

BRETTON FUND

On October 24, 2012, Bretton Fund portfolio manager Stephen Dodson appeared on the podcast MoneyLife with Chuck Jaffe, which can be found at <http://moneylifeshow.com/>.

Introduction Recording

The problem with most financial shows when it comes to calling a market is it is one guy's opinion, over and over again. But any veteran investor knows that there are two sides to every trade, a buyer for every seller and vice versa.

That's why MoneyLife brings you wide range of experts.

Each day you get the benefit of a new set of eyes on the market, with different methods and decision-making tools. Every day you'll hear a different expert giving their take on the market, on what looks good, what looks bad, and how they feel about some of your stock selections.

You'll never know who might show up to talk stocks. It may be a famous money manager or someone you've never heard of before.

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There is straight talk, that is, about what they see happening on the market and where to think about putting your money on the daily MoneyLife Market Call.

Interview

Jaffe: Now in the scope of that introduction, today is one of those money managers you've never heard of before, but I promise you, that considering that his fund is up like 17.5% this year, you might want to know who he is. [*Year-to-date performance as of October 19, 2012, was 17.49%. See chart on page 7 for more recent performance information and important disclosures.*]

His name is Stephen Dodson, and he's the manager of the Bretton Fund. This is a very small mutual fund, under \$5 million in assets the last time I checked. The ticker symbol is BRTNX; Bretton Fund, B-R-E-T-T-O-N, brettonfund.com; on Twitter, @brettonfund.

This probably qualifies as one of those funds that is, at least, to date undiscovered. Now I will say, it's not a fund that you can look at a three-year track record of, so if you like those longer-term track records, you're going to have wait to get one. Or you're going to have to decide how you like what he says here today and then judge from there.

Stephen Dodson, welcome to MoneyLife.

Dodson: Thanks, Chuck, great to be here.

Jaffe: Now Stephen joins us right now on the Hightower Hotline. If you've lost confidence in traditional brokerage and investment firms, it's time to learn about

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the Hightower difference. To find out more go to hightoweradvisors.com. Hightower is an SEC-registered investment advisor.

All right, Stephen, since folks haven't heard of your fund, we need to understand what you're methodology is. What is it that—at least as you open the fund—has gotten you off to such a hot start? And as you take a look to hoping to keep that up as the market goes forward?

Dodson: Thanks, Chuck. Well the major premise to the fund is very simple. I invest in businesses I believe are trading for substantially less than they're worth and try to find investments with the most attractive returns with the lowest chance of a permanent loss of capital.

That's regardless of company size, asset class, or sector. And it's a pretty simple idea and it's pretty easy to say, but in practice it's much more complex in reality. The way I like to think about what I'm doing, the way that's different from other investors is, I'm investing and thinking more like a private company investor than a public company investor. I'm not trading, I'm not trying to figure out what direction the stock prices are going to move, I'm not trying to guess how news events are going to affect the market overall.

I'm trying to find great businesses at great prices, and it's a pretty straightforward idea, but in reality there are only about maybe a couple dozen other funds out of maybe thousands that invest this way. When I approach businesses, I think the most important thing to keep in mind is do I understand this business? Will I know what this business looks like five, ten years from now? Will I, with any kind of precision, be able to understand how much this company is going to earn in the future?

If you do, you can get a pretty good idea of what a company is worth and how much you should pay for it. And if you don't know what the company is going to look like five, ten years from now, just simply pass and find better investments.

Jaffe: Let me just step in for a second, because you talk about how there aren't that many other funds that do it the way you do, and I've got to ask a question to sort of put this in context, because we have managers of all stripes. So the question becomes, when you talk about being a value manager, are you looking to be able to buy a dollar for a quarter, for fifty cents, for seventy-five cents, or we are looking for pennies?

Dodson: A lot of that depends on what's currently available in the market. The sort of ideal company you can find is what I call—and other investors use the same term—are “compounders.” They're dollars that next year are going to be worth \$1.10, the year after that are going to be worth \$1.20, then the year after that are going to be worth \$1.35, and so on. If you can acquire those at \$0.75, that's a great investment. And you can just sort of sit back and let those companies do all the work for you and compound value.

