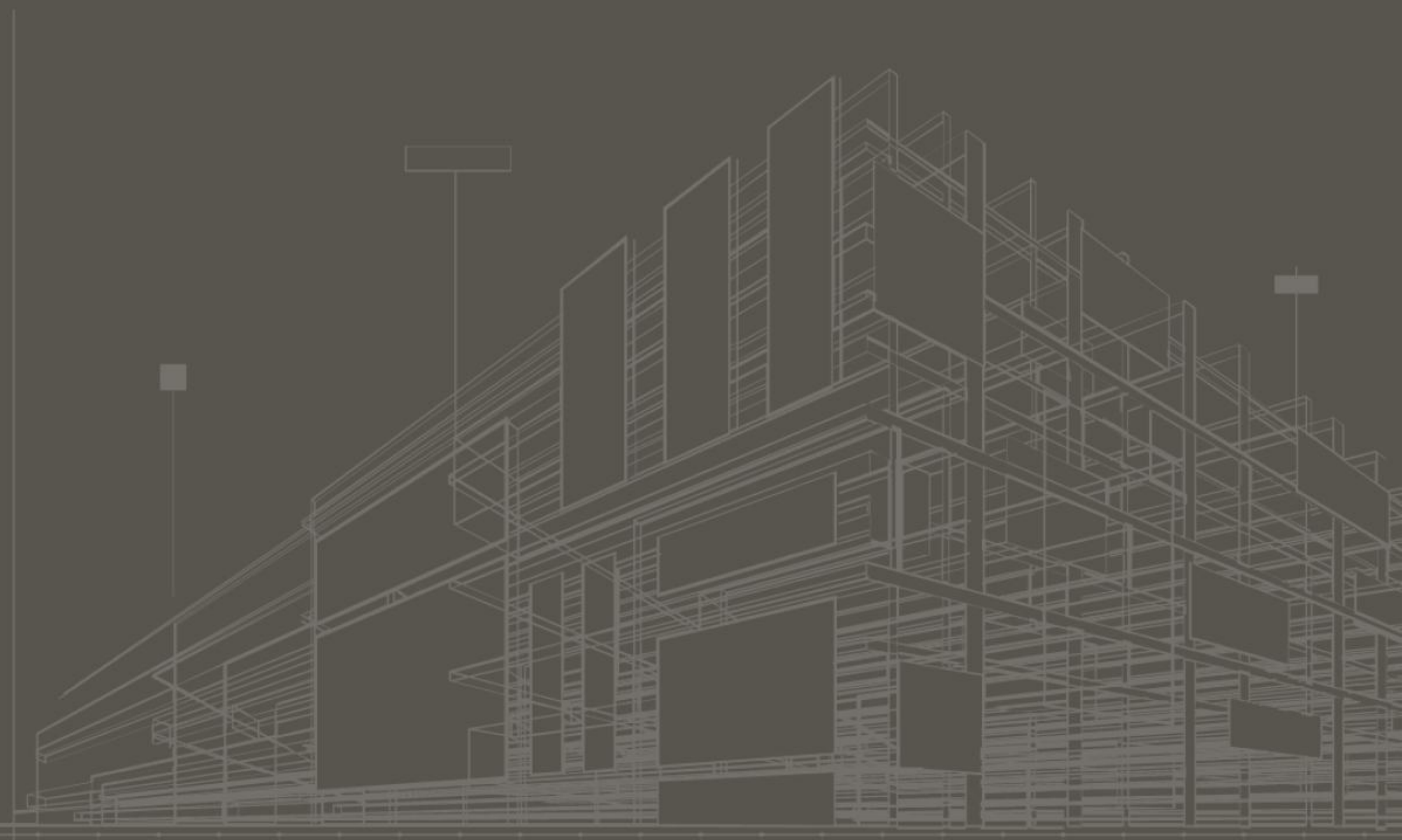
Broyhill
Letter Highlights



OUR EDGE

Simply put, we operate with a different mandate. The advantage of being founded in the foothills of the Blue Ridge Mountains is that we are outside of the fray. Removed from the noise, we are able to climb the mountain and survey the investment landscape with a rational, objective, long-term perspective.

You don't need Broyhill in a bull market. It is only in a bear market that Broyhill's disciplined value-driven approach becomes a necessity, aiming first to protect capital before pursuing potential gain.

We have built Broyhill to thrive in challenging environments. Everything we do is laser-focused on one goal – protecting investors' capital. Simply put, this is where we earn our keep.

Our broad mandate is one of Broyhill's core competitive advantages, particularly relative to peers trapped inside a single style box. That flexibility allows us to look across market segments for the most attractive risk-versus-reward opportunities.

