Motley Fool ONE Exclusive:
Chuck Akre Interview

BILL MANN:

So the last time The Motley Fool gave me a microphone in front of a bunch of people, I asked Elon Musk whether he thought it was awesome when his rocket blew up, so I'll try to do a little bit better this time. He was not very excited at that question I recovered, but he has yet to return any of my emails, and he actually did this to me, so…

I'm joined by Chuck Akre from Akre Capital Management, who is a wonderful friend of The Fool's. He is a dynamic investor, hails from Middleburg, Virginia somewhere between and hour and six hours from here, depending on the traffic. So Chuck and I were just going to have a discussion about investing and we'll open it up for questions at some point, and we'd love to hear from you all.

Chuck, do you want to introduce yourself and your fund? So Chuck is someone; have you all ever heard the term "narrowly famous"? No? That's because I made it up, but someone who's narrowly famous is someone who's well known within a certain industry or within a certain group. You'll think of like, game designers would be narrowly famous. Chuck is someone who is very well known within the investment industry and so I feel like I'm on stage with just someone who is just fantastic and fabulous and so I'm just delighted to have him here. So Chuck?

CHUCK AKRE:

Thanks, Bill. I got his lunch for him, so... Narrowly famous is different from being a legend in your own mind?

BILL MANN:

It's kind of the opposite actually.

CHUCK AKRE:

Great. We have a small investment management firm that we located a decade ago out in Middleburg, Virginia, and we manage about a billion eight, and a good portion of that is in a public mutual fund called the Akre Focus Fund, and our style is not conventional, but we think it's conservative and the goal of our investment style is to have an outcome which is likely to be better than average with what we believe is a below-average level of risk. And for more than 20 years, the outcomes that our clients have experienced would reinforce that notion.

BILL MANN:

So Chuck, I thought it would be fun actually to start it with a game that we've played regarding compound interest and so I wanted to turn it over to you. I thought maybe we could do it with a show of hands.

CHUCK AKRE:

Great, so I need one volunteer here. Right here, this gentleman right here in the green striped shirt, a pair of braces. Does he have a belt on as well?

MALE:

Hell no!

BILL MANN:

He's a risk taker. (laughter.)

CHUCK AKRE:

So you know the old game is that I've got my hand behind my back, both hands, and in one hand, in the right hand, I've got the sum of a penny doubled every day for a month. In the left hand, I've got a million dollars. And so my question to you is which do you want?

AUDIENCE MEMBER:

(Inaudible.)

CHUCK AKRE:

So you want the penny one, right?

AUDIENCE MEMBER:

Yes.

CHUCK AKRE:

So I figured you'd probably do that, so I'm actually going to make the left hand $2 million. Which do you want?

AUDIENCE MEMBER:

I'm still going to stick with (inaudible.)

CHUCK AKRE:

All right, so two million two.

AUDIENCE MEMBER:

Now my math skills (inaudible).

CHUCK AKRE:

So…?

BILL MANN:

It's pretty good, two million two?

CHUCK AKRE:

You're taking a little bit too long, so I'm actually going to make it two million three.

AUDIENCE MEMBER:

I think I'll still stick with (inaudible.)

CHUCK AKRE:

Still stick with the penny? Two million three fifty.

AUDIENCE MEMBER:

Two four and (inaudible.)

BILL MANN:

Sold.

CHUCK AKRE:

I'll give you that, and you're the loser. A penny doubles in 30 periods, 31 days, to ten million, seven hundred and some-odd thousand dollars. The arithmetic is very simple. It's 30 periods and the return is 100%, so 100% compounded for 30 periods, and most of us do things like well, 1, 2, 4, 6, 8, 16, 32, 56, 128 and so on; we can't get there. But if you start at the other side, call it ten million. Ten million, five million, two and a quarter, and so on. In seven or eight periods you're down to $500,000. It's just a short-handed way of talking about the value of compounding capital, and so what we do in our firm is try to find; it's actually the same thing Andy was talking about. We try to find businesses which are compounding the owner's capital. That is, growth in real economic value per unit of ownership. They have done so for a long period of time and we've made a judgment that they have the opportunity to continue to do so.

