BARRACK YARD ADVISORS

Current Anchors

August 2011

Quarterly Review

Equities: 66%, Bonds: 0%, Cash: 34%

Three items of note have changed since last quarter:

- Rise of negative sentiment
- Federal Reserve stops Quantitative Easing, reducing the sugar high of most risk assets
- U.S. loses triple-A credit rating by Standard & Poor's

Asset prices reflect these changes: stock prices are down over 10% since April and are in negative territory, year-to-date.

Oil plummeted 25%. Gold, a perceived safe-haven, is up another 15% to nominal all-time highs.

We were cautious in April, holding 34% of portfolio assets in cash.

While Barrack Yard Advisors are certainly not bullish, we will buy selectively into this weakness: particularly Perpetual Annuities and Toll-Taker companies paying good dividends.

Positive Developments
Corporate bond yields are at the lowest level in 45 years. Balance sheets of the companies we own are in great shape.

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Should Wealth Managers Eat Their Own Cooking?

Louis Lowenstein was a successful corporate executive and law professor. In the last three decades of his life, which ended in 2009, he was also an influential critic of the money management business. Back in 1988, a Barron's Cover Article said of Mr. Lowenstein: "Merrill Lynch, meet your worst nightmare."

In addition to lambasting the investment management industry for its practices, Lowenstein took individual investors to task for being too short-term in their investment thinking.

Lowenstein's mantra: investors have forgotten stocks represent part-ownership in a business. "If you buy on that basis, you have made a judgment about that company and its businesses over the long term. No sensible investor would change his mind in a few days or a few weeks."

Lowenstein wasn't simply a gadfly, however. He respected those in the industry who do a good job and articulated four attributes that are common among the best managers and they ring true to me: The best managers hold concentrated positions, about 20 companies. They have low portfolio turnover. They employ themes and/or variations of the Graham & Dodd value approach. They "eat their own cooking." Meaning they have a substantial amount invested in their own strategies.

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Review…continued from page1:

These companies, due to their reasonable valuations, can now borrow money to buy back stock and create instant earnings per share gains. Call it financial engineering, but it is a legitimate form of value creation.

Debt Downgrade: Final Word:

No one doubts U.S. ability to pay its debts. What has been called into question for the first time since Hamilton was at Treasury is the U.S. government's willingness to pay its debt.

Eat Own Cooking? …continued from page 1:

An article last month in Investment News entitled, "Portfolio Managers Should Eat Their Own Cooking," caught my eye. The author, Jeff Benjamin, reports on a study recently conducted by Morningstar that found just 40% of mutual fund managers invest in their own funds.

There are some technical reasons why this number is so low, but as a firm believer in the owner-operator So what's the correlation between performance and "eating one's own cooking" in the above study? Morningstar reports managers who have over $1 million invested in their own funds have an average star rating of 3.5 versus a star rating of 2.9 for those with no money invested.

It seems like common sense that this would be so. Having little or no money in a strategy you're managing is like renting; while having a meaningful amount is like owning. All things being equal, who's more likely to take better care of an asset, a renter or an owner?

We believe finding an advisor or manager who invests in his or her own strategy is an important factor when looking to delegate the managing of one's money.