Many investors play the conventional game and fail conventionally. As a result, the majority fail to keep up with the professionals, who fail to keep up with the market. Institutions have more information, more money, and more time to dedicate to investment decisions. In reality, however, the very thing that gives these giants their size are also the source of their greatest weakness. Our ability to recognize this weakness—and capitalize on it—is precisely our edge. We make our own more rational, rules. We are patient. They are not. We aren't forced to follow the herd. By definition, they are the herd.While most institutional managers spend their days and nights rifling through meetings, sorting through emails, and rubbernecking at Bloomberg and CNBC, we sit in a quiet room and read and think. By designing our process to tune out the noise and make better decisions, we have tilted the odds in our favor.

Our long-term orientation allows us to look out further on the horizon to capture investment returns that are just not available to those focused on the next data point or the next quarter. So, we put one foot in front of the other each day, recognizing that excellence is achieved one step at a time.

Value Investing:
Our Differentiation

Value investing is simple, but not easy. The math behind most of our decisions is not rocket science. Investment techniques can be easily taught. Consistent application is far more challenging. As Seth Klarman stated in Margin of Safety, "The hard part is discipline, patience, and judgment. Investors need discipline to avoid the many unattractive pitches that are thrown, patience to wait for the right pitch, and judgment to know when itis time to swing."

Investing is all about expectations. To generate excess returns, you must have a view as to why future fundamentals will be different than expected. If they are not, even a company with terrific fundamentals can be a poor performer. Conversely, a company with terrible fundamentals can be a great stock. Stocks do poorly when they disappoint. The flip side, is that they do quite well when they surprise to the upside.

When purchased at the right price, even a melting ice cube can offer a refreshing return. The liquidation of peers, acquisitions that consolidate market share, and cost cuts often leave the last man standing with quite a nice stream of recurring cashflow. We focus on those situations in which expectations are so low that the odds of a positive surprise are in our favor. In other words, we focus on the fallen that are likely to be restored.

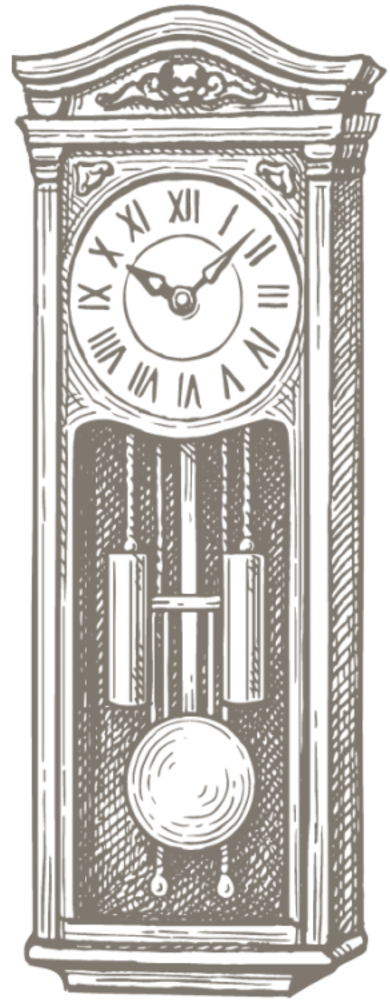
Low expectations don't guarantee good outcomes. But when the bar is set low enough, positive surprises are much easier to come by.That seems a lot easier than depending on perfect execution to get more perfect. To do this, one must remain comfortable holding the view that the market is wrong and that price is a liar.

To produce better-than-average results, you need to own a different portfolio than the average. This remains true at Broyhill. What also remains true is that we don't look like the average value investor, either. This is by design. Value investing at Broyhill is more than just buying low P/E or low P/B stocks. We are actively seeking businesses that trade below fair value with catalysts on the horizon to highlight that value.

In challenging market environments, we gravitate towards event-driven situations that are less susceptible to fickle investor sentiment. In the context of an increasingly volatile investment climate, a well-defined catalyst, like an acquisition, can provide a more predictable range of outcomes without depending on the vagaries of the market or the unpredictable mood of investors. As a result, these investments can decrease portfolio duration and volatility, reduce downside in bear markets, and provide attractive risk-adjusted returns.

We take comfort in knowing that we don't own the market. Rather, we own a concentrated portfolio of good businesses trading at attractive prices, with multiple ways to win.

Time Arbitrage



Increased competition for returns has resulted in shorter time horizons. It's human nature. Returns are greatest for those willing to take the risk before the light at the end of the tunnel. Things often get worse before they get better, and the best returns typically come when things appear darkest, just before the light begins to shine.

Patience is a virtue. It's also the greatest advantage we have in a world where the price is set by investors focused on the next tick. This world is highly competitive. This world forces our peers to overlook long-term opportunities for fear of short-term underperformance. We can't win in this world. Winning here requires dozens or perhaps hundreds of correct decisions in a given year. Very few can do this consistently. It's a hard game to win. So we don't play it.

