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ValueInvestor INSIGHT

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Prime Properties

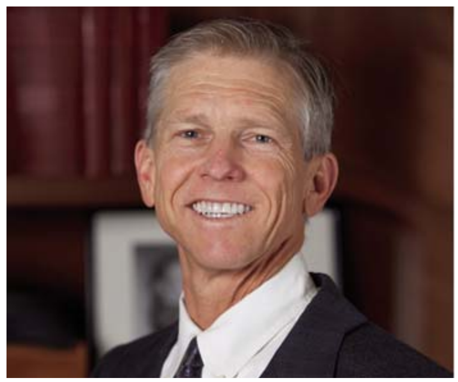
"We're paid for results, not activity," says Pacifica Capital's Steve Leonard, who's done a great job producing the former, without generating much of the latter.

After 20 years investing in and managing commercial real estate, Steve Leonard in 1998 turned his investing attention to equities, focusing on businesses with strong brands and market positions that had "more control of their destinies through market cycles than I could ever find in real estate," he says.

Leonard's skills have certainly translated well. Since his Pacifica Capital Investments starting taking outside money in 1998, it has earned for investors a net annualized 12.2%, vs. 1.8% for the S&P 500.

Sticking to a narrow range of industries and typically holding no more than 10 positions at a time, Leonard today is finding opportunity in property/casualty insurance, financial services, consumer products, coffee retail and slippers. See page 2

INVESTOR INSIGHT



Steve Leonard
Pacifica Capital Investments

Investment Focus: Seeks high-quality companies at those rare moments when market, industry or company issues have made their stocks cheap enough to buy.

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American Express, AstraZeneca, Berkshire Hathaway, Capital One, CGI Group, Goldman Sachs, Hewlett-Packard, InterDigital, Jamba Juice, Kroger, Markel, Medicis, Nintendo, Office Depot, OPAP, PepsiCo, Pfizer, Redecard, Sembcorp Marine, Sohu.com, Takeda Pharmaceutical, TomTom, United Internet, Wells Fargo

Investor Insight: Steve Leonard

Steve Leonard and Kari Pemberton of Pacifica Capital Investments explain why their concentrated focus is a risk mitigator, the low-risk bets they're making with what would otherwise be idle cash, why new financial regulation may not hurt incumbent leaders, and why they hold big stakes in Fairfax Financial, Energizer, R.G. Barry and Starbucks.

How has your background in real estate informed your stock-investing strategy?

Steve Leonard: The success we had in real estate came from having a deep understanding of the market, focusing only on what we really knew, paying very close attention to supply and demand, and being exceedingly careful about the prices we'd pay. That mindset translates directly to how we invest in common stocks.

We'll rarely invest outside of industries we know extremely well, which tend to be consumer goods, retail, restaurants, banks and insurance companies. Our best early investment by far was Starbucks [SBUX], which we knew first-hand from the real estate business had tremendous growth potential. Landlords gave them favorable locations and rents because of all the traffic they drew, and you could figure out fairly easily the economics at the store level and the long runway they had to expand. When we know businesses that well, we're confident in making them big positions – we generally aren't invested in more than 10 stocks at a time.

Having seen what capital flowing into a business can do to supply and ultimately to returns, we focus on companies with strong brands, leading market positions and what we think are sustainable competitive advantages. A great example in our portfolio today would be American Express [AXP], which we think is one of the most valuable brands there is. We also stick to businesses we don't expect to change dramatically over the years. Going out for coffee, for example, probably isn't going to be replaced by a new technology or some other activity. People are still going to want slippers, of which another of our holdings, R.G. Barry [DFZ], is a leading provider.

For the most part, commercial real estate is a commodity business and success has a lot to do with timing when you get in and when you get out. Being disciplined about that is obviously as important in stock investing. The time to buy is when earnings are below their sustainable level and you have to pay a relatively lower multiple on those earnings. The time to sell is when earnings are above normal and the market is paying dearly for that. It sounds simple, but people don't tend to do that.

