

Client Website Update Announcement

At FIM Group we strive to provide our clients with valuable and pertinent information. Traditionally this has been limited to our monthly *Current Observations* Newsletters. However, we have been diligently working on updating our website with up-to-date information and adding informative content on a weekly basis.

Most recently we have added three radio interviews featuring Paul Sutherland (President and Chief Investment Officer) discussing what makes FIM Group successful. Over the next couple of weeks we will be adding new video webcasts with excerpts from our recent client seminars in Michigan.

Be sure to check the website frequently and sign up for our email news on the website. If you have any suggestions for improvement please feel free to email or call anytime.

If you would like to access your investment account online please call or email client services to set up a secure account. Call toll free 1.800.632.5528 or email info@fimg.net

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Current Observations

JUNE 09



Sustainable Jobs = Sustainable Investments By Paul Sutherland, CFP®

In their May 2009 issue, *Popular Mechanics* listed the top 10 careers for today's economy. Of course, *Popular Mechanics* is geared toward scientists, engineers, do-it-yourselfers and wannabe mechanics. In this issue, titled the "Cool Tools Issue," you'll find other "cool" articles, including "50 Tools Every Man Needs" and a story about Jay Leno's garage.

The reason I'm talking about *Popular Mechanics* in this issue of *Current Observations* is the fact that six out of the 10 careers highlighted have to do with the energy industry. At FIM Group, energy is our largest holding group, because we believe that it is an area that has a promising future. Whether you're in a developed country or a developing continent, you need energy. In the developed world we take electricity for granted, even though most of it is still produced by power plants that are more than 50 years old and is transported over a system designed before cell phones, cable TV, wind farms, nuclear and solar power, or even the TV show *Survivor*. Recently, our local electric co-op head spoke at our economics club about clean (new) coal power as a solution to our U.S. energy "problem" (which, in a nutshell, involves aging plants, increasing demand and no leadership), and addressed concerns regarding solutions – or ways to "fix" or manage this problem at the local, regional, national and international levels.

The energy industry seems keen on promoting coal, plus a basket approach that includes: hydro, coal, wind, coal, clean coal, new coal, nuclear, solar, bio systems, conservation, gas and more coal. But I see little future for coal and nuclear. Why not harness hydrogen power? No one wants a plant in their back yard – and the U.S. is one big back yard – so despite the logic, rationale and efficiency of harnessing atoms and safely storing spent fuel onsite, it is just a pipe dream program for people who think the world is logical and scientific. Nuclear gives job security to lobbyists and lawyers on both sides of the issue. Similarly, with coal, while no one wants a plant next door, coal has this other big problem: carbon. And carbon, as we know, has only one constituency that

Top 10 Careers for Today's Economy

1. Under-sea welder
2. Zero-energy home architect
3. Energy engineer
4. Wind explorer
5. Fabricator of carbon fiber spaceships and planes
6. Combined heat and power mechanic
7. 3-D sports tech
8. Battery engineer
9. Independent video game designer
10. Digital detective

DISCLOSURE

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loves it – politicians! And politicians are okay with it because they can tax it. So the bottom line is that while coal and nuclear have obvious benefits and good economics they will continue to face many problems due to public perception and bias.

So where does this leave us? As investors, energized! Partner Jeff Lokken from our Wisconsin office recently came back from the Berkshire Hathaway meeting very excited as he discussed how Warren Buffett’s partner, Charlie Munger, described the future of energy. Munger, like Buffett, has been successful, because he realizes that where change happens, opportunity exists. Few places in our economy are more exciting than energy – energy is the stuff that makes the world go ‘round. We are broadly invested in nearly every area of energy. For example, at FIM Group, we own two giant energy companies (Suez and Total) through our largest holding, Pargesa, Repsol through Criteria Corporation and Husky Oil through Cheung Kong as well as others directly and indirectly.

For most smaller portfolios, our energy exposure is through closed- and open-ended trusts such as Petroleum and Resources Corporation. For larger accounts, we own the above-named investments as well as BP, Royal Dutch Shell, EDP Power of Portugal and Otter Tail Power (which we highlight in this newsletter), to name a few.

As you can see from your most recent portfolio performance updates, your investments are beginning to come to life. Much of the positive performance is attributed to our energy investments. So we agree with *Popular Mechanics* that certain areas of the energy world have a bright future, and we are pleased that they have highlighted them, although indirectly as employment opportunities. People want sustainable job security, and we want sustainable investment opportunities. We feel confident we have found them – priced right, with great dividends and with growth potential in the investments we have made already and will make as the future unfolds.

