

TIM MEDLEY

President, Client Advisor; Founded Medley & Brown 1988; Among Worth magazine's 250 Best Financial Advisors in America 1998 - 2002 and Medical Economics magazine's 150 Best Financial Advisors for Doctors; First Certified Financial Planner in MS 1977; BS Business University of Southern Mississippi.

KEVIN ANTHONY

Client Advisor; Joined Medley & Brown January 2001; Former Vice President of Finance and Chief Financial Officer Atlanta Falcons; MBA Finance and Management Emory Business School; Woodruff Scholar Emory University; BA Economics and Psychology University of North Carolina at Chapel Hill; Phi Beta Kappa.

CECIL BROWN

Vice President, Client Advisor; Joined Medley & Brown 1995; Previously with Investek Capital Management; Chief Fiscal Officer State of Mississippi 1988 - 1992; Founder Tann, Brown & Russ, CPAs; Member AICPA and MSCPA; Personal Financial Specialist (PFS); MPA The University of Texas; BA University of Mississippi.

JULIUS RIDGWAY, CFA

Portfolio Manager; Joined Medley & Brown July 2002; Investment advisor/portfolio manager since 1999; Trustmark National Bank 1989 - 1997; Member CFA Society of Mississippi; M.Sc. Accounting and Finance London School of Economics; MBA Millsaps College; BA University of Mississippi.

MEDLEY & BROWN, LLC
FINANCIAL ADVISORS

795 Woodlands Parkway, Suite 104
Ridgeland, MS 39157

P.O. Box 16725
Jackson, MS 39236-6725

PRSR STD
US POSTAGE
PAID
JACKSON, MS
PERMIT #369



Call us or visit our website today for more information:

601.982.4123 • 1.800.844.4123 • www.medleybrown.com • mb@medleybrown.com

Fall 2005 Investment News

A Sequoia in Manhattan?

Tim, Kevin and Julius traveled to New York City in May, and no, they didn't see any of California's huge redwoods in Manhattan. What they did see, however, were some very seasoned mutual fund managers whose success has reached such tremendous heights that they are more than deserving of their fund's name: **Sequoia Fund**.

The Sequoia Fund was established in 1970 to serve investors in Warren Buffett's limited partnership that was liquidated in 1969. When Mr. Buffett discontinued his investment partnership, he recommended **Bill Ruane** - his friend, former classmate, and former stockbroker - as a new money manager for his limited partners. If you were to ask those investors, they would surely say that it has turned out to be one of the best recommendations they have ever received.

The Sequoia Fund has had a marvelous 35-year run. According to its December 31, 2004 annual report, a \$10,000 investment made on July 15, 1970 would have appreciated to \$1,734,116 (pre-tax with dividends and

capital gains reinvested). The fund has grown its assets to \$3.8 billion even though it closed to new investors way back in 1982. Sequoia's website states, "The decision to discontinue sales to new investors reflects management's belief that unrestrained growth in the Fund's net assets might impair investment flexibility and would not be in the best interests of existing shareholders." That kind of thinking screams that they are in the investment business, not the money gathering business. We love that type of culture.

We always look forward to attending the annual meeting of the Sequoia Fund. The commentary is thoughtful, and there is an opportunity to learn and reinforce sound investing principles. Also, the meeting is attended by an astute crowd, so the gathering before and after the meeting presents a great opportunity to rub elbows, share ideas and ask questions of some very bright and attentive investors. We always seem to leave the meeting with renewed vigor and confidence. This year's meeting was no exception.