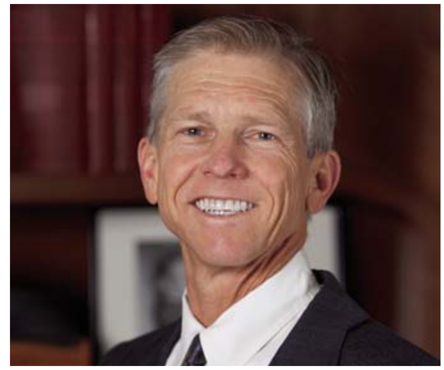
You've described much of your time being spent "patiently waiting" for the right price to buy. What tends to make that happen?

SL: Much of our research and analysis involves identifying companies we're willing to buy and the prices at which we'll buy them. If the market isn't offering up those companies at those prices, we sit and wait. Clients sometimes get anxious about that, but we try to remind them we get paid for results, not activity.

One clear reason prices get attractive is when the whole market is panicking. In late 2008 and early 2009 you could have thrown darts – almost everything was a good buy. That gave us the opportunity to buy American Express, ADP [ADP], Wells Fargo [WFC] and U.S. Bancorp [USB]. These were all examples of great franchises with clear challenges from the crisis, to which we thought the market was overreacting.

Industries can also have issues from time to time that mark down stocks, usually having to do with an oversupply of capital driving down returns. That happens with fairly cyclical regularity in property/casualty insurance, for example, which we've tried to take advantage of many times over the years.

Then there are obviously company-specific issues. R.G. Barry went through a painful transition from a manufacturer



Steve Leonard

Picking His Spots

Steve Leonard earned his stripes as a value investor long before turning to equity investing full-time through Pacifica Capital in 1998. In 1982, his real estate firm started buying and developing properties in Los Angeles at a recession-induced low point in the market. By 1988 he had sold his L.A. holdings and took his buy-low, sell-high strategy to Denver, a market reeling from an extended decline in energy prices. First buying up existing properties and then teaming with Apollo Real Estate Advisors to build new ones, Leonard did some 100 deals in Denver over ten years prior to selling out to three different real estate investment trusts. "It's always nice to sell to people hungry to do deals with other people's money," he says.

With a history of adroitly picking his spots to invest, how does Leonard view the current equity opportunity set? "With individual stocks, 10% of the time they're cheap enough to buy, 10% of the time they're expensive enough to sell, and the rest of the time you should just hold them if you own them and avoid them if you don't. The overall market is like that as well. We're not at the top or the bottom, which means we're mostly patiently waiting at the moment."

model to one like Nike where it outsourced product manufacturing to Asia. The market dumped the stock, but we thought the strength of the brands and the ultimate soundness of the strategy made it a great turnaround opportunity. In Starbucks' case, they overexpanded and they overpaid to buy back stock, hurting returns and the stock price. We got back in again at what we thought was a bargain price as they recognized the error of their ways on the operational side and also started better allocating capital.

Any brand-new examples of the market offering up an opportunity to buy?

SL: Yes, Goldman Sachs [GS]. The SEC allegations against it and the regulatory uncertainty around the industry certainly don't make Goldman more valuable to us, but chances are the market is overreacting to the tangible damage of penalties or regulatory change. Our read on the history of businesses that come in for greater regulation is that it's more likely to entrench the existing market leaders at the expense of new competition. We also think people are ignoring the fact that even if Goldman has to divest or spin off something, it should get comparable value in return. It's not like something's going to be taken from them.

One thing I should point out here is that the very best opportunities are in finding a Starbucks in 1996 or a Chipotle a few years ago, where there's a great concept that is just beginning to grow and the market hasn't fully caught on. Then, because there's so much growth in front of it, it's not so much about waiting for the rock-bottom price. Those ideas are the hardest to find, but they're the best.

Some highly concentrated funds fared poorly when the crisis hit. How did your portfolio weather the storm?

