



VULCAN
VALUE
PARTNERS

Crash Letter

COURAGE

COMMENTS FROM VULCAN VALUE PARTNERS AFTER THE CRASH

The Dow Jones Industrial Average suffered its worse week in its 112 year history last week falling nearly 20%. The S&P 500, a broader gauge of the market, is off 43% from its high last October. While it is cold comfort we can at least say that we have lost less money than most as ALL of Vulcan Value Partners' four portfolios have outperformed their respective benchmarks through the first nine months of this year. Returns are 4.9%, 6.2%, and 6.7% better than the S&P 500 for Vulcan Value Partners Focus Plus, Vulcan Value Partners Focus, and Vulcan Value Partners Large Cap, respectively. Vulcan Value Partners Small Cap is 3.2% ahead of the Russell 2000 Index of small cap stocks.

Prices have completely de-coupled from fundamentals and stocks are not trading on any rational basis. Extremely high quality companies with strong balance sheets and durable business franchises are suffering sharp price declines along with weaker, leveraged companies whose prices deserve to be declining. What seems to be happening is that many hedge funds and mutual funds are experiencing redemptions and selling high quality, more liquid companies at virtually any price because they are forced sellers.

Companies we own are caught up in the panic selling that is occurring. For instance, Johnson and Johnson was trading above \$70 a few weeks ago. It closed on Friday at \$55.85. Its value has not changed. It is almost completely insulated from the economy. One of its many health related brands includes Tylenol. You could argue that Tylenol sales might actually benefit from recent events! Dell Computer, which is more impacted by the economy, closed at \$13.29 on Friday. Net of app. \$4.00 of net cash on its balance sheet, Dell was selling for \$9.29. After stripping out interest earnings on its cash balances Dell should earn \$1.40 or so in its current fiscal year so Dell is selling for less than 7X earnings. All of Dell's earnings are in cash, roughly half of its sales are outside the U.S., and longer-term we expect Dell to grow its value at a low double digit rate. Wall Street expects Dell's earnings to be up over 16% next year.

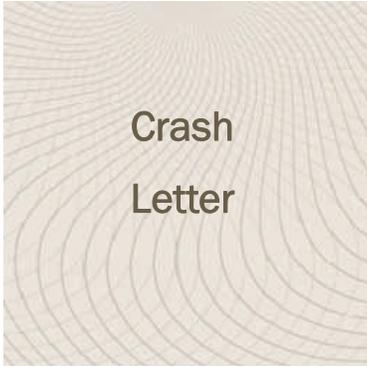
The economy is clearly going into a recession. It could be severe. Even after factoring in a severe recession the returns from our investments in companies like Dell, Johnson and Johnson, and the other financially strong, competitively entrenched companies Vulcan Value Partners owns at today's extremely discounted prices should be extraordinary. Our response is to buy more. In fact, in Vulcan Value Partners Small Cap, where we still have some cash we are buying some fantastic business franchises that are rarely cheap. Our patient capital – yours and mine allow us to do so. Contrast our enviable situation to those who are forced sellers.

As prices have declined and you look at your entire net worth you are probably underweighted in equities. Our advice is to take two Tylenols and add to your investment in Vulcan Value Partners' portfolios. We have the opportunity buy incredible business franchises with very strong balance sheets at prices that rarely, and in some cases, have never existed for these businesses. Our attitude is best summed up by Warren Buffett in his 2006 letter to shareholders. Vulcan Value Partners seeks to "be fearful when others are greedy and greedy when others are fearful." Right now we are feeling exceptionally greedy.

C.T. Fitzpatrick, CFA
Chief Investment Officer and CEO



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