



## BANYAN CAPITAL MANAGEMENT

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July 20, 2006

Dear Client:

We are pleased to report that on average our individually managed equity portfolios are up 9.6% for the first half of the year. This compares quite favorably to an increase of 2.7% for the S&P 500 over the same period. ([Explanation of how composite is compiled](#)) Not only have we bested the market, we have surpassed those investors we admire most, namely the mutual funds Oakmark Select, Longleaf Partners, Fairholme and Third Avenue Value. This significant out-performance is mainly because we have had no major misfortunes in the portfolio so far this year. Virtually everything we own has gone up some. Furthermore, the market values of our insurance holdings have rebounded quite nicely from depressed levels at the end of last year. Since performance varies from one portfolio to the next, please refer to the attached reports for the results for your portfolio.

Much of our investment success over the years is due to our portfolio having been heavily invested in certain outstanding insurance companies. This has equally worked to our disadvantage over the past two years as hurricane losses have been abnormally high by historic measures. As a result of the hefty loss experience over the last two years, the industry has undergone a bit of an upheaval to the benefit of the stronger players. Therefore, if this hurricane season is more “normal”, and absent other major catastrophes, the insurance companies in our portfolio will make an enormous amount of money. Should this be the case, I would expect our portfolio to enjoy even further gains this year. I invite each of you to join me in keeping your fingers crossed and your eye on The Weather Channel.

As has become our tradition, we are not scheduling client meetings during the summer, except by request. We look forward to seeing you in the fall and wish you an enjoyable summer.

Sincerely,

Gary L. Watkins  
President