

Another milestone!

This newsletter marks our seventh year of operation. We literally could not have arrived at this point without your support. Creating a business carries a great satisfaction. For us at PCM, the reward has been helping you to grow and preserve your capital in a manner that brings you comfort. We have derived great joy in being able to practice our investment philosophy with great conviction and without compromise. We are truly grateful to all of you!

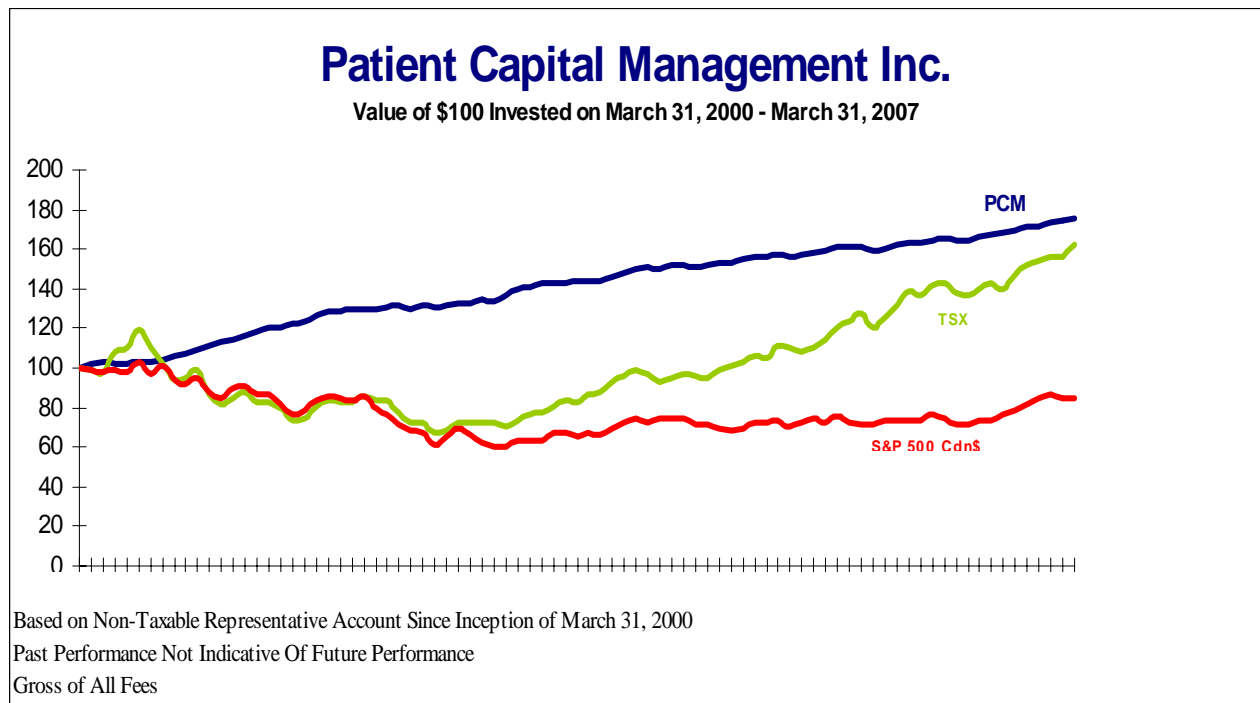
When we started in March of 2000 we promised that we would not stray from our investment philosophy based on long term absolute value. We stated that we would only buy securities that met our criteria for quality and safety and offered a potential compound annual return of twenty per cent over a long period of time. It is our very strong belief that this investment philosophy reduces risk dramatically while providing the opportunity for outperforming broader market indices such as the TSX over a long period of time. We have implemented this philosophy without compromise in your portfolios.

The chart below shows our performance since inception. As you can see PCM has outperformed the major North American indices since inception; despite having cash balances of approximately seventy five per cent during the past seven years. The equity investments that we have made have performed quite strongly. One hundred dollars invested with us as of March 31, 2000 would be worth \$175.14¹ vs. 162.19 for the TSX and 84.40 for the S & P in Canadian dollars. In addition, the returns have been far less volatile than the general equity markets.

¹ Based on Representative Account Since Inception
Before all Fees
Past Returns Not Indicative of Future Returns

While we are proud of our results we are disappointed that we could not find more investment opportunities that met our rigorous criteria. For those of you that have become PCM clients more recently your returns trail the major indices. Our conservative approach cannot keep pace in an environment where enthusiasm is rampant and attitudes towards risk are cavalier. However, we believe and the evidence below suggests that over a “full cycle” our investment approach offers superior returns with less risk.

