Value Investor Confidential

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"Where Intelligent Investors Acquire Their Edge Through High Quality Ideas."

Value Investor Confidential Report

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INVESTMENTS FEATURED

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Inside this Issue

Maredin Capital Advisors

Marcelo Zinn explains how he keeps his edge mentally and physically as it relates to investing, the six phases of his investment process, how he was influenced by Warren Buffett and Charlie Munger, and why he sees upside in Ally Financial, Mannkind, and Sanofi.


Marcelo Zinn

Marcelo Zinn founded Maredin Capital Advisors in 2005. His investment philosophy is based on the Value Investing philosophy founded by Benjamin Graham and popularized by his most famous student Warren Buffett.

He is a true value investor, which he defines as investing in undervalued companies which present a considerable margin of safety from their intrinsic value. In ascertaining the "intrinsic value" of the business, Marcelo and his team focus on five ways to analyze the value of the business: Acquisition Value, Liquidation Value (or Collateral Value of its assets), Discounted Future Cash Flows, Management Effectiveness, and General Business Environment. Marcelo certainly "eats his own cooking" as he invests almost all of his family's life savings in the portfolios he manages. A significant portion of his extended family's assets are invested as well.

Currently, Marcelo is finding value in such industries as biopharmaceuticals, Healthcare, and financials. He is finding opportunities in Mannkind, Sanofi, and Ally Financial. The three companies featured are trading at large discounts to the intrinsic value of the underlying business.

How did you get started in Value Investing?

Marcelo Zinn: My first exposure was when my uncle, annoyed that advisors kept losing his money, asked if I had any interest in investing. He didn't know the technical name, but philosophically, he was a "value investor." The core of what I originally learned from him has stayed the same: you always pay considerably less than something is worth. He wanted me to think like a business owner; if you were going to buy the entire company, what price makes sense?

I am completely self-taught. My journey started with a focus on Benjamin Graham type fundamentals. Over time, I've realized Buffett's genius and moved heavily in that direction, although I have my own spin on things as well. The biggest change since I began, is the relative weightings I placed on factors we have determined are more likely to lead to long-term success. Things such as management, moats, underlying fundamentals, and macro concerns amongst numerous other things have different levels of importance compared to 12 years ago. Lots of nuances add up to major changes. From a quantitative stand-point, the changes aren't as dramatic as the qualitative ones.

What does your typical day look like (from beginning to end)? Do you have any daily rituals that help you keep your investing edge?

MZ: First thing I check are emails. Then I start reading Yahoo, the BBC, Bloomberg, numerous blogs, and a few other websites in the hopes that I learn something or something interesting jumps out at me.

If I already have something I'm researching, I work on that. If not, I run one of my preferred screens. Most of the day is spent reading, researching and writing. I try and chat with clients frequently. Most are young professionals/executives and business owners. They have their ears very close to the ground, which helps shape my view on the economy, industries, and individual concerns.

Several times a week, I go to Crossfit or play soccer. I think this is a significant part of my overall edge. Physical exercise helps maintain both mental and physical health. I'm hyper competitive and a diehard sports fan. I'm a huge fan of the Miami Hurricanes, Miami Dolphins, and Soccer (I'm Brazilian, I can't help it). When not with the family or investing, I'm thinking sports. Then dinner with family, the most important ritual.

Who are the people that inspire (or inspired) you the most? And why?

MZ: My immediate and extended family is my biggest inspiration. I come from a family of entrepreneurs who like to carve out their own way. A lot of strong personalities, very opinionated, and not afraid to be contrarian to anything if they think it's the correct thing to do. Very inspirational to me. Outside of my family, I'm heavily influenced by Munger and Buffett. Not only do they think about things the

ON FINDING VALUE:

"...we try and look where others won't. We are not afraid to venture into complex, untraditional value investments like biotech if we find the right situation."

right way, they do it the right way. No short-cuts. Honesty and integrity are the most important things. Last but not least I'm very inspired by my clients to help them improve their financial future.

What did you learn from those people that you'd like to pass on to our readers?

MZ: There are so many lessons that I'll highlight just a few:

1. Never compromise on integrity
2. Determination is half the battle;
3. Focus on what you know;
4. Do your homework;
5. Listen to others, but always make up your own mind.

What are the top 3 books you'd recommend to investors?

MZ: *The Most Important Thing* by Howard Marks. Like Buffett and Munger, Marks is one of the great "thinkers" on investing. You should read everything he has written. *Value Investing* by James Montier is a classic in my view. Covers all the bases really well, especially the importance of behavioral finance, which is the most important and least understood aspect of becoming a successful investor. *Latticework* by Robert Hagstrom is fantastic. It's a macro view of Munger's "mental models." Munger has powerful ideas about how to think about problems. He is one of the great thinkers (on everything) of our time.

What is your philosophy and process to investing? How do you search for investment opportunities and what are the criteria that you look for the most?

MZ: We are deep value investors with a focus on absolute returns. Long-term seeking Buffett style investments, although we also look into special situations. We run concentrated portfolios with less than 20 positions, and are research oriented with considerable emphasis on management and the underlying business. While we generally stick to pretty bland industries, we try and look where others won't. We are not afraid to venture into complex, non-traditional value investments like biotech if we find the right situation. We also look across the spectrum and are willing to invest in companies of any size. We put no importance on how ideas come to us. Sometimes we identify something online, at other times a client may present an idea, others may come from a screen we ran. In essence, we are willing to look anywhere we believe we have an edge, as long as it meets our stringent criteria.

Our Investment Process is broken up into 6 phases:

1)Troll the Ocean — Initially ideas come from reading an article, a current investment, online resources, computer programs, T.V., newspapers, friends, wife, kids, etc… The point is we try and look under every rock to identify a good idea.

2)Find a Spot you Like — If an idea "jumps onto your radar screen" you review financial valuations and ratios, make sure you understand the business/company, check the competitive landscape, and see if its interesting.

3)Take a Deep Dive — Once an idea successfully passes through steps 1 and 2, we "go down the rabbit hole" (i.e. do considerable research and financial analysis), making sure we like management, their competitive position, and ensure it is both undervalued and presents a considerable margin of safety.

4)Gather your Thoughts — After completing the first 3 steps, we write a report detailing our view and the results of the research and analysis. Generally, shorter is better. It shouldn't take much to explain an idea. If it does, it's probably too complicated an investment (we like 1 foot hurdles).

5)To Invest or Not to Invest, That is the Question — With thesis in hand, we see if the company we just analyzed is superior to what we currently have. If it's superior to what is currently in our portfolio, we invest. If not, we simply pass.

6)Watch the Investments — Follow each company to make sure it's doing what we expect. Continually evaluate to see if we need to make a change or keep everything the same.

How important is it to you that your investors share in that long term perspective with you?

MZ: Aligning yourself with the right shareholders is nearly as important as the actual investment selections you make. You don't want to spend half your time trying to convince investors of what you are doing. Plus, you want your clients to sleep well at night. Having them understand what you are doing goes a long way towards ensuring that. Furthermore, with like-minded investors, you ensure that at the moments you can best utilize their capital - take advantage of a considerable opportunity, they'll be on board. Permanent capital is more ideal, but having the right investors is nearly the same as permanent capital. As usual, Buffett had this figured out decades ago. The key is accepting and educating the right clients at inception. Not everyone has the temperament to be invested over the long-term, while not spending much time focusing on short-term volatility. Many people want casino action, instant gratification; we cannot help those people.

ON INVESTING IN BONDS:

"We believe that the risk/return profiles for long dated bonds are perilous. Current prices do not compensate for the inherent risks."

If you can identify and help like-minded investors, everyone is likely to be more fulfilled, and the results are likely to be superior. It's like any relationship, better be happy, or it can be a long unpleasant ride. Don't be afraid to say no, even to very large potential clients, if it's not a good fit.

Do you have a circle of competence in any industry? Or a generalist?

MZ: I'm a combination of both. While overall I'm a generalist, I have several areas I focus on more than others. I usually focus on Pharmaceuticals, Financials, Industrials, Consumer Goods, and Retail. You have to be flexible and able to take advantage of market inefficiencies. You can't have the "hammer" mentality that Munger often describes ("to a hammer, everything looks like a nail"), or you'll limit your success. But, you also have to have the depth to understand what you know and what you don't. A little knowledge can be very destructive. One must be very careful to not operate outside their circle of competence.

Describe your value discipline once you have arrived at an understanding of the Intrinsic Value of the business?

MZ: Buying is always much easier than selling. You buy whenever a security meets your criteria. Then you constantly review your position to make sure your estimate of intrinsic value either holds or is increasing. If the security declines in price, but IV holds, I usually acquire more. If the security really takes off in the short-term, I may sell before it hits IV. If company continues to move in line with my expectations, I generally hold until I get very close to IV. If after 2 years we see no movement, I generally sell and move on. 75% is my usual discount. I've had less if it's an unusually high quality/low volatility business (a "foundational position"), but I usually focus on positions with at least a 75% discount.

How do you think about managing risk?

