TRIAD
INVESTMENT MANAGEMENT

1st Quarter 2012 Investment Review

"*Long range expectable return is the primary consideration of all of us belonging to Buffett Partnership Ltd. (BPL), and it is reasonable that I should be put on record, foolish as that may later make me appear. My rather puritanical view is that any investment manager, whether operating as broker, investment counselor, trust department, Investment Company, etc., should be willing to state unequivocally what he is going to attempt to accomplish and how he proposes to measure the extent to which he gets the job done.*"

Warren Buffett, Buffett Partnership Letter, January 18, 1965

Investment Managers are in the business of evaluating publicly-owned companies. Investors expect public corporations to set reasonably attainable goals and communicate progress in achieving these goals. Buffett wrote that Investment Managers should also establish reasonable goals and report on their progress. I agree.

I've mentioned previously that Buffett managed a private investment partnership from 1956 through 1970. I recently reread all of the BPL letters, as it's time well spent. His talent for objective analysis, logical thought and clear explanation is evident throughout the letters. The quote above resonated because I've been thinking about whether and how I should communicate my ***common stock investment goals*** to clients and prospective clients.

Buffett aimed for a margin of outperformance of ***10% per year*** over the Dow Jones Industrial average over a 5 to 7 year period. He thought the Dow might earn 7%, so the goal before his fees was 17% per year. Remember this is for common stocks, not bonds.

Triad has more modest ***common stock*** goals, at least by Buffett's standards. Why? One, I'm not Buffett. Two, when he set up shop in 1956, common stocks retained a poor reputation from the Great Depression era, resulting in lower valuations and less competition.

Triad's ***goal***--which I've never put in ink for fear of looking foolish, imprudent or both--is to earn returns 3-5% above the S&P 500 after fees over a 5 to 7 year period. These targets ***cannot be guaranteed***, but if achieved would put us in good company among industry peers. For example, if the S&P 500 earns 7% per year our goal would be 10-12% net of fees. Should the S&P 500 return 10%, our goal would be 13-15% net of fees.

Nevertheless, compared to many managers, what I propose is unusual in two respects. First, many managers won't provide return goals, or make general statements such as "we expect to outperform." Second, of those who set goals, it's usually to outperform by 1-2% versus the S&P 500 after fees. Furthermore, many managers seem content just to keep up with the major market indices after fees, even as most underperform. As long as clients don't flee, they consider this success. I don't subscribe to such thinking.

This goal is challenging yet not impossible. A very small subset of the investment management industry has been able to generate similar returns after fees. But that's my objective, superior long-term investment performance. And remember, small differences in returns become magnified over the long-term. Over 15 years, earning 10% per year results in 4X increase in capital, whereas 15% generates 8X increase.

Triad's 5 year anniversary is in early 2013, and I'll provide a status report then and each subsequent year. As of March 31, 2012 clients who have been with Triad since inception in 2008 have achieved 3-5% outperformance net of fees. The enclosed client review has your individual account details. Also, you'll note we're off to a good start in 2012.

I get asked occasionally why Triad doesn't own shares of Apple or other technology companies. Considering Apple's stellar business and stock market success I sometimes ask myself the same question. I'll attempt a brief explanation.

Facebook is expected to sell stock to the public next month in a highly anticipated Initial Public Offering (IPO). But Facebook and Apple, along with Google and a few others, are ***exceptions*** in the technology world; many technologies have a short lifespan and high failure rate. It's a very competitive world, experiencing rapid product change and fickle customer loyalties. For the winners such as Apple, it's a home run. For the losers, it's not so pretty. Here's an unscientific, hand-picked alphabetical sample of recent losers (my apologies beforehand if you or a close relative work at one of these companies):

Company	Peak price	Peak Year	Current Price	Price Change%
Best Buy	$ 60	2006	$ 21	- 65%
Electronic Arts	71	2005	16	- 78
Hewlett Packard	55	2010	23	- 58
Hitachi	161	2000	53	- 67
Motorola	(company split up, half sold to Google; trust me, results not good)			
Nokia	42	2007	4	- 91
Research in Motion	148	2008	13	- 91
Sony	157	2000	18	- 89
Yahoo	125	2000	15	- 88

Long-term owners of these businesses have suffered significant losses as indicated by the price change. I've left out the hundreds of technology companies that have gone bust over the years. Each of these companies was the toast of the technology world at one point, only to succumb to changing technologies and consumer tastes. Apple, Google and the other "winners" are obvious in hindsight, but not so obvious with foresight.

Facebook, founded way back in 2004 (that is, yesterday), has roughly $3 billion in revenue and is expected to be valued at $75-$100 billion. The Facebook IPO price might prove to be a long-term bargain but the odds suggest otherwise. I won't be opening your wallets.

Triad prefers tranquility, which is to say, businesses operating in quieter waters, away from the frenetic pace of change exemplified by technology. Our ideal company operates off the beaten track, enjoys a semi-monopoly (actual monopolies tend to invite government attention) in a business experiencing glacial change, stable competition, strong customer loyalty, able to control costs and raise prices. In short, a business with a wide "Moat" that offers protection from competitive attack. Such businesses are more predictable, allowing us to focus and concentrate in the best opportunities, and hold for a longer time period. I'll discuss in a future letter the elements of a great business (I know, you can't wait).

This doesn't imply we would never own technology companies. If a technology company meets my criteria, we'll own it. And price can be the great equalizer. If Facebook were priced cheaply enough we might buy it. But I'd be looking for a valuation ***significantly*** below the mentioned IPO price.

Economic conditions in the U.S. continue to improve, although international risks remain, including European government debt defaults, China's slowing economy, Iran, North Korea, etc. In the U.S. we have the November elections, along with potentially higher taxes and lower government spending starting in 2013. In addition, ***interest rates must rise eventually***, and market reaction isn't likely to be pleasant, at least in the short-term.

Risks ebb and flow but are always a part of the investment landscape. Return prospects must be sufficient to provide adequate returns in light of the assessed risks. And here we have some good news. Lower valuations today for many common stocks offset some current risks. In my view it still makes sense to have significant commitments to common stocks, given reasonable valuations and modest growth expectations.

Investors generally remain shell-shocked from the last 12 years of almost no return in the U.S. stock market. Voting with their feet, investors pulled $400 billion from equity mutual funds over the past 5 years, while dumping $800 billion into bond funds. Choose your cliché, but to me it's a classic case of "fighting the last battle", or "looking in the rearview mirror". It's likely to result in regrets for investors who sold stocks and bought bonds.

Eventually the pendulum will swing away from fear, toward optimism and finally greed. At that point higher stock valuations will likely indicate reduced common stock ownership. The risks will outweigh the rewards. When will this happen? After stocks have risen for a while, investors start selling bonds to buy stocks and equities reach unsustainable levels, it'll be time to reduce holdings. This is the way it's always been, and I see no reason to alter this view. Cynical? No, just human behavior.

Overall I remain optimistic about our prospects over the next few years, and look forward to tomorrow's harvest from today's seeds.

I encourage your comments, questions and suggestions. I consider your loyalty and patience my secret weapon, and I'm honored to be entrusted with the management of your funds.

Sincerely,

John Heldman, CFA
April 13, 2012