SL: We ended up being down around 14% in 2008, and in fact, our smallest, lower-conviction ideas did the worst. Our three biggest positions going into the crisis were cash – which got as high as 60% of our portfolios in 2007 – Fairfax Financial [FFH] and Berkshire Hathaway [BRK-A]. Those are still our three largest positions, by the way.

When we shifted our real estate business to Denver in the late 1980s, a large investor of ours from L.A. asked whether we were nervous about having all our eggs in one basket in Denver. It's obviously a fair question, but when I thought about the alternatives – investing in real estate in places like Dallas or Baltimore or investing in other projects in Denver outside of what we knew – diversifying just made no sense. If I have the majority of our portfolio in the three or four positions which I understand the best and in which I have the most confidence, I don't consider that risky.

ON WARREN BUFFETT:

It would be better if he were 50, but he's not gone yet and is still one of the best capital allocators in the world.

When I had 100% of my net worth in Denver real estate, I was worried about a meteor hitting Denver. When I had more than 50% of my portfolio in Starbucks, I worried about things like studies coming out showing coffee causes cancer. The point with both is that I couldn't really think of anything else that could go badly wrong. We want that to be the case with all of the businesses we own.

How do you think about the risk of Warren Buffett being unable to run Berkshire?

SL: It would be better if he were 50 rather than almost 80. Our feeling is that the company has a tremendous number of well-run businesses that will continue to generate attractive returns long after he's gone. If no one can reinvest the cash flow like he has, which is likely, they'll probably start paying a decent dividend, which may attract a lot of new owners to the shares.

The reality is that Berkshire's share price has never been as close on a consistent basis to book value than it has been in recent years, when you would expect the premium to have expanded because the company's value is more tied to operating businesses than investments. That tells me that the premium for him has rationally gone down as he's aged. But he's not gone yet, and I still believe he and Prem Watsa of Fairfax are two of the best capital allocators in the world.

Are any more macro themes informing your strategy today?

SL: We typically only own U.S.-based firms, but we're unlikely to invest in companies that don't have at least the potential to have a strong presence in emerging markets. In Asia and elsewhere, you don't have the unfavorable demographics and potentially damaging economic policies that are likely to constrain growth in the U.S. and other developed countries.

We're also very concerned about the unsustainable debt levels across-the-board in the U.S. and most developed countries, and how government responses to that problem are likely to result in high inflation and interest rates over time. That makes us more leery than ever of companies with too much debt, that are overly dependent on leverage financing to fund capital expenditures, and that don't have pricing power.

Pension-fund obligations are also very scary to us. The future costs of pension plans are almost always understated, while the future investment returns are overstated. We were interested not long ago in Kroger [KR], the grocery chain, until concluding what a big problem its pension fund was.

How much cash are you holding today?

SL: Including the variable-rate preferred stock we've been buying, it's around 35% of our portfolios. We don't actively try to time the market, but our cash naturally goes up when we sell our least-favorite positions that have gone up a lot and it goes down when we're finding a lot to buy. Over the past several months we've raised some cash as some of our stocks went up dramatically.

What are some examples of positions you've sold recently and why?

SL: We sold the last of our Markel [MKL] shares just for valuation reasons. The share price relative to book value got high enough that we decided there was no good reason to own it over something like Fairfax, which has more upside and better management. The market also kind of bailed us out of our Office Depot [ODP] position. We originally liked the stock because it was a solid #2 in selling office supplies, which we consider an attractive business,. But the more experience we had with management overpromising and underperforming, we were happy to get out as the share price came back this year. It's not on our potential-buy list any more.

What variable-rate preferreds are you buying?

Kari Pemberton: With money-market returns at historic lows, we think we're able to get much better yields without taking on much interest-rate or credit risk by buying the variable-rate preferred shares of companies like Goldman Sachs, Morgan Stanley and Bank of America. Goldman Sachs' D shares, for example, have a par value – the price at which they'd be redeemed – of $25 per share, but can be bought today for around $18.75, resulting in a current yield of 5.3%. The shares have a yield floor of 4%, and if interest rates rise – which we view as matter of when and not if – the rate goes up tied to 3-month LIBOR. So we're protected against rising interest rates, are earning a nice tax-advantaged yield, and think over time there's a very good chance of capital appreciation from today's depressed prices. The risk is that the companies go out of business, which we just don't see happening to a Goldman or a Morgan Stanley.

