Value Investor INSIGHT

The Leading Authority on Value Investing

January 31, 2019

High Mark

"Investors today have better tools than ever to be myopic," says Morris Mark, who naturally sees that as much more of a competitive opportunity than threat.

INVESTOR INSIGHT

Morris Mark
Mark Asset Management

Investment Focus: Seeks well-managed and well-positioned companies when their share prices for a variety of disparate reasons don't reflect potential long-term value.

Befitting someone who's been an equity analyst for a long time, Mark Asset Management's Morris Mark is slow to see things in black or white. Typical, for example, is his description of how he approaches valuation: "I've learned not to confuse a low multiple with value or a high multiple with being overpriced," he says. "It all comes down to what something is worth."

Mark's pragmatic approach has more than stood the test of time. His flagship hedge fund, Mark Partners, has after fees beaten the S&P 500 by an average 140 basis points per year since 1985. His firm's long-only strategy started in 2003 has earned a net annualized 13.5%, vs. 9.0% for the S&P index. Today he's finding mispriced value in a number of areas, including system software, banking, online retail and social media.

The market seems to have changed in the eight years since we last spoke [*VII*, December 2, 2010], let alone in the 50-plus years you've been in the business. In what ways is being an equity investor different today than when you were starting out?

Morris Mark: I'm not trying to be flip, but everything's changed and nothing has changed. I would say fewer people in money management today actually invest. They're betting on short-term waves, factor trends, momentum, the next quarter's number – with any number of precise computerized calculations to support them – at the expense of focusing on the things we do, like a company's industry structure, its management quality and what its future looks like.

People ask me if I think the market is more efficient and my answer is that I don't believe the market is efficient. But it's very rational. The collective thinking of millions of people can be incorporated into share prices in milliseconds. The latest tweet from the president or the latest data released by the government can be incorporated into stock prices in milliseconds. That to me is an extreme exercise in rationality, telling you what something is worth this minute. But I don't believe that exercise makes the market any better at telling you what something is going to be worth in two or three or five years. If you're investing, you care more about what will be. The market, rational as it may be, sometimes isn't very good at telling you that.

Describe the types of companies to which you gravitate.

MM: We generally invest in companies with strong market positions, attractive top-line growth, high and growing earnings and free cash flow, and – most importantly – very capable management. We also try to be aware of where any company sits with regard to the cyclical outlook for the economy and with respect to structural industry trends. With our quality-value orientation, it's critical that we avoid those situations where secular trends can take something historically considered of sustainable high quality and turn it into something that is far more questionable.

We put the highest emphasis on handicapping management. Objectively, we're looking for meaningful management ownership and/or shareholder-oriented compensation packages. Subjectively, we want to develop the same kind of impression and knowledge about top executives' ability and thought processes that investors want to have about us when trying to decide whether to give us their money to invest. Does what management says make sense? Do we trust them? Do we believe that what they expect to happen is what's actually going to happen? Do they see the world evolving as it is, or as they would like it to? If the former, are they preparing their company for that evolving world?

Last time we spoke you still held out Coca-Cola [KO] as an example of the "classic excellent business." Do you still think so?

MM: We don't own it and we're not likely to own it. It's still a great brand franchise. It has a great beverage-distribution system. Management is smart and capable. But unless they can come up with a version of Coke or something else that is not artificially sweetened, is reasonably low-calorie, and for which there is mass appeal, the company is uninteresting to us as an investment. The product is just not that good for you, which in an increasingly health-conscious world is a problem. I still enjoy a Coke from time to time. My children drink it very rarely. My grandchildren, are you kidding? That tells me the growth prospects aren't great.

How would you describe your idea-generation process?

MM: One, it's taking advantage of a knowledge base built over time. For example, we believe Boeing [BA] is an excellent company. They know how to make airplanes and are constantly enhancing the value of their products. They hold a dominant position in a huge and growing market. Management is professional and smart. It's the kind of business we want to own.

