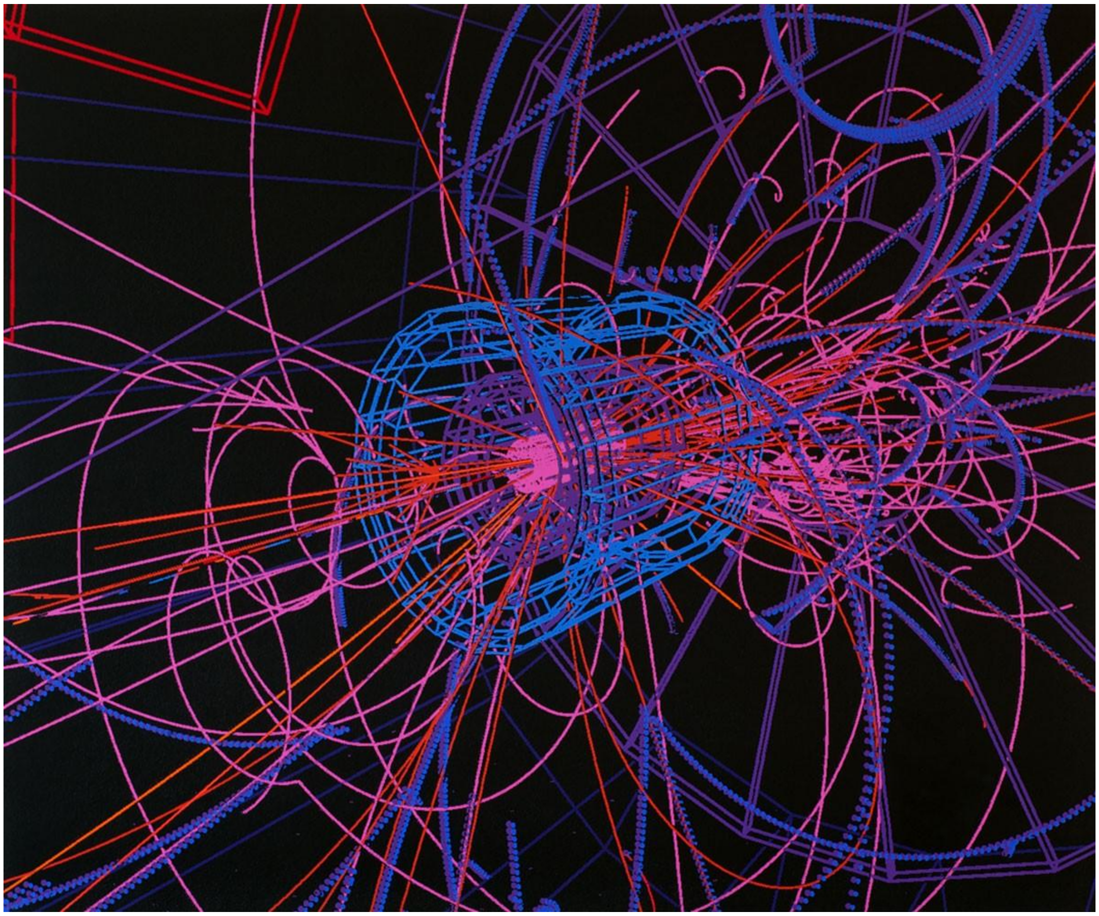
GIVERNY CAPITAL

Annual Letter to our Partners 2014



Nicolas Baier
Production de masse, A08 – 2014
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Acrylic on Canvas
Giverny Capital Collection

Historical Summary

It has been more than two decades since I discovered the writings of Warren Buffett, Benjamin Graham, John Templeton, Philip Fisher and Peter Lynch. I then decided to begin managing a family portfolio based on an investment approach synthesized from these great money managers. By the end of 1998, after five years of satisfactory results, I decided to launch an investment management firm offering asset management services aligned with my own investment philosophy. Giverny Capital Inc. came into existence.

In 2002, Giverny hired its first employee: Jean-Philippe Bouchard (JP for those who know him well). A few years later, JP became a partner and participates actively in the investment selection process for the Giverny portfolio. In 2005, two new persons joined the firm who eventually became partners: Nicolas L' Écuyer and Karine Primeau. Finally, in 2009, we launched a US office in Princeton, New Jersey. The director of our Princeton office, Patrick Léger, shares in the culture and long-term time horizon inherent to Giverny.

We are Partners!

From the very first days of Giverny, the cornerstone of our portfolio management philosophy was to manage client portfolios in the same way that I was managing my own money. Thus, the family portfolio I've managed since 1993 (the "Rochon Global Portfolio") serves as a model for our client accounts. It is crucial to me that clients of Giverny and its portfolio managers are in the same boat! That is why we call our clients "partners".

The Purpose of our Annual Letter

The primary objective of this annual letter is to discuss the results of our portfolio companies over the course of the prior year. But even more importantly, our goal is to explain in detail the long-term investment philosophy behind the selection process for the companies in our portfolio. Our wish is for our partners to fully understand the nature of our investment process since long-term portfolio returns are the fruits of this philosophy. Over the short term, the stock market is irrational and unpredictable (though some may think otherwise). Over the long term, however, the market adequately reflects the intrinsic value of companies. If the stock selection process is sound and rational, investment returns will eventually follow. Through this letter, we give you the information required to understand this process. You will hopefully notice that we are transparent and comprehensive in our discussion. The reason for this is very simple: we treat you the way we would want to be treated if our roles were reversed.

The Artwork on Our 2014 Letter

Since 2004, we have illustrated the cover of our letter with a copy of an artwork from our corporate collection. This year we selected a recent work by the Quebec artist Nicolas Baier.

For the year ending December 31st 2014, the return for the Rochon Global Portfolio was 28.1% versus 17.8% for our benchmark, which represents an outperformance of 10.2%. The return of the Rochon Global Portfolio and the one of our benchmark include a gain of approximately 9% due to fluctuations in the Canadian currency.

Since our inception on July 1st 1993, our compounded annual growth rate has been 16.1% versus 8.7% for our weighted benchmark, representing an annualized outperformance of 7.3% over this period.

Our long-term and ambitious objective is to maintain an annual return that is 5% higher than our benchmark.

The Rochon Global Portfolio: Returns since July 1st 1993

Return *	Rochon	Index **	+ / -	$ US/Can ***
1993 (Q3-Q4)	**37.0%**	9.5%	**27.6%**	3.3%
1994	**16.5%**	3.7%	**12.7%**	6.0%
1995	**41.2%**	24.0%	**17.2%**	-2.7%
1996	**28.0%**	22.8%	**5.2%**	0.3%
1997	**37.8%**	28.6%	**9.2%**	4.3%
1998	**20.6%**	18.8%	**1.8%**	7.1%
1999	**15.1%**	16.3%	**-1.2%**	-5.7%
2000	**13.4%**	3.2%	**10.2%**	3.9%
2001	**15.1%**	-0.4%	**15.5%**	6.2%
2002	**-2.8%**	-18.3%	**15.6%**	-0.8%
2003	**13.6%**	14.0%	**-0.4%**	-17.7%
2004	**1.6%**	6.2%	**-4.5%**	-7.3%
2005	**11.5%**	3.6%	**7.9%**	-3.3%
2006	**3.5%**	17.0%	**-13.5%**	0.2%
2007	**-14.4%**	-11.6%	**-2.8%**	-14.9%
2008	**-5.5%**	-22.0%	**16.5%**	22.9%
2009	**11.8%**	12.2%	**-0.4%**	-13.7%
2010	**16.1%**	13.9%	**2.2%**	-5.4%
2011	**7.8%**	-1.0%	**8.8%**	2.3%
2012	**21.5%**	12.5%	**9.0%**	-2.2%
2013	**50.2%**	38.9%	**11.3%**	6.9%
2014	**28.1%**	17.8%	**10.2%**	9.1%
Total	**2366.3%**	**507.0%**	**1859.3%**	**-9.5%**
Annualized	**16.1%**	**8.7%**	**7.3%**	**-0.5%**

* All returns are adjusted to Canadian dollars

** Index is a hybrid index (S&P/TSX, S&P 500, MSCI EAFE, Russell 2000) which reflects the weight of the underlying assets

*** Variation of the US dollar compared to the Canadian dollar

Note: Refer to Appendix C for disclosure statements on the Rochon portfolios and their corresponding indices.

