Sather Financial Group, Inc.
Registered Investment Advisor

End of Year 2005 Comments

Instead of rehashing every twist and turn of the financial markets in 2005 we are going to take a slightly different angle as we close out the year.

In a nutshell the ***stock markets produced low single digit returns, as have the bond markets***. While it beat huge losses, it was still a year to forget. Inflation took a bigger bite out of our purchasing power and fixed income assets have not provided us with a safe haven.

With this short recap in mind, we have noticed a recurring theme in conversations with clients regarding their investments, and the financial markets in general. Since several clients have these questions we think many others have similar questions. As such, we wanted to provide you with the following, as well as the attached document, in an attempt to address these issues.

For the last two years we would give ourselves a sub-par grade in terms of investment performance relative to the broad stock markets. Although we have generally performed in-line with the markets, we do not strive to be merely "average".

Part of the issue lies in our desire to find and exploit large investment valuation disparities. While ***we have found many companies that appear to have substantial value, the markets have not yet recognized this value***. Over the short run, this has obviously held us back. Over the long term, however, our philosophy and discipline have continued to work. Viewed in the context of long time periods we give our investment structure and philosophy a passing grade.

We do not chase investment fads. Most oil and gas companies have greater investment fundamentals than did the internet companies of a few years ago. However, we are still hesitant to chase after the hot stock of the day.

In 1999 we had a similar stock market. We had rising interest rates and a stock market that was dominated by not only one sector, but just a handful of companies. At the time, we frequently discussed the fact that these companies would stumble—and we were viewed as the red-headed stepchild who was missing the party.

The last two years have been quite similar. If you were not in energy you missed the party. And while speculating on $100 oil may be the latest water cooler discussion it does not make for an appropriate investment discipline. ***Short term, we have not chased after these quick gains and our clients have suffered. More importantly, though, our long term clients continue to benefit from our disciplined approach.***

To help further explain our position we have attached a document that we refer to as our "*Investing Principles & Instruction Manual*". It is something we provide to new clients and as such wanted to provide it to our existed clientele. We hope you will take time to read it over and call with questions on this or anything else.

Also, should anyone like to read our recent SEC Form ADV please let us know and we will make it available.

Finally, thank you for the opportunity to work for you this year—it is truly appreciated. Furthermore, we wish everyone a safe and prosperous 2006.

Sincerely,

Dave Sather

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

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Sather Financial Group
Investing Principles & Instruction Manual

1. Although a stock certificate may be printed on a piece of paper, it represents much more. Whether you buy one share of stock or many shares of stock, you must function as if you own the entire company. ***Quite simply, that is what stock is—ownership in a company***.

2. The ***stock market is a long term proposition***—meaning a ***ten plus year commitment***. Even if you are 65 years old and are retired you should be a stock market investor with an appropriate amount of funds for the remainder of your life (which statistically is a very long time).

3. If the volatility of the stock market is affecting your current standard of living then you have your assets invested incorrectly. The ***stock market should be utilized to produce long term (10+ years) growth*** in assets. ***Fixed income assets (C/D's, Bonds, etc.) should be used to satisfy short to intermediate cash flow needs***.

4. Assume your dream home is selling for $400,000 and one day some guy on the TV says that because of a variety of scary sounding issues this dream home is now only worth $200,000. Most logical people would assess this discount as an opportunity to be pursued and buy their dream home. Only in the stock market have we witnessed people get so negatively excited when the prices of good quality companies are cut in half. I suppose this is due to people's aversion to volatility and their inability to properly analyze the true value of a business. ***You must separate fear from opportunity***.

5. Over the past 50 years ***the broad stock market has lost as much as 35% in any one year***. Conversely, over the same time period ***the stock market has gained as much as 56% in any one year***. The average of these one year time periods has been 13%.

6. Also, over the past 50 years ***the worst performance of the stock market over any five year time period has been a loss of 3.2% per year***. ***The best five year gain has been 27% per year***. The average of these one year time periods has been 11%. ***Time is your friend when dealing with the stock market*** and its short term volatility.

