
Quaker

C A P I T A L
M A N A G E M E N T

Client Memorandum
October 22 2008

Re: Investing in Common Stocks in October of 2008

This year will likely go down in the history books as The Panic of 2008. After the failure of Lehman Brothers, we have seen a run of distressed selling in many financial markets, including equity markets. This selling is mostly coming from mutual funds and hedge funds forced to meet redemptions or reduce leverage.

The market indices have declined over 35% during 2008 and we have not fared any better. This is a disappointment. While painful and the worst bear market on record since 1973-1974, we are heartened by the increasingly attractive valuations for great global franchises that are available today. In this financial market, we can position world class companies at double digit free cash flow yields while the risk free yield is less than 2%. Beachfront property, in the form of publicly traded common stocks, is selling for inland prices.

We have not been open to new accounts, other than family of existing accounts, for about fifteen years as we grew our capital internally at the rate of investment returns. We tried to avoid having more capital than great investment ideas. Today, we have many more quality investment ideas than deployable capital. As such, we are encouraging our clients to add to managed equity portfolios at this time. We may also decide to open to new accounts in the near future.

Valuation is much more predictable than timing. It may be months or years before the stock market moves meaningfully to the upside, or it may be days. We cannot know. That said, valuations in the stock market are extremely attractive, in our view. Yes, it requires a strong stomach to invest in the midst of panic and fear while we enter an economic recession of unknown duration. However, we believe the patient investor in common stocks will be well rewarded over the next decade for investments made at today's valuations.

Sincerely,

Mark Schoeppner