The Rochon US Portfolio

We have been publishing the returns of the Giverny US Portfolio, which is entirely denominated in US dollars, since 2003. The Giverny US Portfolio corresponds to the American portion of the Giverny Portfolio. In 2014, it realized a return of 18.0% compared to 13.7% for our benchmark, the S&P 500. The Giverny US Portfolio therefore outperformed our benchmark by 4.3%

Since its inception in 1993, the Giverny US Portfolio has returned 2253%, or 15.8% on an annualized basis. During this same period, the S&P 500 has returned 597%, or 9.4% on an annualized basis. Our added value has therefore been 6.4% annually.

Year	Rochon US	S&P 500	+/-
1993 (Q3-Q4)	32.7%	5.0%	27.7%
1994	9.9%	1.3%	8.6%
1995	54.8%	37.6%	17.2%
1996	27.0%	23.0%	4.1%
1997	32.9%	33.4%	-0.4%
1998	11.0%	28.6%	-17.6%
1999	15.9%	21.0%	-5.1%
2000	11.3%	-9.1%	20.4%
2001	8.1%	-11.9%	20.0%
2002	-4.4%	-22.1%	17.7%
2003	31.6%	28.7%	2.9%
2004	9.3%	10.9%	-1.6%
2005	12.5%	4.9%	7.5%
2006	3.3%	15.8%	-12.4%
2007	-1.7%	5.5%	-7.2%
2008	-24.3%	-37.0%	12.7%
2009	28.7%	26.5%	2.3%
2010	21.9%	15.1%	6.8%
2011	4.9%	2.1%	2.8%
2012	22.8%	16.0%	6.8%
2013	40.6%	32.4%	8.2%
2014	18.0%	13.7%	4.3%
Total	**2252.5%**	**596.5%**	**1656.0%**
Annualized	**15.8%**	**9.4%**	**6.4%**

Note: Please refer to Appendix C for disclosure statements on the Rochon portfolios and their corresponding indices.

We outperformed the S&P 500 for a seventh consecutive year. Our objective is to outperform the S&P 500 over the long term. Over a long period of time, the vast majority of managers fail to beat the S&P 500 and those who do typically underperform one year out of three. You will notice that over the 21 years of its track record, our US portfolio has underperformed the S&P 500 on six occasions (or 29% of the time).

We accept the fact that we will sometimes underperform the index over the short term when our investment style or specific companies are out of favor with mainstream thinking. We welcome rewarding periods of portfolio performance with humility—and with joy. While it's not always easy, we try to remain unaffected by short term results, both good and bad.

Rochon Canada Portfolio

We introduced a portfolio that is 100% focused on Canadian equities in 2007. This corresponds roughly to the Canadian portion of the Giverny Portfolio. In 2014, the Giverny Canada Portfolio returned 20.3% versus 10.6% for the S&P/TSX, therefore outperforming the index by 9.7%.

Since 2007, the Rochon Canada Portfolio has returned 271%, or 17.8% on an annualized basis. During this same period, our benchmark had a gain of 43%, or 4.6% on an annualized basis. Our annual added value was therefore 13.2%.

Year	Giverny Canada	S&P/TSX	+/-
2007	19.7%	9.8%	9.9%
2008	-24.6%	-32.9%	8.3%
2009	28.2%	33.1%	-4.9%
2010	26.7%	17.6%	9.1%
2011	13.5%	-8.7%	22.2%
2012	24.1%	7.2%	16.9%
2013	49.4%	13.0%	36.5%
2014	20.3%	10.6%	9.7%
Total	**271.0%**	**42.9%**	**228.1%**
Annualized	**17.8%**	**4.6%**	**13.2%**

Note: Please refer to Appendix C for disclosure statements on the Rochon portfolios and their corresponding indices.

Our primary Canadian holdings performed very well in 2014. The all-star in our portfolio was Dollarama, which rose 35%. While it was a volatile year for Valeant, the stock still rose nearly 22%. Finally, our most recent purchase, Constellation Software, increased by approximately 27%.

For seven out of the last eight years, the Rochon Canada Portfolio outperformed the TSX. It is also worth repeating that our Canadian portfolio is very concentrated and has little correlation to the TSX. So the relative performance, whether positive or negative, will therefore often be high.

2014: The Year of the “Return to Normal”

2014 was another exceptional year for us. Our companies increased their intrinsic values by approximately 13% which is well above the average rate. Further, our portfolio again generated a market return that was higher than the aggregate increase in the intrinsic values of our portfolio companies. The reason is simple: it is the result of a recovery to more appropriate valuations based on the price-earnings ratios of our companies as well as a more appropriate valuation for the Canadian dollar.

The foundation of our investment approach is to consider stocks as if they represent a fractional ownership in real businesses. While this may seem obvious, the vast majority of market participants do not approach stocks in this manner (unconsciously or otherwise) and the predominant emphasis is almost entirely based on the price of stocks over the short term. From our perspective, we try to remain impervious to market fluctuations and focus our efforts on analyzing the intrinsic performance of our companies. We discuss this intrinsic performance in the “Owner Earnings” section of our Annual Letter.

Let's review the last decade for our portfolio as well as for the stock market in general. It's an interesting exercise because we can see two distinct periods by analyzing the intrinsic performance of our companies and stock market since the beginning of 2005.

The first period, from 2005 to 2011, was characterized by a weaker economy, a contraction of the price-earnings ratio (both for out stocks as well as the S&P 500) and a rising Canadian dollar (which further reduced the performance of our US stocks). For this period, our companies increased their intrinsic values approximately 98% or 10% on an annual basis. The stock prices of our companies, however, rose by only 54% or 6% annually (including dividends). Further, the stronger Canadian dollar reduced this return to 32% or 4% on an annual basis. During these years, we explained that we considered the underlying performance of our companies to be below their long-term economic potential. The compression of price-earnings ratios for our securities also seemed unjustified. Finally, the high Canadian dollar seemed artificially high to us. These three temporary factors impeded the performance of our portfolios during this period.

The period from 2012 to 2014 brought an equilibrium to these factors. Over these three years, our companies increased their intrinsic value by 56% or 16% on an annual basis. Our securities on the stock market rose by 108% or 28% on an annual basis. The Canadian dollar returned to Earth which amplified our performance denominated in Canadian currency by 137% or 33% on an annual basis.

