

My Big Fat Investment Idea

The following letter was recently published in the Beaufort Gazette, a South Carolina Paper:

“I’d like to join in on the blame game that has come to define our national approach to the ongoing environmental disaster in the Gulf of Mexico. This isn’t BP’s or Transocean’s fault. It’s not the government’s fault. It’s my fault. I’m the one to blame and I’m sorry. It’s my fault because I haven’t digested the world’s in-your-face hints that maybe I ought to think about the future and change the unsustainable way I live my life. If the geopolitical, economic, and technological shifts of the 1990s didn’t do it; if the terrorist attacks of Sept. 11 didn’t do it; if the current economic crisis didn’t do it; perhaps this oil spill will be the catalyst for me, as a citizen, to wean myself off of my petroleum-based lifestyle. ‘Citizen’ is the key word. It’s what we do as individuals that count. For those on the left, government regulation will not solve this problem. Government’s role should be to create an environment of opportunity that taps into the innovation and entrepreneurialism that define us as Americans. For those on the right, if you want less government and taxes, then decide what you’ll give up and what you’ll contribute. Here’s the bottom line: If we want to end our oil addiction, we, as citizens, need to pony up: bike to work, plant a garden, do something. So again, the oil spill is my fault. I’m sorry. I haven’t done my part. Now I have to convince my wife to give up her S.U.V.” – Mark Mykelby

I find the author’s sense of personal accountability inspiring and felt compelled to share this letter with our readers. Notwithstanding, when it was suggested I write about the implications of the recent oil spill, it was (most likely) in the context of investing. We teased our recent [What’s the Big Idea?](#) networking event by asking the question: “How can you make the most of the BP oil spill?” That might sound a little tacky,

but if your portfolio manager hasn’t addressed this question, then you need a new one. It’s our responsibility as stewards of your capital to be agile and responsive to such events. This includes both breakdowns and breakthroughs, any of which could present an investment opportunity for the keen observer. So, let’s talk about a chain reaction of black swan events culminating with the disaster in the Gulf of Mexico (GOM) that has resulted in one of the best investment opportunities we have seen in a long-time: ATP Oil & Gas (ATPG).

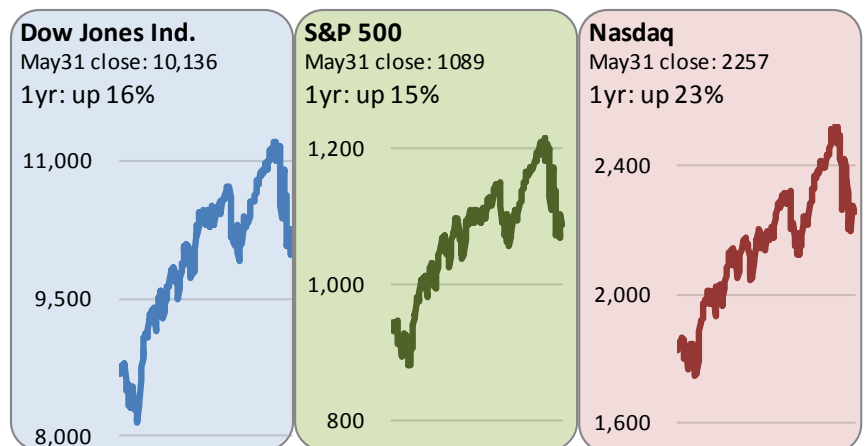
ATP Oil & Gas (ATPG)

ATP is a deepwater driller. Say WHAT?! That’s right, a deepwater driller. For this reason CUSH has chosen to provide this double issue covering our strategy and thought process and offering full transparency into one of our investments that has been affected by this horrific accident.

Moratorium by definition is a temporary thing, but the market has priced ATP as if the ban on off-shore drilling was permanent. This is wrong-headed. Oil experts agree that all the easy oil has been found. New oil supplies must come from deepwater. Regardless of your personal position about what should be done to address our oil needs, at CUSH we’re in the business of dealing with present day events

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“A chain reaction of black swan events culminating with the disaster in the Gulf of Mexico has turned ATP into one of our highest conviction ideas.”



Source: Cush Capital Management, LLC / Yahoo Finance

as well as those over the horizon (OK, really bad pun, I know). The fact is that countries that were once net exporters of crude oil are now becoming net importers, and companies such as ATP are becoming more important to the US economy. Ultimately, we believe it is a question of “when?” rather than “if?” drilling will be allowed to proceed in the deepwater, and when that happens we believe the stock can quadruple.