A Trip to Omaha By Jeff Lokken, CFP®, ChFC®

A significant amount of economic activity in Omaha, Nebraska, revolves around Dodge Street, the main thoroughway that runs from downtown Omaha out about 20 miles to the west. Malls, restaurants and many others businesses can be reached just by heading west on Dodge, including the famous Nebraska Furniture Mart, the largest home furnishing store in North America, and one of the largest in the world. Nebraska Furniture Mart is owned by Berkshire Hathaway and run by Warren Buffett, the second richest man in the world, whose many labels include “the sage of Omaha.” Yes, you can get to Mr. Buffett’s house just off Dodge Street, too, but don’t expect a mansion, security gates or even a fence. His house is nice but not ostentatious.

I have trekked the 420 miles to Omaha many times over the past eight years. My daughter graduated magna cum

laude with her B.A. from Creighton University, one of the country’s premier Jesuit universities, and is just completing her master’s there as well. A typical trip to visit my daughter includes going out to eat, catching a Creighton basketball game and always doing at least a little shopping. However, during my recent trip at the start of May, I was joined by about 35,000 other visitors – for the annual Berkshire Hathaway shareholder’s meeting (though “extravaganza” is probably a better description of this event). Hotels and restaurants on and off Dodge Street were packed, authentic cowboys on-hire by Berkshire Hathaway wandered the streets in spurs (the meeting was cowboy-themed) and Berkshire shareholders flooded Borsheim’s jewelry store, Nebraska Furniture Mart and various other shops to take advantage of their exclusive discounts.



“If you let yourself be undisciplined on the small things, you will probably be undisciplined on the large things as well.”

- Warren Buffet

BERKSHIRE HATHAWAY INC.

But on Saturday morning, in the sprawling Qwest Center just north of Dodge in downtown Omaha, it was all business. Well ... sort of. This is not your typical shareholder meeting. With more than 35,000 people milling and buzzing around, it’s more like a major sporting event. But instead of cheerleaders and bands, there are members of the press clamoring for a story, which is almost always about what Warren Buffett said during his five- to six-hour question-and-answer session. Buffett is an interesting guy who loves to give his opinions and add color to them with introspective analogies. I, too, must admit to being

Investment Spotlight : Otter Tail Corporation (OTTR)

Established in 1907 and headquartered in Fergus Falls, Minnesota, Otter Tail Corporation built the state’s original power dam to generate and supply electricity to local communities in 1909. In addition to the company’s main interest in electrical utilities, Otter Tail is involved in various other industries such as manufacturing, health services, food ingredient processing, plastics, construction and transportation.

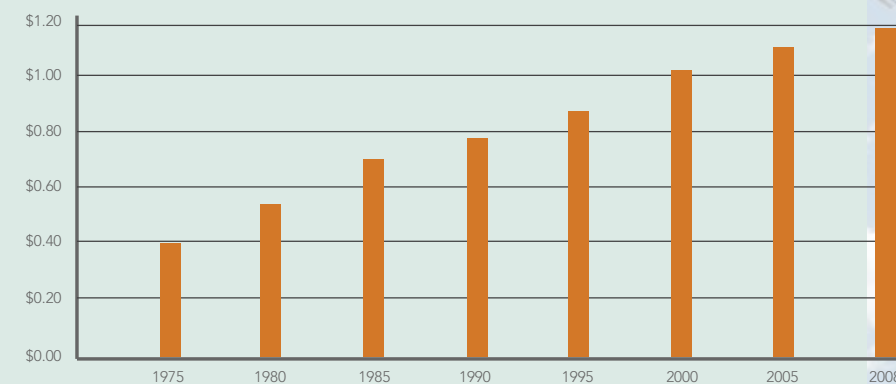
In the 1980s, Otter Tail deemed its core electric business was located in a region of the country where little growth in electric was probable. In order to enhance shareholder returns, Otter Tail began to expand their non-electric holdings through acquisitions outside the utility industry. Otter Tail’s strategy has led to steady revenue expansion with the acquisition of companies like DMI Industries (producer of 25% of the wind towers used in the U.S.), ShoreMaster (waterfront products) and Aevenia (energy and electrical construction with expertise in alternative and wind energy), to name a few. *Many of us residing near water may be familiar with ShoreMaster, a premium manufacturer of boat lifts since 1972.*

Several of Otter Tail’s operating companies have significant involvement in the wind energy industry. Despite the slow economy, the prospects for wind energy beyond 2009 are positive with the support for renewable energy at the federal and state levels of government. A recent announcement on May 22 indicated that Otter Tail will build an additional wind farm in North Dakota. With this project, Otter Tail will have one of the highest ownership levels in wind generation among utilities nationwide. The company currently provides electricity and energy services to 25 million people in Minnesota, North Dakota and South Dakota.

