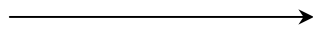


ADDING VALUE

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Second Quarter Investment Review and Outlook

SUMMARY:

The bookshelves in our office are a magnet for new visitors—clients and prospects alike. Now that summer is here, we thought you might be interested in a reading list that comprises just a few of the many volumes. Reading books does two things. First, as investors, we are the limited product of our own experiences and vulnerable unless we read and assimilate the accumulated wisdom of the great ones. Second, as it says on the façade of the Library of Congress: “Those who have not studied the past are condemned to repeat it.” We hope this list becomes a popular annual feature of our newsletter.

ADDING VALUE is mailed quarterly to our clients and friends. The intent of this publication is to share some of our more interesting views and research with our clients.

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Summer Reading List

Reading is one of life’s great pleasures. It satisfies many of the following objectives: lifelong learning, intellectual curiosity, learning from the mistakes of others, objectivity, willingness to test one’s own beliefs, relaxation and many more. As those of you who have visited our offices know, we place a high value on reading. We centered our reception area on bookshelves and between the two of us have read every book that the bookshelves contain. In addition, my own home is filled to overflowing with books, especially the tottering stack by my bed. We thought that you might be interested in some of our favorites, investment related or not; some may pique your interest as summer gets into full swing.

[DAMN RIGHT! Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger](#), by Janet Lowe (2000).

One of the most interesting chapters in this book is Chapter 10. It describes a company called Blue Chip Stamps. By historical standards, this was a nothing company, but it was the vehicle through which See’s Candy, the Buffalo News, and Wesco Financial were acquired. These three companies later became essential to the cultural and financial foundation of Berkshire. Most importantly though, it teaches the very simple lesson on the financial mechanics of float through a process we may remember from childhood—collecting S&H Green Stamps, the precursor to frequent flyer miles in the 1960’s.

[Seeking Wisdom From Darwin to Munger](#), by Peter Bevelin (2003).

The table of contents gives you some idea of what is in store in this book. The sections are: What Influences our Thinking? The Psychology of Misjudgments. The Physics and Mathematics of Misjudgments. Guidelines to Better Thinking. There are a plethora of self-help books on the bookshelves, but this book is a more solid tome. It challenges you to understand the complexity of making good decisions. In general, the author exhorts us to improve thinking and decision making, by reading books in biology, psychology, neuroscience, physics and mathematics. As Rene Descartes said: “The reading of all good books is like conversation with the finest minds of past centuries.”

The Essays of Warren Buffett: Lessons for Corporate America, Selected, Arranged and Introduced by Lawrence A. Cunningham (1997).

Warren Buffet has long written an annual letter to the shareholders of Berkshire Hathaway Inc., detailing in plain words all the basic principles of sound business practices. For the most part, these letters had never been assembled in an easily accessible manner nor organized in a thematic way until this task was undertaken by Lawrence Cunningham. An excerpt on page 92 states: “Intelligent investing is not complex, though it is far from saying it is easy... To invest successfully, you need not understand beta, efficient markets, modern portfolio theory, option pricing, or emerging markets. You may, in fact, be better off knowing nothing of these. That, of course, is not the prevailing view at most business schools.” There is no better source for understanding the language of business, accounting, than this book.

Influence: The Psychology of Persuasion, by Robert B. Cialdini (1998).

One of worst investor foibles is their tendency to pay too much attention to labels (and too little to substance.) There are many different tactics marketers use to produce “yes,” but the majority fall into six major categories. These categories (to which the book devotes one chapter each) are: Consistency, Reciprocation, Social Proof, Authority, Liking, and Scarcity. In the chapter on social proof, Cialdini expostulates: “In general, when we are unsure of ourselves, when the situation is unclear or ambiguous, when uncertainty reigns, we are most likely to look to and accept the actions of others as correct. In the process of examining the reaction of other people to resolve our uncertainty, however, we are likely to overlook a subtle, but important fact. Especially in an ambiguous situation, the tendency for everyone to be looking to see what everyone else is doing can lead to a fascinating phenomenon called “pluralistic ignorance.” In this book, we find lots of examples of how people make financial decisions that are less than optimal, or make decisions that are validated by the crowd.

The Voyage of the Beagle, by Charles Darwin (1839).

Charles Darwin was a raw and inexperienced naturalist of twenty-two when he set off on a five-year expedition to chronicle the coastline of South America and the Pacific. This voyage was a formative moment for one of modernity’s greatest minds. His record of the trip is rich in anthropology and science. We had the opportunity to travel a portion of Darwin’s route for our 30th Anniversary. Although 174 years had elapsed since the voyage of 1831, many of the landscape features remain the same today. In Darwin’s words: “Tierra del Fuego may be described as a mountainous land, partly submerged in the sea, so the deep inlets and bays occupy the place where valleys should exist...the trees reach to an elevation of 1,000 and 1,500 feet, and are succeeded by a band of peat...and this again is succeeded by a line of perpetual snow.” Or, his description of Cape Horn: “ We stood out to sea, and on the second day again made the land, when we saw on our weatherbow this notorious promontory in its proper form-veiled in mist, and its dim outline surrounded by a storm of wind and water.” It was an awesome historic moment, for both of us, albeit at different centuries!!!

