic cycle. I believe the holdings in Remick Capital accounts are exactly the type of investments that will prosper in an uncertain economy. Economic weakness is by no means a death sentence for the stock market and especially not for individual stocks, but it will require a strong stomach and a long term approach to successfully invest in the coming years.

Keep your financial house in order, keep your borrowing at low rates and meager levels, and the future economic climate will present more opportunities than risks, of that I am sure.

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,



Benjamin Hacker
Principal,
Remick Capital, LLC
(503) 702-2712
www.remickcapital.com

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