January 11, 2012

Enclosed is your statement for the fourth quarter of 2011.

For the quarter, equity investors saw total returns of 11.82% for the S&P 500, 12.77% for the Dow Jones Industrial Average and 8.21% for the technology-oriented NASDAQ.

For the quarter, fixed income investors saw total returns of 0.10% for the 1-year Treasury Index, 1.21% for the 5-year Treasury Index, and 1.15% for the 10-year Treasury Index. The 10-year BB- corporate bonds had total returns of 5.14%. During the quarter, prices of many assets rose, as U.S. dollar assets attracted investors concerned by the prospects of a Greek default triggering an unraveling of the Euro.

By tradition, our fourth quarter letter discusses the investment which has generated the best result for the year. Reviewing investment gains is not only pleasurable, but also can increase understanding of our investment processes and principles. In 2011, the stock of Apollo Group (APOL) had the most favorable impact on growth in our portfolios, increasing in value by 36%. Although other stocks, such as UnitedHealth Group and Philip Morris, had a higher percentage increase (up 42% and 39% respectively), we held smaller positions in those stocks.

This result illustrates an important reason why we argue that volatility is the friend of the investor. The more significant the price drop (without a commensurate decrease in underlying value), the greater our ownership expands. While much of the news bemoans the market's volatility, we rejoice in it. Volatility increases the likelihood that investors will get emotionally disturbed by an investment and, in this way, increase our chances of making a bargain purchase. We have often said, "You make your money by buying right." 2010 was a volatile year for Apollo and the dramatic downward price movements caused us to sizably increase our holding. In fact, the following is an exact quote from last year's fourth quarter letter:

"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."

It did. As the athlete-poet Yogi Berra said of Mantle-Maris homeruns, "It's déjà vu all over again." We have long admired Apollo's business model of expanding education beyond bricks and mortar. Apollo is an innovator and leader in on-line education. We purchased the stock on a drop driven by accounting irregularities. Subsequently, the entire for-profit educational sector was subjected to intense congressional scrutiny for supposedly overselling their benefits while utilizing taxpayer money in the form of student loans. Headlines combined with famous short-sellers to depress the stock price significantly and we responded by increasing our ownership. 2011 began with Apollo as one of our largest holdings and one of our cheapest (measured relative to our computation of underlying value). Different than 2007, though, we have not sold Apollo. We will hold off on handsprings until we have done so.

Before leaving the topic of investment results, it is worthwhile to review the biggest losers as well. During 2011, that was Citigroup (C), a name which needs no introduction. We have never purchased shares in a bank. We find banks unattractive in two ways: highly leveraged and highly regulated. Our avoidance of bank shares has served us well, even as we watched others enriched by them during the 90s and 00s. However, we are willing to change our conclusions in individual cases, if the price is right. Not to get too long winded, we believe the price dictated a reevaluation in this case. Banks, as a group, are in the political and financial doghouse. It is easy and popular to decry some of the decisions that bankers have made recently. However, the financial system requires their involvement and their employers are now priced at ridiculous levels. Undoubtedly, there will be more difficulties ahead, but we believe that the current price provide a large margin for error. Like Apollo last year, the volatility in Citigroup has allowed us to increase our ownership to where it is one of our largest and cheapest holdings.

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.

Government regulations also require us to send the enclosed copy of Academy's Privacy Notice and to make available a copy of our updated Form ADV - Part II (our regulatory filing with the SEC). If you would like one, please contact Robert Stovall at our office.

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

Academy Capital Management