To win in the long term, we must do something different. We see little to gain in staring at our screens all day. Rather, our odds are greatly improved by making fewer decisions over a longer time horizon where competition has dwindled. For those willing to stomach some short-term volatility, the long-term rewards are as great as they've ever been. By playing in a different arena than the crowd, we can expect to beat them.

In difficult times, investors abandon the "outside view" for an "inside view." Said differently, panic shortens time horizons and shines a spotlight on immediate risks rather than longer-term probabilities. It is during these temporary bouts of doubt and drama that we look to get involved.

It is impossible to know with certainty when to sit on your hands and when to harvest ideas. Decisions must be made with less than perfect information. Ideas must be given adequate time to develop and mature. Rush the process and put capital to work too quickly, and you forgo the option to buy later at lower prices. The other extreme is to wait for prices so low that bargains are available everywhere. But wait too long, and you risk missing out on some decent crops along the way. You also risk not having any investors left at the end of the season. Since predicting stock market cycles is as reliable as predicting the weather, prudent investors will harvest what they can when the weather is good, leaving enough dry powder in the portfolio to survive another season.

While cycles of underperformance are difficult to endure, they are a necessary evil. If value outperformed all the time, everyone would buy value stocks until they were no longer a value. It is precisely these periodic bouts of underperformance which create the value in value stocks and the foundation for long term outperformance.

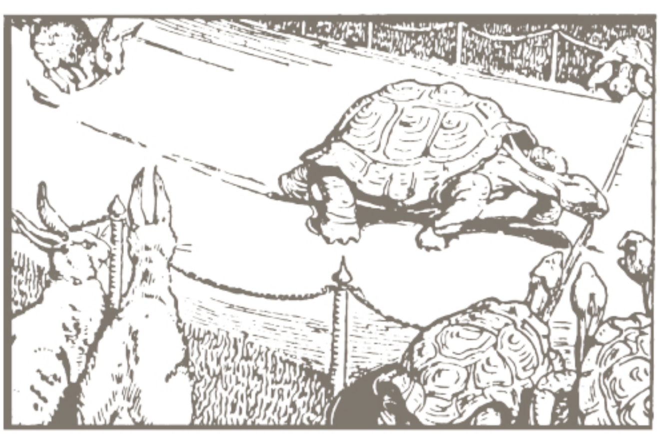
Downside Protection

One of the most underappreciated keys to generating consistent long-term returns is to minimize losses. Losses are almost always caused by taking too much risk. If you avoid large losses, the gains will usually take care of themselves.

Successful investing requires a heavy emphasis on avoiding mistakes, because protecting capital through challenging times is inconsistent with maximizing returns in good times. The key to capitalizing on periods of market turbulence is coming through with your capital and your judgment intact, while most participants are paralyzed by fear and losses.

Capital preservation has always been our primary focus. While traditional approaches to investment management (either implicitly or explicitly) accept the fact that they will periodically see their net worth cut in half, we just don't find that acceptable.

We never stop thinking about risk. We revamp, refine, and reexamine our thinking every day in order to maximize our odds of success. There is no silver bullet. We must make decisions without the comfort of perfect information. The best we can do is assess all the relevant factors through all the relevant lenses, and as always, we strive to make the best decisions for our clients with the information we have.



At Broyhill, we are programmed to stay on our feet and to ensure our investors do the same. We prioritize the return of capital before pursuing a return on capital. This means being prudent when others are not, which positions us to take calculated risks when others cannot. It means we prefer the steady pace of the tortoise rather than risk burning out like the hare. It can be frustrating to watch those rabbits recklessly speed ahead while we move forward at a more measured and calculated pace. But we believe this is the best way to ensure we finish the race with our investors (and their capital) still on board.

We manage money for investors who have worked hard to build their net worth. We work equally hard to keep it by ensuring we have a deep understanding of every business we own. Sometimes we get it right. Other times we don't. But we don't buy stock because someone on the internet said we should. The work is always our own. Not a hot tip poached through a message board.

It's only when the tide goes out that you learn who's been swimming naked. Despite day traders propensity for skinny-dipping, our preference remains in line with other veteran investors and in keeping our pants on.

The best trailing five-year records late in the game are usually generated with an equivalent amount of risk by fully invested and unhedged heroes. There are no guarantees in this business, but it's safe to assume that this approach will greatly increase the probability that the next wave down takes your pants and your capital with it. Keeping our pants on is the cornerstone of our strategy at Broyhill.

Bad investors are destroyed by crises, good investors survive them, and great investors are improved by them.

AGGRESSIVE VS DEFENSIVE INVESTING

Bull markets are often confused with genius. A dart-throwing chimp will occasionally hit a bulls eye, but as much as he might like to think so, that doesn't make him the next Warren Buffet of dart-throwing (whoever that is).

