Tweedy, Browne Company LLC
Investment Advisers
Established in 1920

Managing Directors
Christopher H. Browne
William H. Browne
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10 WAYS TO BEAT AN INDEX

How Tweedy, Browne Strives to Provide Value Above the Index Return

The Golden Rule for Clients:
Look at the Long-Run Odds and Stick With It

Is Underperforming an Index
30% to 40% of the Time
A Normal Part of Long-Term Investment Success?
What We Learned from an Examination of the Year-by-Year Results for Nine Value-Oriented Investment Managers with Index Beating Long-Term Records.

How We Plan to Invest Our Own Money and ClientsÕ Money

Our Advice to You

The performance data provided herein relates exclusively to Tweedy, Browne's private account management, and should not be relied upon by investors in the Tweedy, Browne Global Value of Tweedy, Browne American Value Fund in making investment decisions. These private advisory accounts have the same investment objectives as both Tweedy, Browne Global Value Fund and Tweedy, Browne American Value Fund and were managed using investment strategies and techniques substantially similar, but not necessarily identical, to those implemented by the Fund. However, the Funds are subject to investment limitations, diversification requirements and other restrictions imposed by the Investment Company Act or the Internal Revenue Code, which are not legally required for the private advisory accounts.

Dear Investor:

Several studies over statistically significant lengths of time, such as twenty years or more, have indicated that most equity investment managers have failed to beat the Standard & Poor's 500 Index. For example, Princeton University Professor Burton Malkiel found that the S&P 500 beat 70% of all equity managers retained by pension plans over the 1975–1994 20-year period. Another study by Robert Kirby, former Chairman of Capital Guardian, indicated that out of 115 U.S. equity mutual funds that were in business for 30 years or more, only 41 (36%) beat the S&P 500 by some margin, and only 23 of the funds (20%) beat the index by 1% per year or more. Seventy-four of the funds (64%) failed to produce a record equal to the S&P 500's 10.25% return since 1961. Using information from CDA/Cadence, Tweedy, Browne found that over the December 31, 1981–December 31, 1994 13-year period, the S&P 500 beat 81% of the surviving equity mutual funds. Before throwing in the towel and indexing your whole portfolio, it is important to note that portfolio managers who have been able to add extra return above the S&P 500 Index return over long periods of time have often been able to generate significantly more money for their clients than the S&P 500. For example, in Robert Kirby's 30-year study, an extra return of 1% per year above the S&P 500's 30-year return would have produced 33% more money than the S&P 500 at the end of the period. Seemingly small annual return differences, compounded over long periods of time, will result in significant differences in the amount of money at the end of the period. There can be a very large payoff from selecting a manager and a strategy that provide value above the index return over the long run.

Thankfully, Tweedy, Browne has been able to add extra return above the S&P 500 Index for its clients over the last 22 years, and with some consistency. Tweedy, Browne's equity-only returns, after all advisory fees and transaction costs, have beaten the S&P 500 in 70% of the rolling 10-year periods, 67% of the rolling 5-year periods, 75% of the rolling 3-year periods and 73% of the 1-year periods between January 1975 and December 31, 1996. This data suggests that the odds of beating the S&P 500 are about 2 to 1 to 3 to 1 in favor of Tweedy, Browne's stocks. Tweedy, Browne's equity-only returns beat the S&P 500 in 100% of the rolling 13-year periods. Over the 22-year 1975–1996 period, the cumulative advantage provided by Tweedy, Browne's stock selection process, as measured by equity-only returns, has been 5.5% per year in excess of the S&P 500 (21.4% equity-only return versus 15.9% for the S&P 500). This cumulative return advantage provided 180% more money than the S&P 500 over the 22-year period.

Each $1 million invested in Tweedy, Browne's stocks increased to $70.6 million over the 22-year period. By comparison, each $1 million invested in the S&P 500 increased to $25.9 million over the same period. This booklet illustrates our list of the ten ways that we hope to add value above the index return in the future.

This booklet also attempts to provide perspective concerning this year-by-year variability of investment returns, especially in relation to an unmanaged index, such as the S&P 500. In two sections, *The Golden Rule For Clients: Look at the Long-Run Odds and Stick With It,* and *Is Underperforming an Index 30% to 40% of the Time a Normal Part of Long-Term Investment Success?*, we include information concerning the historical pattern of equity investment returns in relation to index returns for Tweedy, Browne's private account clients and for a sample group of nine value-oriented investment managers whose investment results exceeded either the S&P 500 or the Dow Jones Industrial Average over periods ranging from 13 years to 31 years.

