



Superinvestor Wealth Compounders



Fannie Mae

FAIRFAX
FINANCIAL HOLDINGS LIMITED



Dear Investors,

We are in the midst of the largest data explosion in history, and it will continue unabated. After surviving and prospering through all the cyclical ups and downs of the memory market over the last 40-years, **Micron** has never been in a stronger position than they are today.

The best part is the markets are oblivious to this: Micron Technology is selling at 5x cyclical low-end earnings per share. Micron is buying over \$1.5 billion of its own shares back per-quarter – value is accruing, the future is brighter than ever, and we should be wholly rewarded as long-term shareholders.

Micron is a stellar example to those that think investing is a short-term game. Micron is the cheapest and best ROIC (Return on Invested Capital) company out of the 500 companies in the S-&-P. Yet, there is no certainty over the very short-term that profits for shareholders are a given. But the longer shareholders own a company like Micron, the far more likely outsized returns will come.

At Micron's low-end earnings, they could buy back the entire company within 5 years at today's price (without earnings headed higher from these lows!). Ultimately, FMT believes the stock will reflect this by richly rewarding shareholders long before a few years are out. But even if the market doesn't reward soon, Micron itself would ultimately reward shareholders as the share count dwindled to zero.

At that point, shareholders could receive an annual 400% dividend on our original cost basis. We're happy to own Micron anywhere near today's price for a decent period.

Element Solutions (formerly Platform Specialty) started trading under their new name on February 1, 2019. The real journey is just beginning. With the sale of Arysta LifeSciences, Element has fortified their balance sheet, increased their free cash flow, and they have an ultra-focused runway ahead.

With the proceeds from the sale of Arysta, Element will have the capacity to buy back 25% of all their outstanding shares while having a robust balance sheet profile.

The best is yet to come, and with most of Martin Franklin's net-worth heavily tied to Element's stock price, our ownership interests are wholly aligned with a top-class management team. Good things are very likely to come here.

Warren Buffett pointed out that if a company is selling at its book value and its return on equity was 15%, investors would net a 15% annualized return and were this to occur on a long-term compounded basis, shareholders would get very rich.

We own **Fairfax Financial** very close to book value at our cost basis, yet book value over its 34-year existence has averaged 1.2x. Thus, we could make 20% plus dividends with a return to its long-term average book value, along with book value having increased 18.1% over the last three decades on average (albeit very lumpy). Should this occur, we'll get better than the scenario Buffett once laid out.

Like Micron and Element, Fairfax has been in operation for decades and is no speculative start-up, yet the future is as bright as it's ever been.

FMT Investment Advisory has always believed that the next crises could evolve because the Federal Reserve will be trapped – if they raise rates too much, they will crush our overindebted economy (especially the government), but if they can't raise them without crushing the debt burdens, how do they contain inflation?

Our crises thesis remains intact: after major market malaise to end 2018 because of the Fed's tightening, the Fed is starting to realize they need to back off monetary tightening in early 2019 and err on the side of inflation. They have backed off and markets have subsequently rallied after making the Fed cry uncle for now.

Inflation is what could ultimately really kill the bull market. We'll diligently continue to monitor the situation.

Before I end, I'll leave you with my favorite investment quote, which is by Benjamin Graham: "in the short-term the market is a voting machine and in the long-term it is a weighing machine."

I spend nearly all my time weighing the best risk-adjusted returns available in the marketplace for the long-term. Every other short-sighted strategy has proven to be disastrous for other investors. That is not for us.

I have the vast majority of my net-worth on the line with the assets you own with me. There is no other place I'd rather be and no other investors I'd want to continue to be in it with for the long-term.

Until next time, sincerely,

Nicholas Green

Disclaimer: FMT Advisory doesn't disclose our holdings or what we are doing with our holdings to the public in a timely way. Our desire is to benefit and prioritize our member-clients, so they are the primary beneficiaries of our value driven research. We may buy or sell our holdings at any time without notice to the public. Our holdings overview is for informational purposes only. Past performance is no guarantee of future performance. You could lose all your money.