MZ: I look at risk from an individual position standpoint. Every security must be low risk on a stand-alone basis, on its own merit. If you take care of each one independently, it will, address the overall portfolio. We also consider the portfolio as a whole, and look to minimize any risks, but our primary focus is individual positions. We generally only make positions at a minimum of 4% of the portfolio. For our individual client portfolios, we usually do not exceed 15% for any position.

Are there any investing themes that investors should be aware of over the next 3-5 years and beyond?

MZ: We believe that the risk/return profiles for long dated bonds are perilous. Current prices do not compensate for the inherent risks. I believe financials and pharma are two highly interesting areas with lots of opportunities. The inherent complexity in both provide for some unique situations. And there are plenty of opportunities currently. We are keeping a close eye on wage inflation. This could cause the FED to take stronger action much sooner than the market is anticipating.

How do you define the traits of Discipline, Patience, and Judgment as it relates to investing?

MZ: All three are obviously important to successfully manage money. All three are overly qualitative in nature which is much more complicated than the quantitative aspect of investing. The qualitative part is far more difficult. Discipline is key to minimizing mistakes. Stick to your circle of competence. With regards to patience, Munger quotes Pascal's saying "all of humanity's problems arise from man's inability to sit quietly in a room alone." You have to be able to sit on your hands and wait for the right opportunity. Judgment is ability to identify an opportunity, or ability to say no and move on. Absolutely vital to long-term success. Like most things in life, these are easy to say yet difficult to do well.

What was the worst investment you've ever made?

MZ: First Marblehead (FMD): Packaged student loans. The issue was contagion during the financial crisis. Good management and excellent business. During the crisis, they were completely shut out of the CDO market which completely doomed them. It was a good, though painful lesson. FMD relied on a single funding vehicle/source for its business. The health of the entire enterprise was compromised due to contagion from the crisis. I learned several valuable lessons.

And this ties in with the #1 mistake most investors make — they make decisions based on emotions. Even the so called "experts" have tremendous difficulty with this. Look at how most hedge funds have underperformed over the past 6 years. They can all run numbers and evaluate companies. It's the psychological aspect – dominated by emotions - where they get tripped up. Individual investors deal with similar challenges. Everyone say's buy low/sell high, but they do the opposite. Reason: emotions. It's hard to overcome. This, and having a "fake" long-term investment window.

INVESTMENT SPOTLIGHT: Ally Financial (ALLY)

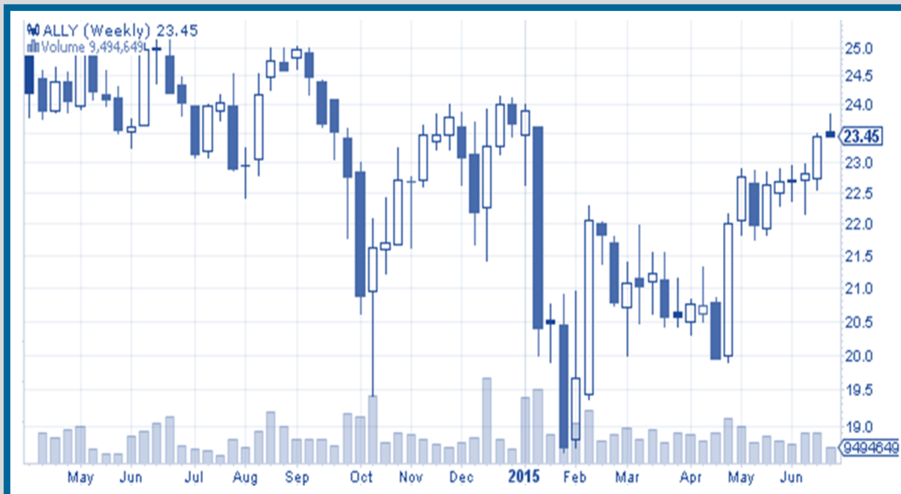
Ally Financial Inc
(NYSE: ALLY)

Description: An independent automotive financial services firm.

Price	**$23.45**
52-Week Range	**$18.63—$25.08**
Dividend Yield	N/A
Enterprise Value	77.18B

Basic Valuation:	
P/OCF:	4.19
P/TBV:	.77
EV/EBIT:	62.46

Notable Owners:	**% Owned**
Cerberus Capital	8.62%
Third Point	5.40%
Perry Corp	4.57%



INVESTMENT SUMMARY

Marcelo expects this unloved financial to earn $3 per share. Using a 15x multiple gives him a value of $45. Today, shares are trading at $23.45 per share — or almost 100% upside from current prices.

Sources: Company reports (10Ks, 10Qs), other public information

What's the best investment you've ever made?

MZ: Frontline, an oil tanker company. When we first came across it, we calculate that it was trading below the scrap value of its ships. Our downside was minimal. It was also trading at less than 10x earnings. The business possesses very high operational leverage. When the daily charter rate - which was at break-even when we began to invest - jumped over a 2 ½ year period, the stock price increased 500%. They spun-off two companies that also increased in value. It was the second company I invested in. Lots of valuable lessons learned, which I continue to carry with me.

Can you describe your investment thesis in Ally Financial (ALLY)?

MZ: The most interesting aspect of the Ally story is the improvement in funding sources. When combined with their ability to grow their top-line, and a re-rating of their market multiple, it should result in a near double of the current $23 stock price. The biggest factors in funding are three-fold: Increasing deposits at Ally Bank, loosening of reserve requirements on lending at Ally Bank, and eliminating expensive debt.

Ally Bank is a key part of Ally Financial. It is both a vehicle for banking profits and also provide cheap funding for auto loans. Borrowing from Ally Bank is ~1%, whereas external funds can be 4-5%. Ally Bank has been growing its deposit base at a rapid clip. The greater the deposit base the more funding that is available to Ally's auto loan portfolio, in addition to normal banking operations.

Another factor is that Ally Bank has high reserve requirements imposed by the FDIC. Once these restrictions are lowered, more funds will be available for low cost funding of auto loans.

One of the biggest factors, and certainly one that can have the biggest immediate impact on the overall profitability of Ally Financial, is expensive debt that was issued around the financial crisis of 2008/9. Much of this was due to GM's bailout. Of the $170B in liabilities, $10B has coupons with an average yield of 8%. If the $10B with an 8% coupon is redeemed/called over the next 3 years and new debt is issued at the same current yield (5%), Ally would save $300M annually. Using a multiple of 15X, this alone would create nearly $4.5B in additional market capitalization (~40% of current Mkt Cap).

Ally is also trading at a low normalized multiple of 11x 2014 EPS or $23/share. This is unduly low for a company which is so solid and large. We believe a re-rating will occur sooner rather than later, and we believe it will occur as the company's earnings story becomes better understood. A 15x multiple is reasonable for a business of this quality, Our EPS expectation for Ally is $3 in 2015. Using a 15x multiple, we get to $45/share, or almost 2x the current price.

INVESTMENT SPOTLIGHT: MannKind (MNKD)

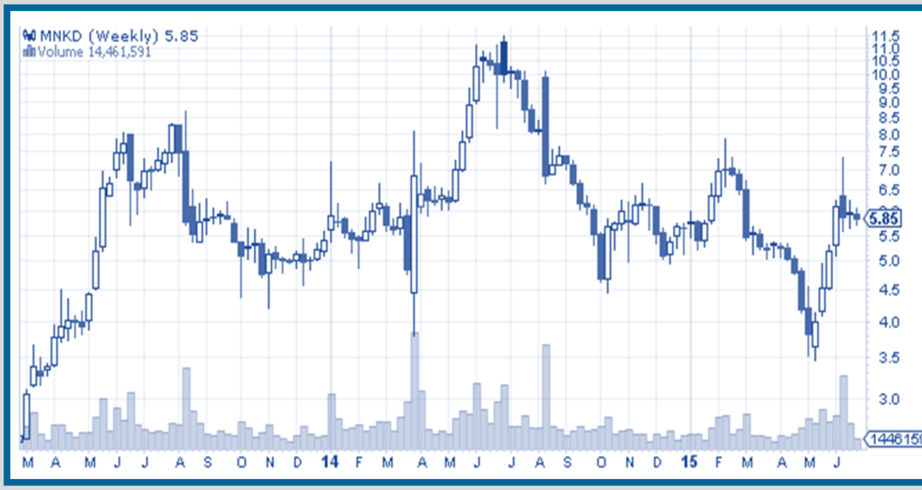
MannKind Corporation
(NAS MNKD)

Description: Engaged in the development and commercialization of therapeutic products for diseases.

Price	**$5.85**
52-Week Range	$3.46—$11.48
Dividend Yield	N/A
Enterprise Value	$2.53B

Basic Valuation:	
P/FCF:	118.62
P/OCF:	53.76
EV/EBIT:	-16.87

Notable Owners:	**% Owned**
The Mann Group	23.79%
BlackRock Inc	4.68%
Greywolf Capital	1.85%



INVESTMENT SUMMARY

Marcelo says the potential of AFREZZA to become a blockbuster drug/delivery device. His average estimate puts MannKind's value at ~$50/share or 8x the current price. An interesting asymmetric risk/reward profile.