Some might believe that our companies are trading at unsustainably high levels. We don't believe that this is the case and, according to our analysis, the last three years have only corrected an abnormal past imbalance. In other words, the stock market pendulum has simply returned to the middle. Indeed, if we look at the ten year period from 2005 to 2014, our companies have increased their intrinsic values by 209% or 12% on an annual basis. Our stocks have achieved a total return of 219% during this period and, when considering the effect of the Canadian currency, the return is about 214%. Here is a summary table of the past decade:

Period	Intrinsic	Market	In $C
2005-2011	98%	54%	32%
Annualized	**10%**	**6%**	**4%**
2012-2014	56%	108%	137%
Annualized	**16%**	**28%**	**33%**
2005-2014	209%	219%	214%
Annualized	**12%**	**12%**	**12%**

It is obviously important to compare these results with the overall experience of stock market investors. During the last decade, companies in the S&P 500 increased their intrinsic values by about 7% per year and the S&P 500 generated an annual return of 7.7%. In Canada, during the same period, the S&P/TSX Composite Index generated an approximate annual return of 7.4%. Relative to the indices, the portfolio has achieved an outperformance in the 4-5% range per year over the last decade which is in line with our objective.

The market data above also points out that North American stock markets generated returns below the historical average of 10% over the last decade. However, we must remember that the S&P 500 achieved an annual return of 12% from 1995 to 2004. So one could argue that the last decade has simply "normalized" the prior decade.

Benjamin Graham wrote in his 1949 book, "The Intelligent Investor", that the stock market often behaves like a voting machine over the short term—a machine that reflects the sometimes irrational “votes” of investors. But in the long term, the market behaves like a weighing machine that eventually properly reflects the fair value of companies.

The Drop in Oil Prices

We’ve received several questions regarding the drop in oil prices beginning in late 2014. We have repeatedly affirmed our agnosticism vis-à-vis the price of oil during its past increases and we have the same view regarding the price of oil when it tumbles. If there is one thing that seems clear to us is that the price of oil is highly unpredictable and depends on myriad parameters. Companies that are directly dependent on the price of oil are therefore difficult to value and therefore fall outside of our circle of competence.

On the other hand, we own shares in companies, such as Union Pacific and Precision Castparts, that have part of their business linked to companies operating in various part of the energy sector. We believe that over the long term, their business models are solid and have significant economic benefits allowing them to maintain above-average returns on equity. We do not believe that their long-term economic models are affected by the recent drop in oil prices.

Outlook for 2015

As you know, we have a minimalist attitude towards economic forecasts. The economic outlook for 2015 seems good to us for the United States and, at best, modest for Canada. At this point, it is difficult to measure the impact of the sharp fall in oil prices on the Canadian economy and the Bank of Canada has lowered its growth outlook for 2015 as well as its interest rates.

In the United States, the decline in oil prices could lower the profits of energy companies in the S&P 500 by 50% in 2015. The recent sharp rise in the US dollar should also affect earnings growth of US multinationals. Yet, the drop in gas prices will have a beneficial effect on consumer spending. The combined effect of these various economic drivers on the profits of the S&P 500 for 2015 could lead to a growth rate of only 3%.

As for our companies, the effect of the decline in oil prices should be minimal. Still, many of our US companies generate revenues from various countries, so the rise of the US dollar will affect their level of earnings growth. Nevertheless, we believe that our companies can increase their profits by about 10-13% in the coming year.

Owner’s Earnings

At Giverny Capital, we do not evaluate the quality of an investment by the short-term fluctuations in its stock price. Our wiring is such that we consider ourselves <u>owners</u> of the companies in which we invest. Consequently, we study the growth in earnings of our companies and their long-term outlook.

Since 1996, we have presented a chart depicting the growth in the intrinsic value of our companies using a measurement developed by Warren Buffett: “owner’s earnings”. We arrive at our estimate of the increase in intrinsic value of our companies by adding the growth in earnings per share (EPS) and the average dividend yield of the portfolio. This analysis is not precise but, we believe, approximately correct. In the non-scientific world of the stock market, we believe in the old saying: “It is better to be roughly right than precisely wrong.”

This year, the intrinsic value of our companies, as a whole, rose by 13% (12% from the growth in earnings and 1% from the average dividend). Despite changes to our portfolio during the year, we consider this growth in earnings to appropriately reflect economic reality. The stocks of our companies rose approximately 19% (without the effect of currency).

	Rochon Global Portfolio			S&P 500		
Year * **	**Value ***	**Market ****	**Difference**	**Value ***	**Market ****	**Difference**
1996	14%	29%	15%	13%	23%	10%
1997	17%	35%	18%	11%	33%	22%
1998	11%	12%	1%	-1%	29%	30%
1999	16%	12%	-4%	17%	21%	4%
2000	19%	10%	-9%	9%	-9%	-18%
2001	-9%	10%	19%	-18%	-12%	6%
2002	19%	-2%	-21%	11%	-22%	-33%
2003	31%	34%	3%	15%	29%	14%
2004	21%	8%	-12%	21%	11%	-10%
2005	14%	15%	0%	13%	5%	-8%
2006	14%	3%	-11%	15%	16%	1%
2007	10%	0%	-10%	-4%	5%	9%
2008	-3%	-22%	-19%	-30%	-37%	-7%
2009	0%	28%	28%	3%	26%	23%
2010	22%	22%	0%	45%	15%	-30%
2011	17%	6%	-11%	17%	2%	-15%
2012	19%	23%	4%	7%	16%	9%
2013	16%	42%	26%	9%	32%	23%
2014	13%	19%	6%	9%	14%	5%
Total	983%	1094%	111%	293%	375%	83%
Annualized	13.4%	13.9%	0.6%	7.5%	8.6%	1.1%

Since 1996, our companies have increased their intrinsic value by 983%, or close to an eleven fold increase. Meanwhile, the value of their stocks has increased 1094% (including dividends but without currency effects). On an annualized basis, our companies increased their intrinsic value by 13.4% and our stock returned 13.9% per year. The similarity between those two numbers is not a coincidence.

During this same period, the companies comprising the S&P 500 increased their aggregated intrinsic value by 293% and saw their stock prices rise by 375%, or 7.5% and 8.6% annually, respectively.

Market performance and corporate performance are rarely synchronized over the course of a calendar year (as seen in the chart above). In fact, the aggregate stock prices for our portfolio has only been within 1% of the change in aggregate intrinsic value for any given year on only three occasions. But as more time passes, the synchronization between the two inevitably begins to reveal itself.

Over 19 years, our portfolio has realized a return that is 5% higher than the S&P 500 primarily because the underlying companies in our portfolio have increased their intrinsic value at a rate that is 5% higher than the average. This is how we plan on continuing to reach our performance objectives in the future, rather than trying to speculate on the highs and lows of the market or trying to predict economic or political trends.

The Flavor of the Day for 2014

Nearly all areas where we've seen excesses for the last decade have returned to earth. The list of popular "flavors" during the past decade is long. One can think of income trusts in the mid-2000s, and the worldwide euphoria over natural resources (oil comes to mind) during 2006-2007 and then the gold fever of 2010-2011. As we discussed above, even the Canadian dollar is beginning to slowly return to its fair value after a trip to the stratosphere.

One economic segment that still seems flavorful in the eyes of many Canadians is residential real estate. We believe that Canadian home prices continue to be out of sync with historical valuation norms.

But if we had to choose one asset class to avoid it would be government bonds. It is hard to believe that a 10-year bond yielding less than 2% will cover the inflation to come over the next decade. This is even worse when we consider that tax is paid on interest income (inflation, despite being a real cost does not offer tax deductibility on interest received). Our view is that the only benefit to this type of asset is that its principal is guaranteed. We consider that there is another guaranty that comes with government bonds—one which is seldom discussed in advertising for such investments—a guaranty for impoverishment.

Five-year Post-mortem: 2009

Like we do every year, we go through a five-year post-mortem analysis. We believe that studying our decisions in a systematic manner, and with the benefit of hindsight, enables us to learn from both our achievements and our errors.