What makes you buy on a particular day? There might be a scare headline about the next week or month or quarter. Maybe there's a product problem they need to fix. Maybe there's a geopolitical development that has people worried. Maybe they announce an acquisition nobody seems to like. All of the sudden the stock is down and that might give us an opportunity.

But you also have to keep learning about new things and generate new ideas. I've always said that if you don't enjoy the process of learning, you shouldn't be in the investing business. That's not to say you always have to be an expert on everything – that's impossible – but new business models are created all the time, often through the creative application of technology. That disruption process, if you think you really understand it, can also point you in the direction of new ideas.

Most businesses, large or small, to survive today have to adapt to what we call digitization. Long ideas can come from identifying companies that are doing that well. We don't own it now, but even something like Domino's Pizza [DPZ], which is not a technology company, was early and smart about adopting technology to communicate with and serve its customers. They also had to do other things right, like making more consistently better pizza, but they've obviously benefitted from that.

What was behind your new-found interest in Twitter [TWTR] last year?

MM: The stock's been under pressure at various times over the past year. One reason has been fear that adverse regulation of social-media companies might restrict or adversely affect their business model. There's also concern that Twitter's user base, as the company actively removes fake accounts, has been overstated.

We got interested based on our view that user growth was resuming and is likely to continue at an attractive rate. We think user engagement is also likely to increase because of the greater use of video in tweets, as well as live streaming on the platform of athletic and other events.

We also believe the advertising revenue potential for the company is enormous. With virtually every important political, business and entertainment figure in the world using it, Twitter is now one of the most important, least filtered, sources of news in the world. As it engages increasing numbers of people for increasing periods of time, that should translate into dramatic growth in advertising on the platform.

As investors, we think the aggressive user "house cleaning" is a good thing that will enhance the company's position over time. We also don't expect any new transparency and privacy initiatives to cause lasting damage. Twitter users generally understand that whatever they say is being "broadcast" to the world.

ON MARKET EFFICIENCY:

The market is rational, telling you what something is worth this minute. It's not any better at telling you what will be.

You own a number of very large-cap companies. Is that typical?

MM: We don't at all restrict ourselves to large caps, but I would say that in areas where scale is clearly an advantage, and where information technology can magnify the benefits of scale, we're drawn to bigger companies.

The other side of what I just said, of course, is that smaller companies can in some ways scale their businesses more easily through the use of technology. We're still buying it so I don't want to talk specifics, but we have a position in a well-managed, profitable small company with what we consider transformative technology in the area of cloud-computing security. It has an opportunity to become significantly bigger in an area that is important and growing rapidly. Because there's risk associated with its size, we'll limit our position size in something like this early on. If they progress as we think they can, it's likely we'll add to our position.

You pay a lot of attention to secular trends. Certain of those trends, like a resurgence in U.S. homebuilding and a sharp increase in U.S. infrastructure spending, haven't yet played out as expected. How patient do you tend to be when that happens?

MM: I used to follow the homebuilders when I was on the sell side at Goldman Sachs, so I've been following the business for a long time. If you told me that long-term interest rates were 3-4%, that the prospects for inflation were relatively subdued, and that the economy was at full employment, I would have said that based on the historical residential-construction patterns in the U.S. that housing starts – single-family and multi-family – would probably be above the long-term annual average of 1.5 million. In every decade since WWII, annual housing starts have averaged about 1.5 million. But in the current decade, which is almost over and when the U.S. population is higher, annual average production has been about 1 million. The current run rate is maybe 1.2 million.

There are reasons that's happening. Younger people are favoring more urban lifestyles and marrying later. More families are doubled and tripled up. I still believe people want to live better and will want to own homes, but can I say with much confidence when the longer-term trend reasserts itself? No.

That doesn't mean there aren't still investment opportunities in the industry. We think some businesses, like Lennar [LEN], can continue to prosper by taking share and by building out and monetizing new, non-homebuilding profit centers, even if housing starts don't come back anytime soon. It's now the largest homebuilder in the country and we think is terrifically well managed. For now at least, we think patience is warranted.

