1st Quarter 2009 Client Letter

"It was the best of times, it was the worst of times; it was the age of wisdom, it was the age of foolishness; it was the epoch of belief, it was the epoch of incredulity; it was the season of Light, it was the season of Darkness; it was the spring of hope, it was the winter of despair; we had everything before us, we had nothing before us; we were all going directly to Heaven, we were all going the other way."

- Charles Dickens "A Tale of Two Cities" (English Novelist 1812-1870)

Most observers of the economy and financial markets would certainly agree with the darker sides of Dickens' famous opening sentence. The current firestorm engulfing the economy and markets is the worst that most people have ever seen. It's certainly the worst I've experienced. We've seen a startling decline in business activity as consumers retrench, and businesses respond by cutting payrolls, reducing consumer confidence, leading to more reductions in spending, which leads to further job losses.

Our friends in Washington D.C. are attempting to interrupt this process through massive amounts of government spending with the hope it will replace the reduced spending and provide enough support to lift the economy out of the current deep recession. It will likely work, if only because unlike you and me, Uncle Sam can run large budget deficits with no immediate negative consequences. I'd expect the stimulus to start showing some impact before yearend.

What's not so certain is the possible negative impacts years from now resulting from the trillions of dollars of fiscal stimulus. Inflation is the most obvious concern. Increased money supply usually leads to a higher level of inflation. Most people figure that's tomorrow's problem and getting the economy back in growth mode is a greater concern. While I'd agree, I'm also spending more time looking for signs of future inflation, how it will impact your capital, and what can be done to deal with a potential inflationary environment in the future.

And yet, while the current situation looks depressing, at the risk of being ridiculed, I can make a case that we are in the best of times. Why? Societies and economies raise living standards through population growth and increases in productivity brought about through an educated workforce and better tools to work with. Makes sense: more people doing things more productively.

Today the world has accumulated the highest levels of knowledge, capital investment and population ever recorded (which is not to say that at some point we won't be overpopulated, but that's at least a few decades away). As countries around the world develop further, we all share in the benefits through increased trade and enhanced productivity of global resources. It's hard to see the "best of times" amidst the worst recession in decades, but human progress is moving forward, however much it may not be reported on the front page of the Los Angeles Times or New York Times.

Moats, Managements, and Mr. Market

According to the dictionary, Triad is "a group of three, especially of three closely related persons or things". I chose to name my company Triad to reflect my view that each of the following 3 elements were important factors in making investment decisions:

Moats: in medieval times, a moat was a body of water which surrounded a castle and was used as protection from invaders. The bigger the moat, the greater the protection. In investing, the moat is analogous to the strength of a company's business. A great business has a large moat, whereby competitors find it virtually impossible to penetrate the competitive barriers. Examples include patent protection, brand loyalty, trademarks, business reputation, etc. Some businesses are blessed with natural barriers, while others take years or even decades to build. These barriers to entry are one of the elements I assess before an investment is made. I'll go into more detail in future letters about what I look for.

Management: assessing the people who run a company is probably the most difficult and subjective of the three parts of the investment process. It involves assessing a management teams' "track record" of prior decisions, during both good and bad economic times. I review management's allocation of capital, purchase and sales of businesses, compensation philosophy, how much stock they own, whether it was purchased or acquired via stock options, etc. Also a topic for detailed discussion in the future.

Mr. Market: Benjamin Graham co-authored Security Analysis, a "Bible" for value-based investors first published in 1934. Graham put forth the idea that investors should imagine stock market prices as coming from a fellow named "Mr. Market", who appears daily and names a price at which he will either buy your stock or sell you his. At times Mr. Market is euphoric, seeing only the positives and providing a very high price. Other times he is depressed and, seeing nothing but bad times ahead, offers a very low price. Graham's point was the "market" is there to serve you as an investor, and you should use the temporary foolish behavior of market participants to improve long-term investment outcomes. Investors would do well to remember the best-known quote of the comic strip character Pogo, another famous American: "We have met the enemy and he is us".

The importance of the Mr. Market concept is that the price of an investment can have a significant impact on investment results, and through temporarily irrational behavior "Mr. Market" provides opportunities for intelligent purchases and sales.

In the real world, it's rare to find a great business with terrific management selling at a ridiculously low valuation. Sometimes it happens, and I attempt to pounce when it does. But usually my job is to assess the relative strength of each element and weigh them in making an investment decision.

Spring is in the Air?

It's very hard at this juncture to say when the economy will improve. I look at the same data as others, and it's currently a mixture of bad and good, with bad having a decided advantage right now. However, the repression (my word for recession/depression) will eventually lift, and history tells us the stock market usually leads the economy by six to nine months. We could be seeing in the stock market early signs of recovery in the next few months, anticipating a better economy in 2010.

Ultimately, long-term stock market success is related to the long-term ability of companies to grow earnings and business value. I believe we own quality companies, with excellent managements, currently selling at very attractive valuations. Many of these businesses are tied to a stronger economy, and when better times come, I expect business values and share prices to rise. While Spring has arrived, I await its equivalent in the economy and stock markets.

As always, I appreciate your patience and trust.

Sincerely,

John Heldman, CFA