<u>Twenty-two Thoughts on Deep Value Investing</u>

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Deep value investing is expressed in various ways. In this commentary, deep value investing represents the learnings and insights gained during my nearly four decades as an investment professional. Other investors will likely have differing views.

1. Deep value investing is predicated on two fundamental beliefs: trusting in the goodness and decency of mankind and recognizing that economic progress is on-going, inevitable.

2. Deep value has been enlightened through the ideas and actions of Warren Buffett, Benjamin Graham, and John Templeton. Deep value investing is a timeless capital creating strategy.

3. Effective deep value investing takes time, likely many decades. Benefits will occur to those who compound their capital at meaningful rates of return. Patience and perseverance are key ingredients in this long term, capital creating journey.

4. By nature, deep value is more volatile than most long only, public equity strategies. At times, it will produce disappointing, short term results in an investment world that desires predictable and improving short term performance. However, it is the cyclicality and volatility of deep value that creates investment opportunity.

5. Knowing when to buy or sell is the "art" of deep value. Contrarian thought is a necessity. John Templeton says it best, "To buy when others are despondently selling and to sell when others are greedily buying requires the greatest fortitude, even while offering the greatest reward." (Doubleday & Company 1983)

6. The gathering of the data is the "science" of deep value. Fact finding may require research and contacts beyond published data and readily available information. However, the relevant task is to develop an understanding that is focused on logical, common sense expectations.

7. A low price to earnings ratio is indigenous to deep value. A higher return on investment is more likely realized with a low price to earnings ratio.

8. Typically, stock prices advance because earnings increase. An upward earnings inflection point is the best time to purchase a stock. Lacking an inflection upturn, earnings need to be sufficient to maintain the company's valuation while awaiting earnings progress.

9. Purchasing a large revenue base at a relatively low price is fundamental to the process. Seeking low price to sales or low enterprise value to revenue is a distinguishing factor in our practice of deep value investing.

10. To be an eligible investment, stock selections must meet a specified investment hurdle rate. This requirement centers on numerical assumptions for each portfolio holding. The result of this analysis is a projected three year sell target. The assumptions and resultant sell targets are dynamic and can be altered at any time.

11. For various reasons, a company's potential for long term progress may be ignored by the investment community. Misunderstood equities can be abandoned and possibly sold recklessly by stock market participants, creating substantial opportunity.

12. When an entire industry declines in market value, it may be a buying opportunity assuming the overall stock market is not in rapid decline.

13. Take what the stock market gives you. In an uptrending stock market, hesitancy to buy may result in lost opportunity. Over the long term, the stock market and the economy have trended upwards.

14. Keep your winners. Be reluctant to sell stocks that have experienced an unusual earnings transformation. However, valuations must remain reasonable.

15. Refrain from trend-like earnings analysis. The investment community typically takes a company's short term earnings trajectory and extrapolates it into long term forecasts. Do not overreact to pessimistic or optimistic views.

16. Many statistically cheap stocks will not meet the quality standards of effective deep value investing. Avoid investing in industries that are facing dramatic, structural decline.

17. Due to its perceived risks, most money managers and market participants refrain from executing the deep value strategy. This timidity creates investment opportunity for the patient, deep value investor.

18. The true test of performance is measured at the time of sale, not at the initial purchase price. If the investment thesis remains intact, one can add capital at lower or higher prices to improve performance.

19. Disappointing stock selections will occur. Downward revisions from original sell targets should be expected. In some instances, adding capital at lower prices is best. In others, selling and admitting a mistake is the answer.

20. Effective company leadership is mandatory. The CEO and his executive team must possess the necessary skills to effectively and efficiently direct the organization.

21. While the preference is to be fully invested, holding portfolio cash is a reasonable alternative assuming a lack of investment opportunity. In fact, if the market appears extended and opportunities are limited, it could be best to sell portfolio positions closest to their three year sell targets, raising cash.

22. Successful deep value investing requires a long term performance record that surpasses the results of the major stock market indices.