Describe the investment case for your largest stock position, Fairfax Financial.

SL: This idea is 90% about management. Unless you touch the consumer directly – like a Geico, for example – the insurance business is an average-return business. What makes Fairfax exceptional is Prem Watsa, who as CEO and Chief Investment Officer has an unsurpassed record of making investment decisions over the past 25 years. He's outperformed in both fixed income and equities, increasing book value by more than 20% annually over that time. That's a significant and sustainable competitive advantage. We'd think differently if Watsa were not there, even more so than if Warren Buffett were not at Berkshire Hathaway.

How well run are Fairfax's insurance businesses, which provide all the float?

SL: For businesses the company has owned for any period of time, it does very well in terms of underwriting. The primary operations are in property/casualty insurance in the U.S. and Canada, the OdysseyRe global reinsurance business and – after the recent acquisition of Zenith National – in workers' compensation insurance in the U.S. We like that they're expanding in emerging markets, including the purchase of wholly owned subsidiaries and minority investments in places like India, China, Singapore, Hong Kong, Poland, Jordan and Brazil.

The investment portfolio was smartly positioned to profit from the crisis. How would you describe its make up today?

SL: He basically redeployed much of the portfolio into corporate bonds, municipal bonds – mostly those insured by Berkshire Hathaway – and global equities

INVESTMENT SNAPSHOT

Fairfax Financial
(Toronto: FFH:CN)

Business: Holding company with primary operating subsidiaries involved in property/casualty insurance and reinsurance in Canada, the U.S. and Asia.

Share Information
(@6/29/10, Exchange Rate: $1 = C$1.05):

Price	**C$390.82**
52-Week Range	C$281.33 – C$417.35
Dividend Yield	2.6%
Market Cap	C$8.39 billion

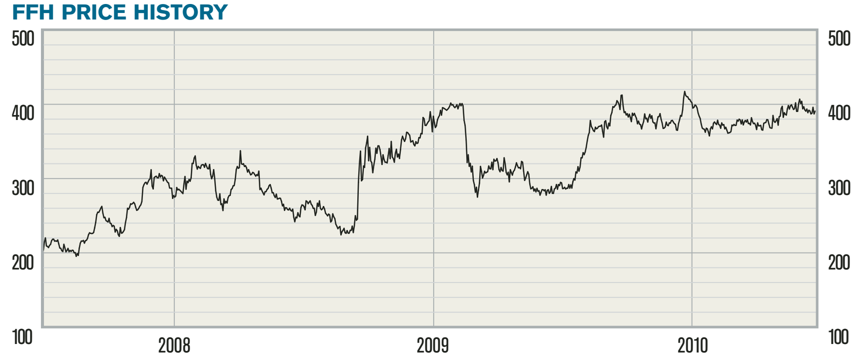
Financials (Year-end 2009)

Revenue	$6.64 billion
Pre-Tax Profit Margin	18.2%
Net Profit Margin	12.9%

Valuation Metrics
(Current Price vs. TTM):

	FFH	S&P 500
P/E	6.0	17.8

FFH PRICE HISTORY



THE BOTTOM LINE

If CEO Prem Watsa continued to increase book value at the 20%-plus annual rate he's done so over the past 25 years, "I could put all my money in this and go home," says Steve Leonard. Even if book increases at closer to 15% per year and the share multiple increases to 1.25x from today's 1x, "It's still unlikely I'd be a seller," he says.

Sources: Company reports, other publicly available information

in late 2008 and early 2009. He's more recently put some hedges on the equity holdings, which would indicate he's less than enthusiastic about near-term prospects for the market.

