



## BANYAN CAPITAL MANAGEMENT

July 27, 2010

Dear Client:

In the first half of the year we attended two shareholders' meetings, one for Berkshire Hathaway and one for Markel Insurance. At these meetings, we encountered very little that was new, but we did see a striking and very important similarity in the two companies. We saw leadership of both companies stress, with the same amount of passion, the importance of their shareholder base and their business ethos. Berkshire and Markel both have a unique, long-term oriented culture of employees and shareholders that place extreme importance upon integrity, industry, and service.

Also, we were impressed by the fact that most Markel and Berkshire shareholders could describe the respective ethos and tenets of their companies – a demonstration of the unique culture the companies have created. With such employees and shareholders, it is no wonder that these companies have been able to attain their goals of achieving superior results over the long term.

After seeing the many benefits of having such an impressive culture, we at Banyan would like to increase our efforts in cultivating a culture of our own. We want clients to better understand who we are, our values, our investment philosophy, our goals, and what we do for you and have done for you in terms of service and investing. We feel that an increased understanding and awareness of all these items will lead to improved service, enhanced communication, and better relationships with present and future clients. Therefore, we would like to outline the two characteristics that define Banyan as your investment advisor.

### **Service**

First, Banyan exists to serve you, our client. We make every effort to provide excellent and responsive service. We pride ourselves on the fact that all phone calls are answered and all messages are returned as quickly as possible. We often go beyond our role as investment advisors and money managers to provide estate planning, financial planning or other related services.

Banyan will always strive to do what is right for the client. For example, we invest our own assets alongside our clients. This provides us with a singular focus to find the best investment ideas out there because we feel the same pleasures and pains of our investment decisions as our clients.

We are highly aware that you have many options when it comes to your investment needs. Recognizing the significant decision that you made in choosing Banyan to manage your assets, we promise that we will always do our best to address any concerns or problems that may arise. At Banyan, you are not a forgettable face out of several hundred. We consider each client a friend and we will operate in such a way that makes this goal achievable.

## **Performance**

Second, Banyan's goal is to earn superior investment returns over the long term. We attempt to achieve this goal by investing in companies that are selling at a large discount to our estimate of their true worth and by investing in only our best ideas. Because we invest in our best ideas, this means we have a lower number of stocks in our client portfolios compared to the average money manager.

Unfortunately, many people have been misled to think that more stocks in a portfolio means greater diversification, which means less risk. However, studies have shown that more is not always better when it comes to the number of stocks in a portfolio. One needs only twelve to fifteen stocks in a portfolio to achieve the maximum benefits of diversification. After this number, the law of diminishing returns kicks in (i.e., the benefits of diversification start to decrease and the odds of lagging behind the market's performance start to increase).

Another virtue of a smaller number of stocks in a portfolio is that we have a greater knowledge and understanding of the individual companies and of the industries in which they operate. After all, is it really less risky to be invested in fifty stocks where you don't know much about any one or is it less risky to be invested in a smaller number of companies with which you are very familiar? At Banyan, we feel that we reduce risk best by (1) knowing a lot about 15-20 companies and by (2) purchasing them at a large discount to their estimated value.

## **Summary**

In summary, Banyan exists to provide excellent service to its clients and to earn superior investment returns over the long-term by investing in our best ideas that are selling at a large discount to their estimated value. We strongly believe the companies and mutual funds we own are priced to compound at attractive rates of return over a long time horizon.

Thank you for your continued support and trust.

Sincerely,

Gary L. Watkins  
President

Douglas E. Ott, II  
Portfolio Manager