Now, if there aren't enough compounders available, you're going to find static companies that are worth, say, \$1.00 and I love to buy those at \$0.65 to the

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dollar. But today, in general, it's just much, much harder to find attractive businesses of any kind. It's hard to find the compounders that are at \$0.75, and it's hard to find the static companies at \$0.50 in the dollar.

Jaffe: Is that because, with interest income being so low, and so many folks being interested in yield that we've seen stocks that might have been the classic compounders bid up to where, maybe, they're not overpriced, but at least they're not at level where you go, "I like the pricing structure, and there's an attractive valuation here to go along with the dividend?"

Dodson: Yeah, I think that's a big part of it, maybe even the biggest part. The market is up 30 percent-ish in the past year and a lot of people are chasing into sort of slow-growing compounders, first for the dividend and bidding up economic value too much. So the market overall it isn't wildly expensive, but it isn't exactly compelling either. And it's very hard to find compounders these days.

Jaffe: Where are you finding the kinds of things that you're investing in right now? Let's start on the sector side, and then move into some specifics, if we can.

Dodson: The areas that are the most attractive continue to be financial services. After the financial crisis, a lot of the big banks and financial services companies ran into a lot of problems, and they're still working through some problems. But for the most part, they're mostly past them. The real estate market has stabilized; bad loans as a percentage of all loans outstanding are sort of reducing over time. And investors still have been pretty burned by financial stocks. So you're seeing, in some areas of the financial services sector, some pretty attractive areas.

Jaffe: One of the things you said, as you described your methodology, was the importance of being able to figure out what the business is going to be worth five years hence, and if you couldn't, you said you'd take a pass. So here I am holding your feet to the fire just a little bit, we've had countless guests on this show who have said, I would love to buy financials, but I can't figure out how to value them. So how are you valuing them? You've obviously said they're attractive, I assume there's a couple in there that you are buying. Who is it that you're buying and how are you able to value them? Or is it, here's the ones I can value, and here's the ones I stay away from because I've still got no idea what they're doing?

Dodson: Well it's a great question and the sort of Faustian bargain that I'm dealing with right now is that the most attractive area of the market also happens to be the most opaque. The major caveat I'll throw out there for your listeners is if you're not a financial services expert, it's extremely hard to analyze financial services companies, and if I were an individual investor looking to invest in that space, I'd stick with the most stable, well capitalized, best-managed investments.

The two that come to mind are Wells Fargo and American Express. And if you could look at a company like American Express, they are technically a financial services company, part of their structure is a bank, but most of the revenue comes from fees and services. They're able to sort of charge a percentage of every transaction that's made of their clients, and little of their income, or I should

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say, some of their income comes from interest on the loans they make, but mostly, sort of, fee-based services that will continue to grow faster than the economy for a long time to come.

Jaffe: So Wells Fargo and American Express on the plus side. Anything else that folks should know about? I mean if it's not just financial services, who else is in there that folks should be looking at?

Dodson: The other sector I like a lot is railroads. They've run into a little bit of problem because of lower coal volumes, and the lower coal volumes are happening for a whole host of reasons, but while those are big contributors to the revenue, the rest of business is going great. They are such outstanding businesses. They are the cheapest way to move large goods from coast to coast. They're going to be around for a very long time.

The most attractive part about the railroads is that they're highly defensible businesses. There's two on the East Coast, two on the West Coast, and when you only have two competitors you create a situation where the economics are pretty attractive. Prices are pretty attractive as opposed to, say, a trucking company where it's really, really easy to create a trucking company and pricing is pretty tough.

For railroads, you have a business where you cannot create a major railroad from scratch today. You could give me \$1 billion, \$10 billion, \$50 billion, and there's no way I could create a set of tracks that would come close to replicating Union Pacific's railroad, for example. They've got a long runway of growth that they're going to grow along with the economy. They're going to increase prices every year, and they're going to have prices that will increase faster than their costs. And maybe most importantly, they're trading at an attractive valuation. And management is very, very thoughtful about how they take care of their shareholders.

