



BANYAN CAPITAL MANAGEMENT

July 24, 2015

Dear Client:

Banyan's equity composite was up 0.8% in the first half of 2015, while the S&P 500 return was 1.2%. As these figures indicate, the broad market garnered barely a positive return in the first half of the year. During this period, the market shifted away from rewarding investors like Banyan who employ a value approach. In other words, not only was the market nearly flat, our approach has been out of favor. While we always seek to be the positive exception in such an environment, in the first half of 2015, we were not. ([Explanation of how composite is compiled](#))

So what approach has been rewarded most recently? The approach taken by investors known as momentum players. Momentum investing is a system of buying stocks that have earned high returns over the previous three to twelve months and selling those showing poor returns over the same period. While Banyan has been buying good companies at bargain prices, momentum investors have been eagerly selling those same stocks simply because their prices are down. From Banyan's perspective, this environment is a lot like trying to catch a falling knife. Unfortunately, we have a couple of flesh wounds to show for it.

Although it may seem ideal to utilize the investment approach most rewarding at the moment, it is not practical or achievable. Endeavoring to perform such an investing high wire act is fraught with perils too numerous to mention. Instead, one might accuse Banyan of adopting a motto of ...

Don't just do something, sit there

Portfolio managers have a tendency to always be doing something. By that I mean, constantly buying and/or selling securities. At Banyan, we rarely trade. Instead, we carefully select a relatively modest number of high-conviction business investments at attractive prices. The managers of these businesses are expected to compound capital at attractive returns over long periods of time. Therefore, it is rare that the fundamentals of the company or the price of the stock changes so radically and so quickly that it warrants selling one stock and purchasing another. Successful investing is not about buying and selling. It's about continuously evaluating our holdings relative to other investment options.

Thank you again for trusting Banyan with your investments. Our goal is to build permanent wealth on your behalf.

Best,

Gary L. Watkins
President