The shares have roughly doubled over the past three years, to around C$390. How do you look at the upside from here?

SL: The shares currently trade right around book value. So if Prem Watsa can increase book value at the 20% annual rate of the last 25 years over the next 25 years, I could put all my money in this and go home. I don't think that's likely, given that the business is bigger and that they have in that book value more goodwill, on which it's harder to earn that kind of return. But it's not unreasonable to expect he can earn 15% annually. It's also not unreasonable to expect the market will eventually wake up and pay at least 1.25x book for a company with this type of track record. Even if that happened, it's still unlikely I'd be a seller.

An added kicker here that we like is that the company regularly increases its dividend, most recently by 25% in January to C$10 per share. That's just another example of how they treat shareholders right.

What are the biggest risks?

SL: We worry somewhat about inflation, although the negative of future claims being higher than what has been reserved is probably more or less offset by the positive of increased yield on the fixed-income portfolio as he reinvests.

With any insurance company, there are always underwriting risks from earthquakes, hurricanes and asbestos-type litigation, but as with Berkshire Hathaway, we're confident they've structured their exposures to never take on more risk than they can handle.

Probably the biggest challenge would be if something happened to Prem Watsa. He's still relatively young and has built a competent team around him, but we'd certainly lighten up on our position without him.

What potential do you see in Energizer Holdings [ENR].

SL: The company has a portfolio of mostly #1 and #2 brands in stable consumable product categories that aren't prone to significant private-label competition. That includes Energizer and Eveready batteries, Schick razors, Playtex feminine-care products, Wet Ones hand wipes and Hawaiian Tropic suntan lotions.

The story here is fairly simple. They have leading brands in attractive categories with excellent potential for international growth as disposable incomes rise around the world and demand for these types of consumer products expands. As they leverage existing international distribution and manufacturing infrastructure, they should be able to increase long-term sustainable margins. They also have margin upside from continuing to integrate operations of the many acquisitions they've done over the years to build up the brand portfolio.

With the shares trading just under $51, to what extent is the market missing the potential you see?

KP: With a top line growing in the mid-single digits and long-term net margins

INVESTMENT SNAPSHOT

Energizer Holdings
(NYSE: ENR)

Business: Global manufacturer and marketer of branded battery, shaving, skin-care, infant-care and feminine-care products. Key brands: Energizer, Schick and Playtex.

Share Information
(@6/29/10):

Price	**50.93**
52-Week Range	50.80 – 69.11
Dividend Yield	0.0%
Market Cap	$3.57 billion

Financials (TTM):

Revenue	$4.19 billion
Operating Profit Margin	16.7%
Net Profit Margin	7.7%

Valuation Metrics
(@6/29/10):

	ENR	S&P 500
Trailing P/E	10.8	17.8
Forward P/E Est.	9.6	13.1

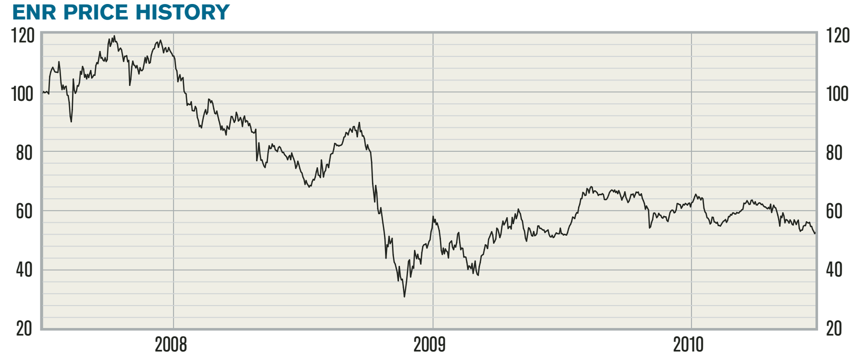
Largest Institutional Owners
(@3/31/10):

Company	% Owned
Fidelity Mgmt & Research	7.6%
Vanguard Group	3.4%
Atlantic Inv Mgmt	3.4%
Wellington Mgmt	2.8%
Bank of NY Mellon	2.6%

Short Interest (as of 6/15/10):

Shares Short/Float	5.2%

ENR PRICE HISTORY



THE BOTTOM LINE

The company's share price doesn't reflect the strength of its brands, its international growth potential and its opportunities to increase margins, says Steve Leonard. Based on his discounted-cash-flow model or by applying a more reasonable multiple to his $5.75 per share estimate of sustainable earnings, the fair share value is closer to $80.