In the meantime, ATP shares are well protected. ATP has over \$350mm in cash and available credit with no major debt maturities until 2015. Moreover, Chairman and CEO Paul Bulmahn assured me last week in a telephone conversation that the company was generating enough cash from existing wells to suffer through even a worst-case scenario: a long and drawn out congressional fight that results in the Gulf of Mexico being down for up to four years.

Valuation

CUSH first established a position in ATP in February, 2010, at about \$17 per share. This was after being introduced to the idea by Seeking Alpha contributor Devon Shire. Mr. Shire is a chartered accountant in offshore banking who authored one of the most compelling investment theses we had seen in a long time. And, while we never make an investment without doing our own research, we also seek to benefit our clients by collaborating with other intelligent investors. Accordingly, a portion of what we share in this newsletter is taken from an analysis originally posted to our blog ([Above Average Odds Investing](#)) by Mr. Shire:

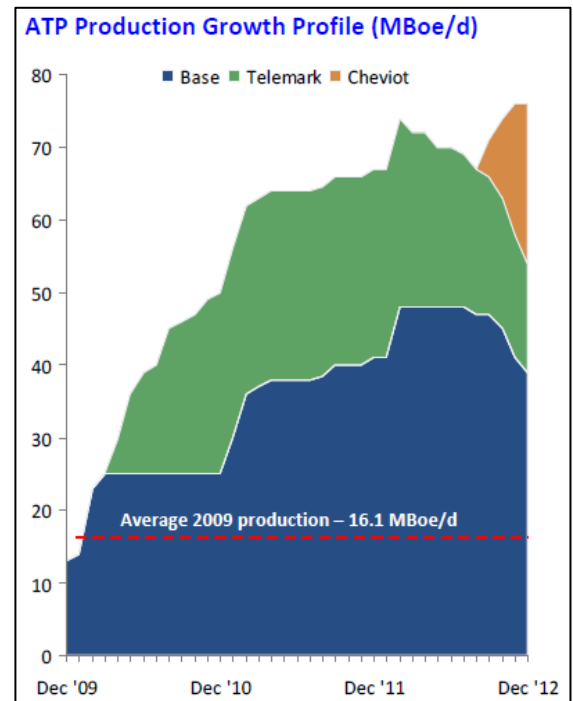
ATP’s Telemark property is about to double the company’s production (see graph top right). ATP’s average daily production in 2009 was 16,000 barrels of oil per day. They are now at 30,000 barrels per day and, before the moratorium, management had forecast 50,000 barrels per day by year-end. This is not a subtle change, and it will surprise many market followers. This graph doesn’t

represent a 5-year plan that is going to take all kinds of capital investment. The \$1.2 billion needed to get this project ready to go has been spent. This is development of proven reserves, not exploration. The risk was financing this project, not the production of the oil. Even before the BP oil spill the market was ignoring what will be a game-changer for ATP.

To value ATP we estimate future cash flow (EBITDA for you more wonky investing types) based on management’s production forecasts (pre-moratorium) and oil and gas prices consistent with today’s prices and those forecast by the trading of futures contracts. Accordingly, we expect ATP to generate approximately \$1B in cash by 2011/2012, and here again, keep in mind these are our estimates pre-moratorium.

To ballpark ATP’s value we use a range of 3x to 6x EBITDA, which is consistent with other players in the industry. Adjusting for debt, that puts a fair value range on ATP shares of \$33 - \$87 in 2011/2012. That’s a wide range, but remember -- we are trying to gauge the future here and that is inherently messy. The best we can really hope for is to be directionally correct. With ATP trading at \$12, that direction is clearly up! Remember Warren Buffett’s famous quote: “*I don’t need a scale to tell a man is fat.*” ATP is fat!

Notwithstanding the foregoing analysis, as a part of our due diligence we value a company from several different angles in order to build conviction in a company’s true underlying value. Accordingly, we would point out the following: 1) the range of valuations



above is consistent with the recent price paid by Exxon Mobile to acquire XTO (another mid-sized oil and gas producer) last year, and 2) the net underlying value of ATP's reserves (called PV-10 in the industry) is \$4B. After adjusting for other assets, taxes, and debt, we still end up with a target price of \$30 per share, and that ignores the potential upside in "probable" reserves. We believe this upside could be very large, but as the company is currently trading at a wide discount to proven reserves, we will not go into depth here.

