BANYAN CAPITAL MANAGEMENT

November 16, 2012

Dear Client:

With the November elections now behind us, we all have refocused our attention on the looming fiscal cliff, the situation where the Budget Control Act of 2011 could go into effect if Congress does nothing to prevent this from happening. Going over the fiscal cliff means that certain taxes would increase and there would be automatic spending cuts. In an already weak economy, most economists agree this could tip the U.S. into another recession. Although we might get close to the edge, we believe the chances of actually going over the cliff are very low. We agree with Bill Miller that "Congress is dysfunctional, not suicidal." The prospect of a large market correction will force Congress to come up with an agreeable solution.

An additional and related problem is the sizeable debt position our country has built up. Although solving the fiscal cliff problem is good for the short term, if the government continues on its current spending course and the economy does not start growing again at a faster rate, the country's debt burden will become even larger and more unmanageable. Although it may be many years before interest rates increase due to an unsustainable fiscal position, the risk from owning bonds grows every day.

With interest rates as low as they are now (1.58% on the ten year U.S. Treasury), even a modest increase in rates over a protracted time frame can have a large impact on bond performance. For example, in the bond bear market of the 1950s, the yield on Aaa-rated bonds rose from 3.2% to 5.0% over a 69-month period. The value of those bonds declined 15% and it took about nine years to recover those losses.

Despite these serious issues, we are absolutely confident that our investments in both equities and bonds will do fine over the long run. For our clients who require a fixed income, we use two Loomis Sayles bond funds that will provide decent current income while minimizing the effects of a rising interest rate environment when that comes to pass. Although we continue to look for a better bond alternative, to date we cannot find anyone better at investing in the bond market.

On the equity side, we own a number of highly profitable and growing businesses. These businesses not only survived the recent financial crisis, but emerged stronger and with even greater opportunity to expand. For example, CarMax currently has over 100 used car superstores across the country but can easily open up another 200 stores in the coming years. The company is currently opening 10 new stores per year. Furthermore, the value proposition of purchasing a used vehicle from a reputable seller at a no-haggle price is greater now than it

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ever was. With a weak economy and the average car age at a record 11 years, many people can only afford to consider a used car if they need to replace an even older car. Regardless of what happens with interest rates, the economy, or geopolitical events, we are certain CarMax (and many other companies we own) will be larger, more profitable and thus more valuable over the years. As long as that remains true then stock prices must inevitably follow.

While we are optimistic about the long-term, we must caution that the road ahead will continue to produce wide swings in the prices of securities and this may be particularly true in the coming weeks. Even with all the uncertainty and nervousness, our equity portfolios were up 15.5% for the year through October. We are doing well in this turbulent environment.

In closing, we encourage you to call us to talk about any worries or concerns you may have. Also please call when you receive your year-end reports in January to set up a time to get together. We look forward to meeting with you. Thank you for your continued support and trust.

Sincerely,

Gary L. Watkins
President

Douglas E. Ott, II
Portfolio Manager