

# 1st Quarter 2016 Supporting Charts

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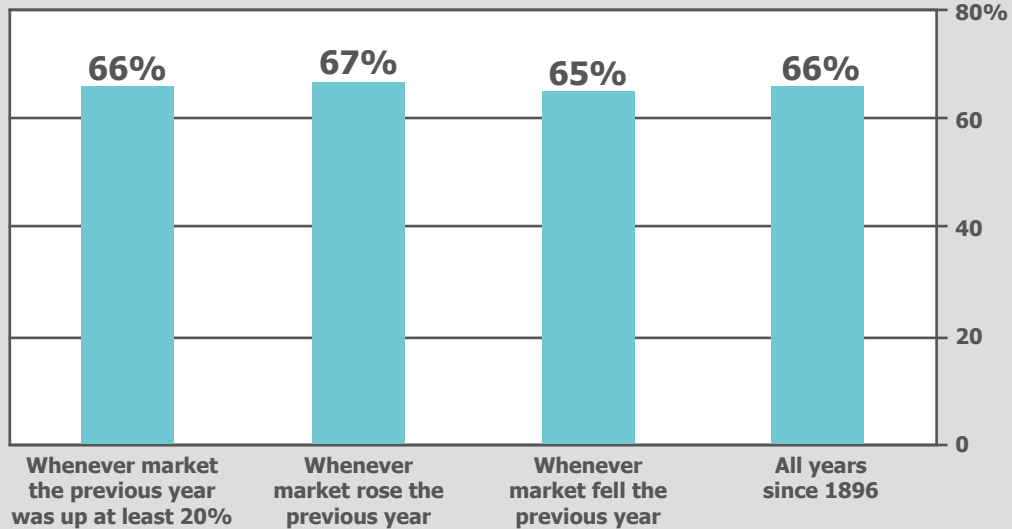
## Our Investment Philosophy...Reiterated

- We are value investors who invest in businesses, not stocks
- We buy Buffett stocks—good businesses trading at a fair price—as well as Graham stocks—fair businesses trading at a great price
- When considering an investment, we perform in-depth due diligence on the business, industry, and management team
- We seek a large margin of safety to mitigate the risk of permanent capital impairment
- We believe markets are periodically inefficient and our job is to find stocks that are trading at a significant discount to the company's intrinsic value
- We think and act long-term, ignoring short-term noise and the quarterly earnings rigmarole
- We run concentrated portfolios, believing that the 100th stock in a portfolio cannot represent a “best idea”
- We ignore index sector weightings because to outperform an index, a portfolio must—by definition—be constructed differently from its benchmark
- We focus on process far more than on outcome, as consistently positive outcomes require an intellectually honest, repeatable process

## A Pretty Good Bet For 119 Years

# Past is Not Prologue

Probability that the market will rise in a given calendar year



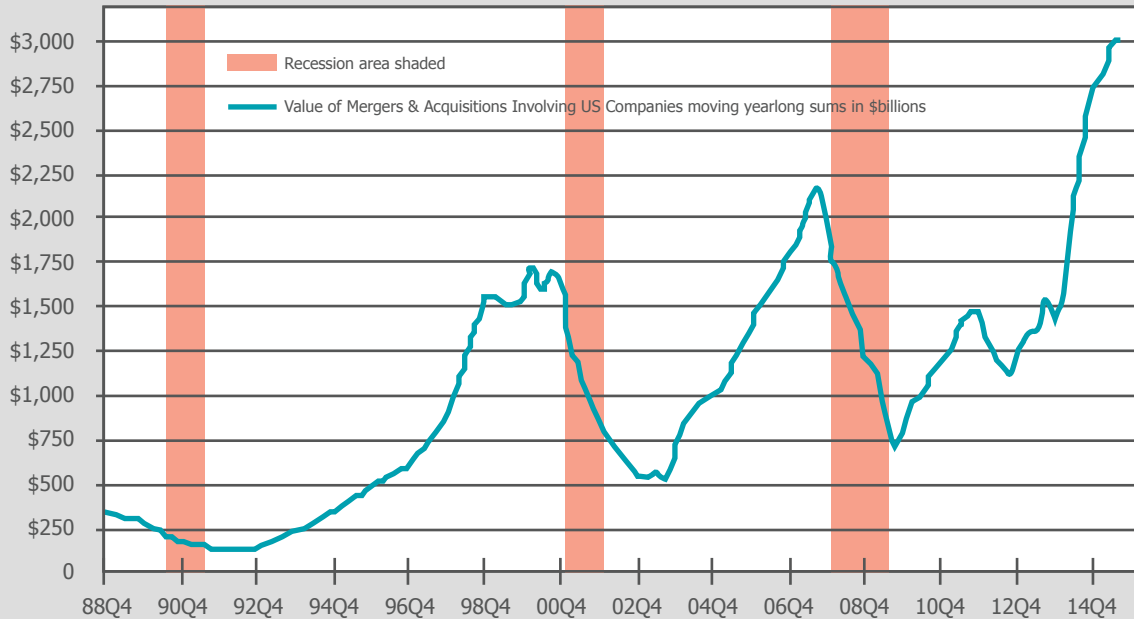
— Data reflects Dow Industrials' calendar-year performance since 1897 —