Back in February, an investment in ATP was all about their Telemark project which was commencing production. This project, which has been three years in the making, will transform the company. But, it certainly wasn't easy to finance the \$1.5 billion dollar project through the worst financial market crisis of a generation, the worst oil price collapse ever, and losing 50% of their production for four months due to the 2008 hurricanes (Gustaf and Ike). And now, as if to add insult to injury, just about the time ATP is all set to show the world what it can do they are faced with a moratorium brought on by the worst ecological disaster the U.S. has ever seen. Ugh!

Background

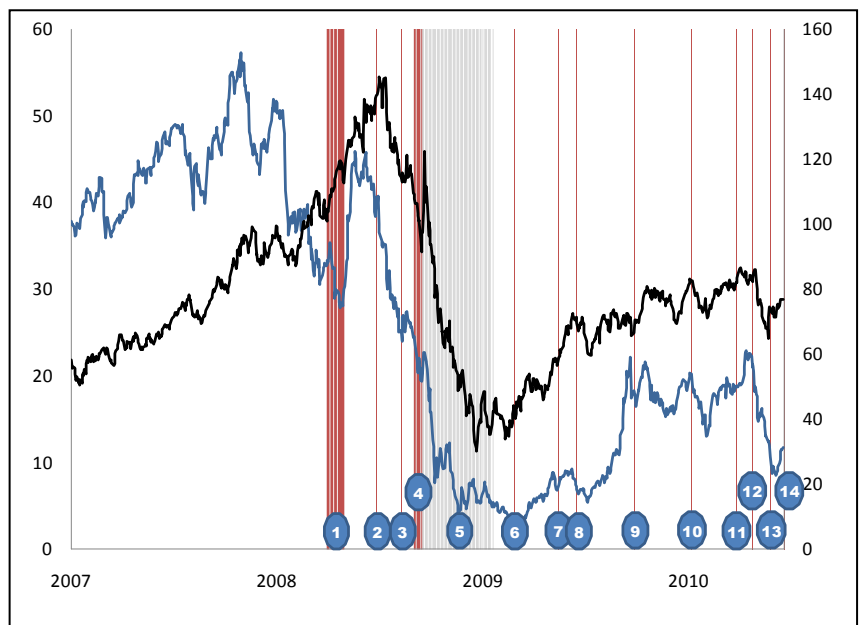
While the company has had a tumultuous past, it is important to point out first that there was never much doubt about ATP's net asset value. The doubt was whether they could maintain enough operating liquidity during the development phase of their Telemark property. The following is a timeline of events which helps understand why the share price ended up at such a discount to the value of the assets. Each event is marked on the chart – ATP's share price is in blue (left axis) vs. the price of oil in black (right axis):

1. **Spring, 2008:** ATP's management team, frustrated with the then stock price of less than \$40 per share, began to implement a strategic plan to sell off pieces of their

portfolio in an attempt to communicate the true value of the company to Wall Street (e.g., if they sold off 10% of their assets for x, then the market could figure out that 100% of their assets are worth 10x). Several bidders show strong initial interest.

2. **June, 2008** (right before the worst of the financial panic): On the strength of the foregoing negotiations, ATP borrows an additional \$600mm to accelerate the completion of the Telemark project. In hindsight, this was an aggressive move, but management thought it prudent for two reasons: 1) Telemark was and is a game-changer for ATP that will double production, and 2) the additional debt was meant to be very short-term in nature as it was management's plan to repay this debt from the proceeds of the imminent asset sale.

3. **August, 2008:** Based on newly gathered production and seismic data, ATP revises its total reserve estimate upward by 80mm barrels, or 40%! But, this falls on deaf ears as the world is now starting to fall apart, oil prices are heading south and buyers are getting spooked. As a highly-leveraged oil producer, ATP becomes a popular short-selling target.



4. **September, 2008:** Hurricanes Ike & Gustaf hit the Gulf of Mexico. ATP is not hurt, but downstream pipelines are damaged.

5. **September, 2008 – January, 2009 (shaded grey):** Nearly 50% of ATP's production is offline for four months while pipelines are repaired. The failure of Lehman Bros. ignites a financial panic that brings the capital markets to a dead halt. Oil and gas prices collapse. This is the darkest time for ATP. They are able to keep themselves afloat by selling property in the UK and monetizing hedges, but bankruptcy is a real risk.

6. **March, 2009:** In what marks a turning point for ATP's stock, management is able to grab a lifeline by selling a 50% interest in one of their production platforms to GE.