When it comes to infrastructure, everybody knows – regardless of political persuasion – that we have neglected infrastructure spending for too long. But there's no money for it. How can there be no money for infrastructure in allegedly the world's most prosperous economy?

Again, don't ask me to give you specifics on timing, but we believe the need for new and upgraded infrastructure will eventually result in the allocable share of public expenditures for it to increase. When that happens, companies like aggregates-producer Martin Marietta Materials [MLM] should be a big beneficiary. In the meantime, its stock is attractively valued and we think it will be a good investment regardless of when more infrastructure spending actually arrives. Again, that gives us some leeway to remain patient.

Your latest quarterly letter led with a quote, "If you don't do macro, macro will do you." What aspects of the macro environment give you optimism or pause?

MM: We I think like a lot of people in the fourth quarter had to deal head on with the question of whether the economy broadly speaking was on the verge of cyclical decline. This of course can change, but for the time being we're not that concerned about a recession. The monetary authorities have signaled moderation in the pace of rate increases. Both the U.S. and China seem to recognize that it's in their respective interests to resolve a lot of the trade issues. We don't see the systemic risks in the financial system that were there prior to the financial crisis.

They say bull markets are born of despair, grow on skepticism, blossom on optimism, and then die at euphoria. I don't think we're anywhere near euphoria and – except maybe last year with so-called cryptocurrencies – haven't been since the financial crisis. To the extent you hear people talking about stocks it's usually because something's going wrong. Attitudes just haven't recovered.

ON LARGE CAPS:

Where scale is an advantage, and technology can magnify that advantage, we're drawn to bigger companies.

I wouldn't pretend to judge whether that's right or wrong. But I do think it means you can buy stocks today – assuming, figuratively, that the world does not explode – that are very attractively valued. You don't have to count on multiple expansion to earn a very good rate of return.

Let's talk about one, Dell Technologies [DELL], in more detail.

MM: In this case we're really talking about two stocks, Dell, which is known primarily as a computer hardware company, and VMware [VMW], which is known for its virtualization software. Dell, after a deal to come back public at the end of last year, now owns outright 80% of VMware.

Much of the story is about VMware. It has broadened its range of products, going from a business that provides software to enhance the operating performance and capacity utilization of servers and desktop computers to one that offers similar virtualization capability across a wide variety of other computing devices and systems. That includes networks, networking equipment and storage computers, so that the product line now essentially covers the range of hardware used in rapidly growing cloud-based environments.

That positioning in the cloud is a big deal. We had actually owned the stock in the early days of cloud computing and ended up selling after seeing Jeff Bezos speak at a conference about Amazon's plans to provide infrastructure and computing capability as a service. I asked him whether virtualization was an important thing they'd provide and whether they would use VMware to do so and he said, no, we can do that on our own. VMware at the time was a high-multiple stock, and the thought that it might be a casualty of this thing called cloud computing was concerning.

Today we're convinced the opposite is true and that VMware is a clear beneficiary of the move to the cloud. Amazon would appear to agree, as last year it signed a significant deal to partner with VMware to integrate its virtualization products into Amazon Web Services' cloud offerings. We expect more such partnerships to come.

How important is the company's hardware business to your thesis?

MM: Dell is among the largest manufacturers in the world of desktop computers, servers and storage computers. Hardware businesses aren't valued particularly highly by the market, but the company is very good at what it does, the hardware business generates good cash flow, and we think demand in an increasingly digitized world at least remains stable. So while VMware is what's driving our thesis, we don't consider the hardware business the negative that many do.

How big a concern is Dell's debt load?

MM: The Dell balance sheet post-reorganization is not a beautiful thing to behold, making it absolutely a concern. But the largest slug of debt matures in 2023, and we believe the company if it continues to execute reasonably well and VMware con-

INVESTMENT SNAPSHOT

Dell Technologies
(NYSE: DELL)

Business: Global manufacturer of a broad range of computer hardware and, through its majority ownership of VMware, develops and sells virtualization software and services.