Sources: Company reports, other publicly available information

increasing to 9-10% (from 7.4% in the latest fiscal year), we believe the company's sustainable earnings per share is at least $5.75. So on a normalized basis, the shares trade at less than 9x earnings.

In our experience, that's a surprisingly low multiple for a company with the quality of brands this has. Even a 15x multiple would not be overly aggressive, which would result in a share price in the mid-$80s if we're right about earnings. Our discounted-cash-flow model, using conservative assumptions, isn't far off that, putting fair value in the high-$70s.

What has the market concerned?

SL: The company has a bit more debt leverage than we would typically like, which is one reason this isn't yet a large position for us. But most of the debt is at fixed rates for a reasonable period of time, while the cash generated by the business is allowing them to steadily reduce the overall debt level.

There's also some concern the consumable battery business is only going to be so-so, which is legitimate as people use more rechargeable batteries. Our feeling is that will be more of a developed-country phenomenon, which is likely to be offset by emerging-market growth for traditional batteries. Given the diversity of the overall product portfolio, we don't see rechargeable batteries as a big problem.

Another potential market concern we actually consider a plus is the fact that management doesn't spend a lot of time and money selling itself to Wall Street. They avoid things like conference calls and investor confabs. That might make the stock a bit more volatile, but we like that the priority is more on running a successful business than holding the hands of investors.

Explain in more detail your long-time interest in R.G. Barry.

SL: This is a company I came across six or seven years ago, at a time when it was having significant problems primarily because its manufacturing costs were way out of line. New management was addressing the problem, but it wasn't fixed without a painful transition that almost put the company under. They came out of that and as we've gotten to know management and the business over time, the more we like them both.

The basic business is slippers – Barry has around 35% of the U.S. soft-slipper market, selling under a variety of brand names, the most prominent of which is Dearfoams. They've also taken advantage of a strong marketing and distribution system to expand into harder-soled "après anything" footwear under the Terrasoles brand, and to sell licensed products for companies such as Levi's and Nautica.

The company is now focused primarily on product design, marketing and distribution and the business generates excellent free cash flow, which management has used to start paying a dividend and to build up more than $4 per share in net cash on the balance sheet. The overall return on invested capital this year should be around 25%.

Is this a growth story?

SL: We're modeling roughly 5% annual growth, but there are a few ways it could

INVESTMENT SNAPSHOT

R.G. Barry
(Nasdaq: DFZ))

Business: Developer and marketer of "accessories" footwear, including slippers and shoes sold under such brand names as Dearfoams, Terrasoles and Superga.

Share Information
(@6/29/10):

Price	**11.25**
52-Week Range	6.48 – 12.00
Dividend Yield	1.7%
Market Cap	$122.4 million

Financials (TTM):

Revenue	$124.4 million
Operating Profit Margin	13.3%
Net Profit Margin	8.6%

Valuation Metrics
(@6/29/10):