**All client portfolios invested primarily in mutual funds with a combined allocation of less than 18% in cash and bonds are included in the Growth Composite. All client portfolios invested primarily in mutual funds with a combined allocation of 18% or more in cash and bonds are included in the Balanced Composite. Performance is net of management fees and reflects the average time-weighted return for all portfolios included in our Growth or Balanced Composite. Performance data includes reinvestment of dividends and capital gains distributions and changes in principal value. The larger a portfolio is in relation to others in the composite, the more weight its performance will have in the composite's time-weighted return. For several reasons including, but not limited to, asset allocation and investment choices, the performance of individual portfolios in the composite may vary significantly with some higher and some lower than the average. An analysis of variance is available upon request. Past performance may not be indicative of future results. Investment returns and values of client accounts fluctuate such that at any time an account's value may be worth more or less than the total payments into the account. Because accounts contain both US and international securities, results will depend on both management performance and underlying market and economic conditions throughout the world.*

MEDLEY & BROWN, LLC Composite Performance*		
Average Annual Time-Weighted Returns (%) Period Ending August 31, 2005		
	Balanced Accounts	Growth Accounts
5 Years	5.64 %	5.13 %
10 Years	8.83 %	9.45 %

As is customary, President and Co-Fund Manager **Bob Goldfarb** had some prepared remarks which were followed by a Q & A session. A transcript of the meeting can be viewed at www.sequoiafund.com/reports/transcript.htm. Here are a few highlights:

Bob Goldfarb on Improving Corporate Governance:

"I have two suggestions for making boards more effective. First, they should vote to end [company] earnings guidance. Business is inherently unpredictable. Supplying narrow earnings guidance [to analysts], sometimes down to the penny per share, suggests a degree of control over the world that very few enterprises truly have for any extended period of time. Red-faced CEOs are reminded of the reality every quarter, of course, but the real danger is not executive embarrassment. It is that having made a specific – and unrealistic – commitment to shareholders and Wall Street, managers will inch closer to the slippery slope of earnings management. And earnings management leads executives to focus on near-term results often at the expense of maximizing the long-term economic value of the enterprise. This brings me to my second suggestion for improving business practices. Directors should forbid earnings management and make it an impeachable offense. Further, the board should insist that the chief executive communicate this policy of straight-forward accounting and sole focus on building the maximum long-term value of the business to all of the company's constituencies. The notion that a company can steam ahead through all kinds of economic weather steadily ratcheting up its income X% every three months flies in the face of experience and makes no common sense. More importantly, not only does earnings management lock a company's focus on the near-term, it significantly increases the risk that managers will engage in false, misleading, and even fraudulent accounting and reporting."

Bill Ruane on Mr. Buffett's Handling of Berkshire

Hathaway's Enormous Cash Position: "You know, I don't think you have to make an investment. That's one of the problems we have today in the investment field. People think they have to be doing something when the prudent thing might be to not do anything. And there are times when things are ridiculously high, and there are times when things are ridiculously low. And there are times when you have distortions in particular industries. At this particular time, I find in most areas where you can invest a lot of money, the prices are simply unlikely to reward you in a significant way, whether its real estate or the bond market or stocks. And Warren has stated that over the next 15 years, and I think it will turn out to be less than that, he'll probably have an opportunity to put that money to work at some

fairly nice returns. But you just never know when the opportunities will develop. I think about my ownership and your ownership of Berkshire Hathaway as having a reserve available, managed by the greatest investor of all time, of having \$40 billion ready to go when there are some real bargains around." (We should note that as of December 31, 2004, Sequoia had a \$1.3 billion investment in Berkshire Hathaway, making it the fund's largest position at 35% of assets.)

Bill Ruane on Investment Mistakes: "At this meeting a couple of years ago, we calculated the ratio of the number of stocks on which we realized gains to the number of stocks on which we realized losses, and the ratio was something like 80:1. One of the things we try very hard to do is to buy a stock only when the company is right, the price is right, and we have real conviction about it. And the nice thing about not doing a lot of things, but having a real conviction when you do, is that when it goes down, you can add to it and ultimately make money. We've certainly made mistakes, but using the standards we've had over the years, we've been fortunate to avoid any major ones."