Sources: Company reports (10Ks, 10Qs), other public information

I see you have a position in Mannkind (MNKD). It's been relatively range-bound for the last 5 years. Can you describe your investment thesis here?

MZ: MannKind is a $2.54B biotech company focused on two key areas: Diabetes and the Technosphere platform. Since MannKind's near-term future is largely tied to their groundbreaking inhalable combination drug/delivery device (AFREZZA), this is what we will focus on first.

AFREZZA has the potential to become a major blockbuster, possibly surpassing the likes of Lipitor (>$13B/year) and Plavix (>$7B/year). Our average estimate puts MannKind's value at ~$50/share or approximately 8x the current price. While this may seem exorbitant, our research supports the above estimate due to a combination of the current and growing size of the global diabetes market, and resulting market share capture based on the two pillars of our AFREZZA thesis: superior pharmacokinetics/efficacy and convenience. Over the past several years investors have been distracted by a lot of "noise" surrounding AFREZZA. Though some of the concerns were real, it's no longer so, yet it continues to haunt the company. The key to resolving this is simple: focus on the facts.

There are over 370 Million diabetics in the world today. This figure is rapidly growing and diabetes is already an epidemic. AFREZZA's pharmacokinetics/efficacy has demonstrated over numerous trials (involving 5,000+ patients) that it offers clear benefits over current best-in-class treatments. This alone will give AFREZZA considerable market-share. While the pharmacokinetics/efficacy is a key pillar of the thesis, our conviction is how significantly the market is underappreciating the magnitude of disruption that AFREZZA's convenience will have with diabetics in the real world (no needles or titration needed). This is huge. Combined, AFREZZA has the potential to be the best selling drug in history.

To exemplify our view, we will invoke Einstein's wise dictum "invert, always invert" - to pose a question: If inhalable insulin was invented first and another pharmaceutical company developed an insulin treatment whose key differentiation was that it was injectable, how many people would switch? Our research could not be any clearer: virtually none. Thankfully the story of AFREZZA is not limited to simple convenience over current best-in-class insulin's but also consists of significant improvements in Pharmacokinetics and Efficacy.

This will lead to better overall health for diabetics, lower costs to the entire healthcare system, and make AFREZZA a blockbuster. Now that Afrezza has launched, we see feedback from actual users. Their real world experience far exceeds the clinical results, which we fully expected. We are even more convinced it will be the primary insulin therapy for both type 1 and 2 diabetics over time. The Technosphere platform has blockbuster potential on its own merit. There are numerous drugs that could have tremendous

INVESTMENT SPOTLIGHT: Sanofi (SAN)

Sanofi
(XPAR: SAN)

Description: Engaged in development of healthcare products.

Price	**€92.60**
52-Week Range	€69.58—€99.23
Dividend Yield	3.10%
Enterprise Value	146.16B

Basic Valuation:	
P/FCF:	15.40
P/BV:	2.11
EV/EBIT:	19.74

Notable Owners:	**% Owned**
Dodge & Cox	1.65%
Templeton Global	0.54%
First Eagle	0.53%

INVESTMENT SUMMARY

Marcelo likes the free optionality in Sanofi regarding AFREZZA. Even without AFREEZA, he pegs Sanofi's IV at €155/share, or 70% upside from the current €92. This presents a unique opportunity to invest in a highly stable, large cap pharma, with considerable appreciation potential (w/ Afreeza = €194).

Sources: Company reports (10Ks, 10Qs), other public information

benefit being delivered via the lungs, and having a rapid onset. MannKind has 2 drugs currently on track for late stage testing. Because Technosphere is already FDA approved, the process is accelerated. We believe the current market cap could be supported solely by Technosphere. When combined, this is a remarkably undervalued company, whose story will unfold over the next 12-24 months.

I see you're also invested in Sanofi, a partner of Mannkind. Tell us about your investment thesis here?

MZ: As investing guru Larry Robbins once remarked "it's the good, currently undervalued, high cash flowing companies, which also offer significant free upside options that make the most attractive investments." Sanofi fits this description to a tee. Sanofi has a rock-solid balance sheet, strong free cash flow, a 3% dividend yield, and conducts share repurchases. It's a large cap stock, whose stable and diversified earnings should continue to progress, fulfilling the "good, currently undervalued" portion of Robbins' quote.

The second portion of the Robbins quote is the "significant free options", which Sanofi also possesses. Analysts and investors are ignoring how robust of a pipeline they have, and how that will translate into sales. The headliners of their product pipeline, is a dengue vaccine, Lemtrada for multiple sclerosis, Cerdelga for Gaucher, Fluzone for influenza, Praluent a cholesterol drug, and Toujeo for diabetes. But the biggest free option is Afrezza, a prandial insulin just launched in a partnership with MannKind. Another 10 drugs are in Phase III and later, which present additional free options.

The current "overhang" with investors is the coming patent expiration of Lantus (€7B or 17% of sales). This is an understandable concern, but unlike many other drugs that come off patent, diabetes is a chronic condition, insulin is necessary to live. As such, diabetics are less likely to jump to a competitor for a small savings. Furthermore, Sanofi has a superior replacement for Lantus in Toujeo, which just launched this year. Afrezza is another blockbuster drug that will be part of their diabetes portfolio. All in all, we believe the concerns over Sanofi's portfolio to be largely overblown.

Though hard to believe for a company with a €120B market capitalization and over a dozen analysts following it, but Sanofi is a gem hiding in plain sight. We believe analysts and investors will change their tune, over the next 12-18 months, as several new product launches cause the current paradigm to shift. Our analysis pegs Sanofi's IV at €155/share, or 70% upside from the current €92. This presents a unique opportunity to invest in a highly stable, large cap pharma, with considerable appreciation potential.

What are The 3 Things an investor should focus on the most to keep their edge in investing?

1.Focus on the long-term;
2.Be contrarian;
3.Be as unemotional as possible when making investment decisions.

Do the homework and trust thyself. VIC

Rand Strategic Partners

Todd Sullivan explains how he gains an edge by focusing on the asset base of the business, how he sees his investments as "real" businesses, his biggest investing mistake, and why he sees upside in Howard Hughes, AIG, and Calloway Golf.

Todd Sullivan

Todd Sullivan founded Rand Strategic Partners in 2012. Todd is a Massachusetts-based value investor and looks for investments that are selling at a discount to their intrinsic value given their current situation and future prospects.

His blog (ValuePlays.com) is packed full with valuable content. It features many of his ideas and commentary and helps to update readers on his positions. His commentary has been cited on numerous online versions of the Wall St. Journal, New York Times, CNN Money, Business Week, Kiplinger's. And he's also appeared on Fox Business News and CNBC. Many know Todd from his call in General Growth (GGP) while it was trading at less than $1.00.

Today, Todd is finding opportunity in the housing, insurance, golf sectors. He's finding value in such companies as Howard Hughes (HHC), American International Group (AIG), and Calloway Golf (ELY). The three businesses featured offer exceptional margin of safety from their asset base and give an investor the added kicker of future earnings power.

How did value investing start for you, and has your view of investing evolved over time?

Todd Sullivan: I've been a business owner for most of my life. I started my first business when I was 18 and I've always had an interest in the stock market. As a result, I've always approached investing as if I'm buying a business. If I had enough money to buy the whole business, what price would I be willing to pay? Value investing is a natural extension of that philosophy. I was finally at the point in my life, about 8 years ago, when I started writing on the blog (). It initially started as an online "diary" of what I was thinking --- what I was doing --- what I was buying. The site took off in 2007 with Wall Street Journal picking it up and it just started to build on itself from there. In 2009 I produced a report on General Growth Properties (GGP) and detailed the Chapter 11 reorganization. And people started to approach me about managing money for them. In 2010 I launched a website with a partner and in 2012 I started running it by myself.

What does your typical day look like (from beginning to end)?

TS: I have a specific reading list every day from the RSS feeds and certain websites. Then I'll check out the news and see what's going on in the world. That's how I get my days started. The rest of my day is simple. It's spent reading and researching. I don't watch T.V. during the day and that includes financial media. I do have alerts set for specific things, so if something does happen you're notified about it right away. I mainly spend my whole day reading 10Ks, 10Qs, or pertinent books on investing. The book I'm reading right now is *100 to 1 in the Stock Market* by Thomas William Phelps. I never read it before, but it's very interesting. It's about a financial writer who scoured through the market to find these asymmetric risk-reward type of investments. He ended up significantly outperforming most of the investment industry in the process. He wrote a book on this process and it's really interesting so far.

What's a little known secret about you or Rand Strategic Partners that no one knows?

TS: I am secretly a Bee Gees fan (who can blame him). My daughter loves listening to them, so I start playing their music when I wake them up in the morning.

