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Outstanding Investor Digest

WITH THE COMPLIMENTS OF:
WINTERGREEN FUND, INC.

PERSPECTIVES AND ACTIVITIES OF THE NATION'S MOST SUCCESSFUL MONEY MANAGERS.

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Volume XXII Numbers 1 & 2

March 17, 2009

BAUPOST GROUP'S SETH KLARMAN
"IT'S A GREAT TIME TO BE A VALUE INVESTOR.
THE COMPETITION SEEMS TO HAVE GONE AWAY."

Re-reading Seth Klarman's annual letter from a year ago, it's remarkable just how many of his warnings turned out to be tomorrow's headlines. Among those warnings were that the subprime mortgage debacle and housing contraction were likely to be "the first failure in a broader reckoning," that increased risk aversion would lead to tighter lending

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FAIRHOLME FUND'S
BRUCE BERKOWITZ & CHARLIE FERNANDEZ
"I THINK ALMOST OUR ENTIRE PORTFOLIO
IS SELLING AT A BACK-UP-THE-TRUCK PRICE."

Bruce Berkowitz knocked the cover off the ball for his clients return-wise while he was with Lehman Brothers — and then proceeded to do the same within the pages of *OID* in his early '90s features. So it was no surprise to us at all when he picked up right where he left off after founding Fairholme Capital in 1997. For example, since its inception on 12/29/99, his Fairholme Fund shareholders have enjoyed compound returns an incredible 13.5% per year better than

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GRANTHAM, MAYO, VAN OTTERLOO'S
JEREMY GRANTHAM
"THIS CRASH SHOULD HAVE SURPRISED NO ONE.
GREAT CRASHES ALWAYS FOLLOW ASSET BUBBLES."

We can think of few observers who provide more insight into the big picture than Jeremy Grantham and his team at Grantham, Mayo, Van Otterloo, and few times where a rigorous assessment of the big picture — in terms of how we got here, how deep the hole is, and what it may take to dig ourselves out — could be more timely and relevant.

So when we heard that Grantham was going to speak

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**WINTERGREEN FUND'S
DAVID WINTERS
"I'VE NEVER SEEN SO MANY TRIFECTAS IN MY LIFE —
GOOD BUSINESSES WITH GOOD MGM'T AT LOW PRICES."**

David Winters has described his decision to leave his position as chief investment officer at Franklin Mutual Advisers in 2005 and hang out his own shingle as an "epiphany", namely how he wanted to found a firm that emphasized investing, with maximum flexibility, over marketing and asset gathering — a firm where associates, using Buffett's phrase, would want to "tap dance to work".

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WINTERGREEN FUND'S
DAVID WINTERS
(cont'd from page 1)

Given Winters' background in some of the more esoteric areas of investing — his first job at bankruptcy workout and arbitrage specialist Mutual Series in 1987 was in the firm's distressed-debt department — his decision to set up a no-load mutual fund rather than a hedge fund was again out of step with the prevailing trend.

As an equity investor (equities made up 83% of Wintergreen Fund's portfolio at year-end) he reminds us of another long-time *OID* contributor, Semper Vic Partners' Tom Russo, in favoring "good businesses worldwide". As Winters described it in our December 31, 1996 edition, "I like those because that's how most people get rich — by investing in a good business that generates cash, that has significant sustainability, and that's managed by someone who's both honest and competent.... And, needless to say, I want to do it at the right price — when their virtues are temporarily obscured for one reason or another."

Winters says the best-of-breed businesses he favors are available today not only at "the right price", but that they're actually "very, very cheap". For that reason, we're particularly pleased to bring you the following excerpts from his comments and his answers to attendee questions at an AAI [American Association of Individual Investors] event which was held December 3rd in Manhattan. We hope you find his comments as timely and relevant as we do.

BECAUSE OF THE EXTREME NEGATIVITY TODAY,
THE WORLD'S BEST COMPANIES ARE *VERY* CHEAP.

Right now, people are the most down that I've ever seen....

David Winters: ...You know, we're in a world crisis. This is not just an American problem. The world sort of fell off a cliff September, October, and November. People just stopped consuming. What looked okay suddenly didn't look okay. We talked to companies — and two weeks later they said, "Oops, we don't know what's *happened*."

So this has not really occurred before — certainly not in modern times. It's extreme. There have been references to "the worst since 1931" — so it's clearly frightening. And there's been tremendous value destruction — losses that are unheard of. The financial system looks like it's broken. The cover of the *Financial Times* today read, "The End Is Nigh". And almost everything you look at is gloomy. People are the most down, the most concerned about the future, certainly, that I've ever seen, and, I think, that most of us have ever seen.

We're not going back to the '30s, though the fear is similar.

Winters: I don't think that this is the beginning of the Great Depression, though. I think it's very different from what's happened in the past. Back in the '30s, there was a governmental reduction of liquidity. Now there is a tremendous *creation* of liquidity globally. Huge liquidity is being thrown at the situation — and, at some point, it will percolate through to the economy.