	DFZ	Nasdaq
Trailing P/E	11.5	13.0
Forward P/E Est.	11.5	14.9

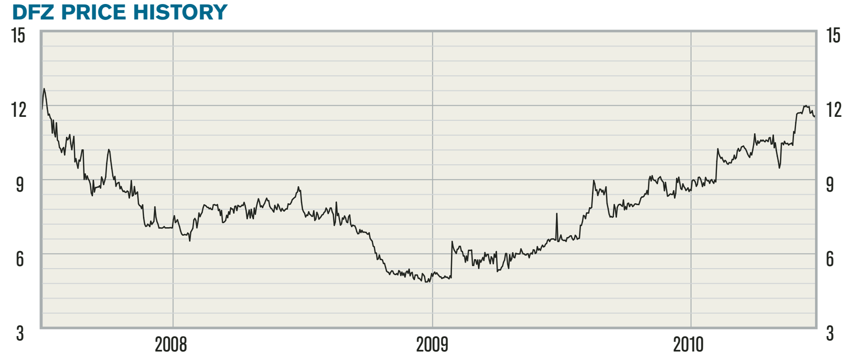
Largest Institutional Owners
(@3/31/10):

Company	% Owned
Pacifica Capital	10.6%
Dalton, Greiner, Hartman, Maher & Co	5.0%
Wellington Mgmt	4.0%
Dimensional Fund Adv	3.4%
Schneider Capital	3.0%

Short Interest (as of 6/15/10):

Shares Short/Float	0.4%

DFZ PRICE HISTORY



THE BOTTOM LINE

After accounting for net cash on the balance sheet and for future pension obligations, the company's shares trade for only 11x Steve Leonard's 80 to 85 cent estimate of sustainable per share earnings. "For a steady, high-return-on-capital business with a great balance sheet and excellent management, that's just too low," he says.

Sources: Company reports, other publicly available information

come in better than that. Wal-Mart has asked Barry to supply it in its stores outside the U.S., but that's in the early stages so we don't have a clear sense how that will go. Management also sees untapped potential in expanding both its licensing and private-label businesses. Finally, the company has announced it's in the market for the right acquisition, possibly in an area – like sandals, for example – that offers some seasonal diversification.

At $11.25, how cheap do you consider the shares?

SL: We expect the existing business to earn a net margin of up to 8% and produce sustainable profits of 80 to 85 cents per share. After netting out the cash and adding back maybe $2 per share in pension obligations – which I know I said we dislike, but which we at least feel we can quantify and take out in valuing the business – the shares currently trade for only about 11x normal earnings. For a steady, high-return-on-capital business with a great balance sheet and excellent management, we believe that's just too low.

One reason for the low multiple may be that Barry still isn't well-followed or well-known, but a low Wall Street profile has never been a particular concern to us. That's rarely a permanent problem as long as a company continues to execute and build value.

The biggest risk we see is that management gets impatient and pays too much for an acquisition or buys something that isn't a good fit. That's always possible, but such a lack of discipline would certainly contradict our experience with them to date.

You mentioned your early success with Starbucks. Why is it back to a large holding today?

SL: We bought back in about 18 months ago at the height of the crisis, when it was becoming clear how important it was for the company to moderate growth, close underperforming stores and refocus on maintaining what we consider to be a truly unique customer experience. Again, it's all about the brand and customer loyalty. People don't just say, "Let's go for a cup of coffee." They say, "Let's go for Starbucks." You know the #1 in an industry has a pretty good business when you can't even identify a #2.

The operational improvement certainly doesn't appear to have been missed by the market. Why are you content to hold the shares today?

SL: We think this is more than just a turnaround and that Starbucks still has impressive growth opportunities ahead. The primary growth driver will be international markets, where people thought Starbucks would have a hard time competing against traditional coffeehouses, but where they continue to show impressive growth. We also see a great deal of upside from many of their external-products businesses, including their new Via instant coffee, other packaged retail products, and a food-services initiative under way with Sysco. They've also recently decided to do more franchising of stores, which requires less capital and should generate excellent returns.

Overall, we think the company can grow revenues at around 10% annually, with profits growing faster than that as

INVESTMENT SNAPSHOT

Starbucks
(Nasdaq: SBUX)

Business: Global owner or licensor of more than 16,000 coffeehouses in over 50 countries. Also sells branded beverage and food products through third-party retail outlets.

