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COMMODARI ANTINORI GROUP

SAFEGUARDING YOUR WEALTH

INVESTMENT COMMENTARY: JULY 2009

"I will prepare myself and the opportunity will come."

– Abraham Lincoln

We are happy to report to you on the development of your portfolio. As always, a detailed listing of your holdings and individual results are enclosed for your easy reference.

For the six-month period ending June 30, 2009, the total returns for the Dow Jones Industrial Average and the Standard & Poor's 500 were -2.01% and 3.16% respectively, while in Canada, the S&P/TSX Composite gained 17.56%.

These results mark a significant turnaround in these indices fortunes. For example, although the S&P 500 and the TSX finished the half-year up, on March 9, they were down by over 25% and 15% respectively. For the S&P 500, this marked the worst 10-year performance in its 82-year history.

Sadly, as the market made new lows, those who were focused primarily on market prices and not underlying corporate value panicked, sold, and turned ephemeral market losses into permanent capital losses.

We did not participate in panic selling. Instead, we took advantage of fear to add to existing positions - as well as initiate new ones - at substantially marked down prices. These actions will yield excellent results going forward and have already begun to contribute to the bottom line. Please review your enclosed report for details.

SEEK WISDOM FROM THE MASTERS

In writing our Investment Commentaries, we strive to present you with the simple and straight-forward thinking that drives our decision making as well as to inform you of the sound investment practices that we think enhance the probability of long-term success.

Just as classical music students would be expected to study Bach, we feel that those seeking superior investment results would do well to study the investment masters, past and present. Among these, we hold in highest regard Benjamin Graham the father of value investing.

Graham's teachings, first memorialized in the 1930s, are often out of favour — sometimes for prolonged periods. They shouldn't be. His soberly

analytical approach and disdain for faddish nonsense provide a sure compass in the most uncertain of times. By the time Graham died in 1976 he had made a modest fortune for himself and inspired others, such as Walter Schloss, Warren Buffett and Bill Ruane, to make considerably greater fortunes.

We think it beneficial to review the three main investment tenets Ben Graham summarized in *The Intelligent Investor*. The first tenet instructs us to buy common shares as if we were purchasing a percentage interest in a business that has a discernable value. The second provides a framework for dealing with market volatility like we have had in the last nine months. And, lastly, the third tenet introduces the concept of margin of safety and instructs us to wait patiently until we can buy at a large discount from a conservative assessment of intrinsic value.

These tenets add a much needed perspective to investing and form the cornerstone of the value approach we use to safely and responsibly grow your wealth over time. Let's take a closer look at each.

THERE'S SAFETY IN SIMPLICITY

Given the complexity of modern finance, the logical simplicity of buying a stock as if purchasing a company in its entirety is lost on many investors.

Regrettably, most people admire complexity and distrust simpler approaches — the more bells and whistles, the safer they feel. No surprise, the world of finance and investment is populated by many who seek to needlessly complicate what can often be accomplished through simpler means.

Finance academia has given us such expendable contributions as *modern portfolio theory*, the *capital asset pricing model* and *beta* to name a few. These complex theorems are used by the investment industry to justify the existence of sophisticated hybrid products and expensive investment strategies.

We believe that complex strategies and products are doomed to failure because there are just too many things that could go wrong. The end result is that they generally fail to live up to their marketing and leave investors holding the bag.

Our approach is simple. We buy businesses - not products - with enduring competitive advantages that are run by able and owner-oriented people. When these attributes exist, and we can make purchases at sensible prices, it is hard to go wrong.

The lesson we want you to draw from this tenet is that unlike for example, figure skating, in the investment arena, points are not awarded for degree-of-difficulty.

MARKET MOOD SWINGS

The second tenet has to do with volatility and investor behaviour. In his famous parable, Graham asks you to assume you are a co-owner of a private business with a manic depressive partner, Mr. Market, who periodically offers to buy you out or sell to you at wide variations from what you believe is the fair business value.