It hasn't happened yet. And there are all kinds of credibility issues that we're all very aware of. But F.D.R. — Franklin Delano Roosevelt — said, "The only thing we have to fear is fear itself." And it's a bit similar today, in terms of the fear that has now become pervasive.

But this negativity has created tremendous bargains....

Winters: However, one thing that is certain is that human beings are still human beings, and people will continue to do what they've always done. One of our investment themes at Wintergreen is to invest in repeat human behavior. People are *thirsty* everyday. They're hungry. So despite the headlines, the laws of economics, the laws of valuation, and the laws of how people behave over the long run have not been repealed.

We believe that there's a lot to do. Because there's such extreme global negativity, tremendous bargains have appeared around the world. Phenomenal companies — the best companies in the world — are selling very cheaply. However, many companies are also in tremendous trouble. And we all know what's happened in the financial sector.

The best companies are the only ones that have a bid.

Winters: With all of this, on many days, rumors have become the driving market force. And some of the rumors turn out to be true — but some of them are, in fact, just hyperbole. One of the most extreme recent examples was Berkshire Hathaway. There was a rumor floating around that Berkshire had a problem with an investment they had made in a contract to buy indices — four indices, including the S&P 500 — 10 or 20 years in the future.

So a rumor started floating around Wall Street and then on the major wire services. And the investment was there, but it wasn't true that they had a problem. However, within four days, Berkshire dropped 30%.

[Editor's note: Buffett addressed the rumor in his letter. "One point about our contracts that is sometimes not understood: For us to lose the full \$37.1 billion we have at risk, all stocks in all four indices would have to go to zero on their various termination dates. If, however, as an example, all indices fell 25% from their value at the inception of each contract, and foreign-exchange rates remained as they are today, we would owe about \$9 billion, payable between 2019 and 2028."

As Stavrou Partners' Chris Stavrou noted in his letter, for Berkshire to lose every penny of the \$37.1 billion, "they would have to take the \$4.9 billion in premium income it received from selling those options, and, not invest it at 8.95% after tax in perpetual preferred stocks, as it did, but [rather] light a match and burn it on the sidewalk.")

Winters: Part of what's going on now is the best companies in the world are the only ones that have a bid. What's so unusual about this investment environment is that in many cases, high quality companies like Berkshire drop not only because of rumor, but because there's actually a buyer. For many companies, there is no buyer, no matter how low the price.

For those with cash and guts, there's a lot to do....

Winters: So it's been a very, very unusual situation. Typically, in most difficult market situations, very high quality companies have held up. This time it is different

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WINTERGREEN FUND'S
DAVID WINTERS
(cont'd from preceding page)

because it's been such an extreme panic, and the oxygen has been sucked out of the system from the lack of credit and rumors of even more credit restriction. But we think life is going to go on and that it's not the end of the world. I can't tell you securities prices aren't going to drop more. However, there are numerous examples of great businesses that are very, very cheap.

There's also a lot of distressed debt around. People are not willing buyers of corporate debt now. The spreads in high yield, I think, are the highest they've ever been. So for the opportunistic and diligent investor, this is a very constructive time — [chuckling] *if* you have cash and guts and you go back to the principles that Benjamin Graham wrote about in the 1930s. It's *Security Analysis*' 75th anniversary, and the 6th edition just came out. And a lot of those original principles are no less valid today.

I'VE NEVER SEEN SO MANY TRIFECTAS IN MY LIFE —
GOOD BUSINESSES WITH GOOD MGMT AT LOW PRICES.

The best food company in the world at 9 times earnings....

Winters: I'll give you some examples of just how strange the current situation is. There is very little fundamental analysis going on right now — because everybody is essentially a seller and any good news is interpreted negatively.

One of our favorite companies is Nestlé. Nestlé is a big company often identified with chocolate. And pet food is another one of their businesses. Well, people are going to continue to eat chocolate and feed their pets. And Nestlé also has an investment in a company called Alcon, the ophthalmic drug company. They sold 25% of it to Novartis, and Nestlé has a put/call arrangement on 52% of it — which represents the balance of Nestlé's investment — which I think matures in 2010. It's all publicly disclosed. It's on their website. The company will tell you about it. So it's not a great mystery.

But if you go through the analysis, and you take where Nestlé trades, and then subtract the value of the Alcon put/call, which was set at something like \$175 a share — and Alcon trades at roughly \$60, which is somewhere around the midpoint of the put/call range (these are rough numbers, but that's the magnitude of it) — and you add the 28.9% stake that Nestlé owns in L'Oréal, the French cosmetics company, today, you're effectively only paying around 9 times prospective earnings for the best food company in the world. Meanwhile, Nestlé has been buying back a million shares of its stock a day.