We believe that it is useful for investors to be aware of the general pattern sequence and composition of investment returns for the many smaller periods of time that comprise long-term investment track records. You can think of investing as a long-term journey, with many starts, stops, changes of scenery, and occasional bumps. We believe that you are much more likely to enjoy the journey, or at least endure it, and reach your destination safely, if you know what to expect along the way. Your own psychology and ability to handle the emotional ups and downs of investing are likely to be important determinants of your long run investment success. If this booklet serves to keep you on your journey, expecially when there are some bumps, then we, at Tweedy, Browne, will have served you well.

Sincerely,

Christopher H. Browne
William H. Browne
John D. Spears

Managing Directors
TWEEDY, BROWNE COMPANY LLC

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1. **Invest in Stocks With the Kinds of Extreme Investment Characteristics That Have Produced Market-Beating Returns in the Past** Stocks ranked on price/earnings ratios or price/book value ratios that have been cheaper than 80%–90% of all stocks have, on average, outperformed most stocks and indexes such as the S&P 500 and Wilshire 5000 over long measurement periods in the past. (See our booklet, “What Has Worked In Investing,” which describes more than 40 studies of investment characteristics that have provided above-market returns in the past, both in the U.S. stock market and in stock markets throughout the world: The average annual return for the 39 “extreme characteristic” studies in “What Has Worked In Investing” where annual return information was provided: 25.0%. The mean and median average annual returns in excess of the market index return for the 29 “extreme characteristics” studies in “What Has Worked In Investing” (where this information was included in the study or could be calculated) were 14.6% and 10.0%, respectively.)

   Our stocks are generally within the extreme bottom 10%–20% “value layer” which has produced market-beating returns in the past. In addition, our stocks have extreme characteristics with respect to insider buying and company share repurchases, two characteristics that have also been associated with above-market returns in the past. Recent proprietary empirical research that has been incorporated in our investment process has indicated that stocks possessing certain combinations of investment characteristics (all value-related) have performed even better than the average low P/E and low price/book value stock. Investing in stocks with empirically robust investment characteristics tilts the odds of beating the market in your favor.

2. **Coverage of All Market Capitalizations Including Small Cap Companies** We do not segment the universe of stocks by market capitalization, and eliminate stocks from investment consideration because a company’s market capitalization is “too big” or “too small”. The empirical data indicates that it is tough to beat indexes, and every basis point counts. We have had attractive returns from large and small cap stocks. Out of 10,000 publicly traded U.S. companies, 9,000 have market caps below $1 billion. Consequently, most stocks are small cap. Why limit the universe of prospective investment opportunities?

   Significant undervaluation often occurs among smaller market capitalization issues which are neglected by Wall Street investment analysts, because the commission income that an analyst recommendation could generate would be too small to cover the analyst’s cost. Academic research has indicated a long term statistical association between smaller market capitalization and exceptional investment returns. Small cap bargains are another way that we try to gain a long run investment return edge.

   Tweedy, Browne’s relatively small quantity of assets under management provides a significant advantage over managers of larger pools of capital in terms of the ability to invest meaningful portions of client assets in small cap opportunities. Table 1 illustrates this point:

Table 1:

Is Bigger Better for a Money Manager?

The larger the assets under management, the tougher it is to put much money into most stocks (as a percentage of the portfolio), thereby reducing the effective universe of opportunities

The Universe of Companies in the U.S. Shrinks as the Market Capitalization Increases

Market Capitalization	Number of Companies this Market Cap or Above	Portfolio Percentage: What 5% of each Company represents as a % of a $20 Billion Portfolio	Number of Equal Weighted Issues Needed to Invest a $20 Billion Portfolio at this Portfolio Percentage	Company Percentage: What 1% of a $20 Billion Portfolio ($200M) Represents as a % of each Company
$ 5 billion and above	308	1.25%	80 stocks	4%
$ 4 billion and above	381	1.00	100	5
$ 3 billion and above	653	0.50	200	10
$ 1.5 billion and above	800	0.375	267	13
$ 1.0 billion and above	1081	0.250	400	20
$500 million and above	1701	0.125	800	40
$100 million and above	4941	0.0125	8,000	400
$ 10 million and above	6562	0.0025	40,000	2000

As the above table illustrates, if you manage $20 billion and you wish to have 100 stocks in your portfolio, with the same amount of money invested in each stock, then you would have to invest $200 million in each of the 100 stocks in order to invest the entire $20 billion in stocks.

