



BANYAN CAPITAL MANAGEMENT

July 20, 2009

Dear Client:

At the half-way point in 2009 there is much on which to reflect. In this letter we will review the present overall economic conditions and evaluate how our investment strategy fits into that environment. Also, we will report on our performance and announce the beginning of a new chapter in the story of Banyan Capital Management.

Currently, the economy is in a bottoming process, a course which should extend several more months. In the environment ahead, businesses will be slow to build new plants, office buildings and shopping centers. Lenders will be more careful in their practices and consumers will continue to save at an elevated level last seen 15-20 years ago. A snap-back in employment will not occur with the rapidity experienced in previous post-war recessions. In fact, the unemployment rate will no doubt climb further yet, into double digits. A fair estimate of the time it may take to return to 2006 employment levels is 3-5 years. Beyond a cyclical recovery, GDP growth for our economy will normalize in the 1-2% per year range down from the 3-4% levels experienced earlier in this decade. With business activity proceeding at such a sluggish pace and with the economy operating at only 65% of capacity, inflation should not be a problem for many months ahead. Inevitably, the enormous amounts of monetary and fiscal stimulus emanating from Washington will lead to upward pressure on inflation and interest rates. Having done enough of the right things to lead the financial system away from the precipice of a melt-down, will our elected leaders and officials at the Fed have the foresight and the steadfastness to keep the economy from the dual ravages of inflation and much higher interest rates? At best, I have mixed feelings about what may be the most important question for our economy over the next ten years. In the meantime, we have probably seen the lows in the stock and bond markets for this cycle. After an explosive rally from the March lows in stocks, the current halting and lurching period is to be expected. The bond market has improved immensely from its dysfunctional state last fall. Our increased commitment to bonds during that period has proven to be most worthwhile.

Within this backdrop, our value-oriented investment philosophy remains as valid as ever. In a slower growth economy, the better capitalized stronger companies will attract a larger market share. These are the companies that are in our portfolio. Attractive returns can be achieved if we continue to buy equity securities of good businesses run by shareholder-oriented managers when both the market price is at a discount to intrinsic value and where intrinsic value is expected to grow. Stocks purchased with such characteristics provide us with a margin of safety against permanent loss of capital. Stocks are sold when prices approach or exceed our assessment of intrinsic value or when intrinsic value begins to erode.

Adherence to this philosophy has served us well over the years. From 1991 (the first year for which we have complete data) to the present, our equity composite has compounded at 10.3% per year before fees. Over that same period the S&P 500 is up only 7.9% per year. During the first half of this year our equity composite was up 3.2% before fees, exactly in line with the S&P 500. ([Explanation of how composite is compiled](#))

Normally we do not schedule client meetings during the summer. This year I would like to make an exception to our common practice. With the numerous changes that are affecting many aspects of the business landscape, we should spend some time together making sure your portfolio is structured to meet your needs. Please call me right away to set up a meeting. Otherwise, I will be in touch with you in the next few days.

For several years, Banyan has been looking for the right person to join our team as a second investment professional. We are now proud to announce Douglas E. Ott, II will be joining the firm as an analyst and portfolio manager in October. Doug graduated from Mercer University School of Law last month and will be taking the bar exam July 28 and 29. He will then have several weeks before starting work. Doug, an avid bicyclist, will be cycling in Dahlenega, Georgia in August and then through the Pyrenees in Spain this September. We are fortunate to have someone with Doug's character, intellect and determination join our team.

I would like to wish everyone a safe and fun rest of the summer. Thank you for your continued trust in Banyan Capital Management.

Sincerely,

Gary L. Watkins
President