7. **May, 2009:** ATP strikes a deal with key vendors to perform \$200 million of the work on Telemark in exchange for a share of future revenue. This is a good sign. The agreement shines a light on the quality of the Telemark property, as these vendors (who have superior knowledge of the property) have agreed to take on full production risk.

8. **June, 2009:** The capital markets loosen a little bit and ATP raises about \$75mm by issuing common shares. This is painful dilution for existing shareholders, to be sure, but Telemark is now going full steam ahead and the cash is needed.

9. **September, 2009:** ATP takes advantage of a much higher share price (~\$20) and raises \$225 million from an equity issuance and convertible preferred issuance, as well as \$80 million from the sale of pipeline assets. Again, this was painfully dilutive given the net asset value of the company, but this large chunk of cash places the company on more solid ground.

10. **February, 2010:** Telemark begins production. CUSH establishes a position shortly after.

11. **April, 2010:** ATP closes a \$1.5B senior note offering. In a stroke of luck, the financing

that ensures ATPs long-term survival closes one day before the BP oil spill.

12. **April, 2010:** BP Oil Spill.

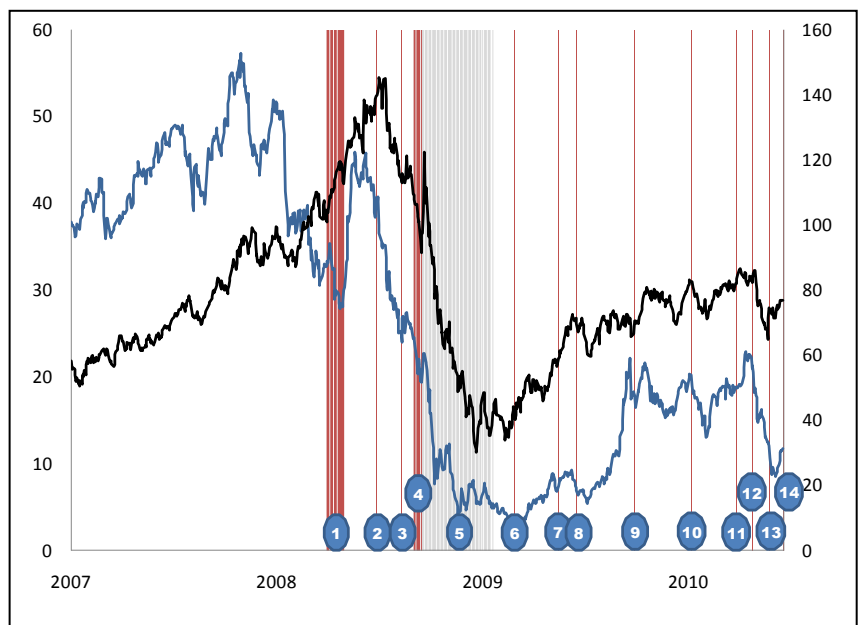
13. **May, 2010:** Moratorium on deepwater drilling announced by the Obama Administration.

14. **June, 2010:** Moratorium overturned by Judge Martin Feldman.

While our research gives us confidence in the underlying asset value of ATP, today's investment in ATP is all about the moratorium. We continue to hold ATP and buy more at today's prices because of our analysis of the value of ATP as a company coupled with our belief that the moratorium will be lifted.

Why the Moratorium Won't Last

1. The U.S. needs the Oil
2. Public Outcry / Economic Consequences
3. Questionable justification for original moratorium
4. Original moratorium has already been overturned
5. Administration is already discussing a more limited moratorium that would be



