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## Up in the Air

George Clooney is a talented actor and I have enjoyed many of his movies. In his latest movie, “Up in the Air”, he plays an executive- type for a company which handles particularly difficult and large scale corporate layoffs. In other words, he flew all over the country to be the bearer of bad news to people in some of their most agonizing circumstances. Since he spent most of his time in flight, at airports and sleeping in hotels, his life was light on relationships and depth. As we look out to 2010, the comparison between the movie and the process of investing in common stocks could teach us a great deal.

Ryan (Clooney’s character) is shallow and uncaring. He is that way for a reason. If he cares about people and develops depth to those relationships there is the potential to feel pain. He spends so much time up in the air that he sets a goal of ten million miles flown. His busy schedule gets him frequent flyer treatment and superior service from those who serve him as he makes his way around the country to deliver bad news. Unfortunately, he meets a woman who operates just like him (heavy business travel) and proves to be a kindred spirit. He falls for her and gets humanized in the process. In what was the most disappointing aspect of the movie, he then gets crushed by

showing up at her home to find that she was married, had kids and was just using him as a shallow relationship escape.

What does this have to do with investing in US common stocks? The future is always “Up in the Air”. You virtually never get to know what the economy or markets are going to do. We at Smead Capital Management are frustrated by how much time and energy is spent trying to “crystal ball” the stock market’s future and the growth prospects of the economy. Watch the major business news channels on cable. You can see that most of the time is spent on economic and broad market

predictions. Rather than trying to predict markets and economic growth, we look to experienced investors whom we admire and see how they are posturing themselves.

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Two of those we admire, Bill Miller of Legg Mason and Kenneth Heebner of Capital Growth Management, are postured for above trend economic growth the next two to three years. Warren Buffett has said recently, when asked about buying Burlington Northern, what his purchase means in relationship to the US economy. He answered, "Most important of all, however, it's an all-in wager on the economic future of the United States. I love these bets". It is interesting that these three experienced and wise stock market participants are operating under the same premise, disagreeing with more superficial investors.

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Participating in the stock market for long periods of time is guaranteed to include some pain from time to time. An unbelievable amount of energy and cost is associated with an effort on the part of investors to avoid that pain. Traders have trading costs, spreads to pay and higher tax rates to deal with. The New York Stock Exchange (NYSE) reported recently that the average holding period for a stock on their market dropped below one year for the first time in 70 years in early 2009.

The average investor, both professional and individual, keeps their relationship as shallow with the companies they own as Ryan did with people in the movie. History has shown that over the long haul that wealth creation goals are hard to reach through constantly changing your investments. If you don't keep any of your stocks for very long, you sure won't end up with a long-term debacle like Washington Mutual or Enron and have all the pain that comes with those once in 30 year outlier stock market declines. You won't feel as empty as Ryan did when he found his true love in the home of her husband, because you never got that involved in the first place. But you will never have loved long-term at all.

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Successful long-term investing requires lonely confidence, race horse blinders, acceptance of pain and the patience of Job. However, the reward historically is higher returns and better tax treatment. We believe that what has never been scarcer than today are people and institutions who want to get deeply involved with high quality US companies and hold them for long time periods in hope of creating above average wealth. As we look out into the year 2010, we would like to share our favorite quote from President Theodore Roosevelt who said:

*"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is*

*actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.”*

Thank you for coming along with us on this journey and best wishes in the New Year. ■

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