Road Trip!

Earlier this month, CUSH Capital once again hosted a group of clients and friends on an annual pilgrimage to Omaha for the Berkshire Hathaway annual shareholders meeting. Like last year, Warren Buffett (Chairman) and Charlie Munger (Vice Chairman) put on a great show and were their usual entertaining and insightful selves. It is just amazing how many people attend this event -- the Qwest Center was full and there were several "overflow" rooms with video screens receiving live feeds throughout the convention center to accommodate the **40,000+** member crowd.

I have such a great appreciation for Mr. Buffett's brand of common sense investing and I really look forward to hearing his and Mr. Munger's words of wisdom as they pontificate on some of their recent investments, the capital markets, the economy, and anything else that might come up. In addition to questions from the financial media, a fortunate few members of the audience have an opportunity to offer up their own queries (including a particularly insightful question from a certain wise, handsome investor from Overland Park, KS – more on that later). While it is a mistake to deify Mr. Buffett, it is also a mistake to ignore him as he has been proven right more often than not over the years. In the field of finance, and over a period of decades, that's no small feat! I've included some of the more memorable comments (and timeless wisdom) from the meeting. These are not necessarily the opinions of CUSH, and they represent only snippets of some of the wisdom of two of the world's greatest investors:

Goldman Sachs

As this was the number one topic in the media leading up to the event, Buffett took time out at the beginning of the meeting to address the current situation that Goldman Sachs (GS) finds themselves in. As one of Goldman's largest stakeholders, he has a vested interest in the outcome of congressional hearings. Buffett's experience with Goldman Sachs goes back 44 years; they helped with Berkshire's very first bond issue back in 1967, and in essence helped to build Berkshire. Mr. Buffett pointed out that while BRK trades with GS, they do not hire the firm as an investment advisor (Buffett and Munger make their **OWN** decisions based on their own investment rationale). Buffett enlightened his audience with the ins and outs of similar trades that his firm has been a part of many times.

"Risk comes from not knowing what you're doing."

- Warren Buffett

The nature of Goldman's business is that of a market maker. As the middle man they created a mortgage-based security for one of their clients, a hedge fund named Paulson & Co. The security was simply designed to succeed or fail based on the overall mortgage market. As the market maker, Goldman found another interested party to take the off-setting position (which was the long position in this case, but that's irrelevant). This is just what Goldman does. The civil suit filed by the SEC alleges wrong-doing in Goldman's failure to disclose Paulson & Co's. involvement in the transaction.

Keep in mind that Goldman's "clients" in this case were large, sophisticated banks and

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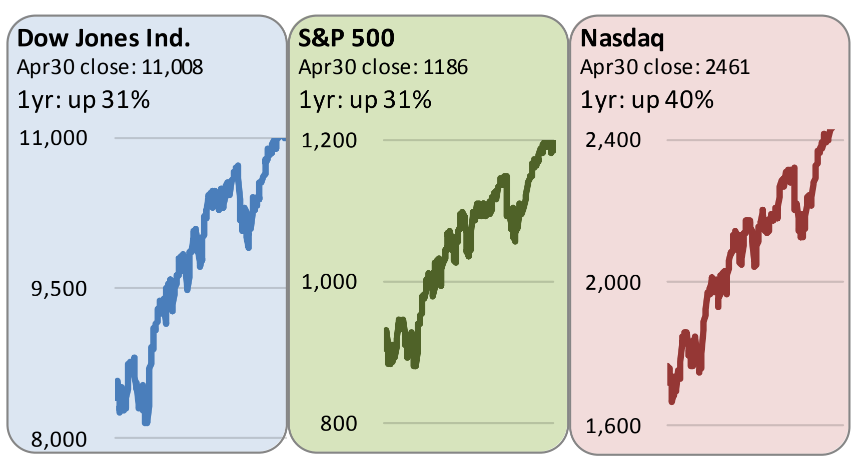

Source: Cush Capital Management, LLC / Yahoo Finance insurance companies with extensive backgrounds in these types of deals. Buffett has no sympathy for these institutions and feels that they should have known what they were getting themselves into. These firms clearly had the knowledge and expertise to assess the investments they were making. Knowledge of which hedge fund happened to be on the other side of the trade is irrelevant. The only guilty parties here are the buyers, and the only thing they are guilty of is poor judgment. (The tragedy is that tax-payers footed the bill for this poor decision making. More on this in the next section.)