- great news for ATP
6. Potential Gross Negligence on the part of BP

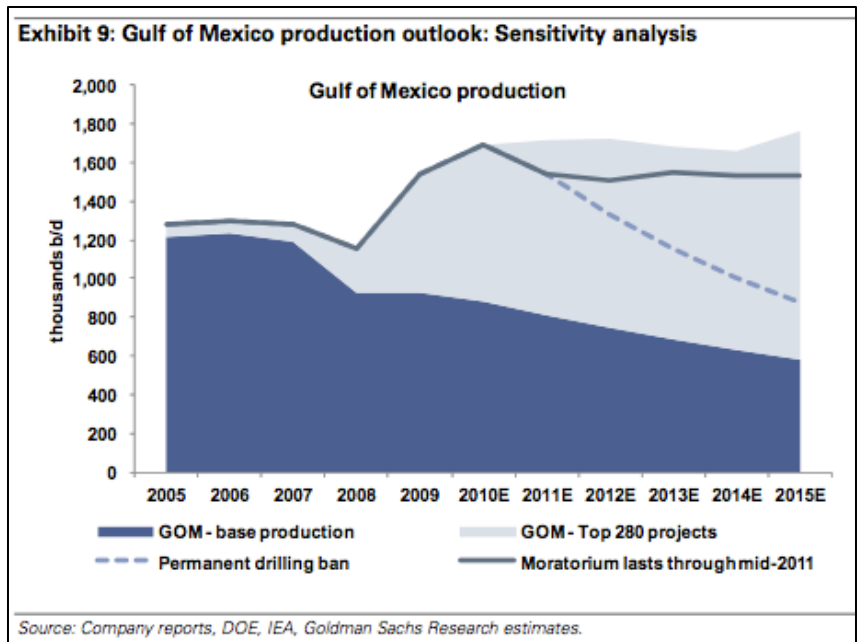
The U.S. Needs the Oil

“While new project start-ups are not meaningful over the next few years, the ability to continue to drill exploration and development wells in existing fields is key to maintaining production. As such, a permanent drilling ban would have a material negative impact on our Gulf of Mexico production outlook, with production potentially falling to below 900,000 b/d in 2015, versus our current forecast of just over 1.75 million b/d.” – Goldman Sachs.

The chart (top right) shows Goldman’s forecast and the potential production gap of 850,000 b/d, or 310 million barrels per year, that would result from a permanent ban. That would have to be made up for with imports, conservation, or alternatives. To see why we don’t think this is feasible, compare that number to the 27.7 million barrels of oil equivalent produced from all solar and wind power in the U.S. in 2008. We would have to increase our alternative energy from solar and wind by a factor of 10x to meet the gap. This seems highly unlikely, especially considering the subsidies that would be necessary. We simply don’t have the money to pay for it (please see our [February Newsletter](#) for more of our thoughts on our fiscal imbalances).

Public Outcry / Economic Consequences

The moratorium on offshore drilling is shaping up to be one of the most contentious elements of President Obama’s response to the crisis. The Gulf communities hit hardest by the spill are also the ones leading the charge for the Obama administration to lift its six-month ban on deepwater oil drilling. Louisiana politicians are railing against the moratorium, saying it will close businesses and impoverish entire areas. Estimates of lost



jobs range as high as 150,000. These same politicians have begun a campaign to get Washington to lift this moratorium and unanimously passed a bill in the Louisiana Legislature asking that the moratorium be shortened. What follows are a few snippets from articles quoting politicians and others working to get the ban lifted.

- Mississippi Republican Gov. Haley Barbour agrees that there needs to be an investigation, ... “but you also have to keep in mind that over the last 50 years, we’ve drilled about 30,000 offshore rigs (in the Gulf), and this is the first real significant spill we’ve seen,” said Barbour spokesman Dan Turner. “When an airplane crashes, we don’t shut down all the airlines.”
- At a congressional hearing held June 21, the widows of two Deepwater Horizon crewmembers called for stepped-up safety enforcement in the offshore drilling industry and voiced their support for continuing to drill offshore. “I fully support offshore drilling and I always will,” said Natalie Roshto of Liberty, Miss., whose husband, Shane, was among 11 people killed in the blast.
- In a letter dated June 23 to Mr. Obama and Interior Secretary Ken Salazar, Gov. Bobby

Jindal of Louisiana wrote: "During one of the most challenging economic periods in decades, the last thing we need is to enact public policies that will certainly destroy thousands of existing jobs while preventing the creation of thousands more."

Questionable Justification

Shortly after the BP spill, the Obama administration tasked the Department of the Interior and the Minerals Management Service with pulling together a preliminary report on the causes of the accident and to draw up new safety recommendations for the industry. This report, which was issued on May 27th, was used as the primary basis for the moratorium which was implemented on May 28th.

But in what has become something of a black eye for the Obama administration, eight of the "experts" the Obama administration listed in its report said their names had been "used" to "justify a political decision." These experts forcefully rejected a moratorium, which they argued could prove more economically devastating than the oil spill itself and "counterproductive (to) safety."

The report the experts agreed to did address moratoria: It recommended a six-month ban on new deepwater permits. But an all-out ban on deepwater drilling was never discussed and could only have been politically motivated (per the experts). Several said they had, in fact, received "apology" notes from the Interior Department acknowledging the misrepresentation. "We did not mean to imply that you also agreed with the decision to impose a moratorium on all new deepwater drilling," read one.

