

Fellow Investors,

We had solid returns this quarter<sup>1</sup>. I tend to spend a lot more time writing about mistakes than celebrating victories, so I'll keep this letter mercifully short. I think good results speak for themselves, while poor results deserve explanations.

Here is a brief summary of the investments that are held in the majority of your portfolios. As always, feel free to call me (or grill me) on these or any other investments you hold.

- **WFC:** I sold out of our Wells Fargo this quarter after its stock ran up. I mentioned last quarter that I felt the market had over-estimated certain risks related to WFC's mortgages; after its price appreciated substantially, I felt the market was under-estimating those same risks.
- **NE:** A few months ago, the stock prices of drillers like NE fell to 52-week lows during the off-shore drilling moratorium in the Gulf of Mexico. This quarter, drilling in the Gulf slowly resumed, NE rented out most of its available rigs, and the stock hit a 52-week high. NE is building a number of new rigs which will make their earnings jump in 2013 and 2014, and relative to those future earnings, I continue to believe NE is undervalued.
- **NRG:** Electricity prices generally increased during the quarter, though they are still low. NRG's main market (Texas) set a new winter record for usage and experienced statewide rolling blackouts. Absent an increase in electricity prices, I believe Texas risks further blackouts. Meanwhile, NRG is aggressively building power plants in other states that are signing contracts for higher electricity prices.

We do own a position that I'm a little concerned about: PNI Media (PNDMF). On the next page, I will discuss both my original thesis for buying shares along with some recent misgivings I've had about that purchase.

I have not been able to find many stocks that meet my investment criteria, and so we are mostly sitting on a fair bit of cash. I continue to be worried about both the global and domestic economy. Governments everywhere have adopted a 'kick the can down the road' fiscal policy and it's simply beyond my pay grade to decipher when or how those issues may get resolved, and the impact that resolution might have on the markets. I'll watch with interest to see what the coming months bring.

Kai Shih

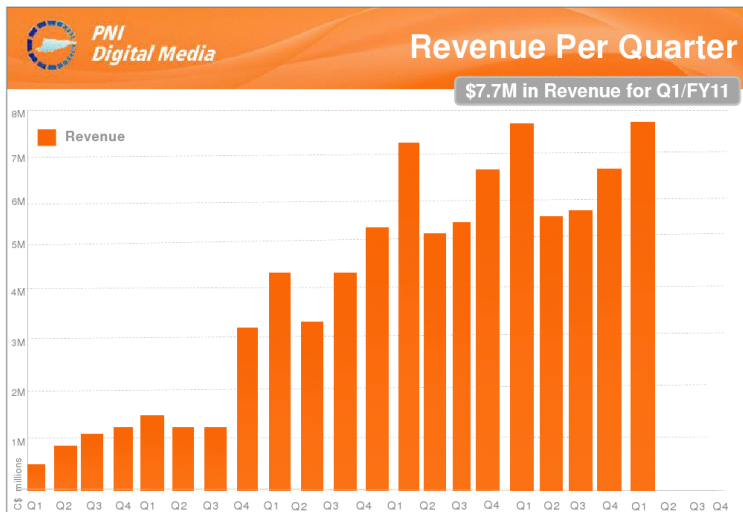
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<sup>1</sup> My regulator does not want me to write out returns, which vary from person-to-person, so this is just my subjective opinion. Of course you can find your up-to-the-minute returns by logging into your account.

## PNI Media (PNDMF)

PNI is a small company that sells photo printing services to many of the world's largest retailers, including Costco, CVS, and Sam's Club in the US and similarly large retailers in Canada and the UK. PNI offers several types of "on-ramps" that allow consumers to buy photos, including websites, in-store kiosks, mobile phone software and partnerships with other companies like Adobe and Shutterfly. Each time a consumer prints a photo through one of these channels, PNI takes a little cut.

Between 2007 and now, PNI's revenues tripled, making the company one of the fastest growing public companies in Canada (the graph below is from a recent company presentation). Their variable costs are low; the company has no debt and is buying back shares. Despite the company's historical growth and management's confidence they can keep growing, the stock trades at a bargain price. So I bought shares for your and my account.



Recently I have had some misgivings about the company. Their last quarterly earnings were a disappointment: rather than the growth I had expected, they reported flat revenues. In addition, I was hoping for more progress on share repurchases and some of their growth initiatives. The company seems to be aware they are disappointing investors; shortly after the earnings release, their director of investor relations proactively called me to discuss the quarter.

One poor quarter is forgivable, and the company has a great deal of potential. I am hoping that I can report to you that the company has made good progress in the next two quarters. If not, I will most likely sell our shares.