Also, the name of our business may be interesting to some people. I am a huge fan of Ayn Rand. I love all the books. I'm not a blanket adopter of the philosophy and don't subscribe to it 100%. However, I do believe you can't allow society and systems to run wild and think that they're going to figure it out. I believe you do need regulation to some degree. And with that said – I do believe we've gone too far from a regulation standpoint. Even if you put the philosophy aside, I think they are great books and great reading. They're engrossing books. So I've always enjoyed them. And I always thought the hedge fund world was part of the "Randian" ecosystem. Either you do it or you don't --- you succeed or fail. And if you fail, you're done. It's all merit based. So that was the inspiration behind the name of the fund.

ON BEHAVIOURAL INVESTING:

"...investing isn't necessarily just about numbers. If it was simply about math, then mathematicians would all be billionaires."

Who are the people that inspire (or inspired) you the most? And why?

TS: As a value investor, you have to start with Graham, Buffett, and Fischer. When I started investing, those were the three guys really read to help cement the philosophy of investing. I like how Fischer took Graham and Buffett's cigar-butt philosophy and extended it to a higher level. Of course you can always buy the cheapest (and that's not a bad thing). However, you'll do very well purchasing great businesses at good prices also. You don't always have to look for things on death's doorsteps. I really enjoyed the philosophy and styles of those three investors.

I have to say -- I've always been inspired by entrepreneurs. Being someone who has owned various businesses my whole life, I'm always inspired by people like Bezos (Amazon), Jobs (Apple), and Hastings (Netflix). It's really an inspiration to see guys like this who create something out of nothing. They create jobs and they set people of for the rest of their lives in many instances. And it's not necessarily through charity. They are able to accomplish this by creating something that is needed and it has produced millionaires in the process. Think about how many millionaires Bezos, Jobs, and Hastings have made with just the stock of their company alone – it's quite a large number. The benefits for society that our system allows these kind of people to operate in is unmatched in the history of the world. For them to accomplish what they have is such an incredible feat.

What are your top three books on Investing?

TS: *The Art of Contrary Thinking* by Humphrey B. Neil is a book I read a long time ago. It's really about how thinking contrary to the crowd, isn't necessarily taking the opposite view of everything. Thinking contrarily is weighing the opinions and looking at them from a different viewpoint. Sometimes the main stream view is right --- sometimes it's wrong. You can't always say the main stream view is wrong. You need to look at it from different and varying viewpoints. You need to try to take something and try to look at it from a different prism. Sometimes it works, sometimes it doesn't. But there's a skillset involved in making these kinds of decisions and conducting this sort of analysis. The lessons from this book have always stuck with me. *The Quality of Earnings* by Thornton L. O'glove is another great one. And James Montier's book, *Behavioural Investing,* is a great read as well.

It's important to remember, investing isn't necessarily just about numbers. If it was simply about math, then mathematicians would all be billionaires. So it's important to understand what's happening in the market, what people are thinking, what the market may or may not be thinking about or missing. Those three books have really helped me understand that when you buy a security and it goes down --- there could be behavioural forces behind these actions that may be wrong. The crowd is not always right. In fact, it's often very, very wrong. These book really help you to look at things differently.

What is your philosophy and process to investing?

TS: I am really looking to buy assets at a fraction of what I think they're worth --- not necessarily a company. For example, let's take a look at Sears Holdings (SHLD). I think if you're buying Sears around $30, you're buying the assets of the company at a significant discount to its real value. The assets of this company include the real estate, Kenmore, Craftsman, DieHard, Auto Centers, and retail. The investment community looks at Sears like it's still a retailer. The reality is they have a collection of really good assets that can be monetized for far more than the current value of the stock. Their REIT Transaction is proving a lot of people wrong. A couple of years ago Credit Suisse issued a report saying the real estate was only worth $3 billion dollars. From my numbers, it look like they're going to monetize 2-3x the $3 billion now. They'll be well above even the most pessimistic real estate transaction. And I'm not even talking about the various other spin-offs from their other assets to shareholders.

I love situation like that --- I can look at the asset base and say, "this is trading for much less than a conservative estimate of their asset value." Even if retail operations go downhill, by that time I will have a big chunk of shares from the spun-offs businesses that are doing very well (and should continue on a standalone basis). This give me a significant margin of safety.

In my search for investment opportunities, I've never come across a "screener" that captures anything like that. You can't set-up a screen to capture an investment opportunity like the example with Sears Holdings. I typically look for sectors or companies that are beaten down and out of favor.

ON INSURANCE FUNDAMENTALS:

"Understanding whether an insurance company operates at an underwriting profit --- provides the investor with the likelihood that the company can be tremendously successful on the earnings front."

It seems there's always a particular industry or company that everyone dislikes. I become very interested when I see things like that. You need to have an understanding that the market always over reacts in either direction --- for good news or bad. So when the news is predominately bad (such as real estate in 2008-2009), that means there's tremendous values for the survivors in those sectors. It was the same situation for the banks in 2009. The survivors of those panics will do very well for a number of years.

So that's where I start digging and that's where I start looking for investments.

Is there a portion of your investment process or philosophy that you would consider unique?

TS: Lots of value investors focus on earnings and what the earnings will be in the next 6-12 months. While earnings are important, I'm not overly focused on earnings. I am certainly not focused on whether earnings will be $1.80 or $2.00 per share next quarter or the next year. I'm more focused on the cash flows of the company and what they're doing with the asset base that I think adds more value. So that may be slightly unique to other value investors out there. I am very asset based and very cash flow based. Anyone who has read my articles or reports knows this. For example, I don't think I've ever made a comment about the earnings of AIG in the last 3 years I've talk about them. I care very little about whether the earnings will be $4.00 or $4.14 per share next quarter. My focus has always been on the combined ratios of the insurance companies, how much cash they're generating, what they're going to do with that cash, and where property and casualty insurance business is going. My focus has always been on these things.

Understanding whether an insurance company operates at an underwriting profit --- provides the investor with the likelihood that the company can be tremendously successful on the earnings front. Nowadays, earnings are so doctored and pliable. That makes it ever more important to be cautious when looking strictly at earnings. If you looked at a company as a living, breathing organism --- the earnings are the outside features such as the face and skin, but the assets are the heart, lung, and liver of the organism. So having an understanding of what's going on inside the business with operations going the way you like, then everything else should take care of itself.

How important is it for you to have a client base that shares your focus on the long-term?

TS: For me, it's the single most important thing. I've turned down more money than I've taken in at the fund because people didn't share the same philosophy. People tend to underestimate the influence that other people have on them. For example, let's say Freddie/Fannie or AIG are having a down quarter and they're down significantly for whatever reason. Clients will see these market declines and call the office to see what I'm doing as a money manager. And as I said before, we can be influenced by other people quite easily at times --- this can cause us to make a multitude of bad decisions. I acknowledge that before I manage anyone's money. I speak to them and I make sure they are in the complete same mindset that I am in regarding investment philosophy. Meaning we are not going to be influenced by volatility over a 6-12 month period.

I love managing IRA accounts because individuals think about them differently compared to brokerage accounts. They rarely look at the account and when they do look at the account they envision taking that money out in 20-30 years. It really allows them to focus long-term. It's a completely different mindset of people with brokerage trading account and individuals with IRA accounts. I am fortunate to have an amazing group of investors who are 100% in-tune with my philosophy, the way I think, and the way I do things. We have a wonderful relationship. Many of my investors have come from the blog, so they've followed me for years. They truly understand my thought process and how I think.

You always have investors who say they understand the philosophy or they think that way, but then six months they panic when a stock goes down a little. Or they're complaining why I'm not invested in a stock like Netflix. In these cases, I typically say, "why don't I give your money back and we can call this quits because neither one of us is going to be happy if this keeps going on for the next couple of years." I've done this a couple of times and it's tough to do in the moment. But everyone is usually appreciative when they look back at it a few months later. If an investor is upset because we're down 2% in eight months then there is a misunderstanding of the relationship. What happens if we're down 10% or more one year? I guarantee that over the next 10-15 years there will be a year when we're down 10%. And if I tell you it won't happen, I'd be lying to you or I'd be running a fraud. It will happen multiple times across your investment cycle. So if you can't handle volatility we should probably go our separate ways.

ON THE #1 INVESTING MISTAKE:

"Numerous investors I've talked to over the years consistently cite overconfidence as their biggest mistake. Having periodic failures is actually quite healthy because it reminds us that we aren't always right. And it can help keep you from making catastrophic mistakes."

Describe your value discipline once you have arrived at an understanding of the Intrinsic Value of the business?

TS: There's no hard number per say. All I'm trying to do buy at a discount with catalysts to help in the realization of the full value in that security. For example, let's use a court case as a potential catalyst. Even though I may think there's an 80% chance to win the court case, you never really know. So anytime I'm investing in a business with a legal outcome (GGP, AIG, BAC, FNMA, FMCC), I need a much bigger discount to intrinsic value. Also, the closer I am to the event, the less of a discount I need.

