June 30, 2015

Dear Fellow Investor:

Last April I wrote to you remarking that though there had been much to and fro, much stürm und drang, in the equity markets in the first part of 2015, very little had changed—the S&P 500 was within a hairbreadth of where it began the year. The same is true as we reach the middle of 2015. The index is within a percentage point of its close on December 31, 2014.

The equity accounts for which we are responsible fared approximately the same—about flat year-to-date, some up a little, some down a little. Excellent relative price performance by many of our names, especially the newer ones, was offset nearly dollar-for-dollar by sluggish performance by some of our largest holdings—Berkshire Hathaway, say, or our automobile salvage auction business—and the effects of the collapse in commodity prices on our (few remaining) commodity-related businesses. I am not even slightly concerned about the health of Berkshire Hathaway or whether Americans (and Britons and Brazilians and Germans and Arabs) will continue to wreck their cars. And we are dealing rationally, I believe, with the commodity-related businesses. We will be fine, uninspiring price action notwithstanding.

I also told you last April to expect increased volatility in the markets as various non-fundamental factors such as high-frequency traders and the retreat of traditional intermediaries, an unanticipated result of financial "reform," exaggerated otherwise normal fluctuations in the markets. This has certainly been the case and will likely continue. Yesterday saw the worst drop in the stock market so far this year when Greece upped the ante in its seemingly eternal game of chicken with its creditors. But traders with whom we spoke described the decline as orderly and my guess is that investors who have foolishly sat out the current bull market in stocks will use any meaningful correction to finally and begrudgingly get in.

The market for sovereign bonds went to an unimagined extreme with the advent of negative interest rates—you have to *pay* the governments of Denmark or Switzerland to hold your money! As Honest Abe remarked long ago, "You can fool all the people some of the time and you can fool some of the people all the time…" The snap-back as investors realized, "wait a minute, this can't go on!" was violent indeed. We at Weybosset Research (WRM) have little or no exposure to ultra-low- yielding debt instruments, much less *negative* interest rates, so the effect on us was minimal.

The Chinese stock market exploded last year when the government made access to the market easier for the ordinary comrade, the so-called "retail" investor. As of June 12 2015, the Shanghai Composite index was up almost 60% year-to-date. Then the government decided that perhaps things were going a little far, and tightened margin requirements (the ability to borrow money to buy stocks). By June 29 the Shanghai Composite had dropped nearly 22%. Now that's volatility! At WRM, we own no Chinese stocks. On the other hand, China, after all, is the second largest economy in the world, so of course we do some business there. Our largest business in China is selling beer. (We think that in light of recent action in the Chinese stock market, the outlook for Chinese beer sales is excellent).

So despite rapid market alternations between despair and euphoria, we remain sanguine on U.S. stocks. Jason Trennert of Strategas Research Partners speaks of the "TINA"—there is no alternative--market. Returns on bonds are so low that owning bonds now entails far more risk than potential reward; cash yields nothing; commodities have resumed their long-term downtrend; so-called "alternative investments" (hedge funds, "absolute return" strategies, and the like) have on balance proven disappointing—not surprising given their extraordinarily high fee structures. Only private equity and certain real estate investments among the major asset classes compete with common stocks to offer the hope of reasonable returns.

This will not always be the case. At some point, interest rates will normalize—the Fed has made it clear it begins to start that process soon—and we will be happy to return to the fixed income markets. But only when we are adequately compensated for any risk we assume. The same is true of other asset classes—no money from us unless prospective rewards heavily outweigh prospective risks.

But we do need to be aware that U.S. stocks have on average more than tripled since the lows set in 2009. Valuations, while not excessive, are on average hardly cheap either. Though the investor elation typical of market tops is nowhere in sight, bouts of speculation mount—ask a Chinese retail investor. Bear markets in the U.S. almost always coincide with the advent of an economic recession; if anything, the U.S. economy looks to improve for the foreseeable future. But high debt levels and lethargic economic activity abroad make our current expansion vulnerable.

We at WRM are fully aware of these and other threats to your hard-earned capital. We look to reduce risk as markets rise by investing only in the highest-quality enterprises in essential industries—say, heating your home in the winter or putting food on your table. Above all we need to be cognizant of what we pay for any particular security. A "margin of safety" is the sine qua non of the value investor, and we count ourselves value investors.

Likewise we have changed the configuration here at WRM to be more research-intensive. Justin Deutsch, with whom we enjoyed a multi-year relationship when he worked at Baycrest Partners in New York, joined us nine months ago to help in the investment process. Justin's experience and fresh ideas are already bearing fruit. Tom continues as veteran analyst and in-house skeptic. For better or for worse, I still make all the decisions—at least if something goes wrong, you know whom to blame! And, of course, Jeannine is on hand to administer the business.

In this way we endeavor to earn the trust you have placed in us. We are truly grateful for that trust and extend our deepest thanks.

Yours very truly,

Fla Lewis III
Principal