

Quarterly report for quarter ending March 31, 2012

April 7, 2012

Dear Investor,

I'm happy to report a good first quarter.

Many of our stock investments performed well. Notably, Tronox, Embotteladora Andina, Old Republic and Macquarie Infrastructure all gained substantially in the quarter. Our REIT holdings have also performed well.

Currently about 45% of your holdings are in stocks and 40% are in high return income investments such as Real Estate Investment Trusts (REITs) and preferred stocks. The remaining funds are cash and short maturity bonds. These currently have low yields but will provide a stable source of funds for purchases during periods of market weakness.

Update on market outlook and risks

At the beginning of this year, I wrote that valuations in some sectors looked attractive, although global economic growth was weak, and the global economy appeared vulnerable to possible shocks from a variety of sources. Three months later the US economy continues to grow slowly, and unemployment is improving, although still uncomfortably high.

Stock valuations now look less attractive, with the broad market up more than 10% and many stocks up even more. That said, stocks continue to look better than investment grade bonds, where yields are near historic lows.

Europe's financial woes eased this year as Europe's central bank lent at low rates to European banks, which in turn provided support for national bonds. In consequence near term financing crises in Italy, Spain, and Portugal have been averted. Nevertheless, economic growth for those countries remains extremely weak. Consequent doubts regarding their creditworthiness could once again depress global stock markets, although it's impossible to say exactly when that might happen.

There are a few other notable risks to global stock markets, including slowing economic growth in China. Geopolitical risks are also a concern, notably the possibility of an attack on Iran, a development that would drive up global oil prices, possibly to levels that depressed global economic activity.

I continue to think a conservative asset allocation makes sense in view of soft global economic growth, debt pressures, and political risks. I consider our current allocations, with common stock representing less than 50% of total holdings to be appropriate for the current environment. While we may not fully participate in short term market upswings, we will be less affected by market corrections, and will have conserved our capital for opportunistic investing going forward.

Notes on holdings

Important to any investing strategy is picking the right holdings. We've done well in this respect and I believe will continue to do well. An example is Tronox (TROX), which has several attributes I look for in potential investments: a strong market position, pricing power, and an attractive valuation at the time of purchase.

Tronox manufactures Titanium Dioxide, or TiO₂, a whitening pigment used in paint, detergents, cosmetics, food and industrial products. The company is expected to close an acquisition of a large TiO₂ mining company, Exxaro, later this year.

Historically TiO₂ has been a low value commodity as processors like Tronox and DuPont added new supply to match demand. In recent years however the raw titanium used for the manufacture of TiO₂ has been in increasingly short supply. This reflects an absence of new titanium mines, which take roughly five years and considerable expense to establish. As a result, demand for TiO₂ is currently growing faster than supply, and it will be at least several years before the dynamic comes back into balance. That is allowing TiO₂ mining companies and processors to pass through very substantial price increases to their customers.

In this environment Tronox is reporting record profits, and those profits are steadily growing, a trend I think will continue. In addition, the company has a strong balance sheet, and its stock trades at a multiple of earnings well below other industrial companies.

As always, Tronox is just one investment among many in a carefully researched portfolio, with no single investment representing more than 10% of invested assets.

Sincerely,

A handwritten signature in black ink that reads "Doug". The letters are cursive and fluid, with a prominent loop on the 'D' and a trailing flourish on the 'g'.

Note: This information is intended as a discussion of past account performance and investment strategy. It is not a recommendation to purchase any specific security or type of security. An investment in securities involves the risk of loss.