Hulbert Financial Digest

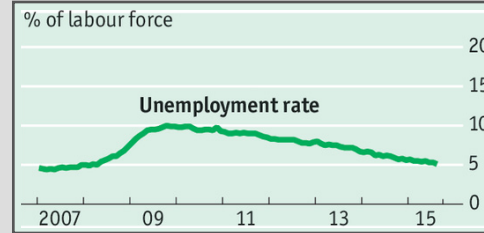
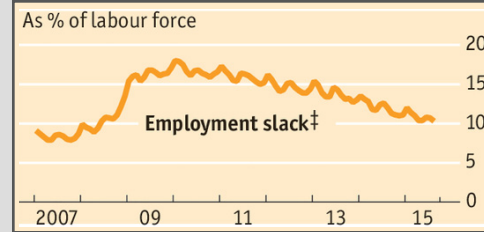
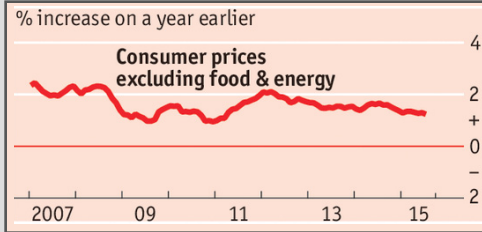
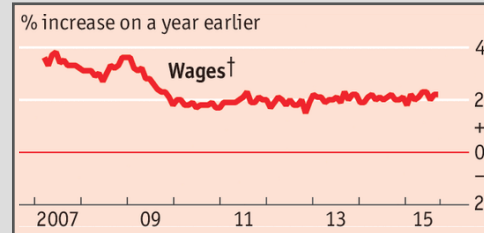
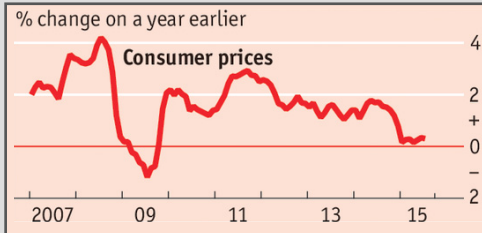
## Anecdotally Not Good

# M&A Waves and Business Cycles

Recessions Stuck Within a Year Following the Last Two Record Highs for the Moving Yearlong Sum of US M&A



## Signposts for the Fed: United States' Indicators: Urgency on rates?



\*Gap between inflation-protected and regular five-year Treasury yields †Average hourly private-sector earnings ‡Workers who are unemployed, would like longer hours, or have stopped looking for work

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## The Futility Continues

The “central tendency” projections of real GDP growth by Federal Reserve governors and bank presidents compared to actual GDP

Year	Fed Projection*	Actual
2011	3.0-3.6%	1.6%
2012	2.5-2.9	2.2
2013	2.3-3.0	1.5
2014	2.8-3.2	2.4
2015	2.6-3.0	1.5 (first half)

\*Fed projections were made in either November or December of the previous year. The central tendency excludes the three highest and three lowest projections. — *Federal Reserve Board*