Otter Tail Corporation
www.ottertail.com

- Trades on NASDAQ
- \$ 1.2 billion in revenues
- 4,000 employees
- Dividends paid continuously since 1938

Otter Tail Paid Common Dividends



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totally enthralled. The man has an amazing ability to take very complex issues and communicate them in simple and understandable language. During the Q&A he covered a massive range of topics, including fessing up to Berkshire's bad investment year in 2008 by showing a film spoof of himself being demoted by the Board of Directors to a mattress salesman at the Nebraska Furniture Mart. He sold the special "Nervous Nelly" mattress to a customer who desired a safe, sturdy, reliable mattress with a space to stuff her valuables. Also, Buffett used only one visual aide that illustrated the crazy investment world we live in – an actual image of a December 2008 trade ticket where he sold a \$5,000,000 T-bill for more than its maturity value. This slide clearly illustrated the "safety at any cost" investor mentality we recently suffered through.

There was another star at the meeting in addition to Buffett – Charlie Munger, Buffett's long-time co-manager. He joined Buffett on the stage during the Q&A and plugged Berkshire-owned businesses by eating See's Candies, drinking Coca-Cola and downing Dairy Queen Dilly Bars. He is a totally different personality than Buffett, short-spoken and clearly less than enthused about the limelight. Still, what he has to say is always very impressive. Munger spends most of his time sitting quietly on stage and, like everyone else, listens to Buffett articulate his responses to questions. When Buffett completes his answer, which usually takes 10 minutes or so, he turns to Munger and asks him if he has anything to add. The majority of the time Munger either says, "I have nothing further to add" or gives a precise one- to two-sentence answer. Regardless of Munger's meager stage presence, it's clear that Buffett holds him in high respect. Together, they have used their intelligence, discipline and down-home style to make millions of dollars for admiring shareholders, many of whom were sitting in the Qwest Center arena that day.

As you may know, FIM Group has invested in Berkshire Hathaway for our clients. Since all of you couldn't attend the meeting, I thought I might share my top 10 topical takeaways from the meeting with you.

1. Risk Reduction

Munger explained that America's culture "encourages betting against the odds," which puts Berkshire in great shape to take advantage of the situation by only investing when the odds are in favor of the shareholder. In other words, be the "house" not the gambler.

2. How to Invest

Buffett explained at length how investing is about valuing companies and thinking about the world. He said investing is "Simple, but not easy," so you don't have to be a genius, but you must have emotional stability to live through the tough times, like 2008. Also, thinking about the world in a way that doesn't resist new ideas is necessary. Munger quipped that his job is to "reduce the nonsense" by paying attention to what matters and ignoring the noise.

3. Economic Recovery/ Housing Bubble

Buffett pointed out that he and Munger aren't economists, rather they just try to invest in great companies regardless of the state of the economy. But he did offer his opinion on what caused the housing bubble bust. He explained that there are about 1,300,000 new U.S. households created each year. Currently there is an excess of 1,500,000 homes and 500,000 being built annually. He didn't do the math, but if his stats hold up housing won't recover for about two years, until supply is equal to or lower than demand. This is a great illustration of the basic principles of supply and demand and one reason FIM Group portfolios have very little exposure to housing-related investments.

4. Future of Money Management at Berkshire

Buffett and Munger see their primary job as capital allocators – where to put Berkshire's money. Clearly they are not spring chickens, so one question always asked is who will replace them. The simple answer is that there are three internal candidates to replace Buffett as CEO of Berkshire and a short list of money managers to make the capital allocation decisions. None of the money managers on the list employs market timing, and Buffett noted that any money manager who invoked market timing would be "excluded" from consideration.

Munger said he is "too stupid" to time the market and has never found anyone smart enough to do it successfully. Buffett advised that if someone thinks they can time the market they should "find another way of thinking."

5. Why Invest in Berkshire Hathaway?

You may think that Buffett and Munger would explain this by citing their incredible investment history of compounding capital at an average annual rate of more than 20%, but no. As true fundamental investors, they discuss the three primary competitive advantages of Berkshire: A stable, patient shareholder; buying attractive business for the long term at cheap prices; and freedom to move capital between companies to make investments without tax problems. It is interesting that although Berkshire's stock is down 42% from its all-time high, this fact seems to have little influence on these long-term investors who look at value and cash flow, and not short-term price, in their investing.

6. Derivatives

Despite owing derivatives in the Berkshire portfolio, Buffett explained that they are dangerous, but even his protégé, Benjamin Graham, would take advantage of cheap securities and invest in derivatives if the price was right. He explained that Wall Street is culpable for the derivative problem, because they "sold bad stuff to people." He suggested reading the 2008 annual letter by JPMorgan Chase & Co. Chairman and CEO Jamie Dimon to get the best explanation of what has happened recently in the turbulent world of finance.