In a bull market, aggressive risk-taking can easily be confused with intelligence. The challenge for investors will be holding onto those gains when the tide goes out.

Big gains are certainly far more exciting than avoiding losses, but we've never been particularly fond of excitement. Occasionally spectacular, yet volatile, returns can bring fame and fortune for heavy-hitting investment managers, but their clients rarely come along for the ride.

We are trying to make as much money as possible without sticking our necks out too far. It's too easy to be lulled into complacency when asset prices are marching higher. We must resist this temptation in order to survive the next cycle with our composure, capital, and confidence unharmed.

Good investing isn't necessarily about earning the highest returns. It's about earning pretty good returns that you can stick with for a long period of time. That's when compounding runs wild. This simple statement is perhaps the most overlooked and underappreciated fact in all of finance.

"Pretty good returns" are just not exciting. And investors crave excitement, even if they won't admit it. They place more weight on unlikely outcomes than they should. Just as gamblers are willing to throw away money on lottery tickets for a small chance to win, investors are seduced by the excitement offered by speculative, high-risk stocks. Most investment managers are happy to oblige and provide their clients exactly with what they want. Simply put, a more volatile portfolio increases the expected value of a manager's compensation.

All this excitement comes at a cost. Even the most spectacular gains can be wiped out by a single, large loss, destroying years of investment success and eliminating the benefits gained by compounding.

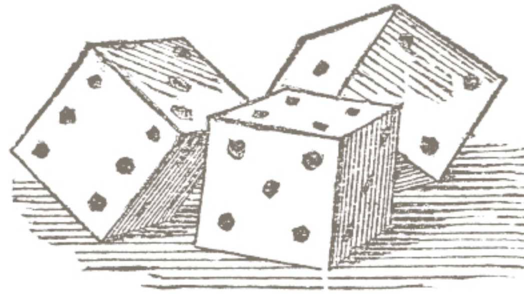
Evolution has hardwired investors to buy sexy and sell humdrum. Possibility generates enthusiasm, eagerness, and anticipation, which investors pay up for. As a result, many of our peers find it hard to resist the temptations of hugging the benchmark, following the herd, or going for a little excitement, even if it's "just for a second, just to see how it feels."

Near-certain outcomes are regularly undervalued by investors. Certainty engenders boredom and requires endurance and persistence.

People often confuse maximizing returns with minimizing boredom. Investing doesn't work that way. Opportunity hides where others don't look. People stay away from boredom, for fear of being bored. But at the right price, boredom is as exciting as it gets.

Big losses can shake investor confidence even more than their bank accounts. Decision-making under such stress is far from optimal. As a result, aggressive investors that may have enjoyed the fruits of a bull market, often see those fruits spoil. A more disciplined approach, which allows gains to accrue more slowly, often ends up with a much larger basket of fruit to enjoy.

Capitalizing on Human Nature



A value-oriented approach can leave one feeling quite lonely at times as it often demands a good bit of distance from the crowd. As such, the biggest risk inherent in such an approach is that it is guaranteed to result in a much different portfolio than your peers. Said differently, one must be willing to trade short-term underperformance for long-term success. It is impossible to produce superior results without doing something materially different than consensus.

Our goal is to construct portfolios capable of generating as high a return as possible, without subjecting your wealth to significant loss. Our priority at Broyhill is protecting your capital. In any given year, you should assume that someone or some index will do better. This can be torturous. Nothing clouds judgment more than watching your neighbor get rich. But you don't get rich by taking risk at the end of the cycle. You get rich by buying cheap assets. You stay rich by being patient. Our goal is to keep you rich. It is far more important than outperforming the herd in the short term.

Our portfolios look different than the market and as a result, our returns do too. Over the long term, we believe our approach will compound capital at a higher-than-average rate with lower-than-average risk, but from time to time, it is sure to produce results below our high expectations.

Value investing requires patience and a thick skin to withstand occasional periods of underperformance. For value investors, one variable wall always ensure long-term success – human nature. Investors will make the same mistakes they have been making forever because they simply can't help themselves. Those mistakes will always offer patient value investors an endless pool of opportunity. Returns from value investing will be lumpy, as they've always been, but they will come in time.

A big gap between perception and reality can create a big opportunity for profit. In the short term, perception is sometimes more important than reality. So, we must look past short-term fluctuations and think independently about long-term business value. Stock prices fluctuate as underlying fundamentals change or are perceived to change. Since business operations don't fluctuate nearly as much as shares or perceptions, prices often change not because reality has changed, but because our perception of reality has changed.

Our ears perk up when we hear someone describe an investment as uninvestable. Low expectations and low valuations are a powerful formula for future performance.

