January 10, 2011

Enclosed is your statement for the fourth quarter of 2010.

For the quarter, equity investors saw total returns of 10.76% for the S&P 500, 8.04% for the Dow Jones Industrial Average and 12.34% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 0.08% for the 1-year Treasury Index, -2.61% for the 5-year Treasury Index, and -5.51% for the 10-year Treasury Index. The 10-year BB- corporate bonds had total returns of 1.53%. During the quarter, prices of “risk” assets rose, as the Federal Reserve continued to support markets with a variety of measures and the prospects for an extended recovery and inflation increased. Accordingly, investor sold “risk-free” assets, like U.S. Government bonds.

By tradition, our fourth quarter letter discusses the investment which has generated the best results for the year. Reviewing investment gains is not only pleasurable, but also can increase understanding of our investment processes and principles. In 2010, our leader in percentage terms (nearly 60%) was the stock of Time Warner Cable (TWC). Although it continued to have the sound fundamentals that encouraged our investment, TWC began the year with a stock price depressed by concerns about a “double dip” recession and by the potential for increased competition with the large phone companies. Both concerns have proved groundless so far. The economy has not fallen back into recession. More importantly, the large phone companies have focused more on wireless - and allowed cable companies to increase their wireline business, particularly in the high speed internet category.

But we’re not doing handsprings (yet) because we have experienced some significant ups in cable companies before, only to be followed by downs. In 2006, we celebrated Comcast as our lead gainer (with a return almost identical to TWC’s this year). The following year was difficult as competition heated up and the stock lost all of the prior year’s gain. The stock prices of cable companies are more volatile than most of our holdings. The combination of rapidly changing technology and high capital requirements causes investors to change their opinions frequently. As we have written before, volatility can be a friend, allowing us to trim holdings on significant price rises, but add to them on significant declines. In line with that, we trimmed our TWC holdings in 2010.

Before leaving the topic of investment results, it is worthwhile to review the biggest losers as well. During 2010, that was The Apollo Group (APOL), the dominant company in the for-profit educational business. This has occurred before – ironically it was in 2006, the only other year in which a cable company was our top gainer. The following year, however, APOL was our biggest gainer and we sold our entire position, which had become quite sizeable. The declines of the prior year had allowed us to increase our holdings. We are hoping, at least in the case of APOL, that history repeats.

We hope this letter deepens your understanding of our process. We want you to stay informed and feel comfortable about our investing discipline. In communicating, we try to “do unto others as we would want done unto us.” If you’re new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Sue Clark at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management