Share Information (@1/30/19):

Price	**48.00**
52-Week Range	42.02 – 49.10
Dividend Yield	0.0%
Market Cap	$34.48 billion

Financials (TTM):

Revenue	$88.36 billion
Operating Profit Margin	(-1.0%)
Net Profit Margin	(-3.4%)

Valuation Metrics
(@1/30/19):

	DELL	S&P 500
P/E (TTM)	n/a	19.9
Forward P/E (Est.)	7.1	15.7

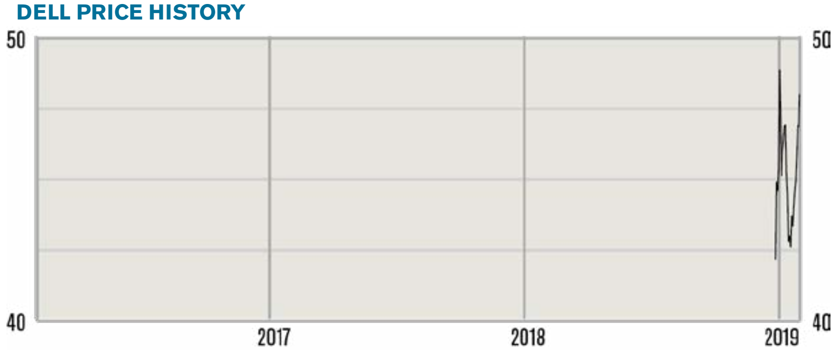
Largest Institutional Owners
(@9/30/18 or latest filing):

Company	% Owned
Vanguard Group	18.4%
Dodge & Cox	16.8%
Elliot Mgmt	10.3%
BlackRock	8.8%
Canyon Capital Adv	7.0%

Short Interest (as of 1/15/19):

Shares Short/Float	n/a

DELL PRICE HISTORY



THE BOTTOM LINE

The company's stake in virtualization-software firm VMware is alone worth nearly 40% more than the current stock price, says Morris Mark, who thinks that makes no sense if you believe as he does that its traditional hardware business will be fine and that management has a number of levers to pull over time to lighten the current worrying debt load.

Sources: Company reports, other publicly available information

tinues to increase in value as we expect, will have plenty of flexibility to pay down and refinance debt to delever. We don't think they'll need to sell assets, but they will have them to sell if it at all becomes necessary.

With Dell shares trading at around $48, how are you looking at valuation?

MM: Each Dell share includes about .45 of a share of VMware. At today's VMware price [of around $146], that stake alone is worth close to $66. So you're buying at a discount a terrific virtualization-software business that at a 23x forward earnings is not expensive given what it does and relative to earnings that we expect to grow at least 15% per year for the next three to five years.

The key is to understand that VMware is a terrific business you can buy at a discount, and that as it generates more cash and becomes more valuable that will benefit the entire enterprise. I can't tell you I know exactly how it all comes out, but with that and the fact that you're dealing with extremely capable people in Michael Dell and Silver Lake Partners as equal financial partners, I don't think we need to know exactly what they're going to do.

There's no shortage of controversy around your next idea, Facebook [FB]. Describe the evolution of your thinking on it.

MM: We took a position in Facebook three months after it went public in 2012, when the stock price was lower than it was at the IPO, and owned it pretty much without interruption until the Cambridge Analytica event. The decision to supply data to the extent they did to non-advertising clients struck us as arrogant and misguided. That was compounded by the fact that they didn't really have control of the data or know where it all was.

We've since re-established our position for a number of key reasons. We've seen little, if any, drop-off in user engagement as a result of the privacy controversies. It maybe came a bit late, but we believe top management understands what they need to fix and has meaningfully begun to address important issues around the control and privacy of user data and around the integrity of content on the platform. Related to that, we don't think new regulation is necessarily a bad thing. We'd argue that new rules like the General Data Protection Regulation [GDPR] put in place in Europe in May of last year actually will benefit large generators of consumer data such as Facebook, who can and have invested tens of millions of dollars and thousands of hours of professional time to become fully compliant with these complex rules. That provides another competitive barrier against new competition.