We experienced a stock market low of rare magnitude in March of 2009. Many believed no less that is was the end of capitalism! We did not panic and remained 100% invested in equities. We then called the stock market at the time as "The opportunity of a generation." I was interviewed in La Presse newspaper on February 14, 2009 and could not help my excitement at the many bargains available at the time (see Appendix A for a copy of this interview in French… time to dust of your French-English dictionary!) More than five years have passed since that interview and the Dow Jones Industrial Average has risen from 7,500 to 18,000 points (+136%). I also recommended in the interview two stocks: Wells Fargo at $17 (in late 2014, it was trading at $55, or +227%) and Walt Disney at $18 (in late 2014, at $94 or +422%). I also recommended avoiding gold—and the price of gold is trading at the same level as five years later.

Among new stocks from 2009, we purchased shares in Buffalo Wild Wings—a company that Jean-Philippe had enthusiastically recommended. The company operated a network of 560 sports-themed restaurants (you guessed it: their flagship product is their delicious chicken wings). Today, the number of BWW stores exceeds 1082 and the stock has soared 400% in five years. My only regret is not having bought more shares.

Errors from 2009

We didn't just pick good stocks in 2009—we also made some epic errors of omission (non-purchases). The first that comes to mind is Harley-Davidson. We owned a few shares in Harley-Davidson about ten years ago. I always found the brand to be without equal (do you know any other brands that people freely tattoo on their bodies?) I even visited the company's museum in 2008 in Milwaukee and was amazed by the solid history of the company. I thoroughly understood the strengths of this business.

We sold our few shares in 2006 after finding the stock a bit expensive. During the financial crisis, the stock tumbled from a high of $75 to less than $10 in February of 2009. Berkshire Hathaway announced that it would lend the company some capital at a 15% annual interest rate. I told myself at the time that I should buy shares in HD since I wholeheartedly believed that the company would survive the crisis and find its way back to high profitability. But I didn't act on this belief. Keith Wandell became CEO in May 2009 and has done exceptionally well in that role. The stock now trades around $70 and I have much remorse for having stayed on the sidelines.

The errors of omission for 2009 were not limited to securities that are not part of our portfolio. We had securities in our portfolio such as American Express, Carmax, Mohawk Industries and Wells Fargo, which all reached incredibly attractive valuation levels during the depths of the crisis. We knew this at the time. We could have sold shares of other holdings such as Wal-Mart, Procter & Gamble and Johnson & Johnson, all of which had better withstood the market decline, to increase our investments in our most attractively-valued stocks. To give you an idea of the additional potential that we could have realized, here is a picture of the market performance of the four companies between the trough in February 2009 and their price at the end of 2014.

	Feb. 2009	Dec. 2014	Return
American Express	$11.0	$93.0	746%
Carmax Inc.	$7.8	$65.7	742%
Mohawk Industries	$22.4	$168.3	651%
Wells-Fargo	$8.8	$54.6	519%
Average			**665%**
S&P 500	734	2059	**181%**

Our Companies

O'Reilly Automotive (ORLY, $193)

The year 2014 marked an important anniversary: we've owned O'Reilly Automotive for a decade. At the start of 2004, we studied a company that we considered well managed and highly profitable: Autozone. Our usual investment process led us to study the company's competitors which led us to O'Reilly. The latter seemed even more interesting to us than Autozone so I decided to go visit the company in Springfield, Missouri. I was highly impressed by the company's game plan, its extensive distribution network, and the company's management. We decided to invest in O'Reilly despite the fact that the company's P/E ratio was considerably higher than Autozone's.

In 2007, while the retail environment was greatly depressed in the United States, O'Reilly made the largest acquisition in its history: CSK Auto. The company expanded its retail footprint from 1830 to 3179 locations despite the general economic malaise of the time. Subsequently, O'Reilly has primarily used excess cash to aggressively buy back its own shares. We certainly enjoyed that too and over ten years, EPS grew from $1.12 to $7.34, at an annualized growth rate of 21%.

O'Reilly had another outstanding year in 2014, with revenues climbing 9%, same-store sales rising by 6%, and net income increasing by 16%. The rise in earnings per share (EPS) was also boosted by the repurchase of approximately 5% of the company's outstanding shares in 2014. EPS therefore increased by 22%. Here is a graph of the stock for the ten years since our first purchase in August of 2004.

Source: BigCharts.com

As you can see, we were not immediately rewarded and the stock went sideways for a couple of years. But in the end, the stock followed the increase in the intrinsic value of the business. It's difficult to not be highly satisfied from this investment.

Bank of the Ozarks (OZRK, $38)

2014 was an exceptional year for Bank of the Ozarks, our bank from Little Rock, Arkansas. The company generated a 26% growth in EPS, reaching $1.52. Here are the highlights from 2014:

- The bank's efficiency ratio (a measure of its cost structure), was an impressive 45%.
- Return on Assets reached 2.01%
- The bank's balance sheet continues to strengthen with returns on equity of 13.4%.
- In March, Bank of the Ozarks completed its acquisition of OMNIBANK Bank, based in Texas.
- In May, Ozarks acquired Summit Bank, based in Arizona.
- After New York City in 2013, Ozarks opened a branch in Los Angeles in 2014.
- Deposits increased by 48% to $5.5 billion.
- Total assets grew by 41% to $6.8 billion.

Since our purchase in 2006, EPS has increased by 217%, or a 15% compounded annual return. Few banks can tout this kind of performance given the difficult economic context of the past years. We anticipate a solid increase in EPS in 2015 and we remain optimistic about the company's prospect for continued growth.

Berkshire Hathaway (BRK.B, $150)

The company led by the legendary Warren Buffett had another excellent year in 2014. It's difficult to precisely measure the growth in the company's intrinsic value for the year, but we estimate it close to the 12% mark.

The most important news of the year for us was the acquisition of Duracell. Berkshire exchanged its shares in Procter & Gamble for this solid business. This transaction seems to have been intelligently orchestrated and looks like it will bear fruit in both the short and long term. Another significant transaction was the purchase of Van Tuyl Group which is the largest privately-owned network of car dealerships in the US (and the fifth largest in the industry).

We continue to consider shares in Berkshire as undervalued by the market.

Buffalo Wild Wings (BWLD, $180)

Buffalo Wild Wings (BWW) is a sports-oriented restaurant chain which primarily serves chicken wings, as its name suggests. We have been shareholders in the BWW for five years and have been handsomely rewarded for our ownership. The number of restaurant locations reached 1082 in 2014. The company grew revenue by 20% in 2014, same-store sales rose by 6.5% (5.6% for franchised locations) and its EPS climbed by 31%.

The company anticipates opening 90 new restaurants in 2015 and looks to reach 1700 locations within a few years. We anticipate that earnings will grow at 18% for the coming year.

Cabela’s (CAB, $53)

We bought shares in Cabela’s in 2013. This company operates a large chain of retail stores serving the hunting, fishing and outdoor apparel market. Cabela’s recently adopted a higher-performing business model which drew our attention. By significantly reducing the square footage of its retail locations, the company has been able to significantly improve its return on shareholder equity. This Nebraska-based business only has 4.3% of the market share and could double or maybe triple this number in the next decade.

Still, 2014 was a difficult year for Cabela’s. Same-store sales fell by 12%, revenues were flat at $3.6 billion, and EPS decreased by 13% to $2.88. Revenue growth did improve in the fourth quarter, when sales grew by 7%. The company, however, invested heavily in advertising to stimulate growth and its profitability was affected as a result. EPS dropped by 16% for the quarter.

We believe that the company has a solid brand and that its long-term growth prospects should find its prior levels within a few quarters.