There is nothing easy about this game. And gambling with the house's money is most dangerous when it looks easiest. Rolling the dice with boundless optimism is not a sustainable investment strategy. Gamblers from shuttered casinos should know better. The house always wins. Thinking otherwise is what prevents the long-term growth of capital – speculative, short-term gains are eventually wiped out by occasional and unpredictable tidal waves. This is why compounding at even low rates of return can turn a small pool of capital into a very large one over the long term.

The Psychology of Bubbles

"What is a cynic? A man who knows the price of everything, and the value of nothing."
– Oscar Wilde

Every financial market mania is different. Each has its own unique flavor and speculative excesses that manifest in different ways at different times. But mania also share many common characteristics. After you've seen a few, you notice similarities in investor sentiment, financial market activity, and corporate behavior. They are not always the same and not always apparent each time, but when you put enough of them together, you can get a good sense of where things stand if you're willing to pay attention. As Henry David Thoreau suggested, "It's not what you look at that matters. It's what you see." And today, we see exuberance everywhere we look.

Bubbles form when things are good and when it's difficult to imagine anything but things being good. But sentiment can't grow more optimistic forever. Bubbles burst when changes in sentiment turn negative. They say that gradually letting the air out of a bubble is like trying to gradually let a fart out at a cocktail party. It's a risky move with a blemished track record—for party-goers and for the Fed. As a result, like those uncomfortable moments at the cocktail bar, bubbles have a tendency to linger longer than anyone expected and surprise everyone by how magnificently they burst.

Rising prices have a way of lulling us into complacency. Every purchase a good one. Every sale, a mistake. It's easy to fall in love with your winners, to stick with what's working. It's much harder to deviate from the consensus and stand apart from the crowd. That's why investors rarely sell what's working, no matter how expensive it's become. They hold onto winners for too long simply because those winners have done well. It's much easier to sell what's in the headlines, what isn't working, and what's disappointed, no matter how cheap it's become.

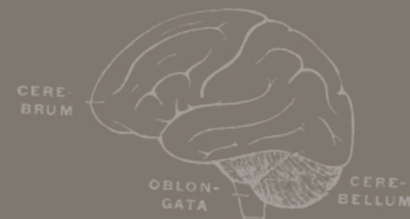
The upside is that once a stock reaches a silly price, there's nothing stopping it from reaching 2x or even 10x a silly price. When sentiment is stretched and assets are priced for perfection, there is a lot of room for disappointment.

When stocks are rising simply because they have risen, it gets difficult to imagine them doing anything else. But there is some good news when it comes to bubbles. Every one of them eventually bursts. And when they do, investors with both their capital and courage intact are among the few positioned to scoop up the incredible bargains left behind.

The best time to sell what everyone wants is when everyone wants it with little concern for price. This is why peaks in IPOs often occur near major market tops. Insiders sell at the top when confidence is high. Simply put, when the hottest companies in the hottest industries come to market, optimism—by definition—is at its peak. Sentiment can get no better.

Stock prices levitating near all-time highs, leave little margin of safety, and even less to get excited about. One might even say that the stock market offers a false sense of securities.

Good bargains often become great bargains in bear markets.



HUMILITY

In The Devil's Financial Dictionary, Jason Zweig defines certainty as: "An imaginary state of clarity and predictability in economic and geopolitical affairs that all investors say is indispensable—even though it doesn't exist, never has, and never will."

In the real world, uncertainty is everywhere. We know that living in an imaginary world of certainty can create big problems managing money in the real world. We don't have all the answers. We never do. The best we can do is gather evidence to judge the likelihood of various outcomes and place our bets accordingly.

We live in a constant state of doubt and have no problem admitting it. Doubt keeps us safe. Successful investing is a delicate balancing act honed over years of training. It requires enough confidence to hold onto positions when every bone in your body suggests you are wrong. And it requires the humility to recognize when you are wrong.

The upside of mistakes is that they encourage humility, while driving the team to remain open-minded, consider all potential outcomes (which is never possible), and above all else, maintain a beginner's mind and child-like curiosity.

Successful investing requires the confidence to trust your work, when market prices are screaming that you are wrong. Yet, successful investors are still human. We still feel the turning in our stomach when prices are plummeting. But rather than succumb to the market, we reflect when positions move against us, balancing confidence and humility. Staying power is greater than intelligence.

The more we learn, the more questions we have. But the reverse is also true. The fewer questions we ask, the less we know. This is why poor students often feel more successful than the brightest in the bunch. They lack insight into their own limitations. In other words, without an appreciation for the vast body of knowledge out there, it's impossible to know how little they know. The first principle is that you must not fool yourself – and you are the easiest person to fool. In the field of psychology, this cognitive bias is known as The Dunning–Kruger Effect. It comes from the inability of people to recognize their lack of ability. Without self-awareness, it can be challenging to evaluate competence or the lack thereof. Said differently, the more incompetent you are, the less you're aware of your own incompetence.