If you can think clearly, there are things to do....

Winters: So here you've got this great company, that

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makes products that are sold globally, that did something brilliant for its shareholders. Yet most analysts do not do the math properly to accurately calculate the Alcon put/call.

So here's an example of something that's positive — that's really *good*. You know, 50 years from now, people are still going to be eating chocolate, and Nestlé's still going to be making the very best chocolate. So there's one example of the good companies available out there.

It doesn't mean that we all haven't been affected by what's gone on. But if you're a long-term investor, and if you can think clearly through this, there are things to do.

And Coca-Cola FEMSA has what we call "the trifecta"....

Winters: And I'll give you another example of why we think the world will go on. Another investment we have is in a company called Coca-Cola FEMSA. I believe it's the best and most profitable Coca-Cola bottler in the world, and the largest one in Latin America. There are a lot of thirsty people in Latin America. And as in much of the world, there are some issues there with impurity of water. I'm not suggesting Latin America won't have its ups and downs, but this is a business that's *incredibly* well run. And if you believe that people will continue to be thirsty over time, Coca-Cola FEMSA has a really bright future.

So here's a business with what we call "the trifecta" — good/improving economics, selling at a price that's low, and run by good management — which is key. It's just an incredible situation. Well, I've never seen so many trifectas in my life as I'm seeing now.

IT'S AN INCREDIBLE TIME TO BE A VALUE INVESTOR.
I'M VERY INTRIGUED — THERE'S A LOT TO DO.

I think that there's a lot to be constructive about.

Winters: Part of the reason that I think this whole economic mess has occurred is the issue of how management has been incentivized by the boards — and the imperial CEO. And I believe that part of the problem is that most shareholders do not think like long-term owners. It's very hard for the public to do it if mutual funds and pension funds don't do it. And that's part of the reason why we're willing to take an activist role in companies when it's called for. In fact, we have one right now.

We really do take a very, very keen interest in who's running a company. What motivates them? Are they motivated to do a good job, or are they only motivated to line their pockets and get out? I think part of the reason for this terrible situation the world has found itself in — and, by the way, it's not exclusively an American problem — has been a lack of long-term focus.

Right now, what's so missing in the world is a constructive long-term focus. But we think that if you're a long-term investor — although, again, I can't guarantee you that we're at the bottom — it's an incredible time to be a value investor. Not only are there cheap stocks available, but there's all kinds of debt out there, too. And eventually, there's going to be an M&A boom. So I think that there's a lot to be constructive about.

There's a lot of incentive for the world to get things fixed.

Winters: I made reference to Warren Buffett earlier. You know, Warren Buffett invested \$14-\$15 billion in the

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DAVID WINTERS
(cont'd from preceding page)

last couple of months. He's spending his personal money. And he even wrote a letter to the *New York Times* that said, "Buy American."

Of course, that doesn't mean that he's going to be right in the short run. However, this is a great country. And I think there's a lot of incentive for the U.S. and the entire world to get things *fixed*. It may take some time. However, the public's been a huge liquidator of securities — and pension funds are panicking.

Strangely, people only take the long view when optimistic.

Winters: It's always struck me how people get into this herd mentality. We all remember the tech bubble. In 2000, it seemed like everyone was buying high-tech stocks. And if you didn't own a high-tech stock, you were dumb — I mean, you were *really* dumb. And it turned out to be the worst time imaginable to be buying dot-coms. But you could still buy other really good non-tech companies then.

This time we're in a severe economic contraction, but you see almost no one taking a longer-term view. I read the other day that the Dow Jones has now done nothing in 10 years. That's pretty incredible.

So I'm very, very intrigued. I think that there's a lot to do, and there are reasons to be optimistic. It doesn't mean 2009 is going to be wonderful. However, ultimately, the way wealth is created is over the long term. There are always bumps along the way — and boy, we've been through a big one. But this too shall pass....

HISTORY IS FILLED WITH THESE KINDS OF EXTREMES.
BUT MY SENSE IS WE'LL MUDDLE THROUGH THIS MESS.

We've been through this — and the gov't's made money....

Attendee: Your statement that this will pass and that things will return to normal is based in part on the fact that the system we've always had will continue. However, we are noticing a significant change in the role of the federal government. It's now going to own a large fraction of American business. And the government is going to bring about very significant inefficiencies. So the models and the systems that we were accustomed to since 1950 may not continue. We may be looking at a different future.

Winters: Well, [chuckling] it is a little scary growing up now in a potentially more socialist society. And I don't know what's going to happen. But I think if you look back at history — not that history is a prelude to the future — there are examples which, at the time, were extreme. There was the Chrysler bankruptcy and the government reorganization of that company. And the government wound up selling Chrysler and making money.

There were six railroads in the Northeast that went bankrupt which became reorganized into ConRail — and the government had to put *massive* money into them because there was nobody in the private sector to do it. And ultimately, the government sold ConRail to the public — and both the public and the government made money.