Carmax (KMX, $67)

Carmax’s fiscal year ends in February. We estimate that sales and EPS will grow by 15%. While the company operates 143 stores in the US, it only has roughly 3% of the used car market. So we see lots of room for growth in this business.

We have been shareholders since 2007, when we purchased the stock for $21. The stock subsequently tumbled by 67% during the crisis (such things happen in the stock market). Yet, Carmax remained profitable during 2008 and 2009. Our patience was rewarded as the company generated earnings in 2014 that were more than three times that of 2007 (or an annualized growth of 18%). And the stock followed suit by rising in a commensurate manner to its EPS growth.

Constellation Software (CSU-T, $345)

We've owned a few software companies over the years. Historically, it was a changing and challenging industry to predict. But in recent years, as this segment of the economy has become more mature, it's become easier to find companies with stable product lines and durable sustainable competitive advantages. We discovered Constellation Software a little while ago. Founded in Toronto in 1995, the company focuses on acquiring software companies with a dominant product in its market.

We consider the CEO of Constellation, Mark Leonard, an exceptional businessman. Its business management philosophy is entirely consistent with our own. The majority of CEOs are in "selling" mode when it comes time to talk about their companies. With Mark, we feel a genuine sense of authenticity when informing us about the company and he seems like he has nothing to sell us (he would rather focus on talking about the kind of companies that he would like to acquire).

The past performance of Constellation is impressive and its long-term prospects seem excellent.

Disney (DIS, $94)

Disney had an excellent 2014, with EPS climbing 25% and the stock appreciating by 23%. "Frozen" was a phenomenal success, with an estimated $1.3 billion in revenues that was contributed to the company over the course of the year.

Source: frozen.disney.com

In 2016, Disney plans to open a theme park based on Frozen in Orlando. No, it is not too early to book your hotel now at one of Disney's!

In 2015, Disney will release a "real" version of the film Cinderella and, at the end of the year, the highly anticipated sequel to Star Wars will be released in theaters. In 2016, Disney expects a "real" version of The Jungle Book and a sequel to Finding Nemo (Finding Dory). So you can spend the money saved at the pump with several family outings at the cinema. I would be remiss not to add that Disney also makes money when you buy figurines and stuffed animals of your favorite Disney characters for your children (or for you).

Bob Iger remains in our judgment one of the best CEOs in the US. We bought shares in Disney the very day Bob Iger was named CEO in September of 2005. Since his arrival at the helm of Disney, the company’s stock has increased by 300%, or 230% more than the performance of the S&P 500 over the course of the same period.

Dollarama (DOL-T, $59)

Five years ago, we were thrilled to see one of the company’s we had always admired go public: Dollarama. The reason for this admiration is simple: we think that Larry Rossy, the company’s founder and CEO, is one of the best businessmen in Canada. The stock has quntupled since its IPO.

After its first three quarters of 2014 (the company’s fiscal year ends on January 31st), revenues have risen by 12% and same-store sales has increased by 4.5%. EPS has climbed 26%. Dollarama now has more than 928 stores in Canada and is preparing for international expansion. December was a bit more difficult for the company due to inclement weather. Also, the depreciation of the Canadian dollar could have a slight impact on gross margins for 2015.

Fastenal (FAST, $48)

Fastenal had a good year in 2014, with revenues rising by 12% and EPS by 11%. The majority of this growth was organic, with the number of stores decreasing by 2% while the number of employees increased by 7%.

We have been shareholders in Fastenal for more than 16 years and have been handsomely rewarded. In 2014, EPS was 9.5 times higher than they were in 1998—equivalent to an annualized growth rate of 15%. We continue to admire the company’s culture and management team.

Google (GOOG, $526)

Google grew its revenues by 19%, to $66 billion. The company generates an increasingly significant portion of its revenue from its mobile division which has lower margins, so EPS growth was 10% in 2014. The company also now has 56% of its revenues from outside the United States and is therefore affected by the appreciating US dollar.

We might add that we would appreciate a better capital allocation of the company’s excess capital. Aside from this, Google seems to us an exceptional company.

IBM (IBM, $160)

IBM had a difficult year. Revenue decreased 6% (or 1% using a constant currency). Net income dropped by 9% and EPS was down 1%. The company repurchased approximately $14 billion of its own shares but this was not enough to offset the decrease in its operating activities. We are disappointed with these results.

IBM manages its capital brilliantly, which is the primary reason why we became shareholders in the first place. Also, the stock is trading at about 10 times expected earnings for 2015 which seems to be greatly undervalued.

We would clearly like to see some positive growth trends but are keeping our shares for now.

LKQ Corp (LKQ, $28)

We invested in LKQ in 2012. This Chicago-based company refurbishes used automotive parts. The company became the leader in its industry by offering very compelling prices relative to new parts (which pleases the insurance companies) along with an unrivaled distribution network. LKQ has diversified in Europe over the last years by making acquisitions in the United Kingdom, Belgium, France and the Netherlands.

From 2008 to 2014, revenues grew at an annualized rate of 22%, from less than $2 billion to $6.7 billion. In 2014, EPS rose by 21% compared to 2013. In 2015, we expect a lower EPS growth (about 15%) since the profitability will be affected, among other things, by the appreciation of the US dollar.

We believe that the company has excellent long-term growth prospects.

M&T Bank (MTB, $126)

M & T Bank had a difficult year in 2014 and EPS declined by 13%. Low interest rates affected the margins of this Buffalo-based bank and its interest margins decreased from 3.65% in 2013 to 3.31% in 2014. In addition, regulatory costs have risen considerably in recent years. The efficiency ratio increased to over 60%, return on asset was 1.2%, and the return on equity came in at 14%. We believe that these numbers are well below the actual earning power of M&T Bank. The merger with Hudson City Bancorp has also taken significantly more time than expected in receiving approval by regulatory bodies. Once completed, we believe that this acquisition will be beneficial for M&T.

Robert Wilmers has led M&T since 1983 and has done a phenomenal job and, despite turning 80 this year, we hope he'll remain as CEO of this Buffalo-based bank for years to come.

Markel Corporation (MKL, $683)

Markel is an insurance company specializing in various niche markets. The company also manages a private equity division that operates various operating companies and has a significant stock portfolio in public companies (similar to Berkshire Hathaway). We've known the company for several years and we admire its conservative approach to its insurance underwriting. The company's equity portfolio is managed masterfully by Tom Gayner.

We first bought shares in 2013 when Markel announced its large acquisition of Alterra Reinsurance Company. Wall Street was skeptical of the benefits of this acquisition and the stock was trading at a compelling valuation. We seized the opportunity to become shareholders.

2014 was an excellent year for Markel. Two ratios are very important to us: the combined ratio of underwriting profits at the insurance business and the growth in the book value of the company. In 2014, the combined ratio decreased from 97% to 95% (the lower the better). More importantly, the newly-acquired reinsurance division saw its combined ratio improve from 109% to 96%, in line with Markel's other insurance divisions. Book value also increased by 16% in 2014.

Mohawk Industries (MHK, $155)

When we speak of phenomenal CEOs, we would have to include Jeffrey S. Lorberbaum of Mohawk in this league. He has led this company, a leader in floor covering based in Georgia, with great skill and agility through the residential real estate crisis of 2006-2011. The company improved its balance sheet, made good acquisitions at compelling prices, and substantially improved its cost structure.

2014 was an exceptional year, with revenues rising 6% and adjusted EPS increasing 22% to $8.43 (adjusted for amortization of intangible assets). In January 2015, Mohawk announced another major acquisition: IVC Group. Based in Belgium, IVC manufactures vinyl floors and laminates and the company should add about $700 million of revenue to Mohawk.