As the table shows, out of 10,000 publicly traded companies in the U.S., there are only 1,081 companies with a market capitalization ranging from $1 billion to the very largest market capitalization, General Electric, at $154 billion. To invest $200 million in a company with a market capitalization of $1 billion, you would have to buy 20% of the company. Most money managers are not willing to own 20% of a company because it is typically next to impossible to buy that large a percentage of a company without pushing up the price, and it can also be very difficult to sell one-fifth of a company. In addition, there are burdensome legal aspects to owning this large a percentage of a company such as SEC filing requirements and possible anti-takeover “poison pills” that could be triggered. Suffice it to say that money managers almost never buy 20% of a company. A more normal upper limit is 5%–10% of a company. You can see how a need to invest $200 million in a stock effectively eliminates companies with $1 billion market capitalizations. If you do not want to own more than 5% of a company, then you have to look at bigger market capitalizations. The shopping aisle for investing $200 million in each stock and owning no more than 5% of the particular company is comprised of only 381 companies with market capitalizations ranging from $4 billion all the way up to the largest market capitalization company, General Electric, at $154 billion. Assuming that you invested the same amount in each stock, the 100 stocks in your portfolio would represent 26% of the 381 stocks in the $4 billion-and-above-market-capitalization shopping aisle. Investment managers with smaller amounts of money under management have, in effect, more companies in their shopping aisles to choose from than investment managers who manage larger amounts. Consequently, smaller amounts of money under management allow managers to be more selective among a wider range of choices.

3. **Statistics and Specifics** In addition to employing statistical thinking about investment characteristics that are likely to provide above-market returns on a diversified group basis, which we sometimes refer to as "underwriting", we do one-at-a-time research on specific companies (See Appendix I *Ò17 Standard Earnings Outlook/ Value Question Checklist: ÒPUCCI: Pricing, Units, Costs, Competition and InsidersÓ*). One-at-a-time specific company research, especially interviews with management, often generates fresh value-related and forward looking information and insights that are not available in "Street Research". In researching insider's investment behavior, "know-who" is important: At Tweedy, Browne, we know lots of people in business. Many of our clients own/manage businesses. It is often useful to know about the experience, background and business savvy of specific insiders who are buying stock. We also frequently call insiders directly, and ask why they are buying.

   Over the last 22 years, Tweedy, Browne's managing directors have bought and sold five private companies with total sales of over $100,000,000.00, and have served as directors of ten companies. We have extensive hands-on business valuation and appraisal experience.

4. **No Index Mimicking** We do not attempt to eliminate "tracking error", the extent to which portfolio returns vary from an index, by having portfolios mimic the stock and (or) industry weightings of, say, the S&P 500 or the Wilshire 5000. Empirical data indicates that adding value above index returns is not a cinch. While our rolling 10-year and 5-year equity-only returns have been consistently better than the S&P 500, we are not seeking short-period consistency versus the index for the sake of consistency. We focus on selecting stocks that seem likely to generate above-market returns. We think clients will have more money in 10–20 years if we focus on stocks with robust prospective return characteristics rather than attempting to structure portfolios whose year-by-year returns track an index closely.

5. **Stay as Fully Invested as Possible** Empirical research has shown that 80%–90% of investment returns have occurred in spurts that amount to 2%–7% of the total length of time of the holding period. The rest of the time, stocks' returns have been small. With stocks, you have to be in to win. We believe that value-oriented stocks with extreme investment characteristics are likely to beat the returns from cash over the long run. Index funds stay fully invested with no cash. The long-run odds of having your portfolio generate returns in excess of returns from fully-invested index funds are enhanced by keeping cash to a minimum and staying as fully invested as possible. (Note: It is a little painful for us to write this section because, in our past, we often sat on our thumbs with too much cash in clients' portfolios before empirical research and

our own analysis convinced us of the error of our ways. We were not knowingly markettiming, but were overdiversifying: Instead of investing 3% of portfolios in a perfectly good bargain stock, we invested 1% because we wanted to buy more at even lower prices. Cash, *and lower investment returns,* were the residual of this process. Over the last 22 years, the after-fee return on the portion of our clients' portfolios invested only in stocks (not cash), 21.4%, beat the return on cash, 7.1%, by 14.3% per year.)

6. **Keep Turnover Low** In the past, our value-oriented investment approach has resulted in average security holding periods of three to five years, and below average turnover rates. Low turnover reduces commission costs as a percentage of the portfolio's value and the impact that buying or selling can have on share prices. In addition, for taxable accounts, longer holding periods and consequently lower turnover can result in greater deferral of taxable gains and higher after-tax returns than if equivalent pre-tax returns were realized with greater portfolio turnover. As a result of long-holding periods, more than 90% of realized gains in our portfolios have been taxed at favorable long-term capital gains rates.