7. Government's Role and the Stimulus

Buffett and Munger both concurred that the actions taken last fall by the federal government in the credit markets was necessary but not perfect. They explained that government did what it had to do, and that this will result in significant future unknown regulation and legislation. Munger opined that he thought the stimulus money would be best invested in the infrastructure of the country, specifically in the electric grid.

8. When Should You Sell a Stock?

Buffett explained that his decision to sell a company is for one of four reasons: 1) He made a wrong decision;

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2) The company has lost its competitive advantage; 3) He has lost confidence in management; and 4) He needs cash for a future investment.

9. What Gets Munger Excited?

Munger believes the world is on the cusp of "new energy breakthroughs," and that this will solve a list of societal problems. He believes that it is the "Chinese Day," and they will help lead the world economically. He cited that this is a primary reason why Berkshire has invested in the Chinese auto manufacturer BYD.

It Pays to Be a Contrarian Investor

By Barry Hyman, MBA

Shame on the financial industry for selling people what was easy: technology stocks in the late '90s that were selling at prices that had no relation to their values; overpriced, large-cap, so-called "blue chip" and "index" stocks because it was the "hot" way to invest; common stock of financial businesses leveraged to the hilt; and more recently, China holdings and solar companies after they ran up hundreds of percent. All these are examples of selling into investors' speculative naïveté during the past decade. And let's not forget the not so long ago assurance, "You can't go wrong with real estate, it always goes up."

Now the sellers of financial products are peddling fear-based investment strategies, including gold, Treasury bonds and CDs (at rates below long-term inflation), and variable annuities with guarantees (and massive fee structures that constrain the upside, virtually ensuring they will not return more than the guaranteed rate). Investors are now scared, and the easy sell is to prey on their emotions once again. "Be afraid of the stock market, illiquidity, the government, deflation, inflation, stagflation, corporations and fear itself," is the message in much of what the financial sellers are pitching now. "Stay liquid,"

What Gives Buffett Emotional Peace?

Buffett repeatedly cited the need to have emotional peace to be a good investor, and that one of the ways he maintains emotional peace is by having lots of cash on hand and a long-term view. Currently, Berkshire has about \$20 billion in cash down from almost \$40 billion last fall. He explained that in tough times he gets "opportunities" to make investments in well-managed companies at cheap prices, because they need the cash. He said sometimes he only has a few hours to make the decision and doesn't use spreadsheets, because if it's not obvious he won't invest.

Despite battling the busy stop-and-go traffic on Dodge, my trip to Omaha was a great success. I got to visit my daughter, eat at a great steakhouse and sit at the feet of two very wise, experienced, intelligent, optimistic and honest investors. It was awesome listening to Buffett and Munger, and I hope to see them again in Omaha, just off Dodge Street, in 2010.

Berkshire Hathaway is one of the top three equity holdings in FIM Group portfolios.



"buy guaranteed insurance products" and other fear-based recommendations seem to be the elixir of the day.

It is curious that the industry whose sage advice used to be "buy low and sell high" now pushes the opposite strategy. Interestingly, this trend coincides with the trend in our universities to churn out more financial engineers than real ones. The mantra seems to be money for money's sake without prudence, conscience or a sustainable plan.

Long-term success in investing requires the discipline to ignore popular hype and emotion. Over complete cycles it almost always pays to be a skeptical, if not contrarian, investor especially so during investment frenzies and panics. Not only does doing so help avert painful and financially debilitating "permanent" declines by avoiding irrationally priced investments, but by being contrary to the crowd, one can actually benefit, usually at the cost of the masses.

Remaining rational rather than emotional requires discipline, conviction and common sense. "Price matters" is the simplest guiding principle. Another way to put it is, "Focus on basics." Greed and

hype create unsustainable demand and push prices way ahead of values. Fear and uncertainty result in panic selling, which can create bargains. When securities are priced at nosebleed levels, it is not the time to be aggressive, but it is sure easy to convince people to be. Now that prices for some assets, such as many global equities, certain bonds and some real estate, are bargains, they represent more than sufficient compensation for the potential, albeit likely temporary, further price declines of some of today's great values.

It is a challenge to convince the fearful public that others' fears have created opportunity. Instead, advisers are now selling fear because it is easy. Every time I see an ad for a seminar or an article written by financial professionals selling into peoples' fears during times like this, it makes me wonder where their allegiances lie and backbones are. Free press for fear mongering and bad advice just doesn't seem to be a wise substitute for facing the challenge of educating investors that this is precisely the environment in which it finally makes sense to invest in well-researched, bargain-priced assets.