Chart 1
Patient Capital Management Performance

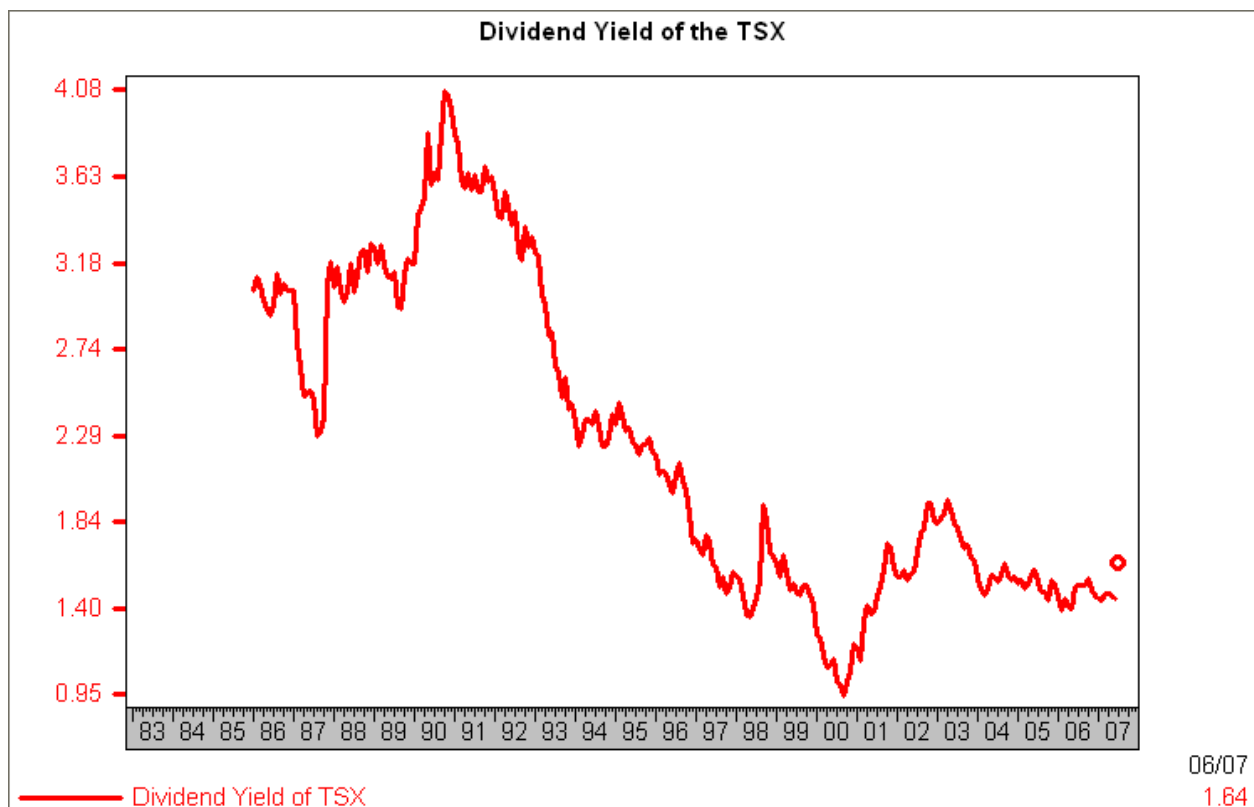


Charts 2 and 3 show the Dividend Yields of the TSX and the S & P 500 over long time frames. The dividend yield is our preferred aggregate market valuation method. Cash dividends paid to shareholders are real; there are no debates about methodology and quality of earnings when compared to the Price/Earnings ratio nor relevance when

discussing the market's Price/Book ratio. As my accounting professor used to say “if it doesn't jingle it doesn't count!”

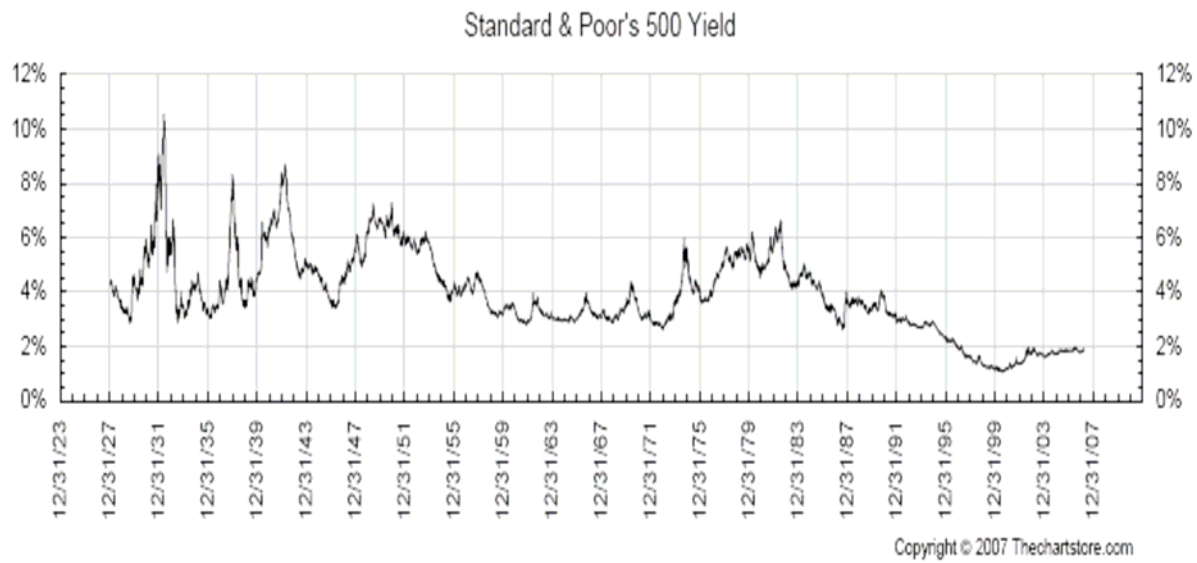
As the charts clearly show, equity valuations have been above historical norms for a considerable period of time. This extended period of overvaluation has made it very difficult to find a significant number of opportunities that meet our investment criteria. When we chose the name Patient Capital Management we never thought that our patience would have to last this long!

