BANYAN CAPITAL MANAGEMENT

October 21, 2016

Dear Client:

Banyan's equity composite was up 4.4% for the year so far ending September 30th while the S&P 500 was up 7.8. (Explanation of how composite is compiled)

As you review your reports, you may notice some additions to your portfolio. We added both Apple and Amazon. If you have been a client for some time, this may pique your curiosity; until now, we have had a more limited exposure to “technology” companies.

The reason for our aversion is simple. Tech companies are difficult to value. As a group, they are infamously unreliable and have few tangible assets to fall back on. This generally jeopardizes safety of principal, the preservation of which is our number one goal.

Having said that, industries and businesses change, and that reality must be recognized and embraced. While manufacturing, for example, has declined, companies like Apple and Amazon have blossomed into economic juggernauts:

- Apple’s success with the iPhone has made it the most valuable company on the planet. For the iPhone user reading this, what would it take for you to switch to a Samsung device? A 10% price difference? 20%? 30% even? This customer captivity in the face of competition is powerful and just one of the reasons we believe Apple’s business is sustainable. Granted, Apple’s future growth will be less robust, but the market is pricing Apple as if its business is sure to decline. We like those odds. See the attached report for a deeper dive into Apple’s business.

- Unlike our Apple investment, which is based on sustainability, our Amazon investment is based on value creation. We are unaware of a company with a brighter future. It dominates the ecommerce space, and that business has a lot of runway ahead of it. And Amazon’s lesser-known cloud business, Amazon Web Services, is perhaps even more attractive. As a result, Amazon is a rare example of a business that can deploy vast amounts of capital at very high rates of return for years to come. While our investment in Amazon is already quite profitable, the underlying business simply must become more valuable. We expect the stock price to follow.

Banyan Capital Management, Inc.
2100 RiverEdge Parkway, Suite 1030, Atlanta, Georgia 30328
Phone 770-951-2129 Fax 770-951-8277
www.banyancapital.com

As any business, we at Banyan would much prefer to evolve and that is what we are doing. Although our investing *principles* will never change (the best way to make money will always be to buy outstanding businesses run by great managers at rational prices), our *understanding* of those principles has. Your portfolio reflects that.

On another important note, our three and one-half year search for a new portfolio manager ended on August 15th when Drew Estes reported for work. Drew comes to Banyan with outstanding educational achievements and his previous employers give him the highest recommendation possible. Drew graduated with a B.A. from The University of Alabama in Economics and History with the honors of magna cum laude, his M.B.A. from The University of Alabama Manderson Graduate School of Business and his J.D. from The University of Alabama School of Law. In addition, Drew passed all three levels of the CFA Program and may be awarded the charter upon completion of the required work experience. He is thoughtful, even tempered, cheerful, mature beyond his years, energetic and humble. Please join me in welcoming Drew to Banyan. We look forward to introducing him to you in person. Already Drew is having a positive impact on our portfolios and reporting process, including writing parts of this letter and most of the Apple research report attached.

Our job is to build permanent wealth for you. We do so by carefully selecting a portfolio of high quality businesses that are attractively priced and where the underlying businesses are expected to compound shareholder wealth over time.

Sincerely,

Gary L. Watkins