7. **Keep Net Transaction Costs Low** In independent studies of our portfolios' net transaction costs, which measured both cents per share and execution capability as gauged by average purchase or sale prices in comparison to average and closing prices on the day of the transaction, Tweedy, Browne has been judged to add value.

8. **Act Like an Owner** From time to time, and normally in a friendly manner, we have encouraged value-enhancing actions on the part of companies we own; such as, share buybacks, spin offs, stepped-up profit improvement, or the sale of all or a portion of the particular company. For example, with one of our holdings, Duplex Products, we asked management and the directors of the company to meet with Tweedy, Browne and several other large institutional shareholders who, together with Tweedy, Browne, owned 48.1% of Duplex. The purpose of the meeting was to discuss Duplex's inadequate profitability, as measured by return on equity and margin on sales in comparison to competitors. In this very open and candid meeting, a view was often expressed that if the company could not improve its profitability significantly over a two-year period, then perhaps a sale of the enterprise to a competitor, who could realize various cost cuts and economies, would result in greater long-run value for the stockholders than if the company were to remain independent. Within several months, Duplex Products was acquired by a competitor at a 30% premium to the market price at the time of this meeting. We have occasion to act like an owner in a relatively small proportion of our holdings, but have been willing to do so where it has seemed that appropriate effort could enhance long-run returns.

9. **Focus, Focus, Focus** We only manage equity money one way. We do not manage bonds or any other category of investments. We are not a family of funds with a multitude of different styles, market cap categories and new "products". The three managing directors have more than $200 million dollars of their own money invested alongside our clients in the same stocks that clients own, and in portfolios combined with or similar to client portfolios. The three managing directors, who are members of the Management Committee, have worked together since the mid 1970s, and are active participants in the investment process.

   As our business has grown, we have attempted, for the good of all clients, to control and limit the amount of time devoted to non-investment related activities such as client meetings, marketing, and managing Tweedy, Browne as a business.

10. **Continuous Improvement** We are avid students of investing. In recent years, using empirical data, we have increased our knowledge of investment characteristics and patterns associated with above-market returns. Recent proprietary empirical research has indicated that stocks possessing certain combinations of investment characteristics (all value related) have outperformed groups of stocks that possessed only one characteristic, such as low price/book value or low price/earnings ratio. We have incorporated these insights about "what works best" (at least in the past), both in searching for new investment candidates and in our judgment and decision-making process.

In addition to using computers and information technology to assist us in deciding what to do, we have taught our computers to do much of the analytical number crunching and information assembly work that was done by hand twenty years ago. For example, since 1990 we have been able to rapidly combine daily observation of the investment behavior of "insiders": i.e., corporate officers and directors, constituting thousands of transactions in their particular companies' shares over the course of a typical month, with fundamental financial information for thousands of companies. Computer sifting through this waterfall of information has often identified, like blips on a radar screen, good candidates for further research and examination. A process improvement that is currently being developed will enable us, through daily sifting, to quickly identify, for further research and examination, companies within the low price to book value, low P/E, low price to sales, low price to private market value "layer" that show immediate signs of an increase in earnings, and intrinsic value. Empirical research indicates that within the fertile bargain universe of low price to book value, low P/E, low price to sales, and low price to private market value stocks, exceptional returns have often come from companies where earnings, and intrinsic value, are undergoing a spurt. We are continually seeking to use computers and information technology to gain an investment return edge.

The Golden Rule for Clients: Look at the Long-Run Odds and Stick With It

Our own investment record and various empirical studies of investment characteristics that have provided market-beating returns in the past suggest that you are more likely to reap the rewards of a value strategy if you stick with it through good and not-so-good periods over a long period of time. Our 22-year equity-only returns provided 180% more money than the S&P 500. Over the 22-year period, the S&P 500 underperformed our equity-only returns after all fees in 70% of the rolling 10-year periods, 67% of the rolling 5-year periods, 75% of the rolling 3-year periods and 73% of the 1-year periods. Our stocks beat the S&P 500 in 100% of the rolling 13-year periods. Over 1-year to 10-year periods, our equity-only returns beat the S&P 500 2x to 3x as often as the S&P 500 beat our equity-only returns. Even though this data suggests pretty good odds, some clients have tended to ignore, often to their own detriment, the long-run empirical data and favorable odds during periods when the S&P 500 has been beating our stocks, which, on average, has been about 25%–33% of the time. Empirical research concerning successful long term investment results indicates that under-performing the S&P 500 25%–40% of the time is not uncommon for successful investment managers. In fact, it appears to be normal. (More on this later.) Investors who understand this are more likely to stick with a perfectly valid long-term investment strategy in the inevitable and, we believe, normal, under performing periods. It is all too human, in the field of investing, to extrapolate recent results, which have no statistical significance, rather than emphasizing long-run odds and empirical data. Your own psychology and ability to handle the emotional ups and downs of investing are likely to be important determinants of your long-run investment success.