Share Information
(@6/29/10):

Price	**25.01**
52-Week Range	12.76 – 28.50
Dividend Yield	1.5%
Market Cap	$18.63 billion

Financials (TTM):

Revenue	$10.08 billion
Operating Profit Margin	11.0%
Net Profit Margin	7.5%

Valuation Metrics
(@6/29/10):

	SBUX	Nasdaq
Trailing P/E	25.0	13.0
Forward P/E Est.	20.3	14.9

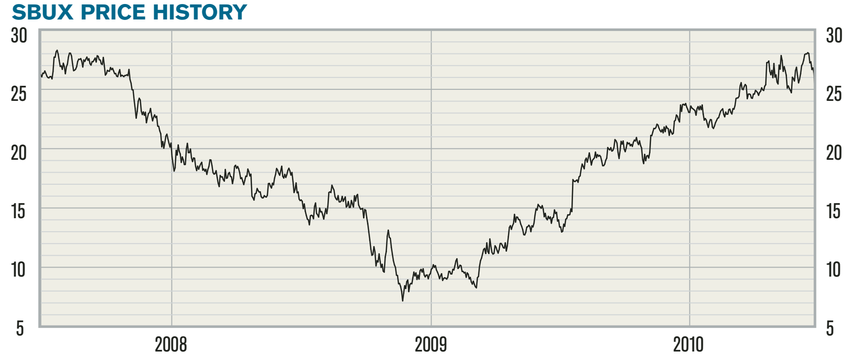
Largest Institutional Owners
(@3/31/10):

Company	% Owned
Fidelity Mgmt & Research	10.5%
T. Rowe Price	5.6%
Capital World Inv	5.1%
Vanguard Group	3.6%
State Street Corp	3.3%

Short Interest (as of 6/15/10):

Shares Short/Float	3.1%

SBUX PRICE HISTORY



THE BOTTOM LINE

The company's operating turnaround is well underway, but Steve Leonard also sees upside from the potential of10%-plus annual profit growth. While he might start trimming his position at a 25% higher share price, he'd be in no hurry to get out. "You don't come across global brand franchises with this kind of growth every day," he says.

Sources: Company reports, other publicly available information

the store base matures and they leverage existing infrastructure in the U.S. and internationally.

We've heard for some time about U.S. competitors like McDonald's and Dunkin Donuts going more directly after Starbucks. Is that a concern?

SL: If those efforts have had an impact on Starbucks, I haven't seen any evidence of it. I don't think it's the same customer or the same experience when you're talking about going to McDonald's or to Starbucks for a cup of coffee.

At a recent $25, the shares have more than tripled from their crisis lows. How far are you from starting to trim your position?

SL: We still have 10% of our portfolios in Starbucks and, while I wouldn't buy at this price, I'm very comfortable holding and taking advantage of the revenue and margin growth. We also like that they started paying a dividend, which we expect to grow over time.

We might start trimming if the stock rose another 25% from today's price, but I wouldn't be in a big hurry to get out. You don't come across global brand franchises with this kind of growth upside every day.

Describe a recent mistake.

SL: Our mistakes are usually a result of overestimating the strength of a brand or the competence of management. We did both with Jamba Juice [JMBA], the smoothie company. Its strategy to buy back successful franchises and make them company-owned turned out to be badly timed and poorly executed, destroying a lot of value. New management seems to have the company back on track, but as the price came back we were more than happy to get out. It just wasn't the type of franchise we want to be investing in – when you go into a Starbucks you'll see up to 20 people in line or sitting down. At Jamba Juice, you'll maybe see two.

In the end, your investing strategy is pretty simple. Why is it so hard to get right?

SL: It's true that figuring out what you should do as an investor isn't that difficult. You can read all Warren Buffett has written or said over the years, for example, and basically emulate that. The hard part is to have the discipline and the patience to execute.

The bottom line is that to be a good investor you need to only buy when it's emotionally the hardest, only sell when it's emotionally the hardest, and do pretty much nothing while waiting for market extremes to offer opportunities to do either. That's all incredibly hard. You often don't know you've been right until months or even years later. Most people need more immediate gratification than value investing typically offers up. VII

Disclosure