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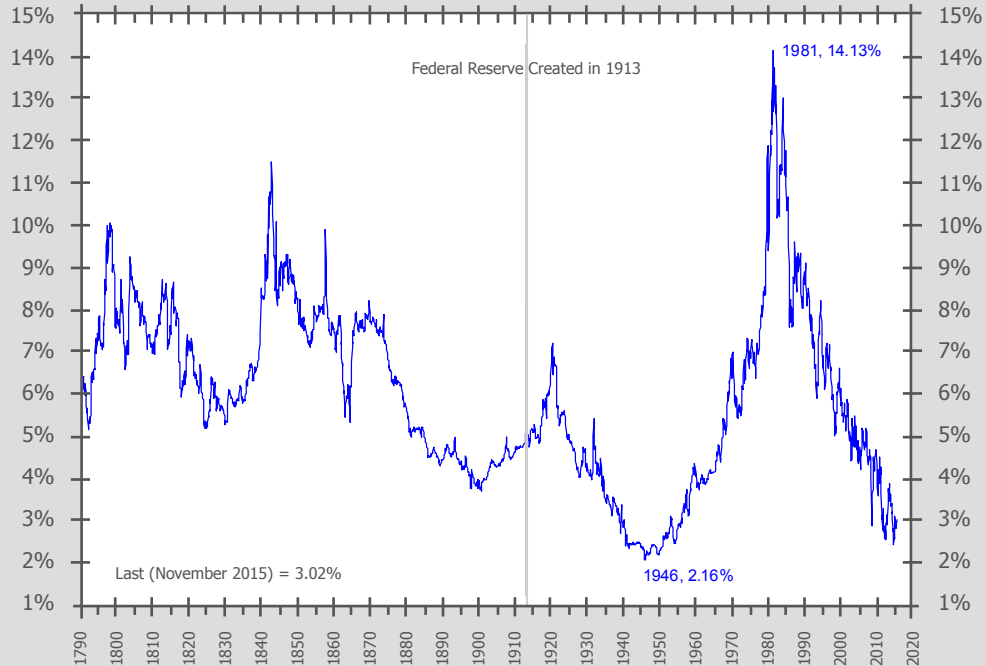
## What He Said

“.. the challenge is that ongoing flow of QEs prevents rationalization of excess capacity (in turn created through the process of preceding three decades of leveraging) whilst also precluding acceleration of demand (both household and corporate), as private sector visibility declines. Hence declining velocity of money requires an ever rising level of monetary stimulus, which further depresses velocity of money, and requiring even further QEs. Also as countries compete in a diminishing pool by discounting currencies, global demand compresses, as current account surpluses in these countries rise not because of exports growing faster than imports but because imports decline faster than exports. This implies less demand for the global economy.”