I like to be invested in no more than 8-10 investments. No one has 100 good ideas. Why would you invest money in your 100th best idea, when you can invest more in your best idea? Sometimes I've been less than 8-10 investments and I'm perfectly okay with that situation. And I don't do much hedging because I'm not concerned what happens this month or next quarter. I'm more concerned with what happens the next 3-4 years. Hedging excessively for monthly results is literally a slow drain on long-term results. If you're buying puts in AIG every month so I don't realize more than a 1% drop in any one month, the cost of this is material to the end result the more you keep hedging. These monthly drops are meaningless if I'm expecting the price of security to be 2-3x higher than where it trades right now. Hedging isn't worth it in the long run.

It's important to note that risk is not volatility. My investors and I understand that securities will go up and down over the long-term. And that's not risk. There's a price where you buy and where you sell. Understanding that there will be a wavy line in the middle of those two transactions. The risk is that you sell it below where you bought it and you ultimately made a mistake. But in between those two transactions there will be constant fluctuation.

What would you say is the #1 mistake that most investors make as it relates to investing in general?

TS: Overconfidence. You have a good run for 2-3 years and you get away from either doing the level of work you did in the past. Success breeds overconfidence. For example, let's look at the scenario with Fannie/Freddie. I could easily think to myself why didn't I put all my money into the GGP investment? And I see the Fannie/Freddie situation now and some could be tempted to put all their money into Fannie/Freddie. If you works out, they get to retire to their own island in the Caribbean. But what if the court case doesn't work out? Then you've lost everything.
Assuming that everything is going to work out as planned or assuming that you're going to be right every time can lead people to make very bad decisions. We are all humans and every one of us will struggle with it. We will make mistakes. This is why I always look at investments from a probability spectrum. Nothing is 100%. We need to constantly ask ourselves, "what is the probability that this current investment thesis works out?" In understanding that we aren't always right, we know that we should not be invested 80-90% in one company.

Numerous investors I've talked to over the years consistently cite overconfidence as their biggest mistake. Having periodic failures is actually quite healthy because it reminds us that we aren't always right. And it can help keep you from making catastrophic mistakes.

What's the worst investing mistake you've made as an investor?

TS: In 2002 I invested in McDonald's due to the mad cow scare and its impact on the company. I held it and was feeling pretty smart as share rose >$40. In 2006 they spun off this little 'burrito company' as I called it named Chipotle. I knew nothing about the company as there weren't any in my area yet. Upon receiving the shares in the spin I sold them shortly after for ~$50 thinking I got a good price for this small chain. They sit today at $647. The lesson here is before you develop an opinion about a company, you owe it to yourself to at least do work on it.

What was the best investment you've ever made? What happened?

TS: Lots of investors know about the General Growth Properties investment. A lesser known investment that did incredibly well was my investment in Altria (MO). It was when they were in the single digits paying a 15% dividend after the settlement came through with the tobacco litigation. I put a significant portion of my available funds into this position at the time because the way the settlement was drawn-up, the companies had to survive and prosper in order for them to pay out the settlement. The government was supposed to get portions of their profits and cash flows for 20 years. There was bad news everywhere. People were talking about wiping out tobacco and how it was a dying industry and the market decimated the stock price in this company. However, the government (for lack of a better word) became business partners with big tobacco. So there was no way they would allow the businesses to go under. Further, government now knew they had 20 years of tobacco revenues coming in, so they sold bonds based on those anticipated future revenues. There was no way the government would allow them to fail. That settlement guaranteed tobaccos existence for at least another 20 years. I held this position for almost 10 years.

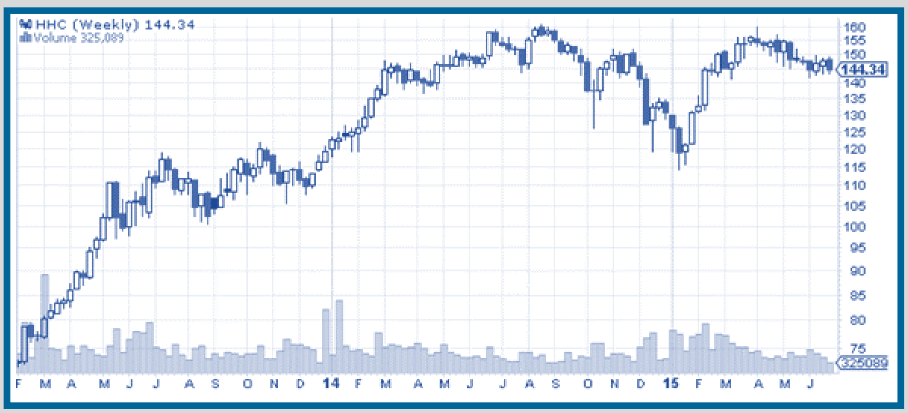
I see you have a position in Howard Hughes (HHC). Can you describe your reason for investment?

TS: Howard Hughes was spun-off from the GGP Chapter 11 bankruptcy in 2010. They held a collection of assets at that time that did not fit into a company whose main goal coming out of bankruptcy was to become a Class A regional mall REIT. It was mainly land assets and some income producing properties. So this collection of assets was spun-off into the company called Howard Hughes. It was named after Howard Hughes because the prime asset was Summerlin in Las Vegas. This land was originally bought by Howard Hughes and he named it Summerlin after his grandmother.

I started reading about them when the first filing came out about this collection of assets being spun-off. And it was fascinating to me because you had the largest and most sought after master–planned community business in the areas they were doing business. For example, if you're a person with any sort of wealth in Vegas then you want to live in Summerlin. The amount of available land for the build out was huge assuming that we didn't think the world was going to end like in 2008. They also had 60 acres on the beach in Honolulu that they could build out. I'm not a real estate developer, but you'd have to be a moron not to make money on 60 acres of beach front property in Honolulu. If you assumed at some point in time they had a future, you could see a significant asset base. A mildly competent management team is going to make a killing.

The investment thesis is based on the price of the spin-off (around $5.00 per share of GGP) --- that the future potential of this asset base was many times what it was being valued at by the market. So they spun-off the business and I received shares of Howard Hughes from being invested in GGP. I've even added to my position a few times since the spin-off. In addition, they have a brilliant management team. What I like most about the management team is that they are all self-made. They didn't come from the previous company. For example, CEO David Weinreb put down $15 million of his own money and President Grant Herlitz put down $2 million. They purchased 7-year warrants in the company so they were heavily incentivized to deliver long-term shareholder value. David Weinreb is an interesting story because he was a very successful real estate investor. He actually looked at the Howard Hughes assets, shut down his own company to run Howard Hughes, and took $15 million of his own money to invest in 7-year warrants that could not be hedged, reduced, or sold for those 7 years. He believed in the company that much – he went all in. Assuming they convert the warrants and hold onto the shares – management will be the single

INVESTMENT SPOTLIGHT: Howard Hughes (HHC)



Howard Hughes
(NYSE: HHC)
Description: Developer and operator of master planned communities and mixed use properties.

Price	**$144.34**
52-Week Range	$114.39—$160.62
Dividend Yield	N/A
Enterprise Value	$7.44B

Basic Valuation:

P/TBV:	2.70
EV/EBITDA:	116.78

Notable Owners:	**% Owned**
Pershing Square	8.99%
Horizon Asset	6.62%
Kinetics Asset	5.38%

INVESTMENT SUMMARY

Todd believes shares in Howard Hughes are worth at least $200. It makes for a compelling investment when combined with world class assets, best in class management team, and a board of directors with vast real estate experience in development, commercial, residential, and brokerage. And they're large owners of the company.

Sources: Company reports (10Ks, 10Qs), other public information largest individual shareholder when the warrants come up in 2017. As we can see, management has a significant stake in the company. This is a great management team executing on all cylinders right now, as the stock has increased in price from $35 to $150 per share. And they're still in the infancy of what this company can become.

They're a little unique in how they operate. They own all this land that the developers want to build. They'll go in with a Joint Venture (JV) partner and they'll look a project and say, "we're going to put a couple million square foot office tower here. The value of this venture will be "X." We're going to donate the land valued at "X." And that's going to be our contribution to the JV. When it's done we're going to own half of it. So they are converting land into incoming producing properties and selling the land in the master-planned communities to produce more income producing properties. The NOI is going to be around $200M in a couple of years – up from $30-$40M a couple of years ago. Now you start looking further down the road and you have this company that is reaching an inflection point with all this NOI and all this cash. So what are they going to do?

Now this is where it gets interesting -- they're in a C-Corp which isn't really the best structure for an income producing asset base like they're going to have. They have NOLs that they're still working through (should take another 12-18 months). And because of the new properties they have a lot of upfront depreciation that will mask earnings for the next couple of years. But then that's gone. So what do they do then? Do they spin-off a REIT section? Do they do some sort of restructuring when they get all the benefits from that NOI under a REIT status? Do they have a situation where the REIT upsteams the money to the holding company, which becomes an investment vehicle for Chairman Bill Ackman? It starts to get really interesting in a couple of years.

