

Quarterly Newsletter

3rd Quarter - 2009

Market Overview:

Objects in motion tend to stay in motion aptly describes the 3rd quarter market action as all major equity and bond markets continued their rapid appreciation. Because I focus on picking only individual companies that I find are bargains for our accounts, I generally do not comment on the general level of the stock market too much, but I would caution everyone not to draw too much of a conclusion about the economy from the recent actions of the markets. Stocks go up and down for a lot of factors, and most of those factors have nothing to do with the economy. So, while I have said before that I am not bearish on the US economy (although we still have some pain to go through), I do not think the market rising 50+% from the bottom is a sign that things are completely fixed. Caution is still the word of the day.

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 important to follow over time as they help keep the performance of your own account in perspective.

Returns* ended 9/30/2009:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index (Ticker: VTI)	+16.48%	-5.97%	-4.50%
MSCI World Index (Ticker: EFA)	+19.17%	+3.13%	-3.68%
Lehman Aggregate Bond Index (Ticker: AGG)	+3.61%	+10.65%	+6.30%
Remick Capital (Account Composite)	+33.00%	+27.41%	N/A

Below I have highlighted the [three major goals](#) that I strive to achieve for Remick Capital investment accounts and how I have performed to those goals so far on a composite basis. 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	Since Inception
#1: Don't Lose Money	Pass	Pass
#2: Outperform US Stock Market	Pass	Pass
#3: Provide Clients with a Real Return of 10%	Pass	Fail

As always, please note that the performance results of the recent past (whether good or bad) should never be forecasted into the future. With that said, while it has been (and will likely continue to be) a very volatile ride, I am confident that that over time the table above will continue to show more green than red and our accounts will continue to outperform the market average in the future, albeit by a smaller magnitude.

* 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.

Investment Updates:

Below I have summarized some of our investments and relevant news for the quarter. The performance of most of our investments recently has been very strong. While I would love to be able to predict exactly when such wonderful times for our investments will come, I ultimately do not believe it is possible. We must ride through the rough seas to be able to profit over the long term. I believe that over time (as it has been in the last few years), choosing investments intelligently based on fundamental business value will provide a strong investment return over a reasonable time frame. I will stick to this strategy and let others try their hand at predicting where the market is going in the near future.

Nicholas Financial (NICK) – It seems that for several years in a row I have reported to you on how Nicholas Financial’s business was doing fine while their stock continued to drop every quarter; it appears this streak is over. Nicholas’s business continues to perform well, and now the stock is rallying very strongly - up another 25% this quarter. Even though the shares have risen nearly 300% off the bottom, I think Nicholas is still an attractive investment at today’s prices.

Wells Fargo (WFCpL/WNAp) – Our investment in Wells Fargo preferred stock has continued as I expected. Wells’ business is performing well (although there are still some more loan losses to occur), and the preferred shares have risen steadily - up nearly 20% this quarter including dividends. Both series of preferred stock still yield above 8.5% as I write this, and I am comfortable continuing to hold them for further appreciation and income.

Sears Holdings (SHLD/SSRAP/Sears Bonds) – Sears stock performed modestly this quarter making small gains. Our near term bonds already trade at full value, and I plan to hold these bonds and collect the interest payments until they mature. The longer term bonds (SSRAP specifically) continued to rise this quarter, appreciating approximately 15%. The final outcome for Sears is still uncertain, but I still think our holdings here are attractively priced.

For clients who are a little cloudy on how bonds and preferred stocks function, I have added an [education tab](#) to the Remick Capital website containing a brief primer on Bonds. As always, please let me know if you have any questions or would like any clarifications on these topics.

Fairfax Financial/Odyssey Re Holdings (FFH/ORH) – At the close of the 2nd quarter I mentioned how the combination of Fairfax and Odyssey were then our biggest investment position(s). This has been very fortunate for us as both companies announced excellent quarterly results during the 3rd quarter and have appreciated substantially (both up 50% or more). Given the relative valuation of each company, I had been adding new money more weighted to ORH, and, at one point, I took the opportunity to sell some Fairfax shares in a few accounts to relegate more to ORH as it offered a slightly better bargain.

As it happened, Fairfax made an offer to buyout ORH shareholders for \$65/share, which I plan to accept. It has been a great ride here, and much of the outperformance that Remick accounts have achieved is due to the fantastic results and management of the teams at ORH and FFH coupled with the bargain price at which we acquired the shares.

For more detail on my thinking on Nicholas and Fairfax, I have more detailed investment reports available [here](#) on the website.

Various Holdings – I realize that while I usually only cover a few holdings in these reports, it may create the perception that Remick accounts only invest in 4-6 stocks when in fact this brevity is more an artifact of my attempt to keep this quarterly letter reasonable in length. While I do not want to discuss some of our other holdings for various reasons, I did want to highlight that I have begun building a few positions in a few select very large ‘blue chip’ companies recently. I have never in my study of the markets come across a time when some of the best companies could be had for such reasonable relative valuations. Some stock or bond holdings added this year for Remick Capital accounts include: Pfizer, Exxon Mobil, Berkshire Hathaway, Johnson & Johnson, Wesco Financial, Conoco Phillips, and Goldman Sachs.

This is not a change in strategy at Remick; I am still trying to find the best bargains possible, but sometimes such bargains happen to appear in some of the most widely known and well regarded businesses. When that happens, I do not complain! If things stay this way, expect to see a few more of these types of companies appearing in your account to go along with our original blue chip holding, Wells Fargo.

