

J. L. BAINBRIDGE
& COMPANY, INC.

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Dear Client:

“The Snowball” by Alice Schroeder is a comprehensive biography of Warren Buffett’s path to riches and recognition as the world’s greatest investor. Beginning in the 1950s following Ben Graham’s approach of buying stock in companies selling well below the value of their cash holdings and hard assets, his wealth grew to over one million dollars and he was managing many times that of other investors’ money. However by the mid-1960s, the stock market had reached a lofty level and these value stocks could no longer be found. Hence Warren moved to buying a privately owned department store and a chain of suburban newspapers. While the prices paid appeared to be bargains, they were poor businesses which over time were liquidated. He also bought heavily into a textile company, Berkshire Hathaway. This also was a failure, but he utilized its name for his investment company that has become famous. Based on these experiences he slowly evolved to the philosophy that realized great businesses with compounding earnings and cash flow growth were far superior to mediocre businesses at a so called bargain price. The investment success of this approach is based upon buying great growth businesses at a reasonable price. The bear markets of 1970 and 1974 provided the opportunity, and his snowball to great wealth and fame was on its way. Religiously following this approach over the last forty years is precisely how he became a multi-billionaire.

The reason for going through the above dissertation is because this is exactly the same investment philosophy we have diligently employed since our founding thirty years ago, and we will continue to follow into the future. This does not mean we are copying Warren’s investments. We do our own independent research as evidenced by the fact that our only holding that is common with his is Johnson & Johnson. Many ask: If this is the key to investment success, why don’t others follow? We believe the reason is most investors lack the patience and discipline to adhere to this program and the courage to stay the course when the markets are in disarray.

There are four elements to the success of this philosophy. First, identify great businesses with strong finances and prospects for continued long-term growth. Second, only make purchases when the price is attractive. In our case, this is when based on our analysis the potential return over the next year is at least 35%. Third, constantly monitor these businesses because over time a business can change or become too expensive. Last, the confidence to stay the course. While we will always counsel against selling out, this is ultimately the client’s responsibility. While the market has declined over the past decade, our program has protected clients from the devastating losses many incurred over this period. As to the outlook, with today’s low stock prices and the high earnings growth that the companies in our portfolio are generating from international markets, the prospect for achieving double digit returns for our clients over the next several years is high. In the event you feel the pressure of the media hype and market volatility is getting too great to stay the course, you should contact us and choose to increase your portfolio allocation of income holdings.

Jerry Bainbridge, President