

## July 2011 Partner Letter

### Second Quarter Performance

*"In the short run, the market is a voting machine.*

*In the long run, it's a weighing machine."*

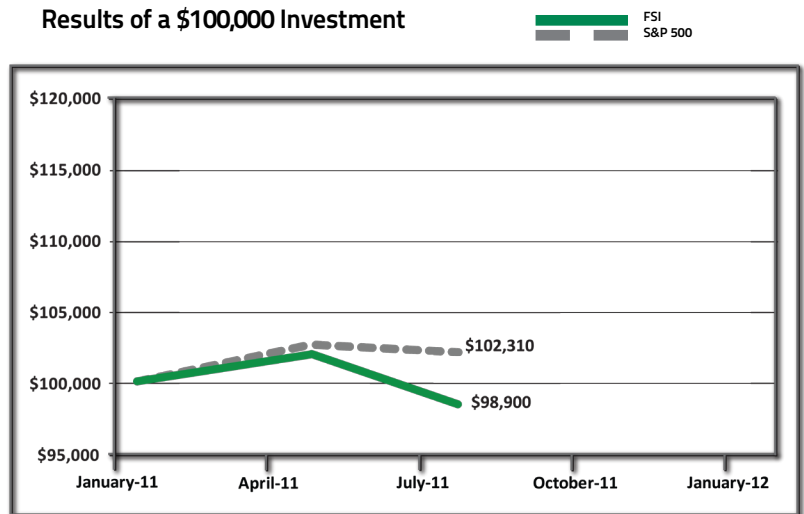
**- Benjamin Graham**

*(Warren Buffett's mentor)*

The fund returned (3.99)% net of all fees this quarter versus the S&P 500's (.39)%. While we had our fingers crossed for a hot start these first few quarters, being down 1.10% year-to-date (vs. +2.31% for the S&P over the same time) is little more than noise as the portfolio ebbs and flows with the market's volatility. Referencing Graham's quote above, we're still firmly in "the short run." As is typical of most value investors, we were probably too early into some of our positions-- what's cheap can get cheaper on you. It can take a while for the market to realize the business you own is just too good to be priced so ridiculously low. Being a little early can often be a good thing as it gives you time to build your position and lower your average investment cost before the rest of the market participants recognize the opportunity.

Long story, short: no one likes being down, but your fund manager has zero worries about the performance so far being a long-term representation of the quality of the fund's strategy.

Results of a \$100,000 Investment



### FSI Goes Mainstream!

Farnam Street Investments is proud to partner up with Charles Schwab to help you meet your long-term goals for your Individual Retirement Accounts (both traditional and Roth IRAs). The pooled investment fund is still available for your cash investments; we're merely expanding into separately managed accounts and increasing our ability to help a greater cross-section of the people we care about. We chose Schwab because of their untarnished reputation, powerful trading platform, and affinity for low cost models (something always near-and-dear to our heart).

*charles* **SCHWAB**

The process is remarkably simple: we'll help you roll your current IRA over to Schwab and FSI can start investing it on your behalf immediately. No minimums, no fuss, full transparency. Talk about "set it and forget it!" Even if you're not an "accredited investor" by SEC standards, you are still eligible for our expertise with your separately managed account. Give us a call or email to discuss how we can help you and those you care about get more out of your IRAs and achieve your long-term financial goals.

### Key Metrics Snapshot

As of 06/30/11	Metric Description	FARNAM STREET Investments	S&P 500	Difference = Margin of Safety
Earnings Yield	How cheap is our stake of partial ownership?	51%	6%	+45%
Return on Invested Capital	How good is the company?	339%	~12%	+279%
Cash/Market Cap	How much cash back do we get on our purchase?	49%	11%	+52%

NOTE: Due to differences in data, numbers are not perfect comparisons.

## Impressionable Minds

We were happy that UC Davis invited us back for a third time to teach our class on investing to their MBA students-- it's truly an honor. We enjoy the class discussions and thoughtful questions the students pepper us with; it helps to keep our minds sharp. While we'd never make the claim of being particularly great lecturers, we must be doing something right: the student interest keeps growing year after year. The class has 45 students this summer (nearly twice as many as the next most popular class offered). It must be the guest speakers graciously delighting us with their stories that fill the classroom; we're just not that good.



## New Team Members

We're pleased to announce that we've selected a new accountant to serve as the fund's administrator. Although the team at Liccar was very helpful in launching the fund, we wanted someone a bit closer to home than Chicago. We've chosen Angie Kim Harrison's team at Core Fund Solutions in Mountain View, CA. Angie brings a wealth of knowledge, industry expertise, and a personal touch that we know will benefit FSI as we grow. We're lucky to have Core Fund Solutions helping us to better serve you.

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*On a personal note, I'm also happy to announce that the Taylor family has added a new team member. On June 23rd, my wife gave birth to our second son, Drew. Although a month early and requiring a week's stay in the hospital, everyone is home, healthy, and happy (me especially).*

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## Investing in the Fund

The next opening to invest in the pooled fund will be September 1st. For new partners, please allow at least 2-3 weeks to complete the paperwork and for funds to clear. For adding money to an existing account, please allow at least a week for everything to process.

For the separately managed accounts, there are no quarterly windows to worry about. We're ready to help when you are. We encourage you to call or send us an email, we'll take it from there to ensure the process is easy, painless, and turnkey for you.

Thank you for your continued trust, referrals and support. If you have any questions or if we can help you in any way, please don't hesitate to call. We're never too busy to help you or people you care about.

Cordially,

A handwritten signature in black ink, appearing to read "Jacob L. Taylor".

**Jacob L. Taylor**, Managing Partner

*Risks associated with investing in the Farnam Street Investors Fund include: investing in common stocks, value-oriented investment strategies, investing in smaller companies, foreign securities and a managed fund, risks of political and international crises. This report does not constitute an offer or solicitation of any transaction in any securities. The Farnam Street Investors Fund is offered by prospectus only. Investors should consider the Fund's investment objectives, risks, charges, and expense. The prospectus contains this and other information about the Fund and should be read carefully before investing. To obtain a copy of the prospectus, please call us at (916) 932-2046, or visit our website at [www.farnamstreetinvestments.com](http://www.farnamstreetinvestments.com), where an online prospectus is available.*

**FARNAM STREET** Investments

101 Parkshore Dr., Suite 100 Folsom, CA 95630  
Cell: 916.775.3741 • Office: 916.932.2046 • Fax: 916.932.2001  
[www.farnamstreetinvestments.com](http://www.farnamstreetinvestments.com)