

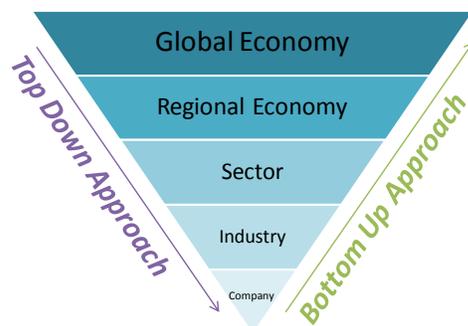
## Earning Notes, Calls with CEO's & Other Ways to Find Leading Qualitative Information

In today's globalized and highly complex world there are many moving parts which create the global macro backdrop. Filtering through all the data points, news, and commentary, and then synthesizing this information to ultimately create a view on the global economy takes time and experience. Here we discuss some of the ways we identify sources of leading qualitative information and use cross-referencing to help shape our investment views at BigSur.

Many Multi Family Offices use a top down approach to investing- analyzing the "big picture" first and applying this as the primary driver of their investment views. The below diagram shows the typical steps of a top down approach- first understanding the global macro conditions; then using this to shape views on what regions, sectors, industries will outperform; and finally choosing which companies to favor.

Understanding global macro conditions is clearly critical for a top down approach. A set of tools investors rely upon are global macroeconomic indicators, which provide data on many different segments of the economy. Analyzing a set of high quality leading indicators (which signal what future trends may be) with lagging indicators (which reflect historical performance) helps investors paint a picture of the global macroeconomic environment. *Please speak with your investment advisor for a complete list of BigSur indicators.*

Like most investment firms, we believe that monitoring the performance of these indicators is important. We don't believe, however, that there are any "magic indicators" which can predict the future or give us a full understanding on what has happened (or is currently happening) in the economy. At BigSur we put the most importance on thinking about what the performance of the indicators is telling us- what are the implications in context to our views? One problem we see today is that investors are quick to invest or change their views with any slight movement of data or because of a sensational headline.



## The Thinking Man's Approach



October 2012 | Series #1  
Ignacio Pakciarz | CEO

- We have started a monthly series titled the "The Thinking Man's Approach" which relating to the way we serve our clients and conduct business at BigSur. This will include a wide range of subjects, some of which include: fiduciaries, wealth & succession planning, family governance, outsourcing models, and investment philosophies & approach.



## BigSur Cross References our Sources to Create a Holistic Investment View

We don't simply base our macro views or investment decisions upon a "data flash" scrolling across the television screen or an exaggerated sound bite from a highly publicized analyst. We try to move away from the noise and really do our "homework." We look at a variety of research sources when creating our views (i.e. market indicators, economic data, technical analysis, news, company reports, & earnings calls); and try to put more focus on those sources which are good barometers for global activity and add the most value in creating the global macro picture. We consult the sources we believe are the best in their area of specialty. We also cross-reference in conversations with long-only managers, long-short equity managers, global macro managers and more. We synthesize the information from all of these different sources and try to determine if we have a consistent picture of the global economy when cross-referencing them against each other.

This concept of "cross-referencing" all of our research is core to our investment approach, and something we believe differentiates BigSur from other Multi Family Offices. We believe in understanding the global macro environment from many different angles and viewpoints. When our multiple research sources show us data which is consistent with our view, we have greater conviction. At times, this isn't the case- we may have good data or information which show conflicting trends- and this lowers the conviction in our view.

Another differentiating aspect of BigSur is that we combine a top down approach with a bottom up approach. This is another way that we can "cross reference" different view points and have a better holistic view of the global economy and markets. While not all BigSur clients invest in individual stocks (only those with the appropriate investment profile), all BigSur clients benefit from this, as it keeps our team monitoring what is happening at the corporate level of the economy.

The third quarter US earnings season was just kicked off, and during this time we hear many different investors and analysts reading specific data as a signal of the overall market health or indicator of future growth in the economy. We do not put too much weight on whether companies miss or beat analyst expectations; instead, we put more focus on listening to the outlooks from CEOs of those companies which provide insight on the pulse of the global economy. Listening to management conference calls and reading over their transcripts provides a great amount of valuable information to glean from- in particular, the outlook for the next quarters. This outlook in itself represents a high quality indicator- as it addresses a key question in investors mind today from a direct and "first party" source.

## Understanding the Macro Environment in China: An Example of Using a Bottom-Up Approach

One particular area of concern for us in today's global economy is the magnitude and velocity of China's slowdown. There is consensus that there are a number of political constraints which will continue to limit policymakers' maneuvering room with respect to introducing substantial fiscal and monetary stimulus. Several analysts have been reporting that China's current growth is in a 3-5% range, which we believe would have dire consequences for the global macro backdrop.



One of the companies we monitor is Alcoa, which makes products used by the construction industry, automakers, and home appliance manufacturers. Alcoa has large production facilities in China; China also constitutes its largest demand market for Aluminum and Alumina. The company's positions make Alcoa's performance a leading indicator to determine the health of the global manufacturing industry. However, the stock's performance is not our focal point; instead we mainly focus on the outlook of Alcoa's CEO, Klaus Kleinfeld, both in terms of regions (China/Europe/ US) as well as sectors (Transportation, Aerospace, Automotive and Building & Construction). After listening to Mr. Kleinfeld's remarks regarding demand in China, we felt more reassured that the situation in China is stabilizing, as he cited lower but still healthy demand which will likely pick up speed with the new stimulus package.

To further cross reference this view, we are analyzing earnings reports from some other US companies with significant operations in China. YUM Brands, the leading US restaurant chain in China, operator of KFC, Pizza Hut and Taco Bell, also recently reported their earnings. In their report we found further evidence showing China's environment is stabilizing, as YUM reported that their China business is having continued strong performance, and they are basing a large part of their future growth strategy on their positive long term outlook. We conclude that China's current GDP growth could be soft, around 7.5%, but not at a stalled level some alarmist analysts have been predicting. We will see if McDonald's earnings report on October 19<sup>th</sup> provides another cross reference to further support the same conclusion.

Finding leading qualitative information and cross-referencing are constant processes; we are always challenging and enriching our views by analyzing and synthesizing information from all of the sources we believe add value.



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