Invoking 'buyer beware' might sound like a callous response to some, but that's not it at all. Rather, Buffett is promoting the brand of prudent risk-taking that has made his firm so successful. The same brand we practice at CUSH. **Timeless wisdom: do your homework.**

Financial Reform

Clearly prudent-risk taking has been under represented on Wall Street in the last few years, and both Buffett and Munger recognize that financial reform is needed. The government system that regulates the banks was so permissive and the culture so bad that it led to the stress that almost made the whole system go "kablooey." A new version of the Glass-Steagall Act would separate plain-vanilla banking from the more esoteric trading and derivative operations that were the cause of so much trouble, and effectively eliminate 'too big to fail.' This way, poor decision making would be paid for by the poor decision makers and not the U.S. taxpayer.

Greece

The United States' history of conservatism has made us very credit worthy, and this has been a big advantage; it helped win World War II and revive post-war Japan and Germany. It has ensured prosperity in all these decades that Berkshire has flourished. But this has changed. Our credit today isn't as good as it used to be, but Greece is much worse off. They borrowed too much and pushed their credit too hard. People have to distinguish between countries that borrow in their own currencies and those that borrow in other currencies (like Greece). If you borrow in your own currency then all you need is a printing press, you don't default. When you are forced to borrow in other currencies, then you default. Greece is sovereign but they can't print their own currency because they are tied to the Euro. Responsible voices are now seeing the trouble in government credit; more than they have been previously. "*I don't know how this movie ends,*" said Buffett. **Timeless wisdom: spend less than you earn (applies to countries too).**

Inflation Risk in the U.S.

Buffett may not know how Greece's movie ends, but he has a pretty good idea about how the United States' movie ends, and that's with higher inflation. The dollar has depreciated 90% since 1930, and the chances for worldwide inflation remain high. Certain governments are embracing inflationary policies. The weaning off of the medicine could be worse than the illness! (See our February Newsletter for more of our thoughts about inflation). Mr. Munger advised that while your money can be inflated away, your talent cannot; as long as you are the best at what you do, you will be entitled to your portion of profits. He went on to say *"if I can be optimistic even when I am almost dead, you guys can deal with a little inflation."* **Timeless wisdom: inflation is a hidden tax, and it is the enemy!**

> *"If I can be optimistic even when I am almost dead, you guys can deal with a little inflation."*
>
> **- Charlie Munger**

Oil

Q: How much of our current prosperity comes from cheap oil and how do we sustain that if oil isn't as cheap?

A: Oil discovery changed the world in a major way and we have been sticking straws into the earth ever since. We have exploited in a couple hundred years what took millions of years to create and that has contributed in a huge way to the prosperity of the world. The world can no longer depend on this windfall for the next 100 years. We should, however, never underestimate the ability of humans to innovatively solve problems that look impossible to face. The transition away from fossil fuels will include a workable period of adjustment, and these are the main problems facing our society in the short-term. We needed oil to get ahead 150 years ago. Since then, we have benefitted from other new technologies that have advanced us. It's not that horrible to contemplate a world without oil as long as the world is as rich and as knowledgeable as it is now. Solar energy looks promising going forward. It is not all that important if solar technology currently costs twice as much as we are used to; in the end it will just be a blip in terms of our total prosperity. **<u>Timeless wisdom: invest for the long-term.</u>**

Buying Opportunities for Stocks?

Although we are still a ways off from where things were a couple of years ago, this sputtering recovery is picking up steam. Buffett mentioned that there have been times when the stock market's undervaluation screamed at him and other times when overvaluation was screaming. Right now, we are somewhere in between. If you can't handle the ups and downs and don't have the right temperament, you won't make much money in the investing business. Wall Street's focus is primarily on pricing and quotes for stocks on a daily basis, but you wouldn't buy a farm and think about what it was worth on a day-to-day basis. Ben Graham wrote about the importance of temperament years ago and everything he said then still applies now. Most people don't have the temperament to handle the ups and downs in the market. **<u>What counts is buying a business at a great price and forgetting about it for a long time</u>**.

CUSH wins the Lotto!