I believe the company is worth at least $200 per share based on what they have in the works now. This assumes no other announcements or acquisitions or balance sheet type transactions. So we have a great company, great management, and a great board of directors. And what's great --- management and board of directors all have skin in the game. What happens to the long-term share price of the business matters to them, so they are heavily incentivized. Howard Hughes is the largest position in our portfolio.

Can you tell us about your position in AIG?

TS: I bought AIG in 2012 and I bought it on the thesis that the Fed would begin monetizing its Maiden Lane holdings. And when they did, they would no longer own AIG and have no control over AIG (other than regulatory). This would be a catalyst for AIG to begin its massive share repurchase, which they eluded to prior to the event. This would be a genesis for the stock price to increase. At the time, the bear case to this situation occurring was that the Fed would never going to monetize those assets or sell them because the Residential Mortgage-Backed Securities (RMBS) were

INVESTMENT SPOTLIGHT: American International Group (AIG)

INVESTMENT SUMMARY

With shares trading at just .80x tangible book value, Todd believes shares in AIG should be trading at 1.2-1.3x tangible book value given their discipline, cost controls, underwriting, and the fact that they use excess cash to buy back stock. He sees a long runway ahead for this company.

Sources: Company reports (10Ks, 10Qs), other public information

American International Group
(NYSE: AIG)

Description: Offshore drilling contractor providing oilfield services and drilling vessels for offshore O&G exploration.

Price	**$62.93**
52-Week Range	$48.56—$63.70
Dividend Yield	0.79%
Enterprise Value	$102.5B

Basic Valuation:	
P/TBV:	0.78
P/OCF:	19.55
EV/EBIT:	7.58

Notable Owners:	**% Owned**
Vanguard Group	5.41%
Harris Associates	2.92%
Fairholme Fund	2.16%

ON VALUATION IN AIG:

"AIG is trading at 80% of its tangible book value and I see tangible book increasing 8-10% per year. ..you'll have the catch-up to tangible book value and the continued 8-10% after. Cash flows will be used to repurchase shares and then there's the argument that they are actually worth more the 1x book value."

$0.50-0.60 on the dollar. So the bears said they would never do that and at the very least they wouldn't do it anytime soon. They would hold for a number of years so the share buybacks would never come.

Our thinking was the Fed owned these at no cost, so the Fed would be happy to sell them at $0.50-$0.60 on the dollar because it was all profit. And of course, that's what the Fed did --- they liquidated their positions because they had open buyers who were more than happy to buy them at $0.50-$0.60 on the dollar. These investors knew they would eventually be worth $0.90-$1.00 on the dollar. As a result, every sale was oversubscribed and it went great. So now we have Bob Benmosche who is arguably one of the top 2-3 insurance CEOs of all-time. We have a high degree of certainty he will get the insurance operations fixed. And he did a great job restructuring the company. The stock steadily increased from the low $20s to the $50s as a result. And then he was diagnosed with lung cancer. The board then brings in Peter Hancock after he has been working under Benmosche for years. If you listen to Hancock, you can tell he gets it. He was quoted in a recent article about pricing in the reinsurance market and he sounded just like Buffett in his 2004 Berkshire Hathaway letter to shareholders about pricing insurance. Hancock was talking about how he was perfectly happy to see his revenues from insurance go down and not lose pricing or underwriting discipline. So no matter what happens, you're always around an underwriting profit. He sounded just like Buffett as he articulated that the reinsurance market was softening and throwing money at it right now was not a good idea. He made it clear that there were other things they could do with the cash, such as buy back stock or put it back into other operations. But chasing rates down and chasing business (or keeping business) by loosening underwriting standards is a bad idea.

For me, that was the moment when I knew he was ahead of the rest of the insurance industry. At least he had a major advantage over the majors like State Farm, who are operating at underwriting losses. We clearly have a proven and intelligent leader at the helm. AIG continues to improve its insurance operations, their combined ratios continue to come down, debt is going down, and cash is going up. Right now they're at another inflection point where they're monetizing non-core assets. They just sold their position in plane lessor, AerCap, for $3.7B.

I'm convinced that (baring some ridiculous acquisition) all of the money they make from the non-core asset sales will be used for share repurchases. This should act as the catalyst for the next leg up in share prices for the stock. So then we look back at the company operationally, and I still see a company that will continue to get better with lower costs. Everything is getting focused and streamlined to a central location at AIG. I really believe there's still several years left of good value in AIG. Peter Hancock rarely talks about earnings. He talks about value and increasing book value in the company. He's very "Buffettesque" in the way he talks. And I love that.

On the valuation front, AIG is trading at 80% of its tangible book value and I see tangible book increasing 8-10% per year. As an investor, you have the catch-up to tangible book value and the continued 8-10% after. Future cash flows will be used to repurchase shares, so book value will increase. And then there's the argument that they are actually worth more the 1x book value. They're probably worth 1.2-1.3x book value because of their discipline, cost controls, underwriting, and the fact that they use excess cash to buy back stock. I don't try to put hard numbers on things, but I see a steady uptrend for years. So it makes for a compelling opportunity.

You have an interesting position in Calloway Golf. How do you see this playing out over time?

TS: I was an investor in Adams Golf a few years ago when it was run by Chip Brewer. After reading about him and watching him and researching him -- he's the CEO in the golf business. He knows the business better than everyone else. He knows retail operations, he puts a ton of money into R&D, and he knows marketing. He is hands-down the best CEO in the golf business. He ended up being bought out at Adams Golf and we made a lot of money in a short period of time and then he went over to Calloway.

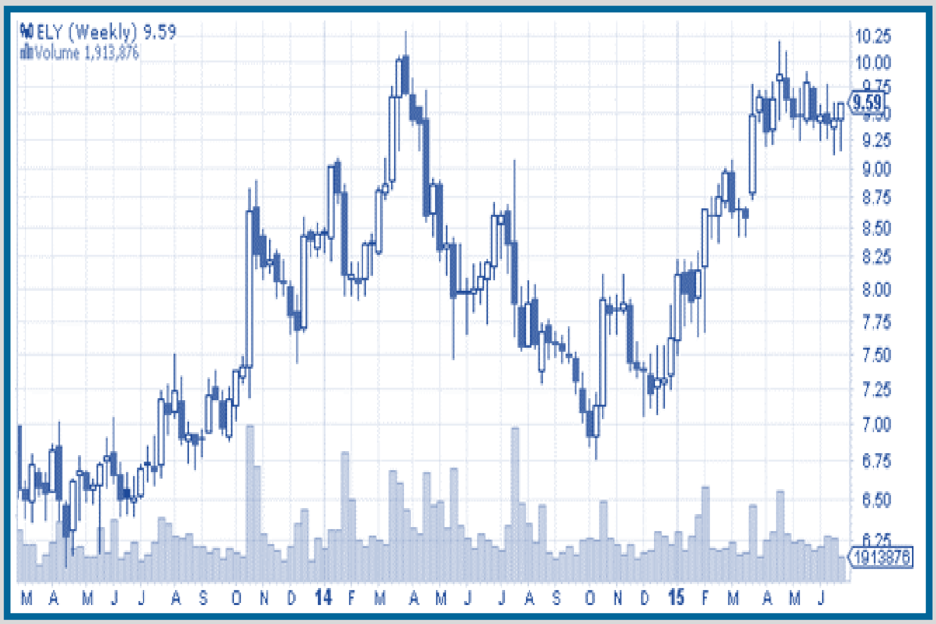
Calloway fell off my radar for a while and then about 6-8 months ago I came across them again. I remembered Chip Brewer over there, so I started to see what they were going. And it was the same playbook from Adams Golf --- he gets there, plows money into R&D, and reinvigorates the popular "Big Bertha" brand. For years, the Big-Bertha club was "the" club to have. So he thought to himself, "Well, if the Big Bertha driver is so popular, what don't we have the Big Bertha irons?" So Big Bertha irons came out.

Right now the golf industry is recovering, but it's not surging. It's definitely leveling out though. It's on the upswing as people have more disposable income. And the great thing about Callaway is they are taking market share from their competition. Every quarter they are getting a bigger and bigger piece of a slowly growing pie. This is rarely ever a bad thing. Then I started looking deeper and I saw this asset they have called Top Golf. I asked myself, "What the hell is this?" So I researched the business and found out that it's the hottest thing in golf right now. They own 20% of Top Golf right now. They have 14 U.S. and 3 U.K. locations and plan on expanding to 11-13 more this year --- so they are growing rapidly. If you go to Top Golf on a Friday night, expect to wait at least two hours for entrance. They have bars and restaurants too.

Essentially they've turned golf into a fun social gathering for a younger generation (millennials love it). They put chips in all the balls to determine point scoring based on certain shots you hit. You and your friends all hit in this very large half circle course at your designated section where you can fit 10 of your friends. The most important idea from this entire business is that they've changed the demographics of golf. When you go to Top Golf, it's the 20-30 year olds that you see --- not the 60-year old guys you see on the 18-hole golf courses. This business is breeding an entirely new generation of golfers who now look at golf as a fun game. Calloway clubs are all over the place at these locations because they are the preferred vendor and partner – so it's an amazing asset for Calloway.