This is a media business that has to continue to be imaginative in providing products and services that engage users, but the secular-growth story if Facebook continues to do that as well as it has is fully intact. The shift to digital advertising and its ability for individualized marketing – where Facebook and Google are way ahead of the competition – is powerful and ongoing.

As the multiple on the stock has been marked down, the company's utility to ad-

INVESTMENT SNAPSHOT

Facebook
(Nasdaq: FB)

Business: World's largest online social network with more than two billion monthly active users; advertising accounts for more than 90% of the company's total annual revenue.

Share Information (@1/30/19):

Price	**150.42**
52-Week Range	123.02 – 218.62
Dividend Yield	0.0%
Market Cap	$432.28 billion

Financials (TTM):

Revenue	$51.90 billion
Operating Profit Margin	47.1%
Net Profit Margin	37.6%

Valuation Metrics
(@1/30/19):

	FB	S&P 500
P/E (TTM)	22.7	19.9
Forward P/E (Est.)	20.4	15.7

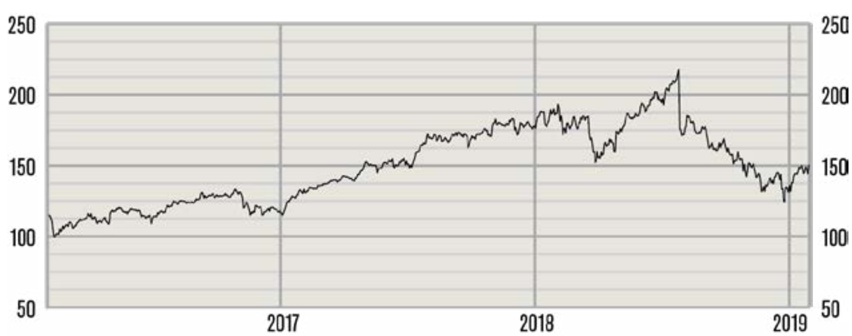
Largest Institutional Owners
(@9/30/18 or latest filing):

Company	% Owned
Vanguard Group	7.0%
Fidelity Mgmt & Research	5.0%
BlackRock	4.2%
State Street	3.5%
T. Rowe Price	3.1%

Short Interest (as of 1/15/19):

Shares Short/Float	1.1%

FB PRICE HISTORY



THE BOTTOM LINE

Recent controversy masks fundamental strengths in the company's franchises, its ability to benefit from robust digital-ad growth, and management's acumen in driving user engagement, says Morris Mark. Given the stock's reasonable valuation, he expects shareholders to fully benefit from earnings that after 2019 can grow at least 15-20% per year.

Sources: Company reports, other publicly available information

vertisers and marketers is broadening, not narrowing. You can see that in the price they pay per ad load on Facebook, which continues to go up. Looked at globally, there's just a strong case for digital advertising spend per person going up, and advertising's share of the total marketing budget going up. That would all clearly be a tailwind for Facebook.

What gives you optimism on the user-engagement front?

MM: It's not unimportant that in certain markets like the United States the core Facebook app is probably not being used as much as it once was. But much of that is a result of the dramatic growth in user engagement with Instagram, which is growing by leaps and bounds and which Facebook happens to own. We think that shows how good a businessman Mark Zuckerberg was and hopefully still is. We believe he and his team will continue to innovate in ways – through video, through enhanced functionality – that both expands and deepens overall user engagement worldwide.

To give just one example of the potential beyond the core advertising business, the company recently launched mobile-phone payment functionality using its WhatsApp messenger service in India. That payment feature already has over 250 million users, in a country where it's likely Visa and Mastercard are going to be increasingly bypassed as payment authenticators. Developing WhatsApp and Facebook Messenger – which together have over two billion users – as a mobile-payment mechanism could be an enormous opportunity.

