

FSI Annual Bash

Mark October 1st on your calendar for FSI's Annual Bash. Official invites to follow. We can't wait to see everyone and catch up!

On Empires

"You really have to know a lot about business. You have to know a lot about competitive advantage. You have to have a mind that quantifies things in terms of value. And you have to compare those values with other values available in the stock market."

- Charlie Munger, on determining which businesses to own

Throughout most of human history, great wealth was highly concentrated in the business someone built. Think Rockefeller and oil or Carnegie and steel. Only recently has technology brought us the ability to buy into such empires with ease via the stock markets and global liquidity. We can create our own personal empires of great businesses for a mere \$8.95 per trade. This is a marvelous invention when applied appropriately, and we're all incredibly lucky to have this egalitarian tool.

For the past few years we've been scouring the world to construct an empire that would potentially benefit from either a market or economic downturn. These kind of investments are a rare breed, but we've identified a handful through studying in laborious detail the underlying businesses and how they would perform under different scenarios. Here are just a few we're excited about:

Fairfax Financial - A Canadian insurance company run by Prem Watsa (aka "the Warren Buffett of Canada"). Prem's been building a mini-Berkshire Hathaway for the last 30+ years. We've made the trip to Toronto for the last few years to learn about the company up close and personal. With a fully-hedged investment portfolio and deflation derivative contracts that could be worth multiples of what he paid under meltdown scenarios, Prem has Fairfax positioned to do incredibly

well if the market and/or economy tanks. This won't be the first time. Fairfax bet heavily against housing leading up to 2008. Fairfax has had a great couple of years of insurance results and has grown into a major player in the Canadian restaurant business with their acquisitions of Cara and Prime. Heads, we muddle through and own a solid insurance company with a top notch CEO. Tails, all hell breaks loose and we do exceptionally well thanks to Prem's bearish bets. Prem owns approximately 10% of the company or more than \$1B in stock.

Biglari Holdings- Their best asset, Steak 'n Shake, is the In'n'Out burger of the Midwest. The CEO of BH has worked hard to drive out operational inefficiencies and lower prices for consumers. Customers have responded well. Same store sales have grown quarter after quarter like clockwork, which is the key to profitability for a high operational leverage business like restaurants. Each extra burger they sell is more profitable than the last due to the increasing spread of fixed costs over more burgers sold. SNS's value proposition only strengthens in an economic malaise. The CEO has also added a very profitable niche insurance company and is working to turn around the men's brand Maxim, purchased for cheap on the brink of bankruptcy. They also own 20% of the stock of Cracker Barrel restaurants. The CEO is a great investor who welcomes volatility in the markets as it gives him better investment opportunities. He controls more than 50% of the company stock and his compensation is largely pay for performance - when we win, he wins.

And of course, we have a healthy allocation to cash as well. Cash represents the option to buy great businesses when they become available at attractive prices. We continue to be excited about the current companies we've found and are looking toward adding more that exceed our strict criteria as they become available.

As always, we're thankful to have such great partners in this wealth creation journey.

See you at the Annual Bash on October 1st!

Jake & Lonnie

Performance since Jan 2008*

FSI (after all fees)	+55.2%
S&P 500 (w/ dividends)	+72.2%

* Based on auditable track record of our flagship fund The 5505 Fund formerly named RCM Partners Fund.

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities discussed. Fund results may differ significantly from separately managed accounts. Individual SMA results may differ due to timing of purchases, account size, and portfolio strategies.