The lender of last resort can make a lot of money....

Winters: The way the TARP was originally conceived was basically that the government was going to buy a lot of distressed toxic assets, and work them out over time. Well, if you buy distressed assets cheaply enough, you can make a lot of money....

When the Federal Reserve was created in 1913, the key thing was that there was no lender of last resort — and that's part of the reason we had the crisis back then. Before that, we had J.P. Morgan — who sat downtown and basically helped reorganize the country.

Well, we don't have anyone like J.P. Morgan today. But my sense is that nonetheless we'll somehow muddle through this mess. The government will buy a lot of assets — and then they'll sell them.

Juicing returns with leverage has clearly come to an end....

Winters: The U.S. is a mature society. How much are we really going to grow? Part of the way we grew was borrowing money and doing deals on leveraged multiples — and that's clearly come to an end. So it's true that we may not grow as fast as we have in the future. However, that's why we think you need to look all over the world to see where we can anticipate growth. And there's Asia. There's a lot going on in the world. And things *will* be different.

But at this moment in time, people are very fearful — with many good reasons. At other times, they're greedy. Many of the ways that we got into this mess were a result of extreme greed. Well, now what we've got is extreme fear — so assets are for sale....

So it's a great time to be a buyer if you have cash. I'm not saying assets won't get cheaper. As you may recall, Katharine Graham's father bought the *Washington Post* at a bankruptcy sale in 1933. And the family ended up making a lot of money on that deal.

THE HERD MENTALITY IS WHAT GOT US IN THIS MESS.
SO, IN A WAY, WILL IT LEAD US OUT.

When people start making money, greed will return.

Attendee: On the subject of risk-taking, I'm also concerned with the bailouts and companies being pulled into conservatorship. Businesses, and investors in general, have gotten a thirst for risk-free investments. And I was wondering when all of this government participation becomes a problem. How will investors be weaned off their risk-free desires. And what do you see as the exit strategy for the government?

Winters: Well, when the markets calm down, I think governments *will* ultimately reduce their role and be sellers. With regard to risk taking, I think when returns happen again and people start making money, greed will return. When people see profits and feel confident again, they'll want to own securities. As soon as people's neighbors are making money, they will want the same investment returns for themselves.

I used to have an acquaintance who would brag about what a genius he was buying high-tech stocks. I'd tell him he was going to lose a lot of money. And he rubbed it in my face for about a year. But when most people see someone making money, they want to do what that

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WINTERGREEN FUND'S
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(cont'd from preceding page)

person's doing. So the herd mentality is very powerful.

Once people start making money, they'll want to take risks.

Winters: That's how a lot of this mess happened. All these people were doing deals — doing speculative things — and making money. So management said, "I want to do it, too." It was very rare for them to say, "We're not going to play that game." That's very, very hard to do.

That's why, again, you've got 99.9% of the people now saying, "I don't want to participate." But once people start making money again, they'll want to take risks again, too.

DEEPLY DISCOUNTED ARBITRAGES ARE NICE,
BUT I PREFER THE 10-BAGGERS, THANK YOU.

With debt, I've been slow to pull the trigger — I got spoiled.

Attendee: You mentioned that both equities and credit securities are cheap. How do you decide whether you're going to buy an equity one day or some bank debt or corporate bonds? How are you looking at allocating your portfolio?

Winters: Well, the issue with corporate debt that's distressed today is the quality of the underlying assets. I've done lots of reorganizations in my life. And there's a lot of *agita* involved. A lot of what was most levered weren't the best businesses. Plus, you have the lawyers, advisers, and consultants taking lots of fees today.

So the question is: do I get involved in some security of a company where I can tell that there's going to be an arbitrage and I can make money but it's not that great a management team or not that great a business — or do I buy a phenomenal business where I'm not going to have the *agita* of a reorganization? I still might have some, because managements usually do something strange along the way. But today, it's such an odd situation that we can essentially buy a AAA company at Wal-Mart prices.

We keep looking at debt, but we've been very slow to pull the trigger — because we haven't found a business where we've said, "Oh my gosh, reorganized, this is just going to be a beautiful thing."

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And part of the reason why is that I'm spoiled because I was involved in helping reorganize the U.S. steel industry, and we got super lucky. Many things went into it, but it was such a home run that I never expect to have that kind of experience again.

I feel like a health conscious kid in a candy store....

Winters: I think corporate debt is very interesting in general. And it seems like there'll be more and more assets for sale. So it's an area that I think is very, very interesting. But if you can buy the best companies in the world? [He whistles.]

The question is, where are we going to make more money in the long run? I feel a bit like a kid in a candy store with an empty stomach and a fist full of cash. So I've got to exercise discipline to figure out which sweets I want. And unlike the little kid, I want to also think about exactly which sweets should be in my stomach, hopefully, for a long time and make our shareholders a lot of money. Anyway, that's my thought process.

