Our Vision, Our Mission & Our Guiding Principles

Our Vision

America was founded on an underlying principle – all are created equal - which was our founding fathers collective rejection of inherited privilege and their recognition of individual rights and creativity. Indeed, central to that American ideal was the expectation that all its citizens have the equal opportunity to pursue wealth. Further, they assumed that that wealth would be fairly distributed according to the individual's creative application of his will, and would thus cease to be concentrated among the few.

The founding fathers believed, as we do, that concentrated wealth and wealth opportunity undermine the economy, corrupt democracy, deepen the racial divide, and diminish our nation's capacity to realize the true collective potential of its citizens. To be clear, we are not socialists. We do not believe in the arbitrary distribution of wealth. We are not anti-wealth. [We would not be in the business if we were.] However, we *do* believe that the technical, social and legal barriers to wealth *accumulation* should be dismantled. We *are* believers in the fair distribution of wealth *opportunity.*

Our Vision is of a nation where prosperity is better shared, where there is genuine equality of opportunity, where concentrated money ceases to dominate and where *all* of our nation's human resources are allowed to germinate and grow.

In short, our Vision is the democratization of wealth opportunity.

Our Mission

In order to realize our Vision, our Mission is to:

- strive to be an open-source, world-class value investment firm
- challenge exclusionary practices that work to undermine wealth opportunity
- operate as an advocate for investor rights and education.

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230

Our Guiding Principles

In executing our Mission, we will be guided by the following business and investment principles:

We are partner-centric in all aspects of our business.

We hope that anyone who benefits from contact with us - whether that is through becoming a client, reading our newsletters, or attending one of our seminars - thinks of himself or herself as our partner. Partnership suggests that we have a symbiotic relationship with benefits to and for one another. Our partners would benefit from our role as fiduciary as we pledge to provide objective advice, exercise professional competence and practice a diligent and rational approach to investing on their (and our) behalf.

We in turn, hope to benefit from our partners. We hope our partners benefit us by "buying into" our investing approach and our long-term view. We hope our partners continually communicate with us their personal goals and expectations of us. We hope they will dedicate themselves to investing and saving significantly and consistently a substantial part of their income and assets with us. We hope that they will find our service valuable enough to unabashedly refer us to their family, friends and associates so that we might help those introduced achieve their goals as well.

In line with our partner-centric orientation, we invest the majority of our personal assets alongside our client-partners.

Nearly all of our collective liquid net worth is invested in the same investment vehicles as our client-partners. We manage our partners' funds as if it were our own. At no point will we recommend to our partners a course of action that we are unwilling to take ourselves. In the spirit of Mahatma Gandhi, we will not advise our partners to "stop eating sugar"[1] if we ourselves can not do the same.

When we perform for our client-partners, we are performing for ourselves. Unfortunately, we can not guarantee that that performance will be exceptional. All we can do is guarantee that our approach will be consistent, based on research and executed after rational thought. And although we can not guarantee favorable investment outcomes, we can guarantee that our fortunes will enjoy a proportionately equivalent fate as our client-partners'.

We will make extensive efforts to demystify the investment process.

The financial services industry, particularly the investment management subset of the industry, has been notorious in making the investment process appear complex.

[1] A popular story passed on about Mahatma Gandhi goes something like this: A woman brought her son to see Gandhi because he was eating too much sugar. And despite her vigilance, the boy could not seem to give up eating sugar, even though it was bad for him. And so the woman asked Gandhi if he would speak with the boy about his problem. Gandhi replied, "No, but bring him back in a week." And so in a week the woman returned and once again petitioned Gandhi to speak with her son about his rather bad habit of eating too much sugar. Gandhi welcomed the boy and had a discussion with him about giving up sugar. The boy seemed affected by Gandhi's advice and the woman thanked him deeply. As she turned to leave she asked him one final question, "Why did you see him today and not last week?" And Gandhi replied, "Because last week I was eating sugar."

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230

The industry has counted on the uninformed investor seeking advice he or she may not have needed and paying exorbitant fees in the process. The result has been the unfair and unnecessary dilution of investor wealth.

We pledge to work to undo the cloud of doubt and uncertainty the financial services industry has cast over the investing public. We will communicate with the public and our partners in plain English, not Wall Street jargon. Our approach will be to educate, not mislead or confuse. We believe that an informed investor is a benefit to our business and society at large. We will work diligently to spread the truth: that investing approached intelligently and rationally, though not easy, is simple.

We will work to dismantle the high "barriers-to-entry" of wealth building and investing.

For far too long, certain investments and investment services have been the bastion of the privileged. We believe that barriers to wealth building and investing are contrary to the American ideal of "equal opportunity". Those barriers - of the technical, social and legal variety - all work together to keep wealth concentrated among the few.