Is Underperforming an Index 30% to 40% of the Time a Normal Part of Long-Run Investment Success? What we learned from an examination of the year-by-year results for nine value-oriented investment managers with index beating long-term records.

In *Are Short-Term Performance and Value Investing Mutually Exclusive? The Hare and the Tortoise Revisited* (an article in the Spring 1986 issue of Columbia University's HERMES magazine), V. Eugene Shahan analyzed the investment records of seven investment managers with exceptional long term track records, which were described in an article by Warren Buffett, *The Superinvestors of Graham-and-Doddsville,* in the Fall issue of HERMES. The common characteristic of all seven investment managers in Warren Buffett's article was that they practiced a value-oriented investment approach. This sample of investment managers had investment results which exceeded either the Dow Jones Industrial Average (the "DJIA") or the Standard & Poor's 500 Stock Index (the "S&P 500") by between 7.7% and 16.5% per year over periods ranging from 13 years to 28.25 years. None of the seven managers out-performed the S&P 500 each year. Six of the seven investment managers underperformed either the DJIA or the S&P 500 from between 22% to 42.1% of the years covered. The average underperformance of the six managers was

33.3% of the years covered. In examining the seven long term investment records, unfavorable investment results as compared to the Index did not predict the future favorable comparative investment results which occurred, and favorable investment results in comparisons to the DJIA or the S&P 500 were not always followed by future favorable comparative results. Stretches of consecutive annual underperformance ranged from one to six years. Mr. Shahan concluded, "Unfortunately, there is no way to distinguish between a poor 3-year stretch for a manager who will do well over 15 years, from a poor 3-year stretch for a manager who will continue to do poorly. Nor is there any reason to believe that a manager who does well from the outset cannot continue to do well, and consistently."

The following, Table 2 and Table 3, show the year-by-year investment results of the seven investment managers in *The Superinvestors of Graham-and-Doddsville:* Bill Ruane's Sequoia Fund; Warren Buffett's Buffett Partnership; Walter Schloss' Walter Schloss Limited Partners; Charles Munger's Wheeler, Munger & Co. Partnership; J.P. Guerin's Pacific Partners Ltd.; Stan Perlmeter's Perlmeter Investments; and Tweedy, Browne's TBK Partners, L.P. In addition, Table 2 shows the year-by-year investment record of the mutual fund with the best investment record over the last thirty years (ended June 30, 1994), John Templeton's Templeton Growth Fund, and the mutual fund with the seventh best record over the same thirty-year period, John Neff's Windsor Fund.

Both Mr. Templeton's Templeton Growth Fund and Mr. Neff's Windsor Fund employed a value-oriented investment approach over the 30-year period. As indicated in Table 2, the best performing mutual fund over the 30-year 1964–1994 period, John Templeton's Templeton Growth Fund, similar to six of the seven investment managers described in Warren Buffett's article, under performed the S&P 500 in 35.5% of the years. John Neff's Windsor Fund under performed the S&P 500 in 10 of the 30 years, which is 33% of the years. The sample of nine exceptional long-term investment track records described in Table 4 suggests that underperforming an index 30%–40% of the time is a normal part of long term out performance. None of these highly successful investment manager outperformed 100% of the time. Outperforming an index 60%–70% of the time was the norm.