At yesterday's closing price of just over $150, how inexpensive do you consider Facebook's shares?

MM: Margins are likely to contract as the company spends money to upgrade its systems and capabilities to better manage data and police content. But given the strength of the franchise, the value it provides to advertisers and marketers, and the operating leverage inherent in the business, we think earnings – after being more or less flat this year – can sustainably grow by 15-20% per year for some time.

Even using consensus estimates, the stock on 2020 earnings trades at 18x forward earnings. This is another idea where we don't believe the risk of valuation compression is high, and shareholders can do very well just from the company executing on its attractive growth prospects. Things like valuation expansion, or hitting it big with something like a mobile-payment service, provide nice optionality on the upside.

Sticking with big technology, describe why you're still keen on Amazon [AMZN] as an investment?

MM: What I like about Amazon is that it's a company that runs scared. As Jeff Bezos says, they're not looking at the price of the stock, they're constantly focused on improving the condition of the business. That's the mentality we want them to have.

The company confounds a lot of value investors because it has historically invested sort of ahead of its level of profitability.

We'd argue that that's changing and it's getting to the point where unless they find unexpected ways to waste a lot of money they're going to dramatically increase cash-flow generation.

What are the primary drivers of your bullish outlook?

MM: The shift to selling online still has a lot of room to run, and Amazon should disproportionately benefit from that. That drives growth in the traditional direct-merchandising business, of course, but growth is even faster in the company making its platform available to roughly two million independent sellers, who generally take the inventory risk and pay Amazon fees for services and royalties on sales. That's high-margin revenue and it's growing faster than Amazon's direct sales.

Advertising is another rapidly growing profit center. You may not know this, but nearly half of all new-product searches begin on Amazon, and major brands are beginning to understand the importance of communicating effectively to its huge customer base. In supermarkets, vendors promote their products by buying product placement in endcaps at each end of an aisle. Amazon has a tremendous opportunity to serve a similar role online, which again generates very high-margin revenue.

Amazon Web Services is the global industry leader in cloud computing, with 30% market share, revenues growing at a 40% rate and profit margins that are expanding even as it cuts prices. We also believe Amazon Prime is incredibly valuable and should become increasingly more so over time. To-date it's been a loss leader to drive sales on the merchandising platform, but we ultimately expect it to become a profit center in its own right, especially as they build out its Prime Video and Prime Music offerings.

I could go on. The company is expanding in other areas, from groceries to drug distribution. They won't get everything right, but so far they bring a lot to the table in the areas they're pursuing and I wouldn't be surprised if some of them pay off very big. We don't have to count on those types of things to like the stock, but they add to the appeal.

Now trading around $1,670 per share, it would be hard to characterize Amazon's shares as inexpensive. How do you think about valuation and upside here?

MM: With the drivers I mentioned – increasing importance of the third-party merchandising platform, continued high growth at Amazon Web Services, rapid growth in advertising revenue – we estimate that the company can generate on the order of $30 billion in free cash flow this year, or just over $60 per share. That's nearly double 2018's level.

I hesitate to try to be precise, but suffice it to say that we believe free cash flow can continue to grow at an extremely healthy rate for a number of years. If that happens, the 27x multiple on our 2019 free-cash-flow estimate doesn't look unreasonable. In fact, we'd argue that for an increasingly international company with the breadth of growth opportunities this one has, that's not expensive at all.

INVESTMENT SNAPSHOT

Amazon
(Nasdaq: AMZN)

Business: Broad-based online retailer of merchandise and digital content; Amazon Web Services cloud-computing division driving increased profitability in recent years.

