

October 10, 2008

**Dear clients and colleagues,**

I will not come back to all the historical events unfolding daily before us. Instead, I would like to take a step back. I am optimistic about the future of the stock market because I am optimistic about the future of the economy. When I look at the US for example, I see a Country that will see its population grow by 40 million people in the next 25 years. 4 million new households are created each year. One of the lowest tax rates in the World. A Country highly flexible, adaptable and which fosters creativity and innovation.

Maybe one should read Barton Biggs last book "Wealth War and Wisdom" not the best written book, but one that looks at the best assets to build wealth in the 20<sup>th</sup> Century. Stocks, yes stocks were the clear winner. Yes, even through Wars and Depression, if one believes in a functioning society, one wants to own stocks. After all, stocks are a share of a productive unit in this economy. The second best asset was Land, not buildings, just Land.

A lot of us in the financial industry have been shell shocked by the events of the last few weeks. In the meantime, the rest of the World continues to operate. A few news from our companies this week. Monro Muffler a chain of car maintenance reported solid 2<sup>nd</sup> quarter sales with same store sales up 5%. Hoya Medical, a large Japanese manufacturer and distributor of medical supply and tools used by surgeons reported that sales for the first half of the year increased 11% with a similar increase in profits.

This week we also saw the first takeover in our portfolio. Alfresa, the 2<sup>nd</sup> largest wholesaler of medicines reagents and medical tools and equipment in Japan got acquired by a Competitor in a stock deal, creating the largest player in the sector with a market share exceeding 50%.

All the companies in our portfolio have very strong fundamentals. Have no debt and the dividend yield is now approaching 3%. Valuations are attractive and private equity and buyout funds have a lot of cash.

The company I will describe this week is meant to illustrate that finding good and easy to understand companies will likely make you richer than trying to find the next big gold deposit or wonder drug. The company is Monro Muffler/Brake.

**Monro Muffler/Brake** (MNRO: Nasdaq), [www.monro.com](http://www.monro.com) Rochester, NY based, Monro is the largest chain of Company-operated undercar care facilities in the United States. The Company operates 713 stores in 17 Northeastern US States.

Market Cap: \$350 Million, shares: 18.5M, insider ownership: 10%. Dividend yield: 1.22%. 5-year sales growth: 16.5%. P/E 16x. Debt/Ebitda 1.6x.

Monro is a very simple story. They change oil, they repair brakes and muffler, and they change tires.

The market: Huge and expanding, their target customer, a car not under warranty, i.e. over 3-years old.

Competitive advantage: Monro has a strategy of density, the 26<sup>th</sup> store in a 15-mile radius, brings a lot more contribution than a store in a new market. They have the best purchasing power, they are the low cost operator, they are trusted, in a low-trust business.

Growth strategy: The Company wants to stay in the 17 States where they already operate, why? Density, but also WINTER, yes it is coming soon... They believe they can own 2000 stores in these 17 states.

Management: President Robert Gross is one of the best managers I have ever met. He owns a lot of shares and recently purchased more. His team is very experience and the compensation structure rewards good performers.

The company recently reported an accelerating trend in sales growth. The slowing economy may entice people to keep their car longer; a lower oil price makes money available for maintenance.

Our target price for the company is 43.50, the stock currently trades at \$20.

Have a good thanksgiving weekend.

Robert Beauregard and the team at Global Alpha.