Table 2:
Highly Successful Investment Managers' Year-By-Year Investment Results Which Were Better ("B") or Worse ("W") than the S&P 500

Year	S&P 500	Walter Schloss (overall)	Templeton Growth Fund (After Fees)	Warren Buffett (overall)	S&P 500	Sequoia Fund (After Fees)	Charles Munger (overall)	Windsor Fund (After Fees)	Pacific Partners (overall)	S&P 500 (Period Ended Sept.30)	Tweedy, Browne (overall) (Period Ended Sept.30)
1956	7.5	6.8W									
1957	(10.5)	(4.7)B		10.4B							
1958	42.1	54.6B		40.9W							
1959	12.7	23.3B		25.9B							
1960	(1.6)	9.3B		22.8B							
1961	26.4	28.8B		45.9B							
1962	(10.2)	11.1B		13.9B			30.1B				
1963	23.3	20.1W	4.8W	38.7B			71.7B				
1964	16.5	22.8B	28.5B	27.8B			49.7B	13.9W			
1965	13.1	35.7B	22.5B	47.2B			8.4B	29.1B	32.0B		
1966	(10.4)	.7B	(5.1)B	20.4B			12.4B	(3.3)B	36.7B		
1967	26.8	34.4B	13.5W	35.9B			56.2B	31.5B	180.1B		
1968	10.6	35.5B	37.5B	58.8B			40.4B	21.4B	171.9B	8.8(9mos)	27.6B
1969	(7.5)	(9.0)W	11.5B	6.8B			28.3B	(3.8)B	97.1B	(6.2)	12.7B
					(from 7/15)	*(from 7/15)*					
1970	2.4	(8.2)W	(6.2)W		20.6	12.1W	0.1W	6.4B	(7.2)W	(6.1)	(1.3)B
1971	14.9	28.3 B	21.5B			13.5W	25.4B	7.5W	16.4B	20.4	20.9B
1972	19.8	15.5 W	67.6B			3.7W	8.3W	10.2W	17.1W	15.5	14.6W
1973	(14.8)	(8.0)B	(9.9)B			(24.0)W	(31.9)W	(25.0)W	(2.1W	1.0	8.3B
1974	(26.6)	(6.2)B	(12.1)B			(15.7)B	(31.5)W	(16.8)B	(4.4W	(8.1)	1.5B
1975	36.9	52.2B	37.6B			60.5B	73.2B	54.5B	31.2W	37.8	28.8W
1976	22.4	39.2B	46.8B			72.3B		46.4B	127.8B	30.1	40.2B
1977	(8.6)	34.4B	20.4B			19.9B		1.0B	27.1B	(4.0)	23.4B
1978	7.0	48.8B	19.2B			23.9B		8.8B	37.9B	11.9	41.0B
1979	17.6	39.7B	26.8B			12.1W		22.6B	48.2B	12.7	25.5B
1980	32.1	31.1W	25.9W			12.6W		22.6W	24.1W	21.1	21.4B
1981	-6.7	24.5B	-.2B			21.5B		16.8B	8.0B	-2.7	14.4B
1982	20.2	32.1B	10.8W			31.2B		21.7B	32.0B	10.1	10.2W
1983	22.8	51.2B	32.9B			27.3B		30.1B	24.8B	44.3	35.0B

Year	S&P 500	Walter Schloss (overall)	Templeton Growth Fund (After Fees)	Warren Buffett (overall)	S&P 500	Sequoia Fund (After Fees)	Charles Munger (overall)	Windsor Fund (After Fees)	Pacific Partners (overall)	S&P 500 (Period Ended Sept.30)	Tweedy, Browne (overall) (Period Ended Sept.30)
(1stQ) 1984	(1stQ) -2.3	(1stQ) 1.1B				(1stQ) -1.6B					
(Full Yr.) 1984	6.3		2.2W					19.5B			
1985	32.2		27.8W					28.0W			
1986	18.5		21.2B					20.3B			
1987	5.2		3.1W					1.2W			
1988	16.8		23.6B					28.7B			
1989	31.5		22.6W					15.0W			
1990	-3.2		-9.1W					-15.5W			
1991	30.5		31.3B					28.6W			
1992	7.7		4.2W					16.5B			
1993	10.0		32.7B					19.4B			
Underperformance (vs. S&P 500) Years as % of All Years		28.3%	35.5%	7.7%		40%	35.7%	33.3%	42.1%		31.7%
Length of Period		28¼ years	31 years	13 years		13¾ years	14 years	30 years	19 years		15¾ years
Compounded Annual Return of Investment Manager		21.3	16.5	29.5		17.2	19.8	13.9	32.9		20.0
Compounded Annual Return for S&P 500		8.4	10.8	8.9		10.0	5.2	10.5	7.8		7.0
Compounded Gain for Investment Manager		23,104.7	11,340.0	2,794.9		775.3	1,156.7	4,843.7	22,200.0		1,661.2
Compounded Gain for S&P 500		887.2	2303.0	202.9		270.0	103.3	1,899.3	316.4		238.5