Emotions, Markets, and Statistics

"The more things change, the more things stay the same." – French Proverb

One of the most interesting things to me regarding investing is how much of a rich documented history we have on the stock market, but how little even professional investors seem to pay attention to it. My favorite example of this is the relationship that people associate with recessions, growth, and investment returns. Despite clear historical evidence that market returns (worldwide) have zero correlation with economic growth rates, market pundits and investors continue to fixate on these things as if there is causation. Stocks tend to decline with a slowdown of growth *versus expectations* and usually rise when growth exceeds expectations (usually when the economy comes out of a recession), but people mistakenly conflate this with an assumption that collective *economic growth* drives investor returns.

This seeming truism is actually false and is so because increased growth and economic activity also increase competition. New capital floods a growing market looking to profit from growth and existing capital (the existing market) gets to fight with more competitors for a bigger pie. The net result is one positive (a bigger pie) and one negative (more competition), which in the end *generally* balance out. There are always individual companies that will be winners and losers in these situations, but, on aggregate, the end result is the same either way. You can see this erroneous thinking when you consider all the companies in the past ten years who have announced a "China Strategy" to compete in China because of the huge and growing market. Unsurprisingly, there are few companies who have announced a "Germany Strategy" due to that country's slow growth.

However, if you owned a business, where would you rather be: the country that has every major corporation on Earth fighting for a piece of the action or the country which is flying under the radar of competition? If China grows faster than people expect, then maybe investing there will be profitable, but because the expectations are already so high, there is going to be a lot of competition.

The same growth phenomenon works in reverse during recessions on an individual country level. Not only does new competition not generally try to move in during recessions, but many existing companies and future competitors actually close up shop and sell out. So while retail sales may be down 5%, the number of stores to buy from may be down 7% giving the remaining companies and stores more business.

Thinking about how to apply this concept to stock market investing is very informative. The implication is that the value of corporate America is not very volatile; even if the market swings wildly by +50% or -50%, the underlying value of corporate assets is probably only wiggling by perhaps +10% or -10%. Across the US and world, companies have assets, buildings, brands, and intellectual property that have value based on the amount of business profits they can generate in the future. These corporate assets *individually* can vary extremely wildly, but, *on aggregate*, whether or not the economy grows slowly will not change value much because as the economy expands and contracts, companies will invest more or less incremental capital respectively. *Slower growth will be offset by less competition, and higher growth will be offset by more competition.*

The power of this observation is that while corporate wealth grows at a slow, and somewhat steady, pace, all periods of extreme high stock market performance or very poor performance will inevitably be followed by a period of reversion to the mean where the market will gyrate back towards fair value. As an example, the Great Depression was preceded by nearly a decade of phenomenal market growth (and crazy speculation), and despite the terrible, negative *economic* growth environment from 1929 to nearly 1940, the post 1933 *market* returns completely erased the massive losses of 1929 - 1932 by generating real returns well in excess of corporate wealth creation. This mean reversion was a drastic revaluation of corporate assets back to their fair value.

This idea of mean reversion in the economy and fundamental value has meaning for specific companies as well. For example, is Nicholas Financial making less money *today* than they would be if the recession had not happened? **Yes.** But

are they going to experience less competition in the future (and thus make more money) because of the recession? **Yes.** To not realize this is to miss the most important investing lesson of the last 100 years.

Commentators and investors love to use statistics that sound rational to prove irrational points while missing the big picture: *"To make up a 50% loss, a stock must rise 100%!"* This, of course, is a statement designed to shed doubt on the fact that any investment can rise 100%, but the inherent truth is missed: Things that go down a lot, *tend* to go up a lot afterwards. There are tens of thousands of exceptions, and simply buying what is down is not a sound strategy, but, on average, it must not be forgotten that the stock market's estimate of value is much more volatile than the underlying asset value of our economy, to which the market value will inevitably return.

As I write this, there is a growing chorus of people beginning to talk about getting out of stocks or even shorting the market. These same people were notably silent in 2007 when the market was roughly 25% higher. It may be right that now is a good time to take some money out of the market and wait for lower prices, but it has nothing to do with the market's recent performance. Many people were saying the same thing after much of the market rallied 50-60% in 2003 and they missed the great investment opportunities available then as well. Investors who can take a longer view of corporate value and see how companies will be able to profit in the future may indeed come to the conclusion that, while stocks have risen 50%, there are still many opportunities for long term gains by investing wisely.

My strategy will remain to mostly ignore the market on aggregate and focus on opportunities in individual companies that are trading well below what I consider fair value. While the investments we have today are much closer to being fairly priced than they were 6 months ago, many still have a way to go.

While I will make many mistakes and incorrect assumptions, I will continue to focus on the underlying value of our holdings. This is all that is important. I will try to keep my emotions in check and keep history in mind as I hunt for value. Where the market has been recently is not relevant to where it will go in the future.

--

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

Disclaimer: Benjamin Hacker and/or clients of Remick Capital, LLC have an interest (via options, stock, bonds or preferred shares) in Fairfax Financial, Ltd, Odyssey Re Holdings, Wells Fargo, Nicholas Financial, Berkshire Hathaway, Johnson & Johnson, Exxon Mobil, Goldman Sachs, Conoco Phillips, Pfizer, and Sears Holdings at the time of publication of this letter. No other positions were held in any other company discussed in this letter at the time of publication. This is not an offer to buy or sell securities, and this letter should not be taken as investment advice. Each individual's investment situation is different, and not all investments are suitable for everyone.