If you do look at debt, beware of buggy-whip makers....

Attendee: What would you say to retail investors about how to take advantage of the corporate debt market?

Winters: It's *very* tough for retail investors to play the game. Do you have experience as a bond analyst or in reorganizations?

Attendee: No.

Winters: Then I would be very, very careful....

[Editor's note: We've heard that again and again — how that market is an absolute snake pit for the unwary and that it should not be played by amateurs.]

Winters: If you were going to do it — and again, I'm not at all pushing you in that direction — you'd want to buy the most senior debt. And you want to buy the debt of a company that's got a real business. One of the problems has been that so much easy credit got extended that there are a lot of businesses (and I'm exaggerating) a bit like buggy-whip manufacturers — where there's little need for their product and they're not going to be fabulous businesses after they're reorganized.

But the potential 10-baggers are going to be in equities.

Winters: So if you see a debt obligation that you might make 50% in as an arbitrage to reorganization, for example, and you look at a stock that you might make 1,000% in over time if you get lucky, I'd rather own the 10-bagger. And I think that's the problem — that one's really an arbitrage to reorganization, and the other one is ownership of a business that might pay off huge.

If you look at what happened in '73-'74, you could have invested in a retailer called W.T. Grant, or even in the railroad reorganizations, and you'd have made good money. But if you'd purchased the equities of the best companies, you'd have become *really* rich.

Activist positions? Yeah, we're at it again....

Attendee: Given your history with Michael Price, do you foresee yourself taking any activist positions — I mean actually going into a bad company that's distressed rather than a good company that's distressed and doing

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something with them?

Winters: Yes. We're in one right now. [He laughs.] We're involved in a company that's a real estate play in Florida. I've been involved in Florida East Coast and St. Joe for years. There was a lot of activism there — a change in management and a sale of one of the companies.

Today's investment is in a company called Consolidated Tomoka where we've tried to work with management. We're now proposing four directors for the upcoming 2009 annual meeting. So, yeah, we're at it again.

ALWAYS BUY THE BEST OF BREED
— WHEREVER IT MAY RESIDE.

To fight inflation, look globally for co's with pricing power.

Attendee: Some believe that a lot of money will be printed up and distributed wholesale throughout the world by the U.S., and that it may decrease the value of the dollar significantly. What are your thoughts about the possible devaluation of the dollar?

Winters: I think it's part of the reason why you want to invest globally, and why you want to invest in companies that can raise their prices over time.

Very few people are talking about inflation right now. We've seen a big *deflation*. Every asset you can think of besides cash has gone down in value. Oil's down by about two thirds since June. Housing prices are down. However, ultimately, printing all this money has to either result in an inflationary effect or a devaluation of the U.S. dollar.

That's why we love countries like Switzerland — because the Swiss franc has actually *appreciated* over time. It's a well run little country of 7.8 million people — and they have some of the best companies in the world.

Another Swiss company we like is Schindler...

Winters: I mentioned Nestlé. But we also like Schindler — the elevator and escalator company. Roughly 50% to 70% of its business is maintenance and upgrades — with the balance consisting of selling new elevators.

Well, the world becomes more urban over time. And you *have* to maintain your elevators and escalators in order to have a safe building. Even if the service contract looks expensive, you pay the price. Can a building owner really say, "Tough — I'm not going to have safe elevators in my building?"

Attendee: We don't. [Audience laughs.]

Winters: [Chuckling.] Well, but generally you have to. And that's pricing power.

[Editor's note: In his just-published annual letter, Winters notes, Schindler has "cash on its balance sheet, net current assets, and investments in Hyundai Elevator and Also Holdings. Based on our calculations, Schindler's core business is trading at a low multiple of its 2009 probable earnings excluding cash and investments."]

Even in deflationary times, some prices keep going up...

Winters: As an investor, you always have to think about what's *not* happening. At the top of the market, nobody thinks about the market going down. Right now, you can't find an optimist. And you can't find anybody who thinks about the decline of the purchasing power of the dollar. Clearly, clothes are cheaper. Wal-Mart may lower their prices. And cars may be cheaper.

But for a lot of other things, the prices just go up. The prices of professional services go up. Plumbers aren't lowering their prices. So you've got to think about it, diversify, and be in businesses that can capitalize on that over time.

Go for the best of breed — wherever it resides...

Attendee: On global investing from a diversification point of view, it seems you could take two approaches: One might be to invest in American companies — like J&J

PORTFOLIO REPORTS estimates the following were Wintergreen Advisers' largest equity purchases during the 3 months ended 12/31/08:

1. FRANKLIN RESOURCES INC
2. GOLDMAN SACHS GROUP
3. LEUCADIA NATIONAL CORP
4. BERKSHIRE HATHAWAY CL B
5. COCA-COLA FEMSA ADS

or Wal-Mart — and look for their global profits to come back. The other is you can go into Nestlé.