*"I think about my ownership
and your ownership of
Berkshire Hathaway as having
a reserve available, managed by
[Warren Buffett] the greatest
investor of all time, of having
\$40 billion ready to go when
there are some real bargains around."*

Bill Ruane, Sequoia Fund

After the Sequoia meeting, we dined with **Andy Kilpatrick**, author of the gargantuan 1722-page biography, *Of Permanent Value: The Story of Warren Buffett*. In assessing Kilpatrick's work, Mr. Buffett has quipped, "I'm waiting for more complete coverage."

These Guys are Old School

The day before the Sequoia meeting, we met with **Will Browne** of the Tweedy, Browne Company, investment manager of \$12 billion and advisor to the Tweedy, Browne Global Value and American Value funds. **Morningstar**, the well-known fund research shop, has characterized Will Browne and the others at

Tweedy as "old-school value investors who follow the disciplines of Ben Graham and Warren Buffett." In our meeting, Mr. Browne recounted his firm's history back to the days when it had a business relationship with Graham in the 1930s.

Much of our discussion at Tweedy centered on the research process the firm's 11 professionals follow to practice their disciplined and conservative investment philosophy. Browne talked of the collective judgment of this very experienced group and emphasized that decisions are not made by nor is the organization defined by any one person.

We also talked about investing in emerging markets, a hot area of late. Browne revealed that there are three requirements for Tweedy to invest in an emerging market: (1) a fairly developed structure of contract law ("It's tough to get that in Russia."); (2) a level playing field for domestic and foreign investors ("We avoid two-tiered share structures."); and (3) a developed capital market ("We want to be able to hedge the currency."). As a result of this approach, Browne explained, "We're in 80% of the world's capitalization. We haven't invested in China because there are no rules."

The folks at Tweedy are known for their shareholder friendliness (for example, they recently closed both funds) and they have a lot of their own money invested in the funds. These are just a couple of the reasons why we agree with Morningstar's assessment that they are "one of the good guys."

Cheap. No, Safe and Cheap!

We followed our meeting at Tweedy with a session at Third Avenue Management where we met with the colorful **Marty Whitman**, who at age 80 has been called "one of the keener minds in the investment world" by Morningstar. Mr. Whitman has a reputation for being one of the foremost experts on bankruptcies and distressed securities around. He's also known for his informative shareholder reports and his sharp tongue. We had the opportunity to enjoy a couple of his real zingers that unfortunately cannot be shared here.

We spent time discussing the kinds of companies that Whitman likes to invest in. When we stated that we understood his preference for cheap stocks, he quickly corrected us, "No, safe and cheap! 'Cheap' alone is not a qualifying condition." To the people at Third Avenue, "safe" means understandable businesses with strong balance sheets and competent managements. At Medley & Brown, we like portfolio managers who sing that tune.

Other Recent Travels

While in New York, Tim, Kevin and Julius also met with reporter **Karen Damato** of *The Wall Street Journal* and toured the paper's lower Manhattan offices.

Kevin attended the Annual Presentation of the Longleaf Partners Funds in Memphis.

Tim had a follow-up meeting in June in San Francisco with Dodge & Cox President and Chief Investment Officer **John Gunn**.

In the News

Medley & Brown was included in the "Top 20" in Nelson Information's **World's Best Money Managers** for its first quarter performance this year. Nelson ranked Medley & Brown's \$116.4 million Balanced Portfolios composite 14th in the category of International Balanced/Multi-Asset.

In the July 11, 2005 edition of *Barron's*, reporter Lawrence C. Strauss penned an article entitled, "Vanguard's Challenge." Strauss interviewed Tim on why a growing number of financial advisors are using Vanguard's mutual funds, and he pointed to the allure of Vanguard's low cost structure.

For the third year in a row, **Bloomberg**, one of the world's largest financial news, broadcast and publishing companies, named Medley & Brown as one of their "Top Wealth Managers." Their list of the nation's leading independent financial advisory firms appears in the July/August edition of *Bloomberg Wealth Manager* magazine.



A New Arrival

We are pleased to announce the birth of Julius and Susan Ridgway's son, **Colin McRae**, on July 7, 2005.