Most of the technical barriers which have included, high trading fees, nearly insurmountable investment minimums, hoarding of corporate information and trading lots, have been dramatically diminished in recent years. However, the "Old Guard" in the investment management industry has been slow to utilize these new conditions. They'd rather keep the investing pubic ignorant in pursuit of high fees charged to wealthy clients and at the expense of excluding those whom are underinvested in the financial markets. We pledge to continue to find ways to overcome the technical barriers to wealth building and investment and promise to deliver those conditions to our partners. As a start, our firm has no asset minimum and does not charge minimum fees.

The most dominate social barrier to wealth building and investment is investor ignorance. Most of what we know as investors is taught to us by our parents or guardians or commercially minded investment gurus. Thus, if the original information is flawed, subsequent generations of investors may find themselves perpetually un-wealthy or certainly less wealthy than they should be. We pledge to continuously seek knowledge that will enable us to challenge conventional wisdom and we promise share that knowledge openly.

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230

The legal barriers to wealth building and investment are ironically meant to protect investors. The government's (in the form of the Securities and Exchange Commission [SEC]) enforcement of so-called "accredited investor"[2] laws however, is misguided. Instead of protecting investors, these laws simply discriminate against the not-so-wealthy by limiting the investment alternatives available to them. Our viewpoint is that an investor's current wealth or income status should not be the criteria in determining his or her investment sophistication. Instead, investment knowledge should be the criteria. We will, with the help organizations of like mind, lobby our government representatives to repeal these laws in their current form[3].

We are committed to a long-term philosophy. Our long term economic goal is to optimize our partners' wealth as well as our own. In theory, long term means at least one business cycle (typically 5 years). In practice, we may hold our investments for longer or shorter periods of time.

Our preference is to own a concentrated portfolio of common stock positions of companies that we understand well that also generate high degrees cash and generate high returns on capital.

It makes little sense to put your money at risk without the expectation of increasing your capital. We feel that our investment style – common stock investment through concentrated portfolios invested for long periods – offers the most opportune vehicle for capital appreciation and out-performance of the market.

Historically, common stocks have the best record of performance of any major asset class and this condition is likely to continue. By choosing stocks, over other forms of securities, we are making a high probability bet that we will increase our capital. Should market conditions dictate (i.e., common stocks are unjustifiably expensive), we will alter our preference to other asset classes.

Our philosophy of investing in concentrated portfolios is our way of investing in the "best of the best". We believe that over-diversification will significantly reduce our ability to outperform the general market. It is difficult to beat the market if your portfolio is too similar to the market. And the more securities you hold the more

---

[2] According to the SEC an accredited investor is:

- Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer or general partner of a general partner of that issuer.
- Any natural person whose individual net worth or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000.
- Any natural person who had individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year.
- Any trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase of the securities is directed by a person who has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment.
- Any organization that was not formed for the purpose of acquiring the securities being sold, with total assets in excess of $5,000,000.
- And, any entity in which all of the equity owners are Accredited Investors.

[3] This is not to suggest that accredited investors have *better* investment choices. They simply have *more.* It is the *more* that is in question.

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230

likely this is to be the case. We are free to select only the securities we deem appropriate.

Our investment style is likely to be more volatile than the market. Further, there may be periods of time when our investments may be out of favor or the market is "irrationally exuberant" and prices do not reflect underlying intrinsic value. Consequently, we will not beat the market every quarter or even every year. But over long periods, we believe we can.

We apply an investment philosophy whose framework was first presented by Benjamin Graham & David Dodd in their 1934 classic text, *Security Analysis*. In other words, we are value investors.

No matter how it is applied, the value investing philosophy rests on three principles:

1. all securities have an intrinsic value that, although impossible to precisely determine, is imperative to estimate
2. market prices of securities are subject to significant and erratic movements, which often times diverge from the securities' intrinsic value
3. a "margin of safety" should always be established - a strategy of buying securities only when their market prices are significantly below their estimated intrinsic value will lead to superior performance

We always attempt to estimate the intrinsic value of a company and once established, invest when the current market price of the company is well below our estimate of value. The key word here is estimate – we are not arrogant investors. We recognize that we can not absolutely say what the exact value of the company is, thus we will only invest with a margin-of-safety established. The margin-of-safety protects from ourselves and in the long run will benefit us with fewer loses and higher returns.

We are often contrarian in execution, buying when others are selling and selling when they are buying. Undervalued companies usually arise from turmoil, misunderstanding, or extreme investor pessimism. Thus, we are likely to be "greedy when the world is fearful". This contrarian behavior will lead us to investments that continue to languish in a depressed *price* state longer than we'd like. Thus, it is imperative for us and our partners to be patient should we hope to gain from the eventuality of the market's recognition of our investments' true value.