In our firm, we have our own Foolish logo, and that is we use a little three-legged milking stool as our visual construct for what's important, and the first of those issues is identifying this business model that has compounded the owner's capital at a high rate for a long period of time where we think the opportunity exists for it to continue to do so.

The second leg is again, following what Andy was talking about, has to do with the people who are running the business, and we want to find managers that in simple terms, treat public shareholders as their partners, even as they don't know them. That is, not only are they killers at running the business, but they see to it that every dollar that the business earns flows through to the shareholders, and so that's the second leg.

And then the third leg is the issue of what is the opportunity for reinvestment? Do they have a terrific record of the reinvestment of the excess cash and is their opportunity great? I happen to think that a manager can build or destroy more value more quickly in the reinvestment decisions than almost any other place in the business, and so when we have those three legs in place, and as we say, we're just not willing to pay very much, and we have an expectation that just as Andy was talking about, we will own that investment for a long period of time, as long a those characteristics are in place, as long as the business is compounding our capital at an above-average rate, we are likely to remain investors. Even we know that periodically they'll get overvalued and periodically they'll get undervalued, and we're just not smart enough to try to time those differences. We just want that good compounding experience to work so that our penny can turn into ten million seven.

BILL MANN:

So it sounds to me like you all find value in certain segments of the market more than you would find in other segments of the market. Would that be the case?

CHUCK AKRE:

Well that's absolutely true. Most businesses we own enjoy wide margins for one reason or another, and one of our largest investments these days is in MasterCard, which we bought during the Dodd-Frank, Durbin Amendment debates in Congress. I'll just ask for a hand here. Does anybody in this room know what, say the net margin of MasterCard or Visa is? Anybody?

BILL MANN:

Come one, Fool Analysts, you have to know this.

CHUCK AKRE:

Somebody's got to know it. It's in the mid-thirties. That's the net margin. That's the after-tax margin at a full tax rate. So what does that tell you? Well among other things, it tells me that they're doing the very best they can to hide everything. They're disclosing a 34% net margin. It also means that they've got a giant target on their back. Everybody in the related businesses wants a piece of that, and so our job as investors is to try to figure out what's causing that. What is it about their business model that allows them to have returns that are that high? And by the way, when we bought it just a couple years ago, during the Dodd-Frank discussions, we paid roughly ten times free cash flow for it, current year. I mean talk about an arithmetic bargain. It's just unbelievable.

So their job, their biggest challenge of course then is to figure out where they're going to reinvest the excess cash they generate. They doubled their dividend yesterday. That's one of the choices they have. They also put a big, another share buyback program in place, but plain as can be, they can't find other businesses that can have an impact on them that have margins that are like that. Every now and again you find one sitting; I didn't buy those stocks when they first came out. They were privately owned by the banking industry and the MasterCard and Visa both went public I guess one, two, three years ago and one about six years ago. I didn't buy them at the time; I was just asleep at the switch. I mean they're extraordinary.

BILL MANN:

Up until the point that you were talking about dividends and buybacks, it almost sounded like you were talking about Apple. I mean everything else about it just being a company that compounds at a tremendous rate, that has legions of competition that are trying to figure out what they do.

CHUCK AKRE:

There are some important differences in the business models. (laughter.)

BILL MANN:

One sells phones.

CHUCK AKRE:

Yeah, great.

AUDIENCE MEMBER:

(Unclear.)

BILL MANN:

That's right.

CHUCK AKRE:

What's that?

AUDIENCE MEMBER:

One collects transactions.

CHUCK AKRE:

There you go.

BILL MANN:

So what would you say is a key element in making a good investor?

CHUCK AKRE:

Well I've referred to John Train's book written in 1981 called The Money Masters, in which his very first chapter is on Warren Buffet, and in that chapter, Warren lays out I think eight or ten ingredients to become a great investor. They have to do with things like having controlled greed. What a notion, controlled greed. Be patient and understand what you own.

In my case, it has been a lifelong learning process and I sort of feel that if I'm fortunate and I'm working at it, that every day we get incrementally better and that this is a business that's not about science, it's not about the quantitative aspect of the business. If it were, everybody's portfolios would be run on a computer program and they wouldn't have any reason to have me or you or any of you around. So it's an issue of art; it's an issue of judgment.