Investors are an opinionated group. Despite repeated evidence that most of those opinions turn out to be wrong, being wrong has little impact on self-confidence. This can be a problem. Overconfidence can be beneficial to self-esteem but is likely to be disastrous to performance.

Trust The Process

We have no control over the timing of our results or those of market indices. We can, however, exercise control over the quality of our research process and our investment decisions. Only a focus on the inputs can determine the long-run success of the outputs.

We can increase the odds of our success by training ourselves to think probabilistically. To make better decisions, we force ourselves to consider various futures. We work hard to hold multiple contradicting scenarios in our minds simultaneously. We examine past decisions, not to differentiate right from wrong, but to evaluate and improve the process that led to those results.

Forecasting the future is not a prerequisite for successful value investing. So, we try to stay out of the forecasting game. This doesn't mean we don't have hunches, but it does mean that we don't make investment decisions that are dependent upon those views proving correct. Fortunately, economic forecasting is not a necessary requirement for investment success. We don't need to know where we are going. Just knowing where we've been is enough.

The odds of perfectly timing the bottom are incredibly low. And hoping for the perfect entry point that will only be known in hindsight, is pure speculation. Better to ensure we are positioned for the bottom in advance, rather than blindly guess when and where that may be.

An often-overlooked lesson is that you don't have to wait for the market to bottom to make money buying cheap stocks. Waiting for the "perfect" entry point often results in being late—because perfect is only obvious in retrospect.

At Broyhill, our portfolios are built on a foundation of rigorous fundamental analysis, block by block, one idea at a time. We engage the process with patience. We accept uncertainty. And we recognize that good ideas can come from anywhere. We don't know where the next idea will come from, and we don't care. We are on an endless hunt for value, and when we find it, we buy. It's that simple.

Being creative means that our idea generation process is inherently organic. Our job as investors is to surround ourselves with good ideas and ensure that we slow down enough to recognize them when they show up.

In the absence of a crystal ball, the best we can do is make smart bets that we think maximize our odds of success.

This Time Is Different

Disruption is not new to capitalism. There's always a new, new thing. The capital cycle has always ensured that high returns are competed away. But this is happening at a much faster pace today than at any time in history.

Disruption may be accelerating. But human nature and investor psychology have not changed in centuries. No one questions the assumptions underlying today's "new economy." Old dogs rarely get credit for learning new tricks. But young dogs rarely believe that they may even stumble. It is precisely this consensus sentiment that creates opportunity for brave, contrarian investors.

Competition is not new. It may be fiercer today than ever. It may happen faster. It may seem like it's more unpredictable. But it has never been predictable. We will never know with certainty how incumbents may be disrupted. Where the threats will come from. Or how fast those threats will emerge. But we can attempt to tilt the odds in our favor when valuations already imply these businesses are dead. In doing this, we can minimize the pain of being wrong and maximize our profits if things turn out a little less badly than everyone expects.

As narratives become increasingly delusional, prices disconnect from reality. But ultimately, facts win out over fiction. And there is always something to do. New-era thinking is ultimately replaced by less extreme and more conservative investing when profitability and cash flow matter more than empty promises.

There's no law of investing that prevents expensive assets from getting ridiculously expensive. At the same time, just because you are willing to take risk buying overpriced stocks, doesn't mean that you'll be compensated for that risk.

High equity valuations don't signal a bear market. But they do signal poor asymmetry. At the same time, hunkering down with a "guns and ammo approach" would mean passing on opportunities.

We will never own expensive assets in the hope of selling in the future to someone willing to pay an even more expensive price. We will not rely on greater fools.

Lessons from History

History provides a useful roadmap. Investors that bought the greatest companies in America at the height of the Nifty Fifty in the late 60s, and held them for five years, lost almost all of their money.

The "Nifty Fifty" captivated investors during the 1960s. These 50 "one-decision" stocks, identified by Morgan Guaranty Trust, represented the fastest-growing companies in the world. By 1972, when the S&P 500 Index's P/E stood at a then-lofty 19, the Nifty Fifty's average P/E was more than twice that, at 42. Among the most inflated were Polaroid, McDonald's, Disney, and Avon with P/E's of 91, 86, 82, and 65. respectively. Then, as a Forbes columnist described it, the Nifty Fifty "were taken out and shot one by one." Xerox, Avon, and Polaroid fell 71%, 86%, and 91% from their respective highs.

In the early 2000s, a combination of optimism and passive investing led to a gross misallocation of capital, which facilitated the TMT bubble. A direct consequence of these distortions was a growing obsession with tracking error, which led to an absolute disaster for passive investors. In the twelve months after March 2000, the "least risky" and most widely owned stocks collapsed relative to the market. The ten largest companies underperformed the market by nearly 25%. The tech-heavy NASDAQ went on to lose nearly 80% of its value over the next three years.