We will be forthright in all our communications with our partners, through all of our related businesses. We will emphasize both our successes and failures with the same degree of candor and welcome open dialogue with each of our partners.

We will make every effort to foster an open and honest dialogue with our partners and the public. We will communicate all the information we think is relevant for our partners to know. We will not skirt around the issues or the numbers. We will also refrain as much as possible, from using Wall Street jargon, choosing instead to speak and write as if we were speaking or writing to a close friend. Consequently, much of our communication will appear *informal* in nature but is always intended to be sincere, easily understandable and hopefully interesting.

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230

We will primarily communicate with our *client*-partners in three ways - our monthly[4] Client Letter, our newsletter *The Third Pig*, and our website blog[5]. Through our Client Letters, we try to give our client-partners as much value-added information as possible without overwhelming. We will usually use this tool to communicate the status of our collective investments and peripheral events that may affect them. Our newsletter, *The Third Pig*, is distinct from the Client Letter, in that its focus is more general. Here we will communicate investments that may be on our watch list, give our opinion on personal finance issues and may include general interest stories. *The Third Pig* will be what is typically expected of a quality investment newsletter, with the added benefit of our view of the investment landscape. Our website blog has no limitation on the topics that may be covered, with the caveat that it must in some way benefit those that read it.

We will also engage in less direct forms of communication. Our frankness and commitment to investor education will appear in articles for general publication, books we may write or contribute to and interviews we may conduct with the media.

In all of our communication, we will treat all of our partners equally. To that end, we will refrain from giving our opinion on specific investments to individuals. We do not want to give an unfair investment advantage (or disadvantage) to any one individual. Our objective is for all of us to benefit at the same time.

We focus on investments and business practices within our circle of competence. In that vein, we also avoid those things that add little to our collective goal of increasing our wealth.

We will not attempt to learn everything about every investment or every financial topic. This is an impossible achievement and if attempted, would be a waste of precious time[6]. We take comfort in knowing that the vast majority of investment opportunities will not meet our stringent criteria, thus does not warrant our extended study. Instead, we want to look where our skills and experience give us an advantage.

Our focused approach is characterized as much by what we will avoid as in what we will engage. We do not employ the use of leverage. The additional return it will provide us does not compensate us for the increased risk of having to liquidate our investments due to a margin call. We look for companies that are (or nearly) debt-free so why shouldn't we be.

We do not speculate in penny stocks or thinly traded securities. Lack of information and wide bid-ask spreads make these securities poor investments. Under most circumstances we do not engage in options trading as this is a zero sum game where

[4] Although reporting on the status of our collective investments is important, our primary responsibility to our client-partners is the management of those investments. On occasion, reporting to our clients and managing their money may create time conflicts. In those cases, we will choose to suspend the writing of the Client Letter to a later date and attend to the management of our investments.

[5] We would love to be unconditionally available to every client on a one-on-one basis, but as our client base grows, this becomes increasingly difficult. In person one-on-one communication is likely to require scheduling.

[6] This is another reason we do not give our opinion on specific investments to individuals. Bottom line, we may not have an opinion because we may have not have studied the investment.

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230

no party holds a decided advantage. We refrain from frequent trading which necessarily postpones transaction fees and capital gains taxes.

We promote diversity in our business, our clientele, and in the employment practices of the companies we invest in.

We are ultimately concerned with the long term performance of the companies in which we invest, as this undoubtedly will increase our and our partners' wealth. Companies that follow socially responsible practices are the most likely firms to do this. We do not however, consider ourselves 'socially responsible investors' (SRIs) as it is commonly understood in the marketplace. We do not arbitrarily dismiss a company on the basis that we think the products it produces are harmful or unethical. We believe that choice should be left up to consumers. Should the products be undesirable to the consumer, the company will not perform economically and it is not likely to show up on any of our 'buy' lists. On a related note we believe that firms that have poor labor relations or corporate governance will eventually demonstrate sub-par performance, and these too will not be of interest to us. But we would be judging these companies not on their policies or practices by ethical standards per se, but by their inevitable economic performance.

However, there is one area in which we fall in line with many SRIs. We believe that companies that support and encourage diversity will be better able to prosper by taking advantage of a wide array of talents and perspectives. As stated in our Vision, we believe in our nation taking advantage of the collective potential of its citizens. So we look for companies that are doing the same. In practice, we favor companies where minorities, women, disabled and persons of alternative lifestyles represent a significant portion of the board, and/or a member from these groups is the CEO, and/or that a healthy number of people from these groups are employed by the company. We will avoid companies with very little diversity and certainly, those that have a history of discrimination.

Benjamin B. Taylor
President

51 John F. Kennedy Pkwy, First Floor West · Short Hills, NJ 07078 · Tel: 973-313-1220 · Fax: 973-313-1230