And so the real question is is how do you get informed judgment? How do you build your judgment and my notion is that across your lifetime, whatever your endeavor, you take in data points and you begin to have what we call pattern recognition. You begin to recognize things that have been successful for you in the past and you think about why they've been successful and when somebody rings that bell again, you can say "I recognize this; this makes sense". Atul Gawande, who wrote the famous Checklist Manifesto book, Dr. Gawande, talks about having this checklist of things, and so you develop your own checklist, whether it's written down or in your brain about the things that are important and trying to identify what makes a successful investor.

Of course we're absolutely talking about being an investor. That is, we put our money to work, an investment by definition for us means that you think a set of circumstances is likely to unfold in the course of time and you put your money to work and wait for that to unfold. And it's very different from what goes on on Squawk Box or those things every day, which are really worried about what's going to happen in the next ten minutes or the next hour. That's not what we do. We have no facility for that whatsoever.

BILL MANN:

So you're saying that when a company turns in earnings of $1.36 versus $1.37 that was estimated as the whisper number, that's not of a great concern to you?

CHUCK AKRE:

No, it actually gives us opportunity, and the market reacts in ways which in our judgment, it doesn't make sense. We've had a couple of examples this week where things have gone on in the market and some businesses have sold off 10 or 12% or something like that, and it just gives us an example, an opportunity to put money to work again in places that we know and understand and continue to do work on, but they never ring the bell.

BILL MANN:

Yeah. We're looking for that bell. So Charlie Munger has said in the past; he's just a wonderful philosophical thinker, and he said that one thing that he believes that great thinkers do is they consistently try to kill their very closely held beliefs. Is there something over the last few years about investing that for you that has changed, that you feel like you've learned that perhaps in the past you did differently?

CHUCK AKRE:

Well you know, quite obviously in the first decade of this century, we had two market disasters and both of those had the effect of raising my humility level. It can't do anything else, and one of the things that we all recognize is that if you are an investor in businesses, whether they're public or private, will go through tough times in the businesses, but in addition to that, if you're in the public place, will go through times that are really difficult.

We were talking about this at lunch earlier. In 2008, I said to a lot of clients when they were talking to me, and maybe at a moment of distress, I said, "Well, I just want to throw up." But I didn't recommend that we get out of the market, but nonetheless, I was focused on the issue of a complete collapse of the financial system. I thought it was real and you can tell from the color of my hair that I actually was around in the '73-4 periods, and so had seen the liquidity crisis like that.

In September of 2008, Warren Buffet got on TV and said, You should buy America; I am. And I said that the observation is the market went down 35% from there. What was he thinking?

BILL MANN:

Do you remember how wrong people were saying he was? I mean they wanted; they were out for blood.

CHUCK AKRE:

Right, right. And so one of the things I was focused on was this issue of the complete collapse of the financial system. Since that period of time, people who were knowledgeable and who were sort of front and center and at the time said, we were within two days of a total collapse of the worldwide financial system.

In the last quarter, we had a big hurricane on the east coast called Sandy. In Lower Manhattan, they lost all their power, and so the people in Lower Manhattan had no access to their ATMs. They had no access to their bank accounts because it all runs over electricity. They couldn't get in stores. The registers in stores didn't work, so we had a peek at what happens when you have a complete collapse of the financial system.

My view is it will right itself. It doesn't mean that you won't have chaos or something surrounding it; that depends on how long it goes on, but the system will right itself. And when you get in the final throes of these really difficult markets, you end up with a liquidity crisis, in quotes mean nothing, because they don't reflect values, and as investors, we have to understand what it is we own. I think that's critical for us and we try to have our clients understand that, that even if they don't, we understand what it is we own. We understand the value of these businesses.

If we owned MasterCard and they shut the market tomorrow, we know that it's still creating value as a result of transactions moving away from cash and checks to electronic payments. Eighty-five percent of worldwide exchanges of value were still done with cash and checks, and so that's a pretty big tailwind for a business like MasterCard.