OK, so I saved the best for last. As I noted, audience members have the opportunity to participate in the Q&A via a lottery of sorts, and this year (for the second year in a row) we won a much coveted chance to present a question to Messrs. Buffett and Munger. The parlor game for the trip was to decide as a group what question we would like to ask Mr. Buffett, and here was the winner:

A mass of 40,000 investors finding their seats

What do you see as the biggest challenge facing the U.S. economy relative to other countries, and what are the implications of that with regard to investing globally over the next decade?

Buffett said that the United States unleashes human potential better than any country in the world. We live differently because this system has enabled ordinary people to do extraordinary things. This game is not over – humans can achieve a lot more. In the 1790s people had no idea of their ultimate potential and this is still true for us today. He would be more than happy to limit his investments to the United States, after all Berkshire did not buy Burlington Northern Santa Fe (BNSF) to move it to China.

The CUSH Capital contingent is ready to take some notes.

Condensing the whole shareholder meeting into a newsletter is a difficult task, and I have only included brief comments. In this context some of the responses may seem painfully inadequate. I could have written a full newsletter on Goldman Sachs, or Greece, or financial reform, but that is not the point. The point is that while newspaper headlines change from year to year, investing truths do not. The lessons for CUSH clients are timeless: keep it simple, stay within your circle of competence, take only prudent risks, invest with great people (i.e. management teams) and buy American! We make the annual trip to Omaha to re-enforce this common sense investing wisdom for the benefit of all our clients. •

CUSH Capital Management LLC

May 2010

Our Mission

CUSH Capital seeks to educate our clients about the market and serve as trusted advisor. By customizing and tailoring financial plans to each client, we strive to create a shared vision of your future. CUSH Capital provides our clients the tools and resources to implement this future. This is only made possible by our independence, which eliminates conflicts of interest and allows us to act as a fiduciary in all matters. We recognize the great depth of our responsibility with regard to our clients' financial future, and we don't take that lightly. Ultimately, our goal is to assist our clients in creating the most secure, comfortable and meaningful lives for themselves and for their families. In every way, in all that we do, we are committed to serving our clients with discretion, honesty, and integrity.

The Strategy

At our core we are value investors, but in truth our philosophy so clearly differs from that of the herd. We have little difficulty distinguishing ourselves from the frenetic hyperactive trading strategies profiled on the financial news channels and common to so many other advisors. We offer a better alternative by selecting high quality stocks and bonds for the long-run. This low turnover, tax efficient approach is considered one of the most successful techniques for compounding wealth ever created. The key points are:

1) Targeting businesses with long-term sustainable competitive advantages. This allows investors to compound gains and avoid excessive transaction costs. (Short-term selling and reinvesting can substantially eat up profits due to trading costs and tax consequences compounded over time).

2) Recognizing that stocks are businesses with an intrinsic value that correlates to success in the longer-term. This intrinsic value CAN be measured, but it takes serious work to do that well.

3) Knowing that it is rare to find a great company with a sustainable competitive advantage trading at a discount to its intrinsic value. When these opportunities present themselves you have to be prepared to invest with conviction.

Vern Cushenbery, CFA, CPA
Chief Executive Officer

I founded CUSH Capital to deliver my clients the kind of trusted financial advice and portfolio management that is so rare in the financial community.

My years of experience in consulting allowed me to audit the portfolio strategies used by the very best. There is no substitute for hard work in this business -- no secret sauce. The only way to succeed in the long-run is to do your own research and think for yourself because if you follow the crowd or get caught up in the confusion of the financial press, then you are certain to fail.

CUSH Capital pioneered the concept of **wholesale investing**. We do our own research; we don't outsource, we **in-source**. Not only does this keep us independent, but it also lowers your fees. I publish this newsletter to keep clients involved and informed. I invite you to become a part of our team. Visit our website to subscribe to this newsletter today, or call me. I will be happy to answer any questions about your financial future.

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Sincerely,

Vern

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Mr. Cushenbery has more than a decade of experience in portfolio management and research. He was formerly Chief Investment Officer with Legacy Investment Management, and prior to that he was with the Buffalo Funds. He holds an MBA and a Masters of Accountancy degree from the University of Missouri at Kansas City, and a BS in Finance from Kansas State University. As a CFA Charterholder and Certified Public Accountant, Vern is uniquely qualified as an investment advisor.