A big reason why those experts would have balked is that they recognize the moratorium is indeed a threat to safety. There are at least four reasons why: 1) The ban requires oil companies to abandon uncompleted wells. The process of discontinuing a well, and then later re-

entering it, introduces unnecessary risk. BP was in the process of abandoning its well when the blowout happened. 2) The ban is going to push drilling rigs to take jobs in other countries. The ones that go first will be the newest, biggest, safest rigs, because they are most in demand. The ones that go last and come back first are the ones that aren't as modern. 3) The indeterminate nature of this ban will encourage experienced crew members to seek other lines of work--perhaps permanently. Restarting after a ban will bring with it a greater mix of new people who will need to be trained. The BP event is already pointing, in part, to human error, and the risk of that will increase with a less experienced crew base. 4) Finally, a ban will result in more oil being imported on tankers, which are "more likely" to spill oil than local production.

Moratorium Overturned

On Tuesday, June 22, Federal Judge Martin Feldman struck down the moratorium, calling it rash and heavy-handed and saying the government simply assumed that, because one rig exploded, the others pose an immediate danger, too. In siding with the plaintiffs, Judge Feldman asked "If some drilling equipment parts are flawed, is it rational to say all are? Are all airplanes a danger because one was? All oil tankers like Exxon Valdez? All trains? All mines? That sort of thinking seems heavy-handed, and rather overbearing." He also warned that the shutdown would have an "immeasurable effect" on the industry, the local economy and the U.S. energy supply. Feldman's ruling prohibits federal officials from enforcing the moratorium until a trial is held. He did not set a date. In his ruling, the judge called the spill "an unprecedented, sad, ugly and inhuman disaster," but said Interior Secretary Ken Salazar's rationale for the moratorium "does not seem to be fact-specific and refuses to take into measure the safety records of those others in the Gulf." Feldman said he was

"During one of the most challenging economic periods in decades, the last thing we need is to enact public policies that will certainly destroy thousands of existing jobs while preventing the creation of thousands more."

- Bobby Jindal

"unable to divine or fathom a relationship between the findings and the immense scope of the moratorium." The judge said the blanket moratorium "seems to assume that, because one rig failed, and although no one yet fully knows why, all companies and rigs drilling new wells over 500 feet also universally present an imminent danger." Feldman said an estimated 150,000 jobs are directly related to offshore operations. Feldman went on: "An invalid agency decision to suspend drilling of wells in depths over 500 feet simply cannot justify the immeasurable effect on the plaintiffs, the local economy, the Gulf region and the critical present-day aspect of the availability of domestic energy in this country."

New More Limited Moratorium

Some pundits may question Judge Feldman’s partiality or rationale, but that is not a critical factor for our analysis. Politics continues to prevail, and on Wednesday, June 23, after the ban was overturned by Judge Feldman, Secretary of the Interior Ken Salazar told congress that the Obama administration is revising its blanket moratorium on deep-water drilling and could replace it with a more targeted ban that lets some projects go forward. Salazar had earlier suggested that the new ban could treat drilling projects differently based on risk - distinguishing between projects in well-known reservoirs [like ATP’s] and those trying to tap new fields where pressure readings and other data are unavailable. The distinction could mean a continued blockade of exploratory drilling even as the government outlines plans for letting companies resume drilling appraisal wells and development wells where pockets of oil already have been discovered. [This would be great news for ATP as they are predominantly a driller of known reserves!] The doomed BP well was in the exploratory stage. Sen. Lisa Murkowski (R-Alaska) said 28 of the 33 Gulf rigs idled by the deep-water ban were working on the less risky post-discovery projects. "There is a

difference between an exploration well you're drilling in formulations where you don't know anything ... versus drilling into reservoirs where you already have the geophysical information," Salazar said. Sen. John Cornyn (R-Texas), who has been critical of the broad moratorium on deep-water drilling, said Salazar's suggestion of a more narrowly drafted ban was promising, adding that it also is important to try to find ways to mitigate job losses.

Gross Negligence on the part of BP?