Share Information (@1/30/19):

Price	**1,670.43**
52-Week Range	1,265.93 – 2,050.50
Dividend Yield	0.0%
Market Cap	$816.79 billion

Financials (TTM):

Revenue	$220.96 billion
Operating Profit Margin	4.9%
Net Profit Margin	4.0%

Valuation Metrics
(@1/30/19):

	AMZN	S&P 500
P/E (TTM)	93.6	19.9
Forward P/E (Est.)	61.8	15.7

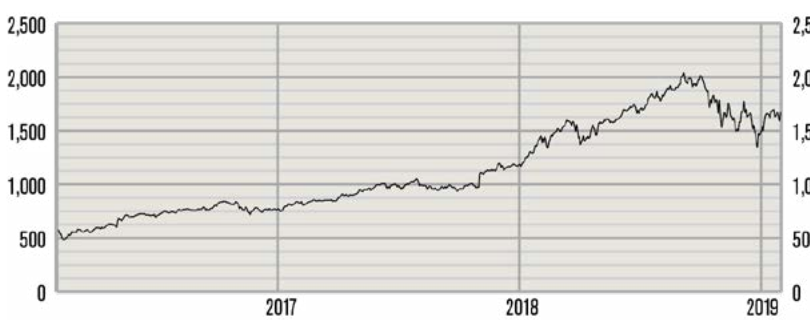
Largest Institutional Owners
(@9/30/18 or latest filing):

Company	% Owned
Vanguard Group	5.9%
Fidelity Mgmt & Research	3.5%
BlackRock	3.5%
State Street	3.2%
T. Rowe Price	3.2%

Short Interest (as of 1/30/19):

Shares Short/Float	1.3%

AMZN PRICE HISTORY



THE BOTTOM LINE

Morris Mark believes the company has reached a point where, even with its noted penchant for investment spending, its free-cash-flow generation is poised to dramatically increase. Given its broad and deep growth prospects, he considers the stock's current 27x multiple on his estimate of 2019 free cash flow per share to be "not expensive at all."

Sources: Company reports, other publicly available information

Turning to something different, what's your case for Bank of America [BAC]?

MM: What we like about Bank of America today is what we like about some of the other major banks as well. They are very well capitalized, the asset quality is good, they benefit in a variety of ways from scale, and in an economic environment that is even modestly more optimistic than the one we currently have, there's dramatic potential to increase earnings, returns on assets and returns on equity. Against all that, the shares are just really cheap.

If you're going to invest in any financial institution, you have to have some sense in your mind as to what it would be worth using varying interest-rate and economic assumptions. We do that as well, but I don't want to suggest this is a bet on the economy picking up. We think Bank of America's shares at today's price are attractive even if the economy just sort of muddles through. But the upside is very good if it does better than that, and/or if some of the regulations imposed after the financial crisis are lessened.

For example, the Federal Reserve has announced that it is actively considering lowering lending restrictions for most banks. U.S. banks' loan-to-total-deposit ratios today are only modestly above 70%. In the healthy economy of the 1980s, that ratio was well above 80%. In the 1990s, when economic growth was strong and inflation was moderate, it averaged between 85% and 90%. Today's levels are at historic 40-year lows – we think it's realistic to assume improvement there, especially if changes in the regulatory environment support it.

The shares, at around $29, have bounced back from their swoon at the end of last year. How are you looking at the potential from here?

MM: The stock today trades at 9.1x this year's expected earnings of around $3.20 per share, which I consider conservative. Simply put, we believe that with modest economic growth and generally stable interest rates the company can increase earnings at 5% per year. They pay a 2% dividend, which can grow. They can also direct a significant amount of excess capital to shrinking the market capitalization. Just if those things happen we think we're looking at a low- to mid-teens shareholder return.

If we get to an environment where people start to feel better about the future, loan demand should improve and the spread between long-term and short-term yields should widen. That's a very positive environment for banks, and gives us optionality with B of A's shares beyond what looks to already be a reasonably nice return.

One challenge of investing in higher-growth companies is dealing with the volatility as growth expectations waver. Talk about how you've handled that with chipmaker Nvidia [NVDA], whose shares are down 50% in the past four months.

