

October 6, 2011

Dear Friends:

The stock market declined sharply during the quarter, reflecting investors' fear and frustration regarding the weak economic recovery. Our investors' equity portfolios were down 15.5% for the quarter, while the Russell Midcap Value (RMV) and the S&P 500 were down 18.5% and 13.9%, respectively. The decline was pervasive with our investments in energy (-33%), technology (-21%), and consumer cyclicals (-21%) declining the most.

As our note to you in August stated, periods of extreme market volatility often create attractive investment opportunities for those who are able to take the longer view. We believe this is such a period and it is a good time to invest. Despite the uncertain business environment, our companies are producing superior operating results. They have strong balance sheets, consistent free cash flow, and they are proactively investing for the future. These investments are generating market share gains and increasing their ability to pass along rising raw material costs. Our disciplined valuation analysis concludes that their stocks are selling at significant discounts to intrinsic value and we believe they are compelling investments.

This quarter marks the four-year anniversary of the stock market's peak in 2007, which was followed by one of the worst bear markets in history. Since then, *all* of our fellow investors are ahead of where they were, having gained 16%, while the RMV and S&P 500 are still down 16% and 19%, respectively. Preserving and growing our investors' capital is our mission. The attached table demonstrates the solid, long-term results of our **disciplined investment approach** for 3, 5, and 10 years.

Thank you for your interest in investing with us and we look forward to visiting with you soon.

Regards, Fred