Sources: The Superinvestors of Graham-and-Doddsville by Warren E. Buffett;
Are Short-Term Performance and Value Investing Mutually Exclusive?
The Hare and the Tortoise Revisited by V. Eugene Shahan; Ibbotson Associates;
CDA/Wiesenberger; *Outstanding Investor Digest*

Table 3:
Perlmeter Investments

Period	Standard & PoorÕs 500	Perlmeter Investments (Overall)	
8/1Ð12/31/65	10.0%	40.6%	B
1966	(10.1)	6.4	B
1967	24.0	73.5	B
1968	11.1	65.0	B
1969	(8.5)	(13.8)	W
1970	4.0	- 6.0	W
1971	14.3	55.7	B
1972	19.0	23.6	B
1973	(14.7)	(28.1)	W
1974	(26.5)	(12.0)	B
1975	37.2	38.5	B
01/01/76Ð10/31/76	17.6	38.2	B
11/01/76Ð10/31/77	(6.2)	30.3	B
11/01/77Ð10/31/78	6.4	31.8	B
11/01/78Ð10/31/79	15.4	34.7	B
11/01/79Ð10/31/80	32.1	41.8	B
11/01/80Ð10/31/81	.5	4.0	B
11/01/81Ð10/31/82	16.2	29.8	B
11/01/82Ð10/31/83	27.9	22.2	W
Underperformance (vs. S&P 500) Years as % of All Years		22%	
Length of Period		18¼ years	
Compounded Annual Return	8%	23%	
Compounded Gain	+ 305%	+ 4267%	

It is also not unusual for highly successful investment managers to encounter long stretches of underperformance. For example, Sequoia Fund, Pacific Partners, and Windsor Fund experienced stretches of underperformance, in comparison to the S&P 500, ranging from three years to six years, which were followed by excellent comparative investment results.

SequoiaÕs difficult period, July 15, 1970 through December 31, 1973, is shown below:

Period	Sequoia Results	S&P 500 Index Results
7/15/70Ð12/31/70	12.1%	20.6%
1971	13.5	14.3
1972	3.7	18.9
1973	(24.0)	(14.8)
Cumulative Results for entire period	0.27	39.6
Compound Annual Return for entire period	0.07	9.97

Subsequent to the July 15, 1970 through December 31, 1973 3½ year period, Sequoia generated exceptionally good returns: for the 10¼ year January 1, 1974 through March 31, 1983 period, Sequoia's compound annual return was 24.4% versus 10.5% for the S&P 500; Sequoia's cumulative gain for this period was +787.1% versus +171.5% for the S&P 500.

Pacific Partners had excellent comparative investment results for 1965 through 1969. The difficult 1970Ð1975 six-year period is shown below:

Period	Pacific PartnersÕ Results	S & P 500 Index Results
1970	(7.2)%	2.4%
1971	16.4	14.9
1972	17.1	19.8
1973	(42.1)	(14.8)
1974	(34.4)	(26.6)
1975	31.2	36.9
Cumulative Results for Entire Period	(37.0)%	20.7%
Compound Annual Return for Entire Period	(7.4)%	3.2%

Subsequent to the 1970–1975 six-year period, Pacific Partners produced excellent comparative investment results. For the eight-year 1976–1983 period, Pacific Partners' compound annual return was 37.9% versus 12.5% for the S&P 500; the cumulative gain was +1,206% versus +156% for the S&P 500.

Similarly, Windsor Fund's three straight years of underperformance in the 1971–1973 period produced a cumulative decline of -11.2% as compared to a cumulative increase of +17.3% for the S&P 500. This result did not predict Windsor Fund's success in the next 1974–1983 ten-year period: Windsor increased 474.8% versus +157.3% for the S&P 500, which was a compound annual return of 19.1% as compared to 9.9% for the S&P 500.

In Tables 2 and 3, it is interesting to observe the range of results among the investment managers in each year. Although all of the investment managers adhered to a value-oriented investment philosophy, their individual investment results were often very dissimilar in the same year.

How We Plan to Invest Our Own Money and ClientsÕ Money

Our expectation concerning the likely future pattern of investment returns for portfolios managed by Tweedy, Browne has been shaped by the preceding examination of nine successful value-oriented investment managers' historical returns. We think it is realistic to expect that good, long-term returns will be formed by a somewhat random pattern of good and not-so-good annual investment returns.