- MACQUARIE RESEARCH 2015

## Japan...or Not?

### Long-Term Interest Rates Back to 1790



Bianco Research



## Is There "Credit Market" Stress?

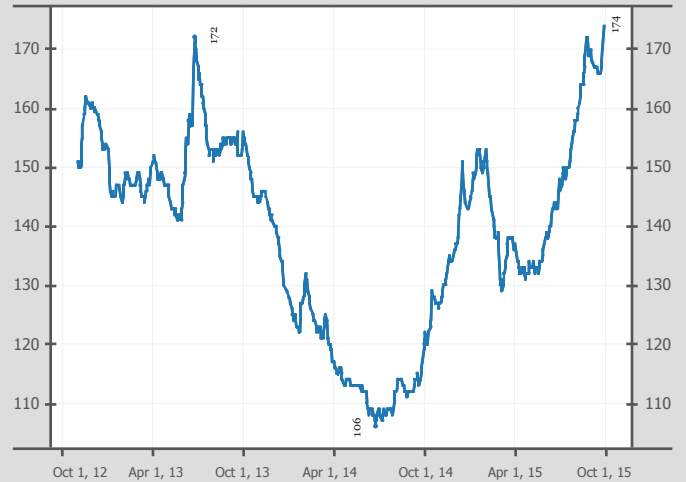
### High Yield Spreads

The OAS Spread of the BofA/Merrill High Yield Master Index



### Investment Grade Spreads

The OAS Spread of the BofA/Merrill Investment Grade Corporate Master Index

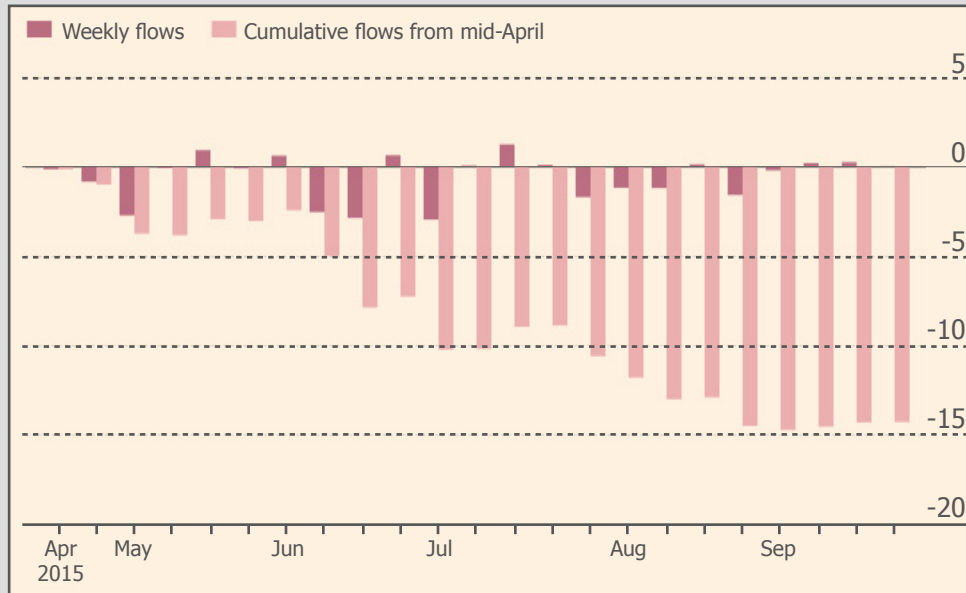


Bianco Research

## Availability of Credit Can Be More Important Than Price of Credit

### Investors Shift Out of Junk Bond Funds

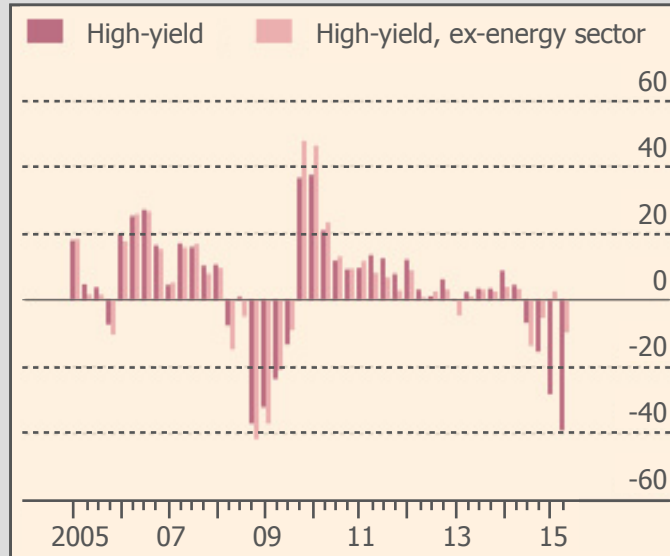
Flows into funds invested in high-yield debt (\$bn)



While...

## Earnings Slide at Junk Rated US Companies

Year-on-Year Change in EBITDA (%)



