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John D. Fox — Director of Research & Co-Manager of the FAM Value Fund

“The first thing I would like to do is give an update from our December client gathering. I gave a speech called, ‘All I Know is What I Read in the Newspaper,’ and I tried to convey what we were seeing in the economy and market environment.”

John summarized the three points from that presentation: 1) The economy is getting better, 2) the financial markets are healing, and 3) corporate executives have switched from playing defense to playing offense. John said that all those trends continue today. In fact, they have improved. Looking at the economy, every month it gets better — just a little bit, but it’s moving in the right direction. Auto sales, industrial production, the leading economic indicators, and even employment are definitely getting better.

“After I gave that December talk, I was met with some skepticism from the crowd. I understand that people are skeptical and believe there are two key reasons for this — what is going on in small business and, of course, the employment situation. So I’d like to address these.”

First, John discussed small business. Small business lending is always a *lagging indicator*. Small business loans are the riskiest loans, so it makes sense that they come later in the economic cycle. To test that idea, we went back in time and looked at some of the old newspaper headlines in 1982 and 1991 when we were coming out of major recessions with the ‘80-‘82 period being most similar to now. In April of 1982, a *New York Times* headline read, “How the Banks are Squeezing Small Business — They Charge Higher Rates on Loans.” The little print underneath it said, “Old relationships fade, some banks even shun the small businessman.” Then in April of 1991, another headline from the *Wall Street Journal* stated, “Despite Declining Interest Rates, Small Business Credit Has Not Expanded,” and the article stressed the lack of small businesses credit. John emphasized, “It’s interesting that these points in time, 1982 and 1991, were turning points in the economy, but small business was still under stress. So we think we are probably just going through a normal cycle.”

Second, we have a very high unemployment rate. It was higher in the ‘80s, but it is still very high today. “It will probably stay high for a fairly long time, but we do think the hiring situation is improving and I’ll share some data that came out this morning,” John said. He commented that ADP, which processes payrolls, conducts a monthly private sector jobs survey. ADP has tremendous payroll data and they estimate that there were 32,000 jobs added in the month of April; it’s the third month in a row that private employers have added positions. It’s not a huge number, but compared to the 100,000 jobs per month we were losing, it may be the start of a positive trend. John also said Gray & Christmas, a firm that tracks big company job cut announcements, stated that the number of cuts announced in April was at a four-year low. If you take 2010 year-to-date numbers and annualize that and take the run rate, then this would be the lowest year for announced job cuts in 10 years!

We are definitely seeing some employment rate improvement. In fact, Monster.com reported their earnings this week and not only do job seekers post their resumes there, but it is where employers go to find people. Monster’s business did very well in the first quarter. The contracts with employers looking for people grew 15% and they expect similar growth in the second quarter. Monster’s CEO declared, “Strength appeared to be coming from both small and large businesses and the hiring growth is continuing worldwide.” These are

just some signs that we are turning the corner on the employment situation. John then segued from the December presentation recap to another topic.

“What’s new? Corporate profits in American are terrific! Right now is the time of year that companies are reporting their first quarter profits and we are very busy. Our team reads a few hundred earnings releases every quarter including the companies whose stock we own and their competitors. What we are seeing in these earnings releases is that profits are very, very good and they are better than what we or the people on Wall Street expected.” Household names like JP Morgan, Caterpillar, 3M, and Intel are doing very well. This is also true of Fenimore’s holdings, such as: Bed Bath & Beyond, CarMax, Graco, IDEX, M&T Bank, Ross Stores, and Zebra Technologies. Profits are very good, corporate America is healthy, and that is something that is new from five months ago.

John wrapped up talking about Fenimore’s business model and our relationship with our private clients and shareholders. “The reason I am making these comments is that there have been a number of national and regional investment management and brokerage firms in the news lately. The news has not been positive. After you read about these stories you might start to wonder about your own financial relationships and who you are doing business with.”

John then addressed this topic head on and emphasized how Fenimore is different from these firms. John highlighted three differences: 1) We only have one business which is investing money for our investors. We don’t earn commissions from trading securities or from selling anybody else’s products. We just invest money for our private clients and mutual fund shareholders. 2) You have complete transparency into what we are doing because your money is not in Cobleskill — not in Tom’s office; the money is kept at Charles Schwab, a third party custodian. Some clients may use other custodians, but the point is that there is somebody else who is tracking the trades, number of shares that are owned, and all those types of things. You can go there and compare what they say to what we are telling you — you’ll find that the information is the same. There is a third party verification of what we are doing. And 3) We are investing alongside you — everybody in our firm is a shareholder in the mutual fund either through their own holdings or through our company retirement plan, which is invested in our mutual funds and a handful of the same stocks that are in your client accounts. So we are fully aligned with the interests of our clients and are invested next to you. John finished saying, “I just wanted to make these few points because we know this is a timely topic and it may be on people’s minds. Thank you.”