7. ***Over the short term the stock market is merely a popularity contest that is quite irrational in nature***. Long term, however, the stock market is a weighing machine which weighs the value (earnings) created by good companies that consistently increase their earnings.

8. While the date of December 31st may have some meaning to you, it has no meaning to your investments. Do not become overly concerned with your investment performance as of this date or any other arbitrary date. ***Long term performance is what matters***.

9. ***Volatility and controversy create fear as well as opportunities***. To take advantage of this you must embrace volatility and have a strong stomach.

10. We own stocks personally and on behalf of our clients. We do so to participate, as owners of these companies, in their increasing pool of earnings.

11. Most days ***there is a disconnect (often substantial) between a stocks price and the true value of their earnings*** or the company as a whole. A perfect example is Berkshire Hathaway. Even though Berkshire has increased its book value by 10% per year between 2002 and 2005, the stock price has done virtually nothing. The stock markets emotional disconnect does not sway us from owning one of the greatest companies, with arguably the greatest CEO of all time. Long term, Berkshire's stock price will catch up to its increased book value and patient investors will benefit.

12. Although we make predictions about developing trends, these ***trends take time to evolve***. When we first started warning about over-valuation in tech and internet stocks in 1999 it took another year for these issues to become apparent. The same has been true for real estate. We first started verbalizing concerns about real estate in May of 2004. Only now are the flaws in real estate being openly discussed. Fortunately, our clients were positioned to avoid the tech disaster and are currently positioned to avoid any impending real estate wreck.

13. Although the financial news focuses heavily on the stock market, we do not obsess over it. We ***constantly evaluate all investment categories relative to one another***. However, stocks typically provide us with the best opportunities to outpace taxes and inflation.

14. ***Inflation is a silent killer***. You will never receive a bill for inflation and yet it has a bigger impact upon your assets than virtually anything else. With great consistency, the things we buy (food, energy, housing, etc.) go up in price. If your assets do not outpace taxes and inflation you lose purchasing power.

15. Consider the following: a ten year U.S. Treasury bond (a default risk free investment) currently yields about 4.5%. In a 33% marginal income tax bracket our clients lose 1.5 of the possible 4.5 percentage points available leaving only 3 percentage points to deal with inflation. Currently, inflation is running in excess of 4% on an annual basis. Therefore, after factoring in the affects of inflation this seemingly "risk free" investment actually guarantees a negative 1% real rate of return. ***Bottom line: this safe U.S. Treasury bond investment produces horrible long term results.***

16. Many of our more conservative clients experience unrealized losses in their accounts from time to time—not because of their stock market assets, but because of their fixed income assets. Investors must realize that when interest rates rise, bond prices will decline. ***Fixed income assets do not deliver the "safe" returns that many expect.***

17. For quite some time we have been discussing the ***need for foreign exposure***. We live in a large global world and as such want our clients to participate in global capitalism. Most of our clients own stocks that sell more than 50% of their products outside of the United States. This provides us with tremendous international exposure via large mature and stable companies. We have also placed many clients into mutual funds that only invest outside of the U.S. This approach, along with owning U.S. based multi-nationals, provides clients with substantial global diversification.

18. Most ***financial magazines, newspapers and TV shows are designed to sell advertising, newspapers etc.—not individually customized financial advice***. Jim Cramer of CNBC's *Mad Money* TV show is an idiot. His show is designed to elicit emotion and entertainment—not sound investment advice. Cramer's ridiculous "Lightning Round" method of choosing investments is the financial equivalent of Russian Roulette—entertaining, but potentially catastrophic.

19. All of our clients are different, with different goals, income needs, volatility constraints etc. To satisfy our client's needs we ***constantly evaluate all types of investments for relative valuation, liquidity needs, income requirements, time frames, etc.***

20. We are honest with our clients even though it may not be what they want to hear. ***Our job is to look out for our clients with integrity and discipline***.