So trying to understand what you own and not be frightened out, not be scared out by the liquidity crises which occur periodically, and the final throes of a downturn in the market is always a liquidy crisis event. I was saying if you had five million shares of GM and you called up your broker in New York and said, I've got five million GM to go, and the guy says, You're a good client; I'll take a hundred thousand down two and I'll work the rest. It means that the last share he's going to trade at fifty cents or something like that. If you were Foolish enough to have to sell it at those times, so…

BILL MANN:

And it looks awful because you still have 4.9 million shares of whatever you sold it at last.

CHUCK AKRE:

At any rate…

BILL MANN:

So you talk about knowing what you own, but in the mutual fund business there's an additional step because for your clients, it's somewhat more difficult for them to know what you own, so in our business, we have believed forever that an enlightened investor or an enlightened client is very crucial to what we do, and I was wondering if that's something that you also believe?

CHUCK AKRE:

Absolutely. We write letters to our mutual fund clients twice a year and on a more regular basis, post a, I mean on a quarterly basis, a brief note as well. and in those letters, we try to communicate what our thought process about individual businesses and investing in general and why we own something and why it's valuable and that sort of stuff, and so I absolutely concur with your notion that having a well-educated; Sy Syms was famous for a retail clothing organization. He said, "An educated consumer is our best customer." The same idea flows for us, that is our best shareholder, our best client, is somebody who understands what it is we do.

Buck was talking about being at the Ben Graham lectures at Columbia Business School last week and talking about Seth Klarman, the famous Baupost professor in Cambridge. Seth, when I asked, how do you build a great business? He said the trick is to having the right clients, and so it's all the same issue. What we can do to be helpful, to helping investors understand what we do and why we do it will be valuable for them and as a result, for us.

BILL MANN:

Yeah, because they're not forcing you to transact at the wrong time.

CHUCK AKRE:

Right.

BILL MANN:

So this last month, the month that just ended January, was the best month for inflows into equity mutual funds since, can you guess when?

CHUCK AKRE:

Some time.

BILL MANN:

Correct. (laughter.) March of 2000.

CHUCK AKRE:

Yeah.

BILL MANN:

March of 2000, which was a pretty meaningful month in a lot of ways, because that was the beginning of the end of the dot.com bubble and a lot of the money that was flowing in. I know you were paying attention then and I was as well. A lot of the money that was flowing in was flowing into telecoms and flowing into technology companies. In the meantime, you've had some pretty interesting opportunities to get into the market over a 13-year period, and yet here we are with the Dow crossing 14,000 again, and finally people are pouring back into the market. What would you say would be the best thing to help people get over the fear and the greed cycle that causes people to really invest at the wrong times?

CHUCK AKRE:

Just a quick aside, the current mutual fund we manage called The Akre Focus Fund, we became effective September 1 of 2009, and so it's three and a third years in existence, and it's a billion four. That was not all performance, folks.

BILL MANN:

It started with one dollar.

CHUCK AKRE:

And that was at a time when net flows and equity mutual funds was negative the whole time.

BILL MANN:

Yeah.

CHUCK AKRE:

So...what's the question?

BILL MANN:

I don't remember, actually. I was excited about my dollar quip.

CHUCK AKRE:

Yeah, yeah, right.

BILL MANN:

About the fact that people seem to; the average investor seems to invest at the wrong times, and then to follow up, do you think now's the wrong time?

CHUCK AKRE:

Well the answer to the question is that I'm a paid fiduciary and people, over a period of time, build up excess assets that they need to put someplace, and one of the places they put it is in the stock market. And so we always have a job and a responsibility for being good shepherds of those funds in all environments. So the answer is we're always in the market.

And do I think now is a good time? I think now is a perfectly reasonable time. We don't know what's going to happen tomorrow. If you took the performance of the Standard & Poor's from the first of the year to yesterday or the end of January, you've got one-half of a normal year's total return in common stocks, in one month.

BILL MANN:

You are suggesting that we should just go to Maui now till September or so?