Chart 2
Dividend Yield of the TSX



Source: C.P.M.S.

Chart 3
Dividend Yield of the S & P 500



Today this equity overvaluation is gaining momentum and is on the cusp of turning into a bubble. Unlike the tech mania of 2000 or the Japanese stock market frenzy of 1989 virtually every asset class is overvalued today. As legendary value investor Jeremy Grantham says: “Everything is in a bubble.” From real estate to junk bonds to art to cyclical companies all assets are overvalued around the globe. In our view, there are very few investments where investors are being rewarded for the risk assumed. To paraphrase the academics “the risk premium is very low.” As stewards of your capital we say: **“the potential to permanently lose a substantial amount of capital is very real and very high!”**

The source of this latest bout of enthusiasm is a global glut of liquidity fueled by easy credit around the globe and what appear to be very strong fundamental economic conditions. We believe that both conditions are unsustainable. During the past several years economies around the globe have benefited from a strong consumer led U.S. economy. The well documented crisis in the American housing market is beginning to take its toll and as a result U.S. economic growth is slowing. Historically, economic slowdowns caused by real estate slumps have turned into serious recessions.

Liquidity is usually the final round of “punch at the party.” Driven by optimism, confidence in the future based on the recent past and the need to invest funds, lenders and investors of all stripes abandon any sense of prudence and bid up asset prices. This situation is also unsustainable. Excess liquidity always comes to an end. In our view, a liquidity induced mania brings two certainties; firstly that it will end badly and secondly that the longer it lasts the more painful the consequences will be once it ends. As comedian Russell Peters says: “Somebody is going to get hurt real bad.” The two great unknowns are the cause and timing of a credit tightening.

This year marks my twentieth year in the investment industry. The practice of money management has changed dramatically since I began in May of 1987. When I first started, high quality independent “buy side” research was rare. The vast majority of portfolio managers relied on brokerage research and sales persons’ recommendations to make investment decisions. Detailed modeling of businesses and sophisticated valuation tools such as discounted cash flow analysis were only beginning to be introduced. In addition, complicated data bases of financial information were in their infancy. Those willing to get into the details of financial statements and pursue thorough and independent financial analysis were well ahead of their peers. An analytical process consistently applied provided it’s practitioners with a real competitive advantage.

Today the industry is very different. Investment management organizations are largely comprised of highly qualified and trained CFA’s, MBA’s and PhD’s now carry out high quality internal research or purchase it. Accounting and valuation experts abound. Data bases now exist that when combined with modern computers can analyze all sorts of information. Gaining an edge through fundamental analysis has become increasingly difficult and more intensely competitive. The “analytical advantage” has been largely eroded if not entirely eliminated. This development should not be surprising. In virtually

all businesses competitive advantages are eventually eroded away as new entrants seek to win business and grow.

However, we believe that there is one enduring competitive advantage. The ability and desire of an investment organization or individual to stay true to a value based investment philosophy. A philosophy that requires behaviour that is contrary to human nature and holding unpopular beliefs and principles in the face of unrelenting pressures. These traits are a matter of temperament and character; they cannot be taught or bought. As Warren Buffett says, “you either have it or you don’t.”

This is the very reason why over a long period of time only true value investors have produced superior returns. Very few people can actually buy when others are selling and sell when others are buying. Only a very few are comfortable going against the crowd for a sustained period of time.

We at PCM believe that we have created that competitive advantage. We have maintained our investment discipline without compromise and taken a very different stance than virtually every other money management organization. Our results since inception indicate that our philosophy does indeed work over the long term. We cannot guarantee investment returns or the time when we will be fully invested but we can pledge that our approach to managing your capital and ours will not change under any circumstances. We believe that this promise provides PCM with an enduring competitive advantage that should result in very satisfactory long term returns.

Vito Maida

May 2007