A Personal History, by Katharine Graham (1997).

This is a book on three levels: A fascinating business history of a company that has been run by three generations of one family, the story of Phil Graham, Katharine’s husband, and her father’s choice as a successor to the paper and of course, and most memorably, of Katharine Graham herself. After her husband committed suicide, her transformation from a coddled child of a wealthy family to a woman famous in her own right is an exceptional tale told with humor, acquired wisdom and levelheadedness.

Crow Lake, by Mary Lawson (2002).

This book probably doesn’t hit many radar screens, but it did have resonance with me. Set in the wild terrain of northern Ontario, an area

that we have vacationed for over 15 years, it describes the tragedies and choices of a farming family through the generations. The story is told through the voice of the protagonist, Kate Morrison. Reality and perception walk a fine line through the interactions of the Morrison siblings. It is the consummate drama of family love and misunderstanding, of resentment, and of choice.

Touching the Void, by Joe Simpson (1989).

While descending a mountain in the Andes, Simpson broke his leg. His partner was forced to do the unthinkable: he cut the rope between them. Simpson survived the fall, existed without any supplies in the harshest winter conditions, and then crawled down the mountain and over the glacial moraine to find help. Any of these events would have stopped an ordinary person, but to combat all the obstacles makes for hair-raising reading.

The Future of Ice: A Journey into Cold, by Gretel Ehrlich (2005).

Poetic and lyrical, this author has a wide range and command of the English language. This is an up-close-and-personal look at global warming and its significance to future generations who inhabit planet Earth. Her laboratory is the seventy-mile Paine circuit in the Southern Andes. She writes, “Now the odyssey we human beings in the *developed world* have embarked upon is almost too darkly insane to contemplate. The scandal of *improvement* has meant that we’ve reduced the parallel worlds of spirit, imagination, and daily life to a single secularized lump. The process of empire building is a kind of denigration. Nothing that’s not nuts and bolts and money-making is allowed in.”

Moneyball, by Michael Lewis (2003).

On the eve of the 77th All-Star Baseball Game in Pittsburgh, baseball fever has consumed this city. This book is a must read for baseball fans and a great read for non-baseball fans. It’s a story of how Billy Beane, the General Manager of the Oakland Athletics, achieved a winning

record over the past 6½ seasons competitive with the strongest baseball franchises with just a fraction of players salaries.

Team Name	2000-2006	
	Total Wins	Total Salaries (\$Mils)
New York Yankees	632	\$1,071
Atlanta Braves	611	641
St. Louis Cardinals	624	564
Oakland A’s	616	333

He accomplished this extraordinary feat by exploiting market inefficiencies; the same thing we look at in the investment markets.

The Time Traveler’s Wife, by Audrey Niffenegger (2004).

Barnes and Noble classifies this book as an alternative reality. It joins a select reading list that includes works by: Harry Turtledove, H. G. Wells, Madeline L’Engle, Isaac Asimov, Ray Bradbury, Nevil Shute, among others. This book is a contemporary novel of a time travel romance. It is fantastically creative writing for an inaugural book.

Here are some others on the current reading to-do list:

Groupthink, by Irving L. Janis (1982). (A book on the complexities and pitfalls of group decision-making).

Green Monday, by Michael M. Thomas (1980). (A novel about the stock market. It is reported to be the best ever written).

Devil Take the Hindmost, by Edward Chancellor (1999). (Erudite; articulate history of manias and panics).

Seven Years in Tibet, by Heinrich Harrer (1953). (An Austrian climber befriends the young Dalai Lama).

Terra Incognita, by Sara Wheeler (1996).
(Explorations in Antarctica).

Power vs. Force: An Anatomy of Consciousness, by Dr. David R. Hawkins (2001).

Titan, by Ron Chernow (2004).
(History of John D. Rockefeller, Sr.).

Deep Simplicity: Bringing Order to Chaos and Complexity, by John Gribbon (2005).

Men to Match My Mountains: The Opening of the Far West, 1840-1900, by Irving Stone (2001).

The World is Flat, by Thomas Friedman (2005).

Old favorites that should be revisited:

The Fountainhead, by Ayn Rand (1943).

Watership Down, by Richard Adams (1972).

Undaunted Courage, by Steven Ambrose (1997).

Truman, by David McCullough (1992).

These books are eclectic, entertaining, thoughtful, educational, creative, exploratory, stimulating.

Enjoy!

Sincerely,

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