CHUCK AKRE:

So common sense would say to you, well the rest of the year, on average, will have another 5% return, on average, or something along those lines because the 80-, 90-year record of returns in common stocks is in the neighborhood of 10%. It doesn't make any difference what it is precisely, but it's high single-digits, low-double-digits. There are always terrific businesses out there that are compounding the owner's capital at high rates, which you can buy at fairly modest valuations, and that's what we attempt to do.

And so we've had good fortune in our current mutual fund and the rest of the things we manage. We've been blessed by continuous inflows of capital. We keep pretty large cash balances to be able to take advantage of times in the market such as this past week or so where there have been some disruptions in the, what I call the "beat by a penny, missed by a penny business" at Wall Street. That gives us opportunities, and we're glad to have the capital to be able to put to work, so I think now's a perfectly fine time to do that.

BILL MANN:

So your fund actually launched at about the same time that ours did. We were June of 2009, and it's been my observation…

CHUCK AKRE:

So you're much older.

BILL MANN:

Much older, yeah, yeah. We're senior. It's been my observation that over the last few years, and for a lot of very well known and very well thought out reasons that markets have tended to move thematically. They've moved on macroeconomic events rather than individual securities, individual security and individual business performance. Is that a struggle for you or are you finding that it creates more opportunities on a business-by-business basis?

CHUCK AKRE:

It's not a struggle for us. As a generalization, we don't invest thematically on a macroeconomic basis. We try to be well informed about what's going on in the world and those are part of the data points that go into helping us make judgments. But as a result, it gives us opportunity.

If you think about what the definition of a broker is, the definition of a broker is to create transactions. Wall Street has this wonderful business about how to create transactions. They set up what we believe are false expectations, and that's what I call the "beat by a penny, missed by a penny syndrome." When they do that, anybody here who has run a business knows that it's just impossible to be as accurate as predicting your economics to a penny on a regular basis over any long period of time, and so there are reasons that Wall Street creates what we think which don't make much sense, that create transactions and foolishness. That along with big macro themes periodically gives us opportunities.

BILL MANN:

So how are we doing for time? I want to make sure that I do leave it open for questions. Ten minutes until? Till done or till?

CHUCK AKRE:

So it's 28 after.

BILL MANN:

Twenty-eight after, okay. I'll just go a couple more minutes. So one of the great companies through the 1990s actually announced this past week that they're going to be taken private, which is Dell. I was wondering if you might respond to the thought that Dell will be a more efficient company as a private company outside of the glare of Wall Street? It's my own position that that's nonsense, or at least it shows a weakness of the management that's not going away by virtue of no longer being in the bright lights.

CHUCK AKRE:

I thought we were going to ask Buck that question? To be perfectly honest, I don't have an informed view.

BILL MANN:

What do you think about companies going private though, for that reason?

CHUCK AKRE:

My guess would be you're correct. That is that the cost of running a public business is enormous in ways which do not add to the value on a per-share basis. It's sort of the nature of where we've gotten to in our country and theoretically all in the endeavor to protect the individual investor from monkey business and so we actually took a close look at Dell within the last year. It's not really in our field of competence and passed. It's a difficult business to be in and we don't understand it real well, so…

BILL MANN:

What are some of your best pieces of advice for evaluating a management? Do you go out and visit them?

CHUCK AKRE:

We do. I'm very interested in how management conducts itself, both in terms of whether or not they actually write their annual messages or whether they're written by some consultant or staff member. I'm interested in how they talk about things and conference calls or in person. I'm interested in how they think about compensation and particularly as it relates to themselves and all of those things go into the mix in terms of trying to figure out who's good at compounding the owner's capital, the shareholder's capital and who's not. And every now and again, you get some anomalous things. Jim Sinegal at Costco famously took salary of just $300,000, and Warren Buffet at Berkshire Hathaway famously takes a salary of $100,000, and yet you see in the financial arena. They have this contest in the financial arena which CEO is going to get $14 million and which one's going to get $23 million and….

BILL MANN:

Because of the capital appreciation, they've both done extraordinarily well.

CHUCK AKRE:

Right. And so have the shareholders.

BILL MANN:

Yeah, exactly. Yeah, $300,000 was the beginning of their compensation, but they got it.

CHUCK AKRE:

That's right.

