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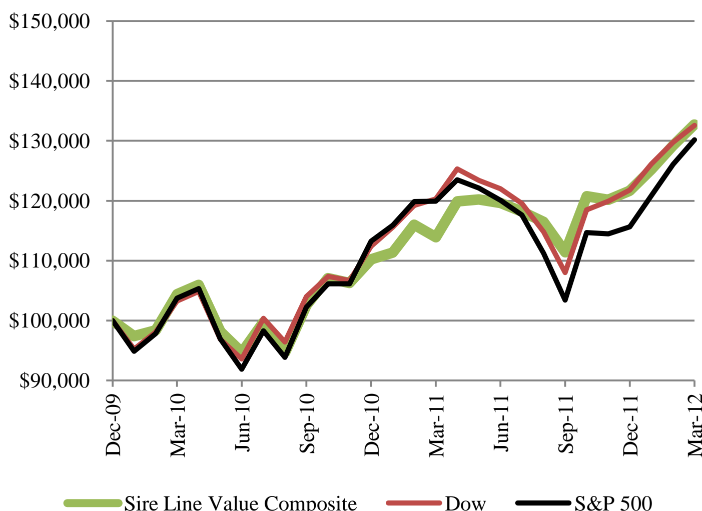
Performance Report from
Daren Taylor, Portfolio Manager

THE VALUE OF A $100,000 INVESTMENT IN THE SIRE LINE VALUE COMPOSITE FROM INCEPTION (1/4/2010) TO PRESENT (3/31/2012) AS COMPARED TO THE S&P 500 INDEX AND THE DOW JONES INDUSTRIAL AVERAGE (UNAUDITED)



NOTE: *Accounts included in this product composite are fully discretionary taxable and tax-exempt portfolios. They are managed under our value style, which invests primarily in high-quality businesses that 1) are simple to understand, 2) have a consistent operating history and favorable long-term prospects, 3) are managed by honest and able managers whose interests are aligned with ours and 4) can be purchased at a significant discount to intrinsic value. The performance of the Sire Line Value Composite is net of fees. All performance figures in the chart above begin as of the close on January 4, 2010.*

Performance Measurement

The objective for all of our portfolios is to outperform all relevant benchmarks over the long term. The chart above shows a comparison of a $100,000 investment in the S&P 500 Index (S&P 500), the Dow Jones Industrial Average (Dow) and the Sire Line Value Composite since inception.

The S&P 500 is an unmanaged, market capitalization weighted index that measures the equity performance of 500 leading companies in the U.S. today. Firms included in the S&P 500 account for approximately 75% of the value of all U.S. stocks. Therefore, it acts as a fairly good proxy for the total market. Clients could easily replicate the performance of the S&P 500 by investing in an index fund at little cost. For discussion purposes below, I will focus on this benchmark to address our relative performance.

First Quarter Performance

The Sire Line Value Composite (SLVC) experienced a gain of 9.1% in the first quarter, which was shy of the strong 12.6% gain for the S&P 500 Index (the Dow gained 8.8%). Decent economic news, an improved near-term outlook for the euro zone and relatively attractive equity values all helped to fuel a bold rally in the stock market. While I still believe equities represent great relative value at current levels, the sizable gains experienced in the stock market over the last couple of quarters are simply not sustainable.

Four of our holdings experienced declines during the quarter: Fairfax Financial Holdings (-6.6%), Western Union (-3.6%), H.J. Heinz (-0.9%) and Google (-0.7%). Our best performing stocks were JPMorgan Chase (+36%), Apple Inc. (+34%), Comcast (+27%), Microsoft (+24%) and eBay (+22%).

I added Apple Inc. to the portfolios this past quarter. Historically, I have been hesitant to invest in Apple given the company's constant need for product innovation and the competitive nature of the consumer electronics industry. However, over the past few years management has done an outstanding job of creating a unique ecosystem of content and services for the company's extremely loyal and growing customer base. This has helped fortify a strong business franchise. This gives us a better understanding and greater confidence in the underlying earnings power of the company. As for valuation, I believe we were able to purchase the stock for less than the company's current earnings power value (read: we paid very little for the future growth in earnings). Based on the company's free cash flow yield (free cash flow as a % of the company's market value) at the time of our purchase, our investment in Apple will likely result in a mid-teens average annual return on investment (more on this topic in a moment).

I did add one other new company to our portfolios this past quarter. However, given that I am still building our position in the name, I will save my comments for the next report. There were no portfolio eliminations during the quarter.

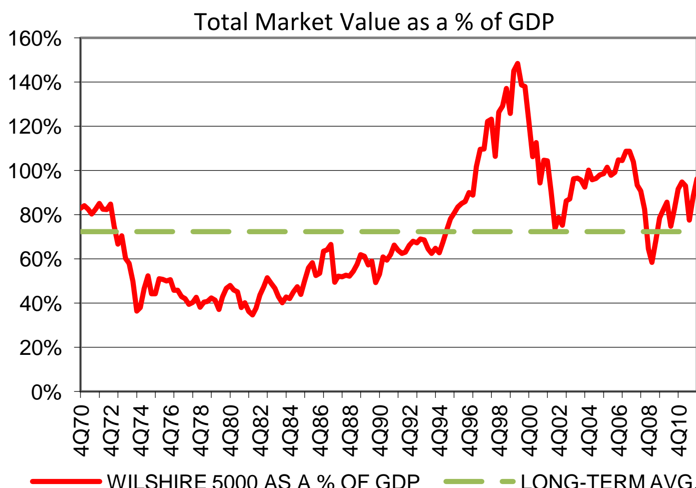
The following table summarizes the historical performance of the S&P 500, the Dow and the Sire Line Value Composite (SLVC):

