Owner's **Manual**

Acting like our competitors is not only risky but frankly not that smart. We must pursue opportunities that our clients really like but are undervalued by our competitors.

The Echelon Difference

We felt compelled to write this owner's manual because there is no other medium available to inform the general public about how to invest their money wisely. We would like to share with you an investment philosophy that is designed to achieve long-term results while allowing you to sleep comfortably along the way.

In life, it is said that the mentors you choose often determine your success. We have chosen as our archetype one of the greatest investors in the world, Mr. Warren Buffett. We are extremely fortunate to be able to benefit from Mr. Buffett's intellectual generosity, just as he benefited from that of his mentors, Benjamin Graham, the father of security analysis, and Philip Fisher, the dean of the philosophy of owning great companies forever.

> ***"Our favourite holding period is forever."***
> **Warren Buffet**

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Investors with short term time horizons drive market movements. If you are a long term investor you should ignore them.

What should you do if the stock market goes down?

Nothing, ignore it. In most instances the stock market is irrelevant. Much like a spectator at a baseball game who keeps his eye on the playing field and occasionally glances at the score board, keep your eyes on the fundamentals of the businesses you own. The scoreboard is the stock market and from time to time it will go through periods of mis-pricing that result from the ever changing emotions of those "playing" the stock market's speculative game. Instead, ask "has anything changed that will impact the long term outlook of the business I own?"

It was Benjamin Graham who taught Warren Buffet, and the rest of us - "The stock market is a manic depressive fellow who comes to work every day, offering to buy something from you or sell something to you. The more depressed Mr. Market is, the wider his swings in his offering prices"

For example, during the 1990 Gulf War, Mr. Market became very depressed and scared, and offered to sell shares of Berkshire Hathaway at US$5,600. Today these shares are priced in excess of US$170,000.

Mr. Market should either be ignored or exploited depending on your financial situation. The fellow should never be your guide and advisor, but simply your servant.

Is it wise to try to time the market?

No one has the crystal ball that allows them to identify just when the stock markets of the world will move in one direction or the other. We believe that it is buying the right businesses, not buying at the right time that counts. Wealth is created universally through business ownership, not timing the market. One share of Coca-Cola issued in 1919 at US$40 is currently worth over US$5million. If you invest in a portfolio of extraordinary businesses whose earnings are materially higher 5, 10, and 20 years from now, so too will the portfolio's market value.

What about influences like the market, politics, economic forecasters and newspapers?

Ignore them. To quote from the 1994 Berkshire Hathaway Annual Report:

"We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen. Thirty years ago, no one could have foreseen the huge expansion of the Viet Nam War, wage and price controls, two oil shocks, the resignation of a President, the dissolution of the Soviet Union, a one day drop in the Dow of 508 points or Treasury Bill yields fluctuating between 2.8% and 17.4%

But surprise – none of these blockbuster events made even the slightest dent in Ben Graham's investment principles. Nor did they render unsound the negotiated purchases of fine businesses at sensible prices. Imagine the cost to us, then, if we had let fear of unknowns cause us to defer or alter the deployment of capital. Indeed we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist.

A different set of major shocks is sure to occur in the next 30 years. We will neither try to predict them nor profit from them. If we can identify businesses similar to those we have purchased in the past, external surprises will have little effect on our long-term results."

Investment Philosophy

Your investments should be viewed the same way that those individuals who own and operate a successful family business view their investment. After all, this is the way that most of the world's wealth has been accumulated.

Measure success in terms of the long-term progress of the businesses you own rather than by the day-to-day or month-to-month fluctuations in their market prices. The daily market price should not affect the real intrinsic value of your holdings.

A long term perspective means that short term price fluctuations are meaningless, except to the extent that periodic mis-pricing offer the opportunity to increase your ownership at more attractive prices. The great businesses you own should not require the stock exchange to be open for them to continue in business.

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