Gross negligence on the part of BP in and of itself does not support the conclusion that deepwater drilling is safe, but we believe that the more this crisis can be attributed to human error and negligence, the more likely it is that the voices of Louisiana politicians and others will be heard. There is certainly a lot of evidence to draw BP’s activities into question. The well was badly behind schedule and losing hundreds of thousands of dollars a day. BP responded by cutting corners in the well design, cementing and drilling mud efforts and the installation of key safety devices. Time after time, it appears that BP made decisions that increased the risk of a blowout to save the company time or expense. The following is from the New York Times (<http://www.nytimes.com/2010/06/06/us/06rig.html>):

Mechanical problems started in March with the Deepwater, setting the stage for the April 20 explosion. More than five weeks before disaster, the rig was hit by several sudden pulsations of gas called “kicks” and a pipe had become stuck in the well. The blowout preventer, designed to seal the well in an emergency, had been discovered to be leaking fluids at least three times.

BP had fallen behind schedule and over budget, paying roughly \$500,000 a day to lease the rig from Transocean. The rig was 43 days late for starting a new drilling job by the day of the explosion, a delay that

“A more narrowly defined ban focused on riskier exploratory wells like BP’s would benefit ATP.”

had already cost the company more than \$21 million.

With the clock ticking, bad decisions went unchecked, warning signs went unheeded and small lapses compounded.

On April 1, a job log written by a Haliburton employee, Marvin Volek, warns that BP's use of cement "was against our best practices."

An April 18 internal Haliburton memorandum indicates that Haliburton again warned BP about its practices, this time saying that a "severe" gas flow problem would occur if the casings were not centered more carefully.

Around that same time, a BP document shows, company officials chose a type of casing with a greater risk of collapsing.

Despite noticing cementing problems, BP skipped a quality test of the cement around the pipe. Federal regulators also gave the rig a pass at several critical moments. After the rig encountered several problems, including the gas kicks and the pipe stuck in the well, the regulators did not demand a halt to the operation. Instead, they gave permission for a delay in a safety test of the blowout preventer.

Tests shortly before the well blew out found a buildup of pressure that was an "indicator of a very large abnormality," BP concluded and disclosed to Congress in a preliminary report last month. Yet, the rig team was satisfied after another test was deemed successful, and it proceeded.

BP made a series of money-saving shortcuts and blunders that dramatically increased the danger of a destructive oil spill in a well that an engineer ominously described as a "nightmare" just six days before the blowout.

Other Reasons for Buying ATP

As recent events have unfolded, ATP has become something of a special situation whereby much of our expected future gain is not directly related to the company itself, but based on the outcome of the moratorium. As a part of our due diligence, however, we always take into consideration a more comprehensive view of a company. Periodically, our research efforts will turn up certain "intangibles" that add to our comfort level in owning an investment. In ATP's case there are two worth mentioning:

Management: ATP has a solid management team. CEO and Chairman Paul Bulmahn founded the company in 1991 and started operations in his own living room. He is the largest individual shareholder, owning roughly 12% of the company. He has a huge personal fortune, as well as his personal pride and ego, on the line with ATP, so he is truly an owner/manager. We like to align our capital with management teams that have a lot on the line. It only makes good common sense.

Safety / Technology: Management's decision to invest significantly in state-of-the-art technologies has helped position ATP as a leader in the industry. We believe that this will allow them to stand out as a lesser risk as authorities continue to assess and reassess drilling in deepwater environments. Specifically, ATP uses redundancy Blowout Preventers. They are among the first in the industry to do this, and this is important because having a redundant Blowout Preventer was one of the key recommendations made in the Department of the Interior's report dated 5-27-2010. Moreover, ATP's Titan production platform, which has been deployed in the Telemark property, is a first of its kind and is compliant with more stringent post-Katrina regulatory criteria.

"We like to align our capital with management teams that have a lot on the line. It only makes good common sense."

While we take some measure of confidence in the safety measures that ATP has implemented, it is important to note that even with all the precaution in the world, there is currently no adequate cure for this problem, and accidents do happen. If this HAD happened to ATP, it would not have been good. We recognize this, and while ATP has become one of our highest conviction holdings, there is simply no way to sidestep the catastrophe risk (no matter how small that risk might be). We want our clients to know that just as we do with every CUSH investment, we account for even idiosyncratic risks when determining an appropriate position size.