Given the potential for increased corporate taxes and inflation in the U.S. and the tendency for American companies to keep their profits overseas instead of returning them, would it be better to look at global companies that have a presence in America or American companies that have a presence globally?

Winters: Do you buy U.S. companies with foreign exposure or foreign companies with global exposure? Well, I think you do both — because there's only one Wal-Mart in the world if you want to own Wal-Mart. (We don't own it.) There's only one J&J. And there's only one Nestlé.

Part of what's happened with this crisis, as opposed to every other crisis, is that as the world has become a smaller place, it has become so interlinked that what happens here affects what happens half a world away. So we think it makes sense to just buy the best.

And you might want to buy foreign companies at a bigger discount than American companies, because for all of its imperfections, the U.S. legal system does function. And we do have shareholder rights — although not the best. So there are a lot of reasons why U.S. companies have advantages over foreign companies. But I believe that you should go for best of breed — wherever it may reside.

And if you want oil sands, you've got to buy Canadian...

Winters: We like the elevator and escalator business. Now you can buy Otis through United Technologies here — but you get a bunch of other businesses along with it — or you can buy Schindler.

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WINTERGREEN FUND'S
DAVID WINTERS
(cont'd from preceding page)

And the U.S. has good oil companies, but Canada has one of the best oil companies in the world. And if you want to be in the oil sands with a 50-year reserve life, you've got to own a Canadian company.

[Editor's note: We suspect he's referring to Canadian Natural Resources, a Wintergreen holding involved in the oil sands, also favored by Fairholme's Bruce Berkowitz.]

Winters: So we've become increasingly passport agnostic as long as the companies are well behaved and are good to their investors....

But we do have a huge bias in favor of Switzerland....

Attendee: In your view, is there any foreign country or region which has the possibility — or is showing some evidence — of recovering before we do?

Winters: You've asked me an economic question to which I don't know the answer. We do have this huge bias towards Switzerland because they've got conservative balance sheets, good managements, and global companies. I think that's a wonderful part of the world.

This game of trying to anticipate or guess what's going to happen next is very hard. And most economists don't get things right. But if you buy a great business at the right price, despite the ups and downs, you're probably going to make money over time. That's the history of America and most of the world.

THE OIL & GAS AREA IS SUPER-DEPRESSED —
AND EMERGING MARKETS LOOK INTERESTING, TOO.

We think oil and gas is very interesting today....

Attendee: You've had significant positions in metals and mining, oil and gas, and real estate — but you haven't mentioned any of those companies yet. Are you cooler on them than you used to be? Do you think their returns will be less than those of some of your other companies?

Winters: Clearly, owning anything that has to do with real estate or natural resources in the short run has

(continued in next column)

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been a negative. I talked to somebody at one of the major mining companies today. They've got no visibility. They feel as though nobody's ever going to build anything again. Well, that *can't* be correct — although it may well be true for some period of time.

I remember New York back in the 1970s. New York was kind of a run-down place and real estate was depressed — but *boy* did it come back. That doesn't mean there aren't going to be bankruptcies in over-leveraged real estate.

PORTFOLIO REPORTS estimates the following were Wintergreen Fund's largest equity purchases during the 3 months ended 12/31/08:

1. FRANKLIN RESOURCES INC
2. GOLDMAN SACHS GROUP
3. NESTLE SA
4. LEUCADIA NATIONAL CORP
5. PERNOD RICARD SA
6. SCHINDLER HOLDING AG
7. BERKSHIRE HATHAWAY CL B
8. BRITISH AMERICAN TOBACCO PLC
9. CIE FINANCIERE RICHEMONT SA
10. SWATCH GROUP AG CL B

But I think those assets are very interesting.

The price of oil ran up tremendously — and now it's crashed. And oil companies aren't investing in exploration now. But we still have a fundamental energy problem. So we think that oil and gas is very interesting today.

With assets so depressed, consolidation just makes sense.

Winters: And I can't guarantee it, but at some point, I think we'll have an M&A boom in the energy area. For the big oil companies — as T. Boone Pickens reportedly said in the early '80s — "It's become cheaper to look for oil on the New York Stock Exchange than in the ground."

So I think that they're *very* interesting assets — and that they're super-depressed. We still have the problem that we're dependent on overseas sources. But we have tremendous natural gas resources in the U.S. And maybe we'll even have an energy policy someday.

So those assets are extremely out of favor. But we like 'em. [He laughs.] Almost *everything's* out of favor now, though. The only thing that's *in* favor today is T-bills — but you can't make any money on them.

Other areas for M&A? Just look at the 52-week low list....

Attendee: Can you name any specific industries where you think an M&A boom is most likely?

Winters: An M&A boom makes so much sense in oil and gas. You've had oil and gas companies get crushed. So again, it's cheaper to drill for oil and gas on Wall Street than it is in the ground.