Jaffe: Well, now we are going to put you to the test of our audience.

Jaffe: We are playing "*Hold It or Fold It*" today with Stephen Dodson. He is the Manager of the Bretton Fund. The ticker symbol is BRTNX, @brettonfund if you want to follow him on Twitter. It's brettonfund.com if you want more information on the fund. Now "*Hold It or Fold It*" is where we put your request to the test of our guest.

Stephen, are you ready?

Dodson: Yup.

Jaffe: Okay, well we are going to start you off with the request we got from Robert in Steubenville, Ohio. He wants to know about B&G Foods, the ticker symbol is BGS.

Dodson: B&G Foods is a consumer food company. They own a lot of secondary and tertiary brands like Cream of Wheat, Ortega, Mrs. Dash, and over the years

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they've acquired these brands from other businesses. But they've had to spend a lot of money to do that. And if you buy other brands as opposed to developing them in-house, it's hard to have a high return on capital.

Secondly, more and more supermarkets are shifting towards their in-house private label brands. So while Safeway, which is the large grocery store out here in California, may stock the number one soft-drink brand, there's even less and less room for the secondary, third-tier, fourth-tier brands. They are going to replace them with their own Safeway brand stuff. And lastly, the company, B&G Foods, has a lot of debt and the stock is pretty expensive.

Jaffe: So, that would be a sell on B&G Foods, ticker symbol BGS.

Jaffe: We'll stay in food, but to a completely different kind. Gordon in Downey, California, wants to know about McDonald's. Ticker symbol is MCD.

Dodson: Yeah, McDonald's is a great business. They've done a great job of changing with the times, offering fancy coffee drinks, nicer smoothies. They change with consumer tastes. With their international expansion you have a pretty good chance that they're going to earn a lot more money, five, ten years from where they are today. The only issue with the stock is that it's pretty fairly valued. It's not very expensive; it's not very cheap. If I had it, I'd hold on to it, but I don't think I'd invest new money into McDonald's today.

Jaffe: Would you be waiting to find a better price?

Dodson: Yeah, absolutely.

Jaffe: Okay. This is how we sum that up.

RECORDING: Hold, hold, fire!

Jaffe: That's a hold on McDonald's, potentially looking for that better price where you can fire. McDonald's, of course, ticker symbol, MCD.

Michael in Baltimore wants to know about International Business Machines, that is both by ticker and by name, IBM.

Dodson: I like IBM a lot. Unlike other tech companies, they saw the shift to software and services way ahead of their competition, and what that means is, unlike Dell or HP, most of IBM's revenues are recurring and less of it is going to be slipping away slowly over time. Maybe most importantly, IBM is just very, very thoughtful when it comes to their shareholders; they treat them like partners. They buy back a lot of stock, they have a great dividend, and that's extremely rare, especially in technology companies. And the stock is trading at a very attractive price.

Jaffe: That would be a buy on IBM, the ticker symbol, IBM.

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Jaffe: Jake in Boston wants to know about Sirius XM Radio, its ticker symbol SIRI, and whenever I talk about it, or write about it, if I say bad things I get hate mail. So am I getting hate mail this time, Stephen?

Dodson: You absolutely are. Maybe it will be nuanced hate mail this time. Sirius XM is a bit of a complex situation. They've grown subscribers nicely in recent years, and they've done well in that regard, but they're facing a whole host of technology issues going forward. It used to be that if you wanted to have nationwide radio system you'd have to spend hundreds of millions of dollars to launch satellites up into space to transmit information back down to Earth.

Today all you need is a couple of engineers and maybe three weeks in a room coding to create an iPhone app. Technology has changed so much. Where newer competitors, who don't have the burden of hundreds of millions dollars of debt from launching satellites, are much more nimble, more able to compete, and can charge lower prices.