Building Trust through Understanding

What I have tried to do with this newsletter is use a relevant if not extreme real life situation to demonstrate our philosophy of transparency and creating educated partner/clients. In this case we have shared a little bit of our thought process and rationale for holding a company whose short-term fortunes have been linked with BPs. As a part of our general mission statement (printed on the back of every newsletter) we seek to build trust with our clients by educating them about investments. That is why I take so much extra time and effort to write these newsletters and this month to communicate ATP's story. I want our investors to have full transparency into the decisions we are making on their behalf. Our clients know that we go to great lengths in researching their investments. They also know that there is a reason we get excited when ATP's stock price declines because it affords value investors like us the opportunity to buy more shares in a company we already believe in; a company with real assets; good technology; sound management, and an extremely high likelihood of successfully navigating through the murky political maelstrom of the next 6 months. My intention is that this newsletter will strengthen our

clients' confidence in the decisions we are making on their behalf. •

Above Average Odds Investing Club

Would you like to learn more about how you can be a part of a team of individuals devoted to finding more opportunities like ATP?

With the support of the [American Club Association \(ACA\)](#), CUSH has introduced this exciting new organization to the Kansas City area called the [Above Average Odds Investing Club \(AAOIC\)](#). The club is exclusively comprised of investors and business owners who come together to share new and interesting investment ideas. In an atmosphere of complete confidentiality, our members learn about investments and engage in candid discussions about a wide range of issues. They enhance their expertise via active collaboration with peers, and benefit from opportunities to expand their business relationships in a casual networking environment of other like-minded investors. Moreover the group seeks to hold each member accountable to sound investment rationale and business practices associated with responsible stewardship of financial resources.

Since AAOIC will be an investment forum for only a select few savvy investors who qualify, the club will be an invaluable resource. Scientists, lawyers, physicians, engineers, technologists, financiers, entrepreneurs, professionals from all disciplines, as well as businessmen and women, will each add their own perspective on investing to the club discussion. Call us today for more information. •

Our Mission

CUSH Capital seeks to educate our clients about the market and serve as trusted advisor. By customizing and tailoring financial plans to each client, we strive to create a shared vision of your future. CUSH Capital provides our clients the tools and resources to implement this future. This is only made possible by our independence, which eliminates conflicts of interest and allows us to act as a fiduciary in all matters. We recognize the great depth of our responsibility with regard to our clients' financial future, and we don't take that lightly. Ultimately, our goal is to assist our clients in creating the most secure, comfortable and meaningful lives for themselves and for their families. In every way, in all that we do, we are committed to serving our clients with discretion, honesty, and integrity.

The Strategy

At our core we are value investors, but in truth our philosophy so clearly differs from that of the herd. We have little difficulty distinguishing ourselves from the frenetic hyperactive trading strategies profiled on the financial news channels and common to so many other advisors. We offer a better alternative by selecting high quality stocks and bonds for the long-run. This low turnover, tax efficient approach is considered one of the most successful techniques for compounding wealth ever created. The key points are:

1) Targeting businesses with long-term sustainable competitive advantages. This allows investors to compound gains and avoid excessive transaction costs. (Short-term selling and reinvesting can substantially eat up profits due to trading costs and tax consequences compounded over time).

2) Recognizing that stocks are businesses with an intrinsic value that correlates to success in the longer-term. This intrinsic value CAN be measured, but it takes serious work to do that well.

3) Knowing that it is rare to find a great company with a sustainable competitive advantage trading at a discount to its intrinsic value. When these opportunities present themselves you have to be prepared to invest with conviction.

Vern Cushenbery, CFA, CPA Chief Executive Officer

I founded CUSH Capital to deliver my clients the kind of trusted financial advice and portfolio management that is so rare in the financial community.

My years of experience in consulting allowed me to audit the portfolio strategies used by the very best. There is no substitute for hard work in this business -- no secret sauce. The only way to succeed in the long-run is to do your own research and think for yourself because if you follow the crowd or get caught up in the confusion of the financial press, then you are certain to fail.

CUSH Capital pioneered the concept of **wholesale investing**. We do our own research; we don't outsource, we **in-source**. Not only does this keep us independent, but it also lowers your fees. I publish this newsletter to keep clients involved and informed. I invite you to become a part of our team. Visit our website to subscribe to this newsletter today, or call me. I will be happy to answer any questions about your financial future.



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Sincerely,

Vern

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Mr. Cushenbery has more than a decade of experience in portfolio management and research. He was formerly Chief Investment Officer with Legacy Investment Management, and prior to that he was with the Buffalo Funds. He holds an MBA and a Masters of Accountancy degree from the University of Missouri at Kansas City, and a BS in Finance from Kansas State University. As a CFA Charterholder and Certified Public Accountant, Vern is uniquely qualified as an investment advisor.

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