BILL MANN:

So I do want to open things up for questions. If someone has a question for Chuck, that would be great. We have microphones floating around, perhaps being stolen from me.

CHUCK AKRE:

Would you like my microphone?

BILL MANN:

That's right.

AUDIENCE MEMBER:

I was curious if you could briefly walk us through how you guys find companies to invest in in the first place and your investment process, how you analyze them. I know that you said before that MasterCard has a 35% net profit margin. Do you guys say screen for net profit margin and then kind of start from there, or what's your process?

CHUCK AKRE:

Do you want to go first?

BILL MANN:

I'd love to. Let me tell you how Chuck does it. (laughter.) I'll tell you how we do it. We spend a lot of time looking for great businesses, and we spend a lot of time thinking about what Chuck would call a "compounding machine" and what we think of as being a competitive advantage period. And so I believe that it is the case that companies that have done a good job in the past will continue, are much more likely to do a good job in the future, and companies that have been crappy at it in the past will continue to hold to form. That is really where we start.

Now one of the really interesting things for us is that over the last few years, one of the real outside influences in the market has been the rise of the ETFs. And ETFs in some ways are great instruments for investors, and in some ways they're great instruments for their competitors, such as us. We believe because so many people are investing thematically that there are fewer and fewer people who are looking specifically at the companies themselves, and so we look for distortions that happen because people are taking, and it's maybe a pejorative term, but taking a dumb view of the market and investing in a thematic rather than in a thoughtful way, so that's an area where we find lots of opportunity.

CHUCK AKRE:

You know, standing behind that question to me is how is it you tell if an investment is successful? So I'll actually just ask people to raise their hands and throw out an idea. How do you tell if an investment has been successful? Nobody has any idea? This is a Foolish lot.

BILL MANN:

That's right, come on.

AUDIENCE MEMBER:

If it made me money over whatever period…

CHUCK AKRE:

So if the price went up, right? Okay, suppose it's a private business in which there's no public price discovery?

AUDIENCE MEMBER:

Are they generating free cash? Does the management team seem to be acting in accordance with their mission and values?

CHUCK AKRE:

Any other ideas? Yes?

AUDIENCE MEMBER:

(Unclear.)

CHUCK AKRE:

Well the notion that I arrived at over a period of years is growth in real economic value per unit of ownership. You'll find that partially on a balance sheet with GAAP accounting. The value of the owner's account goes up. And so we're looking for businesses that are growing real economic value per unit of ownership, particularly those that are doing so at a high rate. In public accounting, in GAAP accounting, the best shorthand for that is book value per share.

It's not perfect. It has lots of problems, so we're looking for businesses that are growing book value per share at an above-average rate. If it were a private business, you know you'd figure it out on the back of an envelope or your accountant would show you that the shareholder's equity account went up (unclear). It's the same issue, and so we screen either by using a screen or just doing it in our head. We're always on the lookout for businesses that have high returns and then we go from there. That's where we start.

Then making the judgment, for example, figuring out why that exists is not necessarily easy, and it's one of the great issues that we still confront when we think about MasterCard and Visa. What is it about their business model that allows them to have those net returns that are in the mid-thirties?

What we've concluded in a very imprecise way is that it relates to their multi-thousand level points of contact with their bank customers, both on the merchant side and on the issuer side in their pricing model that are measured in mils or something that's smaller than mils. For example, across-border credit card transaction for a non-U.S. issued card coming into the U.S. has a fee associated with it, but it doesn't the other way. The CEO of MasterCard has made the comment in my presence that they had over 3,000 points of contact in their pricing model. I think that it is the intricacy and the lack of transparency in those pricing models that have incentives for this and that and everything else, that gives them the ability to have such high returns on capital.

So we look to find businesses that have high returns, see what the evidence of it is, see if looking at book value per share growth is a good way to measure it in a given business. You know, that's always screwed up by when you buy back shares and that sort of stuff, so this is not something that's precise. You have to get it generally right, and that's where we start and then we go from there.

BILL MANN:

And the per-unit of ownership part I wanted to point out as being incredibly important. It's one of the reasons that we struggle so much with so many technology companies because it's very difficult to tell how many units of ownership there are going to be from a year-to-year basis by virtue of just profligate stock option grants.