Financial Times

## And Why It's an Issue

# High-Yield US Debt Burden Climbs

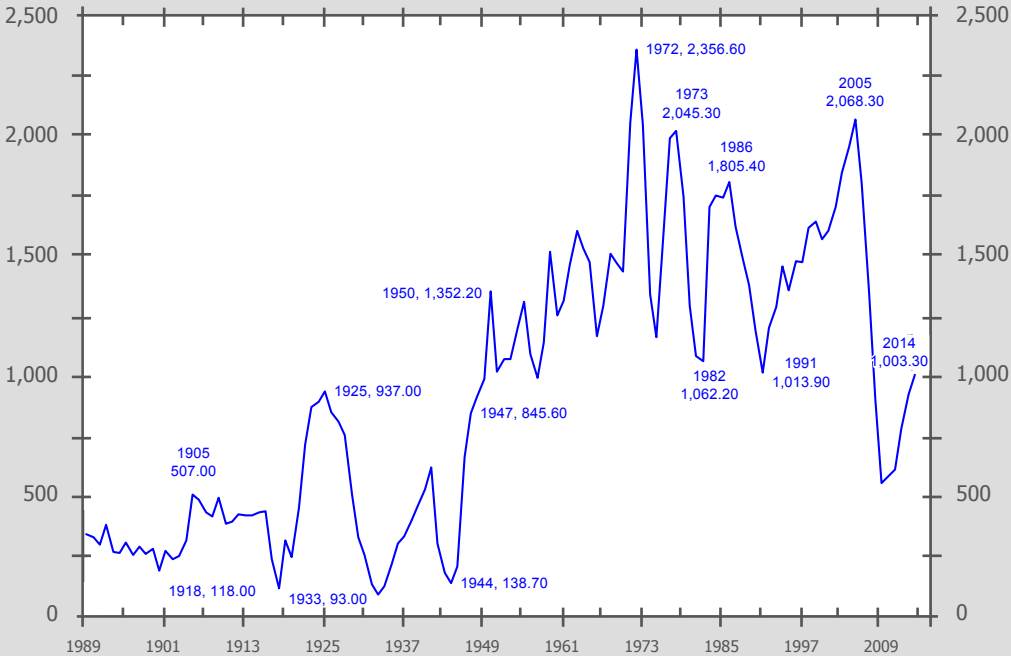
Debt to Trailing 12-Month Earnings



Financial Times

We Think Housing is Investable Here

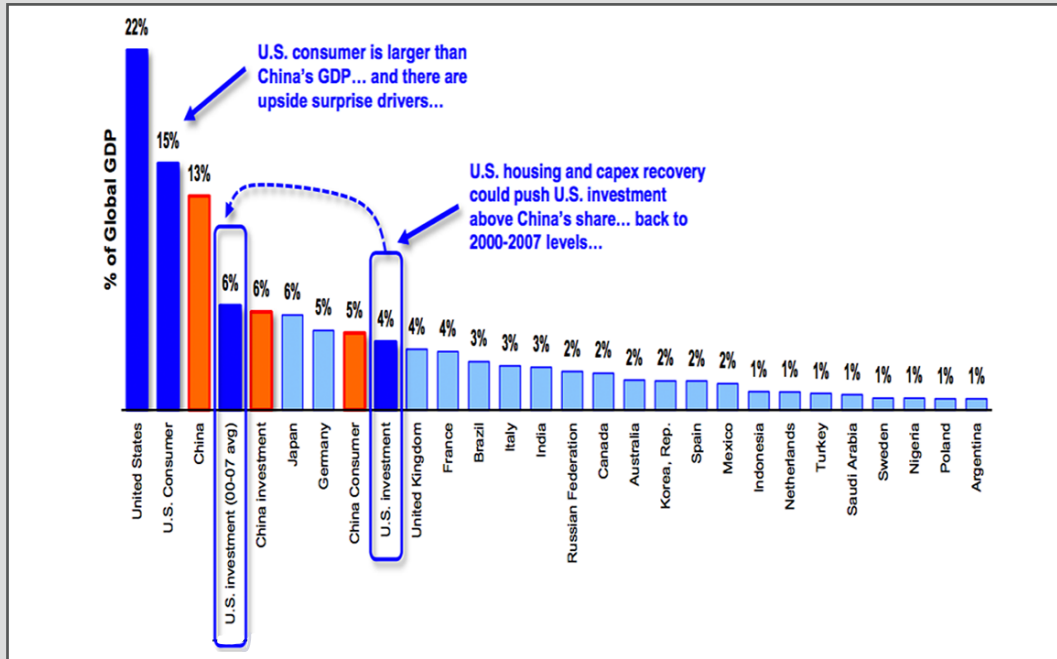
# Annual Housing Starts Since 1889



Bianco Research

## Sizing China Problems

### Share of Global GDP (in percent)



Gluskin Sheff, IMF

## SPEAKS FOR ITSELF

### The Five Worst Years Since 1926 for Asset Allocation

— Yearly Returns —

Year	Stocks S&P 500	LT Bonds 30yr Tsy	Cash 3mo Bill	Commodities CRB Index	Best Return
1937	-35.02%	0.22%	<b>0.29%</b>	-10.40%	0.29%
1931	-43.42%	-5.32%	<b>1.09%</b>	-20.59%	1.09%
2015	<b>1.38%</b>	-3.72%	0.14%	-23.05%	1.38%
1953	-0.96%	<b>3.63%</b>	1.83%	-3.12%	3.63%
2001	-11.89%	3.70%	<b>3.85%</b>	-16.34%	3.85%