



“Courage is resistance to fear,
mastery of fear, not absence of fear.”
– Mark Twain

14 October 2011

Dear fellow investor,

As we compose our thoughts to reflect back on the 3rd quarter of 2011, we can't help but notice how quickly the news and emotions change. A year ago the economy was recovering nicely from a deep recession the likes of which we get every 40 years or so. Then a tsunami hit Japan and the international global supply chain is disrupted, the United States Government airs gridlock and dysfunctionality to the world over debt ceilings, and the Euro Zone draws out the process of dealing with their weak brethren. In fact, we can not remember a single day in this most recent quarter where we didn't hear talk of Greece, Gold, Bears, Bonds, Depression, Default, Recession..... It is outright depressing to listen to the short-term oriented media. Have they forgotten already that there are still nuclear plants in Japan in critical shape? How easily they go to the next news cycle.

As investors and not speculators, the common theme we keep coming back to is **building wealth requires time**. In this environment the corporations we invest in have continued to create value for shareholders in higher dividends, higher earnings, and importantly great balance sheets that are awash in cash.

While no one can predict how the emotional pricing mechanism of the financial marketplaces will react to world events on a short-term basis, we believe that over the long-term companies that create value will

see that reflected in their valuations at some point in the future. Fortunately, our portfolios are built around owning high-quality, income producing investments. And right now the dividend yields on our portfolios are higher than the yields on ten-year US Government bonds, and certainly better than the interest paid on deposits at banks and in money market funds. **We are getting paid to wait.**

As financial markets generally dislike uncertainty, and the media will perpetuate negativity and uncertainty, **volatility will most likely remain.** However, this does not always have to be viewed as a negative. (No one seems to complain about upside volatility!) Several months ago, we increased cash levels to try to take advantage of some of the potential dislocations of pricing. We placed good until canceled orders to purchase several high quality, dividend paying companies at exceedingly attractive levels should they present themselves. Some of these orders have recently been filled!

We have had a plan of action for our portfolios – **focus on quality, have some cash to take advantage of low prices when possible, and focus on income.** We think now is a great time to put together a plan of action for those who are afraid or hesitant to act. Waiting for fear to go away is not a good long-term investment strategy as generally that occurs at the tops of markets. With the market having taken valuations to historically attractive levels we are encouraging all long-term investors to assess their equity exposure with an eye to increasing it now. We are confident those who act with courage in today's market will be rewarded over the long term.

As always we thank you for your confidence and encourage your comments and feedback.

Warmest Regards,

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