The More Things Change...

A naive out-of-towner is given a tour of Manhattan by his more worldly friend. The two arrive at the harbor where they discover row upon row of elegant yachts.

"*These are the bankers' yachts,*" the cultured man says grandly. "*Over there are the brokers' yachts. And these are the mutual fund managers' yachts.*" The puzzled visitor looks at the magnificent fleets and asks, "But where are the customers' yachts?"

This parable, made famous in Fred Schwed's 1940 classic "*Where Are the Customers' Yachts?*", is as relevant today as it was then.

Although we don't promise our clients yachts, we do commit ourselves to managing their investments to the best of our abilities. We'll never put clients into an investment that we wouldn't make for ourselves or our families.

Why Farnam Street?

A 26-year-old Warren Buffett started his first investment company out of his home on Farnam Street in Omaha. He still lives there today. Mr. Buffett has never been afraid to think independently and challenge the status quo. We named our company Farnam Street Investments as a tip of the cap to his independent, rational approach and a reminder to us to always ignore the crowd.

1847 IRON POINT RD. SUITE 180
FOLSOM, CA 95630
PHONE: 916.542.2008
www.farnam-street.com

From Top to Bottom: Our Holistic Approach

BOTTOM-UP RESEARCH

We search the world's markets for attractive opportunities, applying a bottom-up, Buffett-like approach.

What type of investments are we looking for specifically? In 1972, Warren Buffett purchased See's Candy for $35 million. Mr. Buffett recognized an elite business: one that had a great product, required very little capital investment to grow, and had the ability to continually raise prices. That $35 million investment generated over $1.5 billion for Mr. Buffett over the next 35 years.

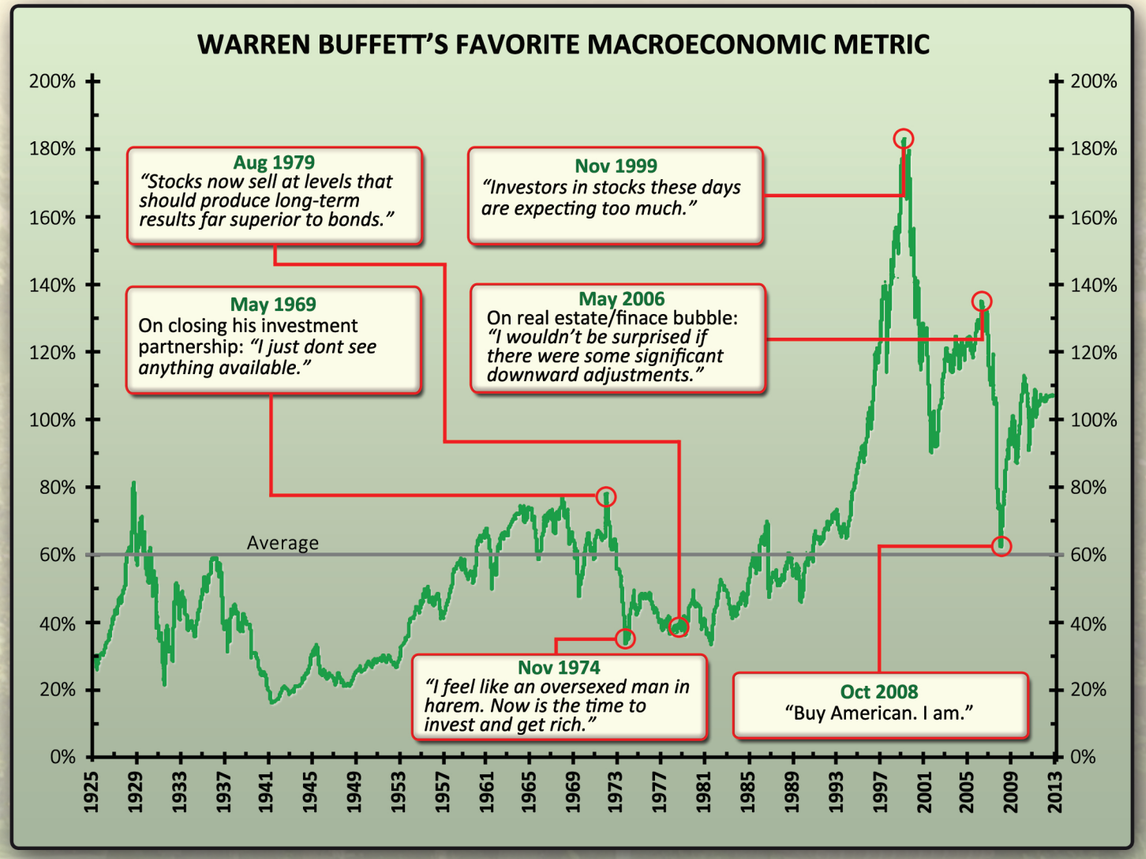
We scour the world for mispriced stocks, bonds, ETFs, and mutual funds-- wherever we can find pockets of value that will produce handsome returns for our investors.

TOP-DOWN ANALYSIS

We also do a top-down macroeconomic analysis of where potential risks may be lurking, using fundamentals to spot both the bubbles and opportunities.

Mr. Buffett very rarely makes market calls, but when he does, he looks to a few key metrics. One of them is the Market Cap / GDP [see graph]. We keep a close eye on those metrics as we search for attractive investments and manage risks.

In the graph, we've included 6 market calls using Mr. Buffett's exact words. He was proved right on all six counts.



Risk Management

"Be fearful when others are greedy and greedy when others are fearful."
-- Warren Buffett

The status quo is to use a cookie cutter approach to managing risk, allocating some arbitrary percentage to stocks, some to bonds, regardless of market levels.

We're more concerned with preserving capital and managing risk by being wary of potential bubbles. If either stocks or bonds aren't priced for us to expect reasonable returns, we're comfortable holding cash and not participating in the irrationality. It's surprising, but this logical approach is a rarity in the finance industry. Although perfectly timing the tops and bottoms is impossible, we refuse to mindlessly follow the herd off the cliff.

We invest our personal and family IRAs in identical strategies that we use for clients, another rarity (less than 13% of managers have money in their own funds). We eat our own cooking and think every investor would benefit from their manager having skin in the game.