	TOTAL RETURN (1)		
Annual	S&P 500 (2)	Dow (3)	**SLVC (4)**
2010	13.2%	12.4%	**10.3%**
2011	2.1%	8.4%	**10.3%**
2012 YTD	12.6%	8.8%	**9.1%**
Cumulative:			
2010	13.2%	12.4%	**10.3%**
2010-2011	15.6%	21.8%	**21.7%**
2010-2012 YTD	30.2%	32.6%	**32.7%**
Annual Compounded Rate:	12.4%	13.3%	**13.4%**

(Footnotes to table above)
(1) *All performance figures begin as of the close on January 4, 2010.*
(2) *Based on changes in the value of the S&P 500 plus dividends (reinvested) that would have been received through ownership of the Index during the period.*
(3) *Based on changes in the value of the Dow Jones Industrial Average plus dividends (reinvested) that would have been received through ownership of the Index during the period.*
(4) *Based on changes in the value of the Sire Line Value Composite including dividends and after all fees and expenses.*

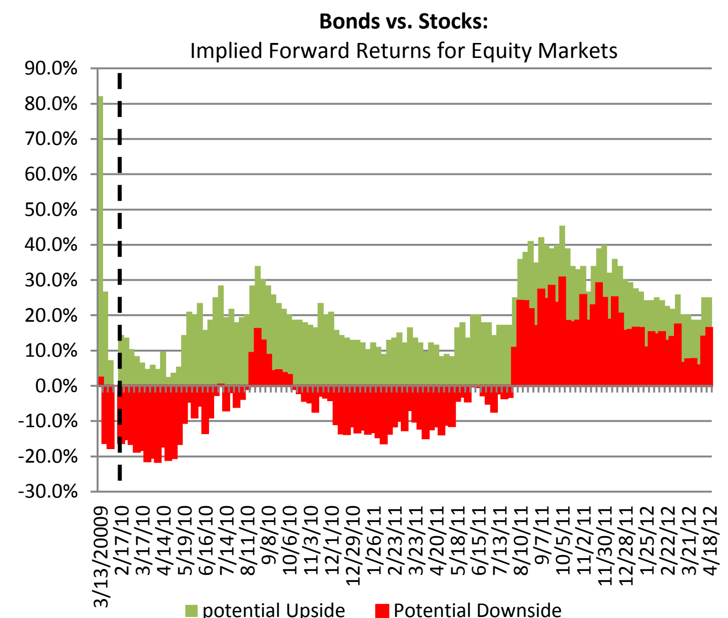
U.S. Equity Markets: Cheap or Expensive?

While we are stock pickers first and foremost, we recognize that it is also important to keep an eye on the overall value of equity markets. One relationship that we track closely is the value of all publically traded securities in the U.S. (as measured by the Wilshire 5000 Index) vs. U.S. GDP (Gross Domestic Product). Think of this relationship as the price-to-sales ratio for the overall equity market. Over the last quarter this measurement has increased from 86% at the end of 2011 to 96% at the end of 1Q12. The long-term average is below 80%, suggesting that the current equity market is slightly overvalued. You can see this better in the following chart:



Another measurement that we believe is a good indicator of whether U.S. equity markets are cheap or expensive is the relationship between the yield on U.S. investment grade corporate bonds (as measured by the Moody's Seasoned Baa Corporate Bond Yield) and the earnings yield for the equity market (as measured by the earnings yield on the Value Line Composite). The reason that this relationship is important is because bonds and stocks are always in competition for investor dollars. Investors will always gravitate toward the asset class that offers a higher risk-adjusted return.

Based on the historical relationship between these two yields, the current relationship implies that the risks in the equity market continue to favor the upside (potential upside of 25%). You can see this better in the next chart. (Simplistically, positive green/red means stocks are relatively more attractive than bonds, while negative red/green means stocks are less attractive than bonds.)



Equity markets in general appear to be undervalued when measured against bonds and slightly overvalued when measured against GDP. That said, our investment portfolios are full of high-quality, undervalued businesses, which we are more than comfortable owning at this time.

The Expected Rate of Return for our Portfolios

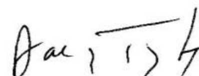
In my comments about Apple Inc. earlier in this report I mentioned that our expected forward rate of return on our investment will likely be in the mid-teens. This is the average annual return that I expect to receive on our investment in Apple over the long term. To get to this figure I simply calculate the company's normalized annual free cash flow, then divide this amount by the market value of

company. The result is Apple's free cash flow yield. (Think of this as the expected "no-growth" annual return on investment if one owned the entire company and could pocket all of the excess cash that was not required to be reinvested back into the business.) I then add 2% for expected long-term inflation and another 1%-2% for volume growth to get an expected average forward rate of return, assuming no change in valuation multiples. Calculating this expected forward rate of return for a security makes it easier to compare risk-adjusted returns across different types of investment opportunities.

As I write this report, the weighted average expected forward rate of return for each of our portfolios is over 14%. This compares favorably to our calculation of the expected forward rate of return for the S&P 500 Index of roughly 8%, as well as the current 2% yield for a 10-year Treasury bond.

As always, thank you for your continued loyalty and support.

With appreciation,



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