Think about what's happened in financial services. There used to be a plethora of companies. But you had a lot of companies implode. So there's got to be tremendous consolidation and rationalization. And in real estate, once the real estate mess begins to right itself, there have got to be a lot of deals. I just think that there are going to be so many industries where there is going to be consolidation.

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It makes so much sense to be able to take out overhead — especially if we're in a slower growth environment.

Look at what's on the 52-week low list — which today is almost everything. [He laughs.] I mean, any company that's not controlled today could be subject to some sort of a deal at some point.

Another area everybody hates — emerging markets...

Attendee: What do you think about emerging market funds? They were very overvalued a year ago — and now they've gone down 50% to 70%. What's their future?

Winters: Again, I don't know about prognosticating the future. Emerging markets are inherently volatile. They've gone down 50%. But emerging markets have the prospect for a lot faster growth than mature markets. So I think that they're an interesting place to have some money — especially when most investors can't stand them.

And you've recently had people flee emerging markets. I talked to a buddy of mine who was telling me how people had been treating emerging markets investments like money market funds recently. So you wound up with forced liquidation of emerging markets. Yet that's one of the places where the growth has been strongest. So within the context of a portfolio, I find that area very interesting.

That's where many big companies get some of their growth from today, as well — from the increased earnings from emerging markets. So if emerging markets earnings drop, those companies will be affected negatively, too.

LIFE GOES TO THE LONG DISTANCE RUNNER —
AND FOR THE INVESTOR, TO THE PATIENT & CAREFUL.

Since we can't pick the bottom, we scale in and trade up.

Attendee: We can appreciate that there's overwhelming despair and that there's a candy store full of goodies — and yet they could get cheaper and there might be another valley before a peak. But I haven't heard you explain when you pull the trigger — or how.

Winters: Recently, I've been too early. It's *very* hard to know exactly when to buy. We had quite a bit of cash over the summer — and we've been buying through this whole period. In retrospect, or if I were clairvoyant, I'd have bought nothing until this morning — but you just don't know.

So basically what we've done is to just scale in. And we've tried to say, "Well, we think it's worth X — and we can buy it at a big discount to X. So let's buy some now." One of the toughest things about being an investor is that hindsight's 20/20. And we've been through such an extreme environment where things have dropped to prices... We have one company — a great business — effectively trading at one times earnings. We've never *seen* anything like this.

So I think that the best way to do it is to just scale in. Be patient. Occasionally, you can back up the truck. However, oftentimes, the best thing to do is what's called

dollar cost averaging. Even as a professional investor, that's what we try to do. So we just buy a little at a time. And the news has been so atrocious that it always seems like there's an opportunity to buy lower tomorrow.

Attendee: And that doesn't keep you away?

Winters: No, because you can't know what tomorrow will bring. So what we've tried to do is to maintain cash and keep going. And then if we find something even better, we might trade out of a security into that.

I was kidding with a Canadian friend of mine the other day. And he said, "Maybe in 30 years, we'll look back on this whole time and say, 'Do you remember what we were able to do back then?'"

We want to be a net buyer — or upgrader — through this

Attendee: How much cash are you holding?

Winters: We have about 15% — let's say high teens. And we keep investing it. Wintergreen's been very fortunate not to have a wave of redemptions. In fact, we've had money come *in*. And we've tried not to accept hot money. The U.S. market has already had *massive* liquidation of mutual funds and hedge funds. And what we're going to try to do at Wintergreen is be a net buyer — or upgrader — through this and look for the gems....

So we've been putting money out, looking all over the world. We've been talking to all these different companies. And some of them really don't know what's going to happen. But there are other companies that are doing pretty well. Many of our companies have cash on their balance sheets. Some are buying back their stock.

Life goes to the long distance runner. And in the case of value investors, it goes to the patient — and careful.

IF IT'S TOO COMPLICATED TO UNDERSTAND,
THE BEST THING TO DO IS TO WALK AWAY.

Always ask: Do I understand what this company's doing?

Attendee: All the banks were making so much money — opening up new branches on so many corners — and yet now they're crying poverty. Look at Citigroup, for instance. But I feel very strongly that banks are going to come back. How do you recognize the right one to invest in, though?

Winters: I think it's hard for an individual investor. But if you're willing to do the work, you just start with the annual report and say, "Do I actually understand what this company is doing?" If you read the PepsiCo annual report, you know that they basically sell soda and salty snacks. Then you can see what the company has done over time, that they don't have a lot of debt, and that it's a company that's rewarded its investors. So you examine the business to get a sense of whether or not it's a good business — and whether or not the people who are running it are honest and have rewarded their shareholders without a lot of debt and gimmicks over the years.

But when you read the annual report of many financial services companies — especially the footnotes — it's *very* hard to understand what's going on....