Graham cautions that you need to be emotionally and intellectually prepared so that you can take advantage of Mr. Market's opportune offerings when either consuming fear or greed dominates his psychosis.

This is where most people fall short. They allow a pessimistic assessment of market valuations, economic forecasts or political risks to dictate their behaviour as opposed to letting their assessment of the individual business do so.

At the Commodari Antinori Group, we measure up because we have a frame of reference. That frame of reference is value. An understanding of value imbued us with caution in 2007 when prices were

high, and spurred us to opportunism recently when prices were low. As long as we believe in the attractive nature of the company's business, we will opportunistically take advantage of Mr. Market whenever he presents us an opportunity to add to outstanding businesses at low prices.

The idea we would like you to remember from this tenet is that you can only control your process and approach and that the vagaries of the market are an opportunity and not a problem.

MARGIN OF SAFETY

The last tenet is simple, but for many it is the toughest to apply. Consider for a moment an engineer charged with the task of building a bridge that must support 100 tons. It is safe to say that the bridge would probably not be designed to handle exactly 100 tons. After all, to ensure that the bridge will not collapse under a heavy load, would it not be more prudent to build it to handle, say, 130 tons? We think so.

The same principle can be applied to securities. If you feel that a stock is worth $10, buying it at $7.50 will give you a margin of safety in case your analysis turns out to be incorrect and the stock is really only worth $9. The size of the margin depends on how much you know about the business, how vulnerable it is to competition, and how predictable its cash flows are. The less you know and the more vulnerable it is, the larger the margin of safety you should require.

The idea you would be wise to remember here is that you should always be more sensitive to possible losses than possible gains. When making a decision, there ought to be a large margin of safety so that no matter what happens, you will never have to experience a permanent loss of capital.

COMPANY DEVELOPMENTS

Aggressive buying of Wells Fargo as it neared its low in March, followed by an almost three-fold increase in its share price from those lows has made Wells one of our largest holdings across client portfolios. That said, we thought it appropriate to take a closer look at the business and share with you the reasons we believe Wells Fargo is a great franchise to own for many years to come.

In its simplest form, a bank makes its money on the difference between what it pays savers and charges borrowers. The larger your customer base and the wider the spread between what you pay on deposits and charge on loans, the greater your earnings power. Enjoying margins nearly twice as large as their peers, no bank does this better than Wells Fargo.

Superbly-managed by Dick Kovacevich and John Stumpf, Wells Fargo has never felt compelled to do anything simply because other banks were doing it. Most recently, we admire the conviction upper management demonstrated through the housing bubble. While other banks loosened their credit standards, Wells Fargo maintained theirs, and in so doing avoided big losses. This paved the way for what will prove to be yet another great decision — the acquisition of Wachovia which closed on December 31, 2008.

Much like their very successful merger with Norwest in 1998, the Wachovia acquisition marks a new chapter for Wells Fargo. This deal extends their reach to the East Coast, and gives them the largest, most extensive banking network across the U.S. It will take time to fully blend the cultures of both companies, but we believe that Wells Fargo's disciplined lending standards combined with Wachovia's leading customer service practices, position Wells Fargo for tremendous future earnings. We liken this deal to that of TD's acquisition of Canada Trust from Imasco in 2000.

CONCLUDING THOUGHTS

Like an insurance policy, the soundness of our investment approach can often only be appreciated during chaotic times. It is during such times that our approach helps avoid spectacular losses and in so doing, gives us a better chance of obtaining excellent results over time.

Since the market downturn began in late 2007, client portfolios have done much better than major market indices. These results are no accident and are due in part to applying the tenets that Graham outlined over 70 years ago.

At this time, the outlook for the economy is murky at best. Your insurance against this cloudy short-term outlook is the prices we paid for our holdings. They were extremely marked down and will produce great results over time.

Expect continued diligence from us on your behalf. We will continue to be patient waiting on bargains and impatient when we find them.

Enjoy your summer — we are hopeful the Sun will make an appearance!

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