



May 13, 2016

Dear Client:

Banyan's equity composite was up 0.9% for the first quarter 2016 while the S&P 500 was up 1.4%. ([Explanation of how composite is compiled](#))

What is remarkable about the stock market's first quarter is that the sharp selloff through mid-February was followed by a recovery of all of those losses by the end of March. Amid the market volatility of the first quarter, we added no new security positions. However, our shares in Precision Castparts were tendered due to its acquisition by Berkshire Hathaway. Throughout the quarter, we maintained larger cash positions than is normal. Therefore, when the market went down sharply, we substantially outperformed the market and when it went up sharply, we underperformed.

Our current cash position is not due to a market judgment on our part; but because we know stocks generally are not cheap. At the same time, stocks are not excessively priced either. In such an environment, it is wise to be more cautious. Our research effort is ongoing and wide ranging, and any day we may add a new investment or possibly several.

On another note, we again made our annual pilgrimage to Mecca, I mean Omaha, for the Berkshire Hathaway shareholders meeting. The meeting is only as good as the questions asked, and while last year was decidedly below average, this year's Q&A was clearly above average. For the first time, the entire meeting was streamed live.

While the meeting is the main attraction, we also attend dinners and other events sponsored by several first-rate companies and organizations. It was good to be in Omaha again to renew acquaintances with numerous intelligent, successful investors that we have been fortunate to know over the years. Since we have attended about twenty Berkshire annual meetings and listened to Q&A with Warren and Charlie for at least 130 hours, we did not hear anything truly new this year. Our friend Tom Gayner, CEO of Markel, said it best when he observed that when you go to church you don't get lightning bolts of new information. Rather, the reason to go is to be reminded of the things you already know are important. The same can be said about attending Berkshire's annual meetings.

Our job for you is to build permanent wealth. We do so by carefully selecting a portfolio of high quality businesses that are expected to compound shareholder wealth over time. We also are committed to providing prompt client service. Both on the investment side of our effort and on the client service side there are several exciting developments coming your way. We look forward to making announcements later this summer. We value the opportunity to visit with you.

Sincerely,

Gary L. Watkins
President