The NASDAQ saw seven rallies greater than seventeen percent from 2000-2002. Some gained as much as 40% - 50%. Yet every single one of them was followed by lower lows, and ultimately the tech-heavy index declined by nearly 80% from peak to trough. Many investors were eager to call the bottom, but the beatings usually continue until retail speculators throw in the towel and completely capitulate. Or when there is hardly anyone left to sell.

Market tops are a process. They take time to unfold. They don't happen overnight. Greenspan first warned of irrational exuberance in 1996, but the Nasdaq didn't break down until four years later. Housing prices peaked in 2006, and Bear Stearns bailed out its related hedge funds in 2007. But the market didn't completely break until Lehman's failure in 2008.

We can't predict when the herd will come to its senses. But we do know that bear markets typically begin well before a recession becomes obvious.

Investors would be wise to recall the sage advice of Bernard Baruch - "The main purpose of the stock market is to make fools of as many men as possible."

Passive Investing

The market has always been good at reallocating capital from the careful to the careless. Lots of people lose lots of money when sensible expectations become senseless. It would seem that over time, investors have become increasingly senseless as return expectations have steadily increased year after year alongside rising equity markets. Seemingly, the higher equity markets go, the greater returns investors expect. That's just not how this works.

The consensus believes that the greatest risk comes not from holding stocks, but from not holding enough of them. Passive investing and momentum investing are the primary manifestations of this belief. During the later stages of a bull market, they are one and the same. Artificially high demand for a small group of stocks benefits speculators in the bubble they help create.

Passive investing has removed any hint of price discovery from the markets, and today's factor models are almost completely devoid of fundamental analysis. As a result, when investors do start to pull their money from passive funds, the subsequent rotation from momentum to value will likely be furious and frantic.

Market regimes evolve over a long enough timeframe that widespread beliefs become engrained in conventional wisdom. As a result, the consensus clamors to buy the winners of the prior regime. Those beliefs are reinforced again and again, making them even more difficult to change. They become so engrained that many investors simply cannot believe that sky-high profit margins and stratospheric valuations won't return and be sustained indefinitely.

Value's excess performance vanishes occasionally—often for longer than we'd like. But, these short-term cycles of underperformance are what ultimately ensures value's long-term outperformance.

Similar concerns are raised during every cycle. And yet, each period of underperformance has been followed by exceptional outperformance.

We think value investing is a decent bet in a world full of bad bets. There is value hiding in plain sight. It just requires the patience, discipline, and willingness to stand apart from the crowd. Remember. It's not what you look at that matters. It's what you see.

Revenge of the Nerds

The average investor is more worried about missing the rally than losing his or her shirt.

What the herd buys differs from cycle to cycle. The common thread is that the herd buys the most popular stocks and drives up their value beyond rational justification. The herd buys what is in favor. And it sells what is out of favor—often driving prices far lower than reason.

When regimes shift, leadership changes. Throughout financial market history, winners of the last regime have lost their luster, and made room for the new cohort.

Last decade's cool crowd is likely to give way to a Revenge of the Nerds – an ascendance of cheap, boring companies with strong, recurring cash flow. What worked in the past won't work in the future. The drivers of returns change. Profits will once again be more valuable than promises.

The future may be unpredictable, but both history and the process of creative destruction warn us that even the most dominant dynasties and unassailable moats eventually come to an end. Follow the process, not the prize. Trust the process. The results will follow.

A frothy market doesn't mean investors should avoid equity markets altogether. It just means that they need to identify and allocate to the pockets of value within the market where the odds are tilted in their favor. Even amidst a wildly overvalued market, compelling investment opportunities remain. It's rare for all asset prices to decline in unison. Rolling bear markets are more common. Capital flows from the most popular crowded trades as they fall out of favor and into today's unloved and undervalued assets. That's precisely where we are focused.

Valuing companies that don't make money can be somewhat of a challenge for fundamental investors tied to reality or to old ways of doing things. One way around this pesky challenge is to get creative and value businesses on other metrics like sales, or eyeballs, or clicks. One good thing about this approach is that you can use your own rules and your own measuring stick. Perhaps this explains the surge in non-profitable companies which has reached meteoric proportions.

A Good Ball to Hit

Ted Williams was lucky to get an important piece of advice from Rogers Hornsby early in his career. Hornsby's advice was simple: "The single most important thing for a hitter is to get a good ball to hit." One would think this would be incredibly obvious. It's completely intuitive. Yet it's incredibly difficult in practice.

As Williams said, "Everybody knows how to hit. But very few really do." To understand why, we need to consider human psychology. Until you're standing at the plate in the big game, it's impossible to know how frustrating it is to watch good pitches blow by you.

