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INVESTMENT MANAGEMENT

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## Investment Philosophy

by Jonathan A. Shayne

My goal is long-term growth, with a risk-averse attitude. I believe in buying common stock in companies of the highest quality at prices that are anywhere from reasonable down to cheap.

Companies of the highest quality are usually demonstrably more profitable at the corporate level than average. They generally have a history of earning attractive returns on their capital, with prospects of reinvesting profits internally at an attractive rate. In the best case there is little or no debt, and management owns a significant stake. Management needs to be serious about serving the financial interests of the outside shareholders.

Having found a good company, I want a stock price that provides what is likely to prove a healthy margin of safety relative to the fixed income instruments that we would typically use as a parking place for otherwise unused funds. The margin relative to cash or bonds has to be worthwhile partly to help buffer against risk, but also to help focus effort and capital on the best ideas. The ideal is to buy dollar bills for 50 cents.

I usually invest in U.S.-based companies because I understand them best. I typically prefer a higher concentration in portfolios than most advisers, with diversification among seven to ten companies as a general goal. Concentration flows from thinking of stocks as fractional ownership in real companies, rather than as pieces of paper. Viewing securities this way is the key to my firm's approach to investing.

Market conditions occasionally present bargains in less sterling securities, such as those issued by companies with less attractive businesses or less talented management. That is not my favorite kind of purchase, but at a low enough price, such investments can work out well, as can investments in broad indices. I reserve the right to invest opportunistically in such securities (which may include not only common stock, but convertible bonds, preferred stock, warrants, zero coupon bonds, exchange-traded funds, etc.) if the price seems compelling. This is not a focus, however, and clients may impose guidelines unique to their own account.

Investing for the long term helps hold down frictional costs, such as brokerage commissions and taxes. Keeping things simple helps reduce the risk of error.

My firm provides portfolio management and investment advice, not stock brokering. We can coordinate our efforts with any other adviser you may use, such as an accountant or tax lawyer, and will be happy to select and handle the contact with an independent discount brokerage firm on your behalf. The advisory fee is 1% of assets under management in most circumstances, and can be tax-deductible against investment income in some cases.

Shayne & Co., LLC is registered as an investment adviser with the U.S. Securities and Exchange Commission.

Clients hold their assets at an independent financial institution, with the account in the client's own name.

Please keep in mind that, particularly in the short run, stock prices can be very volatile. Historically stocks have provided good long-term returns, but the future may be different. Losses as well as gains are possible. Investment decisions always involve uncertainty and risk, and no method or style of investing can assure desired results. It is important for investors in common stocks and most other securities to have the ability, even if they do not use it, to leave their investments untouched for a number of years. This helps avoid the need to sell if the market becomes depressed for a long time.

The foregoing covers the main points. If you have any questions, please call.

## Background and Qualifications

Jon Shayne considers his most valuable lessons to have come from his study of the record of investors he admires, such as Warren Buffett and Bill Ruane.

Jon is a graduate of Harvard College and Vanderbilt Law School. He co-wrote an article on securities law, "Inefficiency in the Market for Initial Public Offerings," with the late Larry Soderquist. The article appeared in the *Vanderbilt Law Review* in May, 1995.

As a hobby, Jon writes, and occasionally performs, satirical music about finance and economics. He does this under the assumed name, "Merle Hazard." These songs or videos have been used in university lecture halls, including at Stanford and the University of Sydney (Australia); in segments of the PBS NewsHour; and at the American Economic Association annual convention.

*Before engaging Shayne & Co., LLC, as your investment adviser, please write or call us for a copy of our Form ADV, Parts 2A and 2B, a disclosure document that describes the company more fully, and that we encourage potential clients to review. Our registration with the Securities and Exchange Commission does not imply approval or disapproval by any authority.*