We had to remain patient with Mohawk but were finally rewarded. We believe that the company is as solid as ever.

MTY Food Group (MTY-T, $34)

MTY grew its revenues by 14% in 2014, to $115 million. The last quarter of the year was weaker than expected and revenues only increased by 6%. The company's adjusted EPS increased by 7% in 2014.

MTY completed numerous acquisitions in 2014. The company acquired Van Houtte, the chain of coffee shops that was owned by the American company Keurig Green Mountain. MTY now owns more than 30 brands and operates a network of more than 2727 franchised restaurants.

We have been shareholders in MTY for seven years. From 2007 to 2014, adjusted EPS increased from $0.51 to $1.60. We remain great admirers of Stanley Ma, the company's CEO, and we continue to see a bright future for the company.

Precision Castparts (PCP, $241)

Precision Castparts manufactures complex metal composite parts sold primarily to the aerospace industry. The company is a leader in this market and benefits from highly durable competitive advantages which enable it to generate net margins of 18%. This is an exceptional level for an industrial company.

EPS increased by 9% in 2014. The company expects a drop in revenue from its oil and gas customers. So we expect that 2015 will be fairly similar to 2014 as far as EPS growth—below the historical growth rate for Precision Castparts. Despite this, in our view, the company's long term growth prospects are still higher than the average company and the company trades at a discount to the average P/E ratio of the S&P 500. So we believe that the stock is undervalued.

Union Pacific (UNP, $119)

Union Pacific had an exceptional year. EPS rose by 22% versus 2013. The most important factor for shareholders of Union Pacific is the company's capacity to increase its prices. The company increased its prices by 2.5% in 2014 and its operating costs rose by 4% less than its revenues. The company's operating cost ratio decreased from 66.1% in 2013 to 63.5% which is one of the lowest in the North American railroad industry. The company also increased its dividend by 10% and bought back $3.2 billion of its own shares.

Valeant Pharmaceuticals (VRX, $143)

It was another year of solid growth for our Laval-based pharmaceutical. The company continued the acquisition strategy it started a few years ago. Its revenue stream is increasingly diversified, with its

20 most significant sources of revenue only representing 36% of its sales. The company's patent portfolio also remains strong, with only 2% of its 2015 revenue affected by generic versions of patent-protected drugs.

Valeant introduced several new products in 2014, with 20 new products in the United States alone. One example is Jublia, a drug used to combat toenail fungus (why invest in high tech companies when we can find ever-growing businesses such as those providing health care for toenails?)

What really made headlines this year was Valeant's failed attempt to acquire Allergan. The latter is a great company but the price ultimately paid by Actavis seems too high. In our opinion, the management of Valeant was wise not to bid (note: Valeant announced in February 2015 that it had acquired Salix for close to $16 billion).

Adjusted EPS was $8.34 in 2014 compared to $6.24 in 2013, an increase of 34%. 2015 promises to be as healthy, with anticipated growth in excess of 20%. Since we first bought shares in Valeant three years ago, the stock has more than tripled.

The pharmaceutical industry is not easy to predict and analyze. The key reason behind this investment is simple: we greatly admire Valeant's CEO, Michael Pearson.

Visa (V, $262)

Visa had another good year. Revenues increased by 9% and EPS by 17%. Visa has 7% more cards in circulation and the number of transactions increased by 9%. With roughly 48% of the company's revenues generated outside the United States, the appreciation of the US dollar reduced revenue growth in the first quarter 2015 from 11% to 7% (its fiscal year ends on September 30). We nevertheless expect EPS growth of 14% in 2015.

Our purchase of Visa four years ago, after a sharp decline in the stock, has proven to be very rewarding with the stock tripling since.

Wells Fargo (WFC, $55)

Wells Fargo had another good year in 2014. EPS rose 5% to $ 4.10—a record level. We believe that the adjusted EPS of Wells Fargo, taking into account the amortization of certain intangible assets, reached $4.29.

This is not an easy time for banks since the low interest rates reduces the profit margin between the rate charged to customers and the rates paid to lenders (such as what's paid on deposits). Clearly, there is a limit to the low rates that banks can pay to depositors (currently 0.09% at WFC). So the net interest margin has decreased from 3.27% in 2013 to 3.04% in 2014. This ratio, while low, is still higher than many WFC competitors like Bank of America (2.18%) and JP Morgan Chase (2.14%).

The adjusted return on asset was 1.45% and return on equity of 13.4%. We believe that the company has the ability to generate significantly more profit in a more "normal" interest rate environment.

The Podium of Errors

Following in the "Givernian" tradition, here are our three annual medals for the "best" errors of 2014 (or from past years). It is with a constructive attitude, in order to always improve as investors, that we provide this detailed analysis.

As is often the case with stocks, errors from omission (non-purchases) are often more costly than errors from commission (purchases)… even if we don't see those on our statements.

Bronze Medal: Tim Hortons

Last summer, I was interviewed on television (on Canal Argent which is the Quebec's equivalent to CNBC). I discussed the three primary players in the donut industry: Dunkin Brands, Tim Hortons and Krispy Kreme. I explained that it was an industry that I understood very well (being a loyal consumer of all three) and that all three players seemed in excellent financial health. The interviewer then pointed out the large number of calories contained in a donut, to which I replied tit for tat "Yes, but there are no calories in the hole!" I then added that I thought that best stock out of the three was Tim Hortons.

I have always followed the Tim story. In 1995, Tim was acquired by Wendy's and, in 2006, was separated from Wendy's and became a public company. I was finally able to buy a few shares and begin following it more closely. I then repeatedly expressed my opinion that Tim was the strongest business in Canada. However, with the high number of restaurants already present in Canada (in the 3000s), I could not see how the company could continue its high growth rate in the future. Also, true to my bad habits, I hoped that the company's stock traded at a lower P/E ratio. So I never actually invested a significant portion of our portfolio in the business, even after highly recommended it on television this summer.

Then a few weeks after this interview, Burger King announced its intent to acquire Tim Hortons for $11 billion; on top of it, with Berkshire Hathaway's financial assistance! We could have made a gain of 270% over 8 years or 60% in a few weeks this summer if I had been able to convert my own advice (and culinary tastes) into a meaningful investment.

Silver Medal: Signet Group

In 2007, a fellow money manager from Los Angeles named Eric Ende introduced me to a British company that operates a jewelry retail chain in the UK and the US. Before its merger with Zales, Signet operated two retail chains in the United States (Kay and Jared) and two in the UK. Like the entire retail sector, the stock fell sharply in 2007-2008. From a high of $50 in 2007, the stock fell to $20 by the end of the year. Since the company's business model is less focused on the high end jewelry market (such as Tiffany for example), the company seemed fairly resilient to recession. So I studied the company in detail.

Signet generated EPS of $3.08 in 2007 and, by the end of 2008, EPS had slipped to $1.57. I suspected that 2008-09 would be difficult. But I told myself at the end of 2007 that, if the company increased its profits by 50% during the next cycle, that this would result in a potential EPS of over $4.50. So with a P/E ratio of 15x, this would result in a stock price of $67 within 5 or 6 years. So Signet's stock seemed attractive to me when it was trading at $20. I might add that the stock has even fallen below $10 in late 2008 (it's not because a stock is highly undervalued it cannot continue to decline in the short term).

Ultimately, profitability returned to its pre-recession level and then some. The company recently acquired its largest competitor in the United States and greatly increased its competitive advantage in the marketplace. EPS reached $5.60 in 2014 and analysts expect $6.72 for 2015. The stock reached $130 at the end of the year. So we could have made a gain of more than 500% in seven years.