With over $200 million of our own money that we have accumulated, and with our clients' money, we plan to stick with the value approach that we have practiced for more than 20 years. It makes sense to us, and has worked well *on average*. It has also worked well, in both the United States and in other countries throughout the world, in more than 40 independent academic studies of investment characteristics associated with above-average returns. These studies are described in our booklet, *What Has Worked In Investing*, which you are welcome to have. If we knew a better way to invest, we would do it. We intend to ride out the not-so-good years, as we have in the past. If we knew how to predict them and avoid them, we would. We go to work each day and do the best we can, and then the returns are determined by what other people pay for our stocks in the future. We can control the investment strategy and its implementation, which are the recipe and the ingredients, but we do not control the future returns. We always hope that the investment soufflé will rise.

Our Advice to You

We urge you to invest with a value approach, where we think you will have a pretty good chance of beating the index over a long period. If you have decided to invest with a value approach, we urge you to stick with it. Our own experience and our analysis of other value managers' investment records suggest that so-so or poor returns have often been followed by above-average returns.

If you think our strategy and practice of value investing are right for you, then we invite and welcome your business as a client through our two mutual funds or a similarly managed private account. We hope this booklet has been useful to you, and wish you *many happy return*s.

APPENDIX 1

17 Standard Earnings Outlook/Value Questions Checklist

ÒPUCCIÓ: *Pricing, Units, Costs, Competition* and *Insiders*

1. Outlook for pricing? (Each dollar of price increase will increase pre-tax income by $1.00 if other costs do not increase.)

2. Outlook for units? (A 10% increase in units will increase gross profits by 10% if the gross profit margin does not change. Pre-tax income will increase by this amount if other costs do not increase.)

3. Outlook for the gross profit margin as a percentage of sales? How much is the gross profit margin expected to increase/decrease as a result of changes in price, mix of business, and (or) specific costs that make up cost of goods sold?

4. Outlook for selling, general and administrative costs/margin as a percentage of sales? Description of any significant Selling, General and Administrative cost changes.

5. Operating leverage: If sales increase by, say, $10 million, how much will drop to pre-tax income?

6. Outlook for the pre tax profit margin? Can the pre tax margin get back to the prior peak margin of _____% attained in _______ year? Can the pre tax margin get to _____% that your competitor, _________________________ , earns?

7. Amount of non recurring, or investment/expansion type expenses included in costs? Net assets tied up in these non-core activities? Core recurring profits?

8. Segment or product line losses included in the consolidated income statement? Net assets tied up in the losses or break-even activities? Core recurring profits? (For example, if the business is a retail chain with 100 stores, what are the total losses of all the stores that lose money and the total profits of all the stores that make money and the net assets tied up in the losers?)

9. After-tax goodwill amortization? (i.e., what is the amount of the tax deductible goodwill amortization and the amount of non-tax deductible goodwill amortization?)

10. Are you comfortable with the consensus e.p.s. estimates for the current year of and next year of________ ?

11. Outlook for growth in e.p.s. over the next five years? How will you get the growth/what specifically will you do to get the growth? Return on equity/return on capital goal/outlook over the next five years? How will you get there?

12. Over the next five years, what do you plan to do with the cash that will be generated from earnings and not paid out as a dividend? What investments do you plan to make; such as, new factories, additional stores, acquisitions, share buybacks? What return do you expect to earn on planned investments? (Think of a business like a savings account that reinvests the cash earnings that are kept in the business and not paid out as a dividend. The new cash that is invested can earn a new return that can add to the overall earnings of the business.)

13. Competitive conditions? Expected changes/actions taken by competitors (such as price changes, new products, new capacity, new marketing programs, etc.). And the expected impact on the subject company's pricing, units, margins?

14. Amount of costs/expenses that would disappear if the company was consolidated with a competitor (such as corporate expense, overlapping duplicate sales outlets or salespersons, manufacturing costs that would disappear if the company's sales volume was folded into a competitor's factory)? If the separate businesses owned by the subject company were sold, how much of the subject company's corporate expense would disappear? (In other words, would the acquirer's income go up by the amount of segment EBIT that was acquired, or would it have to keep the functions provided by the subject company's "corporate" activity and the related expense?)

15. Rules of thumb/valuation standards such as Price/EBIT (*Earnings Before Interest and Taxes*), Price/EBITDA (*Earnings Before Interest, Taxes, Depreciation and Amortization*), Price/Sales, Price/Acre, Price/Board Foot of Timber, Price/Ton of Capacity, Price/Salesperson, Price/Dollar of Deposits, etc. for similar businesses? What does the company itself think it is worth?

16. Company plans to buy back stock?

17. Have insiders bought or sold stock recently? Describe. Why did he buy? Why did he sell (if the sale was significant)?