It's extremely hard to hold back on pitches you know you can hit. Sometimes a high ball over the strike zone can be hit hard if it's in tight. In a year like last, most of these balls were hit out of the park. It's no fun taking called strikes or even a base on balls when everyone around you is swinging for the fences.

A lot of mediocre balls are hit into the stands. But more often than not, when you swing at a mediocre pitch, you get a mediocre result.

Occasionally, you can turn a decent pitch into a blooper for a base hit, but most of the time, nothing happens. Worse, you can get into real trouble when you start fishing for pitches outside your sweet spot. You might start with something that's an inch off the plate. On a good day, you might be able to drive that ball into the gap. But, then, at your next at bat, you take a stab at something two inches off. Then three. And, before you know it, you're striking out on pitches you had no business swinging at in the first place!

Standing there, with a bat on your shoulder, day after day, is not fun. It's downright torture when you're playing in a little league park and hitting on the equivalent of a tee-ball stand.

A bull market hides many mistakes. Those who take the biggest swings drive in the most runs. But those big swingers also tend to strike out a lot. Those who wait for a good ball to hit risk severe boredom standing at the plate. But we'd rather be bored than strike out on pitches we had no business swinging at. Particularly when this game is already well into extra innings.

A good hitter can hit a pitch that is over the plate three times better than a great hitter with a questionable ball in a tough spot. But the greatest hitter living can't hit bad balls good. With so much capital invested without any consideration for fundamentals (index investors) or completely on short-term auto pilot (program traders), this is a wonderful time to be a long-term value investor.

We are not sitting on the bench, picking our noses and scratching our bottoms. We are observing the game carefully. Looking for patterns. Watching for every opening. As Ted Williams said, "The observant

guy will get the edge." We are revisiting and testing our assumptions on a regular basis so that we can be quick with the bat when we see a good ball to hit. We've learned, over time, where are happy zones are.

DISCLOSURES

Past performance is not indicative of future returns. This information should not be used as a general guide to investing, or as a source of any specific investment recommendations and makes no implied or ex-pressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives.

Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. This document contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice.

The views expressed here are the current opinions of the author and not necessarily those of Broyhill Asset Management, LLC ("Broyhill"). The author's opinions are subject to change without notice.

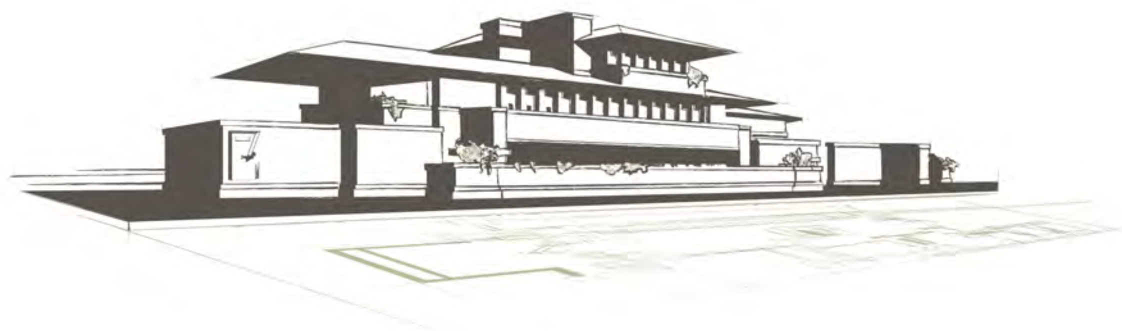
There is no guarantee that the views and opinions expressed in this document will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. No representations, expressed or implied, are made as to the accuracy or completeness of such statements, estimates or projections, or with respect to any other materials herein.

Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security, and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable. There are risks associated with purchasing and selling securities and options thereon, including the risk that you could lose money.

Investing in some private funds are limited to persons who are "qualified purchasers" (as defined in the United States Investment Company Act of 1940, as amended (the "Investment Company Act")) and "accredited investors" (as defined in Rule 501(a) under the Securities Act). Such securities will not be registered under the Securities Act or qualified under any applicable state securities. The Broyhill Credit Opportunities Fund is not registered.

The S&P 500 Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index. For additional information about other indices or strategies mentioned here, you can contact us at info@broyhillasset.com.

Additional information is available upon request. More information on Broyhill Asset Management LLC ("Broyhill") is also available at www.broyhillasset.com.



ABOUT BROYHILL

Broyhill Asset Management is a boutique investment firm, initially established as a family office in 1980 and guided by a disciplined value orientation.

Founded in the foothills of North Carolina's Blue Ridge Mountains, we operate outside of the fray and invest with a rational, objective, long-term perspective.

Broyhill
ASSET MANAGEMENT

Find this interesting?

Click here to take in regular Views From The Blue Ridge.