And, believe it or not, this is only the silver medal...

Gold Medal: Hanesbrands

I read Peter Lynch's "One Up On Wall Street" in 1992. In this book, the author talks about L'eggs—the famous pantyhose which was first marketed in 1969 by Hanes, a subsidiary of Sara Lee. Mr. Lynch explained in great detail how the product was a great success. This had not fallen on deaf ears and I have been interested in Sara Lee ever since.

Hanesbrands became a public company in 2006 and I started to follow the company even more closely. Hanes' brands are exceptional: in addition to L'eggs, it owns Champion, Bali, Just My Size and Wonderbra.

On the Financial front, the company had unfortunately inherited a fair amount of debt ($2.5 billion)—a level that seemed high relative to its profit at the time. All companies with high levels of debt fell sharply during the financial crisis of 2008-2009 and Hanes was no exception. Hanes declined from a high of $37 in 2008 to $5 in 2009. The company seemed too risky for us at the time.

It's only in 2011 that I seriously considered becoming a shareholder. Hanes had regained its pre-recession profitability level and the company generated EPS of $ 2.69 (compared to $2.09 in 2008). The balance sheet was also greatly improved, with its level of debt having been greatly reduced to $1.8 billion which was approximately six times the level of net profits. Strangely, the stock was trading for only $22 at the end of 2011—about eight times earnings. In three years, EPS had climbed by nearly 30% and the stock was trading for 40% less than in early 2008.

It is rare to find companies with such strong consumer brands trading at such valuation ratios. It is true that many of our stocks were also undervalued at the end of 2011 and it was hard to choose what to sell to buy Hanes. But we should have been more proactive and done it.

Hanes made a significant acquisition at the end of 2013 when it acquired Maidenform. The company has also greatly increased its revenue and operating margins. Since 2011, EPS has more than doubled at Hanes, to $5.66, and analysts expect $6.44 for 2015.

During these three years, shares in Hanes have increased from $22 to $111. Quintupling your money in three years is not a common thing (in case you're wondering, that's an annualized return of 72%). But I remained on the sidelines and watched the Hanes parade go by, waving a flag instead of filling our pockets!

Conclusion: The Greatest Error of Stock Investors (Part 3)

For the over 21 years I've invested in the stock market, the question that comes up most often is always the same: "Is this the right time to invest in stocks?"

To answer this, let us return to a topic we discussed in previous annual letters. In the 2003 letter, I presented an article by André Gosselin on the results of investors versus the performance of the S&P

500. Mr. Gosselin was inspired by the results of the research firm Dalbar on the behavior of stock market investors. Each year, the firm publishes a fascinating research report on the results of all US investors invested in mutual funds compared to the indices. We have also written on the subject in the 2006 letter (our worst year in terms of relative returns).

In 2014, Dalbar released its 20th report QAIB (Quantitative Analysis of Investor Behavior) and the results for the two decades are very instructive. From 1994 to 2013, the average return of investors in equity funds was 5.02% compared to 9.22% for the S&P 500. Over 20 years, the total return to investors was 166% versus 484% for the S&P 500. This is an astronomical difference. And this shortfall is what might be called a "behavioral penalty."

This loss in annual gains of 4.2% cannot be explained by management fees and transaction costs. The only plausible explanation is that investors, as a whole, buy and sell their fund shares at the wrong time. Like weathervanes, they alternate between two emotions: desire for better returns in bull markets and the fear of losing their savings in bear markets. Their oscillation between these two emotional poles becomes the source of their own underperformance.

This self-destructive behavior is reflected in the average holding period of equity mutual funds in the United States: 3.33 years. This is the equivalent of a third of an economic cycle. We have made many times our money with O'Reilly Automotive over 10 years (see above). But after the initial four years of owning O’Reilly, we had not yet made a profit. Just a few years is not a long time in the world of business and investment.

You might be tempted to believe that investors in bond funds are more rational. Think again! Dalbar shows us otherwise. Over 20 years, the bond fund holder has obtained an average yield of 0.71% compared to 5.74% for the Barclays Index. And the average holding period of such funds was 3.05 years.

The returns of investors in Exchange Traded Funds (ETF) are not studied by Dalbar. Index funds have a very high turnover rate (the SPDR S&P 500 ETF would have an average turnover rate of 8,000%). So it’s likely that the same behavioral penalty that diminishes the returns of mutual fund investors also diminishes the returns of index fund investors.

The only solution for the investor who wants to avoid falling into the trap of this behavioral penalty is not to try to predict the stock market. Indeed, the first ingredient for success in the stock market is to be invested in it. So the answer to the original question of whether this is a good time to invest in stocks is simple: it is a long-term winning strategy to always be invested in the stock market. The worst thing to do is to constantly be asking yourself this question since it can lead to behaviors that are destructive to wealth.

Postscript

There is good news even though we’ve highlighted the self-destructive behaviors of many investors. Just as there is a majority of investors, professional and amateur, who penalize their returns by their behaviors, there is also a minority of investors who have the opposite attitude. Those, like us, who have decided to view stocks as ownership in real businesses within the context of a long-term investment horizon rather than chips in an enormous global casino have a considerably greater chance of success.

Warren Buffett wrote this important phrase a few years ago: "The stock market is a system that transfers money from the active to the patient." You certainly know that we wish to remain in the second category. In fact, we love it when other investors sell us shares in companies we admire at good prices simply because of their lack of patience (or their attempts to take advantage of market highs and lows). The irrationality of the majority of investors turns out to be an ally for us.

They provide us with the right assets at the right prices and we provide the patience.

To Our Partners

Using rationality, along with our unwavering optimism, we trust that the companies we own are exceptional, led by top-notch people, and destined for a great future. They should continue to prudently navigate the often troubled waters of the global economy. Furthermore, the valuation assigned by the market to these outstanding companies is very similar to the valuation of an average company in the S&P 500, despite the fact that our companies have better growth prospects than average. Therefore we consider the appreciation potential for our portfolio, both in absolute and relative terms, to be well above average, especially when compared to other alternative asset classes, such as bonds.

We also want you to know that we are fully aware of and grateful for your votes of confidence. It is imperative for us to not only select outstanding companies for our portfolios, but to also remain outstanding stewards of your capital. We certainly like to achieve good returns (and have developed a taste for it), but it must not come at the cost of taking undue risk. Our philosophy to favor companies with solid balance sheets and dominant business models, along with purchasing these companies at reasonable valuations, is central to the risk management of our portfolios.

Thank you from the entire Giverny Capital team.

We wish a great 2015 to all our partners.

François Rochon

François Rochon and the Giverny Capital team

APPENDIX A

Interview in La Presse from February 14, 2009

SUR LE RADAR

Chaque samedi, un financier différent répond à nos questions. Il donne sa lecture des marchés, offre son point de vue sur la Bourse et lance quelques conseils d'investissement. Cette semaine, François Rochon, de Giverny Capital.

La plus belle occasion de s'enrichir d'une génération

STÉPHANIE GRAMMOND

Q : À votre avis, quel est l'événement le plus significatif de la semaine en Bourse?

Ce qui m'a frappé, ce sont les statistiques sur la balance commerciale (la différence entre les exportations et les importations). D'une part, le Canada a affiché un premier déficit en plus de 30 ans, ce qui est un peu inquiétant pour notre économie dont la croissance dépend beaucoup des exportations. Et d'autre part, le déficit des États-Unis était en forte baisse, ce qui est un bon signe car c'était un de leurs problèmes majeurs. Ce sont de gros changements de tendance par rapport aux cinq dernières années.