The location count is doubling this year and it will probably double again next year. Wherever Top Golf goes, the lines are out the door. It's the perfect game for millennials --- it's social, it's a bar, it's a restaurant, it's fun, and everyone is posting pics on social media about their amazing time at Top Golf which attracts even more people. You don't have to drive the ball 500 years to win either. You can chip it into one of the shorter targets and get your points. So if you're a new golfer, you can still play, have a fun time, and do well. It's not necessarily about who hits it the farthest --- if you hit it 300 yards and it slices to the right you get no points and if you chip it 50 yards into the target you get the points. So it has everything for all kinds of golfer. The intriguing thing about Top Golf is the market gives little to no credit for this asset on Calloway's balance sheet. So what does Calloway do with the asset from here? Do they IPO it and own 20% of it? In which case, that's reflected on the balance sheet. Do they kept the product for a couple more years? Do they sell it? What happens now? Any of those scenarios are great for Calloway. Each scenario means Calloway has an asset on its books that is worth 2-3x what it is now. Which equates to $3-4 per share in a couple of year for a company that is trading at only $9.59 per share. 40% of the current share price isn't even really reflected by the market.

INVESTMENT SPOTLIGHT: Calloway Golf (ELY)



Calloway Golf
(NYSE: ELY)

Description: Independent O&G company engaged in the acquisition, exploration, and production of natural gas.

Price	**$9.59**
52-Week Range	$6.79—$10.20
Dividend Yield	0.42%
Enterprise Value	$928M

Basic Valuation:

P/TBV:	3.59
P/FCF:	9.69
EV/EBIT:	81.78

Largest Owners:	**% Owned**
Dimensional Fund	8.44%
Victory Capital	4.40%
Yost Capital	3.61%

INVESTMENT SUMMARY

Todd believes Calloway is currently worth $12 per share. If they continue to double the Top Golf locations next year, he thinks that could add another $1-2. Todd's conservative estimate is 25% above current prices.

Sources: Company reports (10Ks, 10Qs), other public information

ON CALLOWAY'S *TOP GOLF* ASSET:

"They've changed the demographics of golf...This business is breeding an entirely new generation of golfers who now look at golf as a fun game. "

I think the company is currently worth $12 per share. If they continue to double the Top Golf locations next year, I think you need to adjust it up $1-2.

What if Nike comes in and says we want Top Golf? They could do so much with this business --- it's definitely part of their demographic and there are too many synergies to list. So there could easily be a bigger player such as Nike or Adidas to come in and buy the whole company tomorrow because it's such a small market cap. So all the scenarios I look at look really good --- you have a great CEO with a proven track record and you have this incredible asset that is revolutionizing an industry that is going to be in high demand from people. It's not easily replicated by someone else. It would cost a lot of money to start building these facilities all over the country, which helps to deter competition. They are really the only player in the field right now.

The risks of course are a recession or the collapse of the sport of golf all together. Golf has been played popularly for hundreds of years (some date it back thousands of years), so I don't see golf going away. Of course we will see a recession at some point. I don't think it's in the next 2-3 years, which means the current growth projection in Top Golf could easily play out which would be great for Calloway. Even if there was a recession and it hits the golf industry, I think of all the golf companies, Calloway gets hurts the least because millennials are still going to flock to Top Golf. It's their Friday night --- time to go blow off some steam, play a game, have some fun, drink, and grab a bite to eat. It's not 3 hours and 18-holes on the golf course on a Saturday. It's air-conditioning, it's comfortable and they love it.

There's tremendous potential with Calloway and Brewer is a guy that's made it happen everywhere he's gone before. I'm not a huge believer that intelligent people turn stupid overnight. Yes, they can make stupid decisions at time, but Brewer is an intelligent and savvy and he'll figure it out.

What are The 3 Things an investor should focus on the most to keep their edge in investing?

TS: Be skeptical of conventional wisdom. Just because something is supposed to happen when it occurs – whether it's good or bad – doesn't mean it's true. You should always look at that and then look at the other side. Ask yourself, "Why could this time be different? Why might that not happen?" Asking yourself these questions can give you a tremendous advantage and opportunity. **Ignore what people tell you to do.** Don't assume that because someone is in a place of power that they're smarter than you. Don't assume that just because they're on T.V., that what they say is more important than what you may think about something. I am amazed at the people I talk to sometimes who may be invested in a business, and they can't give you anything other than a headline --- they're just following along. And they're on T.V. all the time. **Be patient.** One of my biggest mistakes in investing stems from being impatient. VIC

Importance of a Prosperity Mindset as it Relates to Investing.

> ***"The greatest discovery of my generation is that human beings can alter their lives by altering their attitudes of mind."***
> **William James**

Whether we like it or not, our brain is wired to prevent wealth. That's right -- thousands of years of evolution has hard-wired our brains to act (or react) to certain situations in certain ways. Unfortunately, many of these reactions are counterintuitive to our goal of achieving wealth and prosperity through investing. However, there's good news…

There is something we can do about it! By arming and educating ourselves about our genetic predispositions, we can combat the negative feedback loops and psychological biases that try to hold us back in life. Surely, this will not be a "one-size-fits-all" approach or a quick fix. It will take years to master your mindset, and counter your negative psychological tendencies. However, merely being aware of our negative biases can help keep us from making undue mistakes in our pursuit of prosperity. Just having awareness and knowledge about these biases can make a huge difference in your financial world. It's so important because it can be the difference between success and failure.

Prosperity is not a state of financial well-being; it's a state of mind. But in order to be successful and run through the barriers of life and investing, you need to arm yourself with this prosperous mindset. It's an attitude about how you approach life. Guy Spier (Aquamarine Fund) talks about this a great deal in how he approaches life. Despite his incredible proclivity for enormous humility, he's an amazingly brilliant person. He's more than generous with his time, and genuinely cares for others around him. It's very rare in the world (especially the financial world). He discusses a book, "A Simple Act of Gratitude," that had a tremendous impact on his life. After reading it, he was so excited by the notion that he started handing out gifts to random people, like the door-man. He would also write 3 thank you notes five days a week to people that had touched his life. He even credits his thank you note to Mohnish Pabrai for helping develop their relationship.

> **On How Our Brains Are Wired:**
> ***Whether we like it or not, our brain is wired to prevent wealth…thousands of years of evolution has hard-wired our brains to act (or react) to certain situations in certain ways.***

I remember first reading about Guy in the Manual of Ideas July 2012 issue, which is when I first heard him discuss the book, and how it had changed his life. In the transcript he said anyone reading this should contact him, and he would send them a copy of the book. I could've easily ordered the book, but I wanted to see what he would do. So I sent him a message. Lo and behold a package arrived at my door two weeks later with a thank you note and the book. I was amazed. He had no idea who I was, but he was more than willing to help another human being out. It speaks wonders for his character, and the kind of person he is. How incredible was that? *BOTTOM LINE:* Being nice to people, doing the right thing, and providing value to peoples' lives will ALWAYS pay the biggest dividends. As Guy says, "so much of what's good in my life is from the compounding of human goodwill."

This prosperity mindset will focus you on positivity and pushing forward, no matter the obstacle. Most people think of investing as a mind-numbing procedure that takes place behind the scenes of normal daily life. Although it can be tedious at times, investing is one of the most worthwhile skills to learn as an individual because of its dynamics.

It's essential to you and your family's future wealth. It's important to put aside a little time each day or each week to look at your investments. And really understand the underlying fundamentals. Most individuals compare long-term investing to watching grass grow. But have you ever seen how fast grass grows? The first step in achieving investment success is BELIEVING. Contrary to popular opinion, believing you can do something is actually the first step to achieving it. This first step is often overlooked by the majority of individual investors. We end up with so much stress in our lives because we don't pay attention to our mindset. There is great news though; creating a prosperity mindset can be achieved quickly and easily with a little work and perseverance. Having a Prosperity Mindset means not focusing on things that YOU don't have or things that YOU can't afford to purchase. The Prosperity Mindset does not allow us to be envious of other people because there is so much prosperity in the world for YOU to capture. If you focus on the things you don't or can't have, you have a scarcity mentality. And there is nothing more detrimental to your overall well-being than a scarcity mindset. As Charlie Munger says, "There is nothing more counterproductive than envy. Someone in the world will always be better than you. Of all the sins, envy is easily the worst, because you can't even have any fun with it. It's a total net loss." I love that quote. It makes me laugh every time.

Does any of this describe your general attitude towards life? If so, don't worry. I had the same kind of mindset. It's actually quite common. This is not the mentality we want when we are trying to acquire wealth and invest in businesses, which is why we are going to change your mindset right now.

You ONLY need 2 THINGS:

1) A willingness to approach your life in a different way.

2) The courage to take action with your new approach to life.

This is not an all or nothing transformation. This is something that will take place over time. So you need to approach it day by day to make sure you are taking the right steps. There is no reason to feel overwhelmed because I have even more GREAT news for you...I will be here to help along your journey! Perhaps you look at situations differently. You see something and think something bad right away, or maybe you worry about the bills stacking up or not having enough for retirement. Whenever you feel the burden of life or investing, I want you to write down on a piece of paper these 6 words:

What's the worst that could happen?