The problem with a company like Citigroup is that it grew very fast through lots of acquisitions. And there was huge pressure on management to deliver high returns all

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WINTERGREEN FUND'S
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(cont'd from preceding page)

over the world based on deals. I could never understand their business. It was too complicated for me to ever get my head wrapped around all the footnotes and all of their different lines of business.

An individual investor actually has an *advantage* now....

Winters: So to answer your question, as an individual investor, I recommend you read Ben Graham's *The Intelligent Investor*, printed in 1949. If you want to take an easy way out, read chapters 8 and 20.

[Editor's note: That's exactly what Buffett says, too. And Buffett actually wrote a new preface and appendix to the fourth revised edition.]

Winters: It's about "Mr. Market" — about how the market's a volatile place where you want to take advantage of the mood swings and not be their victim — and how you want to get a lot for your money.

Well, the market's been absolutely crushed; so you can get a lot for your money. And as an individual investor, you have an advantage — because many of the institutional investors are hiding under their desks today.

Annual reports don't always tell you when trouble's ahead.

Attendee: You indicated that your problem with the financial services industry was a lack of transparency. Are there any other industries that you think suffer similarly so that you really can't see their businesses or their need for credit that's so difficult to get now — or, conversely, sectors where everything is transparent and looks fairly open?

Winters: Well, one business that is *really* in trouble that was a phenomenal business for many years is the media business. But you couldn't tell from just reading the newspaper companies' annual reports that the business was going to fall off a cliff. So that's an instance where the business *has* really deteriorated.

I think another example which is not exactly on point is that there's an issue now with underfunded pension plans flowing through the earnings statements of companies. That's something that I think is a time bomb that's not in the press right now, but is really an issue. Part of the reason that some companies have gotten themselves into such trouble is not only healthcare, but pension liabilities.

So you have to determine whether it's like the media business where the underlying economics are in decline, or whether there's a hidden problem that can't be picked up in the annual report that could indicate that the company's earnings are going to take a big hit.

If it's too complicated to understand, simply walk away....

Winters: That's one of the reasons why we love conservatively-managed companies. We've gone from an era where leverage is beautiful to one where conservatism is okay. And that's why we have our cash in T-bills at the Wintergreen Fund.

If it's so complicated that you can't understand it, then the flashing red light should go on that says, "You know, I don't need to do this." That's why I gave you the PepsiCo example. And that's not a tout — because we

don't own it. But you can understand what they do....

So I think when you find something that really fundamentally makes sense and is a good business that generates a lot of cash and can do well over time — especially, if it has a global footprint — the likelihood is you are going to do well. And if you can buy it at a good price and the company has good management, then the odds are really in your favor.

WHEN OTHERS ARE RUNNING FOR THE EXITS,
IT'S TIME TO STAY IN THE CANDY STORE AND *BUY*.

We were defensive. We just weren't defensive enough.

Attendee: As you say, hindsight is 20/20. So I was thinking, since the market peaked in October of 2007, what were the signs that maybe in retrospect you would have looked at? Take us through what you were looking at through the year as things started to deteriorate.

Winters: Well, we didn't *know* the market peaked in October of 2007 until later on. Things just started falling, and they have continued going down for 14 months or so.

But valuations were never extreme. In retrospect, you could say that a lot of financial services companies' earnings weren't real. What we tried to do was have a fairly defensive posture. We had a fair amount of cash. And we put on some shorts, but we covered 'em way too early. [He laughs.] But we didn't foresee even in June that the world would just fall off a cliff. Essentially, activity just sort of stopped.

It doesn't usually happen like that. These are things that may never happen again in our lives. And maybe there were a couple of people who guessed it right. However, it's been such an unusual event...

The history of the planet has been that we make progress.

Winters: So we saw that things were slowing down. And we sold some securities, and bought some others. But we certainly couldn't have predicted that there would be a widespread global panic and liquidation of almost everything — which is what's happened. We had a good sense that there would be trouble. But what has actually transpired is off the charts — and well beyond what we anticipated.

So what do we do? We try to find the best businesses to buy — to position ourselves — believing that the sun will come up tomorrow. And the history of the planet has been that we make progress. I mean, think about this country. So we assume that progress will continue, and that there will be a tomorrow. And the best companies in the world should make a lot of money for their shareholders....

When everyone's running for the exits, it's time to *buy*.

Winters: There's just so much to do at this point in a constructive way. Unfortunately, investors have to change their mindset — because their overwhelming negativity is not going to help them make money.

This is an environment where virtually everybody's running for the exits. But instead of running for the exits, I think that the thing to do is to stay in the candy store and buy the best long-term securities available. I think that's the right mentality to have today....

—OID

Outstanding Investor Digest is published bimonthly, more or less (usually less) by Outstanding Investor Digest, Inc.
Outstanding Investor Digest, 295 Greenwich Street, Box 282, New York, New York 10007 Telephone: (212) 925-3885

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