Q : Que surveillez-vous le plus attentivement en ce moment?

Notre critère numéro 1, c'est la qualité du bilan. Et c'est encore plus vrai ces temps-ci, car il y a des entreprises dont les profits baissent, d'autres qui deviennent déficitaires. Si elles n'ont pas un beau bilan, elles ne passeront pas à travers la récession.

Q : Que feriez-vous avec 10 000$ à investir?

Je regarderais les banques aux États-Unis. Leurs titres sont extraordinairement déprimés. Certaines vont disparaître, mais celles qui vont s'en sortir vont ramasser tout le marché.

Par exemple, des actions de Wells Fargo constituent un excellent placement. C'est une banque solide, dont le titre est très bon marché. Dans le prochain cycle, elle dégagera environ 4$US de bénéfices par action et son titre se situe autour de 17$. Il peut facilement quadrupler.

Par contre, il est un peu tôt pour regarder du côté des banques canadiennes. Certains de leurs éléments d'actifs, de leurs prêts à risque, n'ont pas encore été dépréciés. Il y a un décalage par rapport aux États-Unis. Et au Canada, la correction du prix des maisons ne fait que commencer.

Par ailleurs, j'achèterais certainement du Walt Disney. C'est une des meilleures entreprises au monde et on peut l'acheter au tiers de sa valeur intrinsèque ces jours-ci.

Q : Quel placement évitez-vous à tout prix?

Si j'avais une chose à éviter, ce serait les titres aurifères et l'or en tant que tel. Il y a un engouement pour ça. Mais la mode risque de passer.

Et j'éviterais aussi comme la peste les obligations: les bons du Trésor de toutes les échéances, surtout celles de plus de cinq ans. Les gens ne le réalisent pas, mais les obligations donnent une garantie d'appauvrissement, en considérant l'inflation et l'impôt. Je trouve ça ridicule.

Moi, j'ai une approche assez différente. Je me dis qu'en ce moment, les investisseurs ont le choix entre les obligations qui rapportent 2% ou les actions qui vont faire au moins 15% par année, d'ici cinq ans. C'est le temps d'être à 100% en actions.

Q : Que lisez-vous en ce moment?

Je suis en train de relire *L'investisseurs intelligent*, de Benjamin Graham.

C'est fascinant de voir à quel point ce qu'il a écrit en 1949 est encore vrai aujourd'hui. Le comportement des investisseurs reste le même. Dans les périodes d'euphorie, les gens achètent des actions à n'importe prix, dont ils sont prêts à se débarrasser à n'importe prix durant les périodes de crise.

On pense que la crise actuelle, c'est du jamais vu. Ben non! La nature humaine ne change pas. En lisant un livre qui a été écrit il y a 60 ans, ça aide à voir plus clair.

Q : Comment entrevoyez-vous l'avenir sur les marchés?

Il ne faut pas avoir peur des mots: c'est l'occasion d'une génération pour investir en Bourse. Il y en a eu une belle en 1974. Une autre dans les années 40. Chaque fois que les investisseurs ont eu le courage d'acheter, alors que l'évaluation des actions étaient tombée aux niveaux actuels, ils ont une eu occasion d'enrichissement extraordinaire.

FRANÇOIS ROCHON

Président de Giverny Capital qu'il a fondé en 1998. La société gère des actifs de 80 millions de dollars, pour le compte de clients fortunés, selon une approche qui repose sur la sélection de titres de qualité pour un horizon de long terme.

PHOTO MARTIN TREMBLAY, ARCHIVE LA PRESSE

APPENDIX B

Investment philosophy

Note: This section is repeated from prior annual letters and is aimed at new partners.

In 2014, we saw a large increase in the number of Giverny Capital partners (the term we use for our clients). With all these newcomers, it is imperative that we write again (and again) about our investment philosophy.

Here are the key points:

- We believe that over the long run, stocks are the best class of investments.
- It is futile to predict when it will be the best time to begin buying (or selling) stocks.
- A stock return will eventually echo the increase in per share intrinsic value of the underlying company (usually linked to the return on equity).
- We choose companies that have high (and sustainable) margins and high returns on equity, good long term prospects and are managed by brilliant, honest, dedicated and altruistic people.
- Once a company has been selected for its exceptional qualities, a realistic valuation of its intrinsic value has to be approximately assessed.
- The stock market is dominated by participants that perceive stocks as casino chips. With that knowledge, we can then sometimes buy great businesses well below their intrinsic values.
- There can be quite some time before the market recognizes the true value of our companies. But if we're right on the business, we will eventually be right on the stock.

Experience and common sense teach us that an investment philosophy based on buying shares in companies that are undervalued, and holding these companies for several years, will not generate linear returns. Some years, our portfolio will have a return that is below average. This is a certainty that we must accept.

Another important point: the significant volatility of the market is often perceived negatively by many investors. It's actually the contrary. When we see stock prices as *"what other people believe the company is worth"* rather than the real value (at least in the short term), these fluctuations become our allies in our noble quest for creating wealth. Instead of fearing them, we can profit from them by acquiring superb businesses at attractive prices. The more that markets (the "other" participants) are irrational, the more likely we are to reach our ambitious performance objectives.

Benjamin Graham liked to say that the irrationality of the market provides an extraordinary advantage to the intelligent investor. The person, however, who becomes affected by short-term market fluctuations (less than 5 years) and who makes decisions based on them transforms this advantage into a disadvantage. His or her own perception of stock quotes becomes their own worst enemy. Our approach at Giverny Capital is to judge the quality of an investment over a long period of time.

So patience – ours AND that of our partners – becomes the keystone for success.

APPENDIX C

Notes on the returns of the Rochon portfolios

- The Rochon portfolio is a private family group of accounts managed by François Rochon since 1993. The returns of the period from 1993 to 1999 were realized before registration of Giverny Capital Inc. at the AMF in June of 2000.
- The Rochon Global portfolio serves as a model for Giverny Capital's clients, but returns from one client to the other can vary depending on a multitude of factors. The returns indicated include trading commissions, dividends (including foreign withholding income taxes) and other income but do not include management fees. Portfolio returns of the Rochon Global portfolio have been generated in a different environment than Giverny Capital's clients and this environment is considered controlled. For example, cash deposits and withdrawals can increase the returns of the Rochon Global portfolio. Thus, the portfolio returns of the Rochon Global portfolio are often higher than the returns realized by clients of Giverny Capital.
- Past results do not guarantee future results.
- The Rochon Canada and Rochon US portfolios are parts of the Rochon Global portfolio.
- The index benchmark group is selected at the beginning of the year and tends to be a good reflection of the asset composition of the portfolio. Weighted indices presented may not be representative of the Rochon Global portfolio. In 2014 :

➢ Giverny Global Portfolio:	TSX 16%	Russell 2000 42%	S&P 500 42%
➢ Giverny US Portfolio :	S&P 500 100%		
➢ Giverny Canada Portfolio :	S&P/TSX 100%		

- The returns for the S&P 500 (in $USD) are provided by Standard & Poors.
- The returns for the various indices used for comparable purposes are deemed reliable by Giverny Capital.
- It should be noted that currency effects on the returns of the Rochon portfolio and indices are estimated to our best effort.
- The custodian of our client portfolios is National Bank Correspondent Network (NBCN) in Canada and TD Ameritrade Institutional in the US.
- The financial statements of the three portfolios are audited at the end of each year. The auditor's data are those provided by our custodian (NBCN). The auditor's annual reports are available upon request.
- For more information, please see the "returns" section of our website.