CHUCK AKRE:

Right, so the question for the CEO when you're talking to him is, Well if this business were sold tomorrow, how many shares would it have to be divided over by?

BILL MANN:

We do have time for one more question. Come on…please, Jason.

JASON MOSER:

Thank you for coming to join us today. Your statement earlier about we as investors we must understand what it is that we own. I think that's a great one. I think it's one that we teach here at The Fool. And I wonder if you would share with us something that you feel uncomfortable owning or that's beyond your circle of competence?

CHUCK AKRE:

Well I don't have enough time to tell you about all the things that are beyond my circle of competence.

BILL MANN:

It's a long list.

CHUCK AKRE:

That's a true statement.

JASON MOSER:

Is there something that you shy away from, in other words? Is there something that you really just don't have any interest in following or understanding?

CHUCK AKRE:

Well one of the things you learn with the passage of time is that you have things that you end up being good at or that are easy for you and things that aren't. And technology areas are not easy for me. I have a couple of folks in the office for whom they're fairly easy, but one of the observations is that changes in technology continue to occur at very rapid rates.

We're all familiar with Moore's Law and that sort of stuff. A business that has terrific margins and terrific returns on capital today as a result of a particular technology, can frequently disappear very quickly because of changes in technology, and we were just talking earlier about there's this company called The Motley Fool, and the nature of what their business model is and where they derive their revenue and their income and how they distribute it and how that's changed and what kinds of things technology has done for them in terms of how they adjust and tweak and grow their business, and so that's an area, for one, that we don't have a lot of exposure in.

Other areas that we oftentimes don't have much exposure in are heavy manufacturing businesses, which traditionally require lots of capital and have low margins. Those as a rule don't interest us. And there was one question here.

AUDIENCE MEMBER:

Has Wall Street always played that (inaudible). It evolved over the years.

CHUCK AKRE:

It evolved over the years.

AUDIENCE MEMBER:

When did it evolve?

CHUCK AKRE:

I would say that it's been in existence….

BILL MANN:

March 9th, 2000, maybe. (laughter.)

CHUCK AKRE:

More than ten years, and probably fewer than 20. I don't know; that's a guess.

BILL MANN:

It's been my observation that with the advent of universality and instant availability of information has not the universality of the availability of knowledge has not really gone apace.

Unfortunately. If you were to have asked me in 1995, would it be a great thing if everyone could see annual reports and financial statements at a moment's glance, how could that be bad? In some ways I think that people are drowning a little bit in information and that brokers have been able to take a little bit of advantage of that by trying to I don't want to say "shade" because there are some very good brokers out there, but have been able to prey upon the emotions, if you will, to make people to transact a little bit more.

AUDIENCE MEMBER:

So media, more visibility in media? Do you think that's the main driver of that? (Inaudible.)

BILL MANN:

I think that…

CHUCK AKRE:

It's in the flow.

BILL MANN:

It's certainly part of the mix. I mean there's a reason on CNBC whenever they put a chart up, it's got music behind it and it's going like this a little bit. They are triggering certain things in you, and those things are action oriented, so you need to be aware of them.

They put on a thing the other day where they showed some old CNBC shows. I'm holding this with my wrong arm; that hurt. It was really interesting to me how flat the show looked. They figured things out on a psychological basis over time, and I don't know that CNBC would really call them complicit with the brokers, but they are; they do profit from action in the same ways that the brokers do.

CHUCK AKRE:

Remember, they're just after eyeballs, and the reason they're after eyeballs is because they sell advertising now, so they're just trying to figure out a way to get the most eyeballs for the longest period of time.

AUDIENCE MEMBER:

So by sensationalizing everything.

CHUCK AKRE:

Right, absolutely. It's perfectly reasonable. So it's just looking at the business model of these.

BILL MANN:

It's a rational decision for them. So I hope you all will join me in thanking Chuck Akre from coming to spend time with us. (applause.) You'll also understand why I think that he should become more broadly famous, so thank you, Chuck.

CHUCK AKRE:

Thank you.