Be truthful now. I want you to really write all the bad things that are happening in your life, after you write down, "What's the worst that could happen?" I am willing to bet that things aren't as bad or impossible as you first imagined. Now I want you to think about and write down all the prosperity and abundance in the world. I want you to think about how you can position yourself in that prosperity and abundance:

●Be grateful for the things you have right now!

●Be optimistic of the wealth you will accumulate over time!

●Be optimistic of your future success!

●Be more than what you are right now!

I believe in YOU! It's important that you develop this Prosperity Mindset so you can believe in yourself too. In developing a prosperity mindset, it's important to align your perception of wealth with your attraction to it. This means you cannot have negative opinions towards wealth or wealthy individuals and hope to be wealthy yourself. It stacks the deck against you.

Life's Secret Question:

What's the worst that could happen?

First, it really isn't nice or logical to have negative opinions towards anyone (of course we all do at times).

Second, people tend to get what they deserve over a long period of time. Admire people that have come from nothing to be millionaires or billionaires. Take note of their stories and methods in how they achieved such great success. Clone them! Trust me… Success leaves clues. Meet them, read about them, try to interview them, and learn as much as you can from them. The more you do this, the more you will realize what it takes to be successful as an investor, as well as an individual. While changing your mindset from scarcity to prosperity, you need to turn your attention away from people, thoughts or situations that do not promote your newfound prosperity mindset. Think about it: what's the ratio of nice stories compared to horror stories on the news? Why do humans focus so much on negative news? The news media even has a saying, "if it bleeds, it leads." They know that horror or fear monger stories hit at our very core. It gets our attention every time, so it can be very difficult to turn off. You do not want to obsess about problems and challenges. And this doesn't mean turn a blind-eye either; always be aware of the problems and issues, and acknowledge them.

You always want to be aware of the problems, but wallowing in these problems and challenges is not productive to our family or our society. If you allow yourself to enter a scarcity mindset, you subconsciously allow yourself to be focused on things that make you feel powerless. You must train your mind to acknowledge problems and challenges, and then turn your focus back to prosperity and how to fix them to keep moving forward. Once again, this does not mean you lose all sense of reality.

You still need to pay your bills, your student loans, your mortgage and you still need to be conservative in your valuation of businesses. The prosperity mindset does not mean you abandon all responsibilities; it just means you need to stop obsessing over your negative problems and challenges so you can work to finding solutions. Anytime you feel yourself losing control you need to start asking yourself the right questions: What can I learn from this? How can I improve the situation in a positive manner? What's the worst that can happen? How do I come up with a solution to the problem? It's so important to be proactive in defeating this scarcity mindset. We shouldn't spend hours worrying about things that are unproductive; it's a waste of time. These things include: wallowing in self-pity, being envious of other people, worrying about money and finance, and not taking action because of fear of failure.

Don't focus on where you are, focus on where you want to go and how you'll get there! The Prosperity Mindset does not allow for negative thoughts or situations to take over your life. We know they exist. We are aware of the dangers and risks in the world. The difference is---we welcome these situations as opportunity! Stay prosperous my friend.

*This is an excerpt from our new best selling book — **Value Investing: A Value Investor's Journey Through The Unknown.*** VIC

Is This Company Suffering From A Language Barrier?

This language learning company has produced a string of bad quarters. In response the market has decimated the share price, but has the market taken it too far?

Rosetta Stone is a technology-based language-learning solution company that has made news of late with numerous activist investors filing 13Ds in hopes of turning around the business (Roumell, Nierenberg, and Osmiium).

Since the ousting of former CEO, Stephen Swad, the new interim CEO, John Hass has made tremendous strides to stabilize the business and provide for the right growth plan going forward as they invest in segments that can provide better ROI. The company is focusing its strategy and resources towards the Global Enterprise and Education part of the business.

Hass is doing a good job in focusing the company on this segment of the business. However, demand is still relatively weak and the company is likely a few quarters away from profitability. Declines in the average revenue per product is a worrisome sign and competitive pressure is picking up in the space. There are those who are worried Rosetta will lose market share to the free language apps in the marketplace, but Rosetta';s competitive advantage stems from its far superior customer service and support base for global enterprises and schools. Many of these app based companies cannot provide the support of Rosetta.

The interest of well-respected value investors is certainly intriguing. As David Nierenberg says in his 13D filing, *"Our hope for RST is that, with a much tighter focus on the valuable assets it owns today, the company could double EBITDA in 2015 compared with current 2014 guidance, accelerate the growth of its SAAS E&E business to a rate materially faster than it has guided, and rebuild cash per share back towards $5. We urge RST not to make any further acquisitions until it first digests what it has swallowed and focuses the company's strategy much more tightly."* Roumell Asset Management adds further in their 13D filing about their support of Hass as CEO saying, "*Mr. Hass, with his Goldman Sachs and operational background, appears to us to be well-suited to take advantage of RST's market opportunity, particularly with the assistance of experienced cost-rationalizer Al Angrisani."*

Bottom Line: Rosetta Stone is one of the most recognized language learning brands in a world that is constantly growing and globalizing. The company is being circled by activist investors, they are extremely well capitalized with no debt and cash representing ~25% of the current share price. The reorganization plans may take a few quarters to take hold. However, there appears to be a plan that provides for upside optionality with an interesting asymmetric risk/reward profile for patient investors. VIC

INVESTMENT SPOTLIGHT: Rosetta Stone (RST)

Rosetta Stone
(NYSE: RST)

Description: Engaged in developing, manufacturing and marketing home beverage carbonation systems.

Price	**$8.34**
52-Week Range	$6.39—$11.23
Dividend Yield	N/A
Enterprise Value	$137.03B

Basic Valuation:	
P/BV:	4.26
P/OCF:	26.06
EV/EBIT:	-1.84

Notable Owners:	**% Owned**
Ariel Investments	19.11%
Nierenberg	6.80%
Roumell Asset	5.48%

INVESTMENT SUMMARY

The current share price clearly reflects investor concern with the business. There are numerous potential positive developments and the company has plenty of time on its hand, as it has no debt and over $2 per share in cash. There appears to be a mispricing in this security with the optionality for an operational turnaround if management is able to right the ship. Rosetta was featured and brought to our attention by Jim Roumell in our May 2015 issue — Thanks Jim.

Sources: Company reports (10Ks, 10Qs, etc..), other public information

Waiting For The Fat Pitch...Stay Disciplined

"In investments, there's no such thing as a called strike. You can stand there at the plate and the pitcher can throw the ball right down the middle, and if it's General Motors at $47 and you don't know enough to decide General Motors at $47, you let it go right on by and no one's going to call a strike. The only way you can have a strike is to swing and miss."

Warren Buffet

Warren Buffett is an avid baseball fan and loves to use the analogy of Ted Williams to describe how an investor must have discipline to wait for the right opportunity. Just as great hitters like Ted Williams had infinite patience to wait for the right pitch, so must value investors be willing to wait until the right opportunity when a security is trading at a significant discount to its underlying value. The best part about investing is that there are no called strikes. You can wait as long as you like for the right pitch and then swing aggressively.

Investing within your circle of competence is obviously essential as well. If you cannot understand a business or have a difficult time valuing it, then walk away. Throw it in the garbage bin, and move on to the next opportunity.

There is no shame in knowing where not to invest. In fact, it may be the best trait as an investor. Most value investors shy away from technology companies and financial services businesses. I for one, feel I have a very good understanding of a few technology and financial services businesses, so I have no trouble investing in these businesses if given the right opportunity.

The great thing about being a value investor is that you do not need to be fully invested all the time. Most institutional investors (even if they are value investors) have an obligation to their investors to be invested at all times. This puts an enormous amount of stress on an investor to have to swing at pitches you have no business swinging at in the first place. Likewise for amateur investors, they will swing wildly at pitches because they cannot discern a good pitch from a bad one.

This propensity to constantly swing wildly at pitches is the norm in the stock market. This is why so many fabulous opportunities can present themselves at any moment. As Warren says, "...that's exactly the philosophy I have about investing... Wait for the right pitch, and...wait for the right deal. And it will come... It's the key to investing." If you are not "really" compelled by an investment opportunity, there's no reason to lift that bat off your shoulder. It needs to just jump out at you. And after knowing what great investment opportunities look like, you will know when these kind of situations present themselves. Never invest just for the sake of investing. You need to have some inkling of what you are doing. A simple value investing approach can help with this. Even the cheapest security in an overvalued market can be a bad investment, if you believe that it could become much cheaper if the market corrects. So it's important to weigh all options in your current environment.

BOTTOM LINE: An investor must maintain a focused discipline to the valuation process while comparing opportunities to your current holdings. This must be done when opportunities are scarce, as well as when they are plentiful. Being honest and conservative through the entire valuation process can be a difficult endeavor when opportunities are scarce. So investors must stay true to themselves and their process. VIC

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