NOVEMBER 2011 I REPORT

Once again, financial headlines are dominated by events occurring within Europe. Some details are beginning to emerge from the latest efforts to cap rising bond yields for most Eurozone countries as the union attempts to deal with its funding crisis. As should be widely expected by now, the complex issues at the heart of the structural problem – monetary union without a fiscal union - that have allowed the debt crisis to grow for years, and now fester for the last eighteen months, cannot be solved quickly.

Over time, the Eurozone may muster enough enthusiasm for some aspects of fiscal integration between the member countries, but this necessary step will only help the currency union avoid any future crisis stemming from members' lax fiscal disciplines, and not solve the current debt dilemma. However, it is by no means a certainty that either all members will agree to implement the to-be-determined finer points of this accord, or that its provisions will be strict enough, or even enforced, prior to the next crisis. The Eurozone's past track record on enforcing deficit limits on its members is not inspiring.

What hangs in the balance is confidence in Europe's institutions and perhaps even its governing treaties and the Euro currency itself. Investor confidence, as measured by the stock market (Euro Stoxx 50) has ebbed and flowed by about 10% on either side of the average level since the end of July, which is close to where it sits at the time of this writing. But, these confidence swings have been mostly based on phantom headlines of progress, or on speculation that the ECB will intervene.

No matter what is ultimately implemented from the fifth Eurozone problem-solving summit in eighteen months, many European countries will likely end up in an economic recession over the near term. The underlying current issues related to deleveraging the sovereigns and their banking systems will not be solved through the ECBs euro-printing actions (should they agree to buy bonds) or the prerequisite fiscal alignment sought by both Germany and France. Only some combination of additional capital to the banks, solid economic growth, and reduced lending/borrowing will create sufficient sustainable growth conditions. Near term, the recession, combined with an as-yet unclear set of austerity policies and treaty amendments, are likely to cause businesses and consumers to restrain themselves over the coming quarters. And, it is likely that many of Europe's banks will have to sell some businesses to help raise their capital levels, or possibly accept capital injections from governments.

However, despite unresolved concerns challenging the near-term outlook, we continue to find good investment opportunities. Our investment approach remains unchanged with a focus on constructing a broadly diversified portfolio of stocks trading at a discount to fair market value supported by long-term fundamentals.

As we have long maintained, owning a broadly diversified portfolio at all times has served our investors well over the long term, providing more consistent absolute results.