On the flipside, Liberty Media has done sort of a slow takeover of the stock and it's really unclear whether that'll be good or bad for shareholders over the long run. Who knows if they're going to offer a substantial premium for the all the shares or if they're going to let the stub languish? And I think there's just too much uncertainty for investors to be involved with the stock. And if I were I were an owner, I would prefer to hold cash.

Jaffe: That would be a sell on Sirius, ticker symbol SIRI.

Jaffe: And quickly because we are almost out of time here. We had a request from Sam in Mobile, Alabama, for AvalonBay, ticker symbol AVB.

Dodson: Well, AvalonBay has benefitted quite a bit from more families renting instead of owning homes and rents going up. But the stock price has just gotten way ahead of the underlying economics, and I think a lot of investors are buying the stock because of the dividend not for its underlying economic value. And I think things could get pretty ugly with a rise in interest rates or a change of the dividend.

Jaffe: Well, the answer is if you want keep your money, perhaps you want to sell AvalonBay, ticker symbol AVB.

While we hate to have to sell things, we sometimes have to, at least, say goodbye to them, and the time has come for us to say goodbye to Stephen Dodson. He is the manager of the Bretton Fund. It's BRTNX, and if you like what you heard here and you want information go brettonfund.com or follow him on Twitter @brettonfund.

Stephen, this was great, I hope you'll come back and talk with us again, in a couple of months.

Dodson: I hope so too. Thanks again, Chuck.

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Disclosures

Total Returns as of September 30, 2012

	1 Year	Annualized Since 9/30/10 Inception
Bretton Fund	36.06%	15.68%
S&P 500 Index	30.20%	14.74%
Wilshire 5000 Total Market Index	29.89%	14.28%

Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. All returns include change in share prices, reinvestment of any dividends, and capital gains distributions. Current performance may be lower or higher than the performance data quoted. Indices shown are broad-based, unmanaged indices commonly used to measure performance of US stocks. These indices do not incur expenses and are not available for investment. You may obtain performance data current to the most recent month-end by calling 800.231.2901. The fund's expense ratio is 1.50%. An investment in the fund is subject to investment risks, including the possible loss of the principal amount invested. The fund's principal underwriter is Rafferty Capital Markets, LLC.

The S&P 500 is a broad market-weighted average dominated by blue-chip stocks and is an unmanaged group of stocks whose composition is different from the Fund. The Wilshire 5000 Total Market Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

Investors should consider the investment objectives, risks, and charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. You may obtain a prospectus at <http://brettonfund.com> or by calling us toll-free at 800.231.2901. The prospectus should be read carefully before investing.

An investment in the fund is subject to investment risks, including the possible loss of the principal amount invested. There can be no assurance that the Fund will be successful in meeting its objectives. Investment in the fund is also subject to market risk, investment style risk, investment advisor risk, market sector risk, equity securities risk, portfolio turnover risk, and small companies risk. More information about these risks and other risks can be found in the fund's prospectus.

The fund is a nondiversified fund and therefore may be subject to greater volatility than a more diversified investment.

As of September 30, 2012, the abovementioned securities represented these percentages of the fund's total net assets: Wells Fargo & Company 5.5%, American Express Co. 4.6%, Union Pacific Corp. 3.5%, CSX Corp. 6.9%, and Norfolk Southern Corp. 4.1%.

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The individual stock discussions in the interview are the personal opinions of Stephen Dodson and were not offered as investment recommendations to listeners of the interview. They were responses to questions only.

As of September 30, 2012, the fund's top ten holdings were as follows:

<u>Security</u>	<u>% of Net Assets</u>
Ross Stores, Inc.	10.5%
Aflac, Inc.	7.7%
CSX Corp.	6.9%
Wells Fargo & Company	5.5%
The Gap, Inc.	5.3%
JP Morgan Chase & Co.	5.3%
American Express Co.	4.6%
Carter's, Inc.	4.4%
Norfolk Southern Corp.	4.1%
America's Car-Mart, Inc.	3.9%