MM: Balancing as we try to do the desire to benefit from the growth of a great business and at the same time control risk, we had gradually reduced our exposure to Nvidia through 2018 as the share price increased sharply and the position size

INVESTMENT SNAPSHOT

Bank of America
(NYSE: BAC)

Business: Provider of a full range of banking, asset-management and wealth-management services for corporations, governments, institutions and individuals around the world.

Share Information (@1/30/19):

Price	**29.07**
52-Week Range	22.66 – 33.05
Dividend Yield	2.0%
Market Cap	$281.09 billion

Financials (TTM):

Revenue	$87.96 billion
Operating Profit Margin	39.3%
Net Profit Margin	32.0%

Valuation Metrics
(@1/30/19):

	BAC	S&P 500
P/E (TTM)	11.1	19.9
Forward P/E (Est.)	9.0	15.7

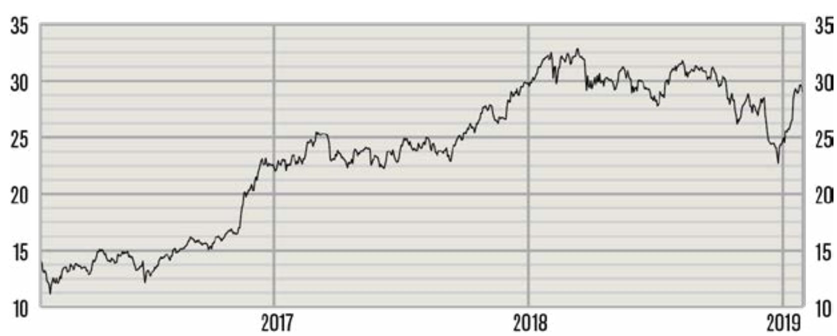
Largest Institutional Owners
(@9/30/18 or latest filing):

Company	% Owned
Berkshire Hathaway	8.9%
Vanguard Group	6.7%
State Street	4.2%
BlackRock	3.9%
Fidelity Mgmt & Research	3.2%

Short Interest (as of 1/15/19):

Shares Short/Float	1.3%

BAC PRICE HISTORY



THE BOTTOM LINE

At a time when lacking market enthusiasm for large banks translates into low valuations, Morris Mark believes an environment with modest overall economic growth and relatively stable interest rates can translate – through earnings growth, dividends and share buybacks – into a low- to mid-teens return on the company's stock over the next few years.

Sources: Company reports, other publicly available information grew. But we still had an important position when the company reported disappointing third-quarter earnings – during a bad period for the market – primarily as a result of an inventory glut in chips used for lower-end gaming and cryptocurrency mining.

We obviously had to ask how big an error we made in not predicting the earnings disappointment. In the end we concluded the company's proprietary technology and leading position in graphic processing units (GPUs) gives it a long-term edge in attractive areas like artificial intelligence, machine learning, gaming and entertainment. So in spite of earnings shortfalls, we've maintained the share position we had after the first earnings miss.

Describe a fairly recent sale that illustrates your selling discipline.

MM: When we invest we're generally expecting to hold for a long time, thinking we've found a business and management that can compound value. We don't want to interrupt that, but we're also always looking to upgrade the portfolio with better ideas. In the fourth quarter we sold our stake in McDonald's [MCD], for example, but not because we thought there was anything wrong with the business, the management, or the balance sheet. The price had gotten close to our sense of what the value of the business was and we didn't think anything they were doing was capable of moving the needle to a material degree to the upside. In this case we thought we could find better value with more tangible growth drivers elsewhere, like in Facebook.

This is maybe an odd question to end on, but do you still finding investing as satisfying as you once did?

MM: When you're doing well it's satisfying and when you're not, it's not as satisfying. But that's always been true. I can honestly say that a lot of what I do every day I'd being doing anyway if it wasn't my job. To be able to work at what you inherently enjoy doing, that's great. And it probably increases the probability of you doing it better. VII

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