

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

Monday, September 3, 2012

Labor Day
CWS Offices Closed

Monday, September 17, 2012

3rd Quarter estimated tax due

Friday, October 26, 2012

3rd Quarter 2012 Quarterly Packages Mailed

November 2012

CWS Capital Partners
Semi-Annual Conference Call

Thursday, November 22, 2012

Thanksgiving Day
CWS Offices Closed

Friday, November 23, 2012

Day after Thanksgiving
CWS Offices Closed

Tuesday, December 25, 2012

Christmas Day
CWS Offices Closed

Tuesday, January 1, 2013

New Years Day
CWS Offices Closed

Monday, January 15, 2013

4th Quarter 2012 estimated tax due

Friday, January 25, 2013

4th Quarter 2012
Quarterly Packages Mailed



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A LABOUR OF LOVE 25 YEARS AND STILL LEARNING

By Gary Carmell

This July I will have completed my 25th year at CWS. Having just returned from a great trip to England that ended with a couple of days in Stratford-upon-Avon, the birthplace of William Shakespeare, my interest in him was elevated by the visit. To have one's works still be relevant and widely consumed nearly 400 years after one's death is remarkable. I guess on a much, much smaller scale, I feel like if some of my articles have some relevance years from now and can help people, then I will be really satisfied. It really is a labor of love doing what I do because I truly feel like I can help enhance the lives of so many people who interact with CWS.



Give me my robe. Put on my crown. I have
Immortal longings in me.

I have had an interest in Shakespeare for 15 years or so but it was recently rekindled with the trip to Stratford, which I took with my daughter. In addition, she told me recently that she was reading Macbeth in English class and was reminded of a Shakespeare quotation. She wanted to know if I knew it. I asked her which one and she said, "[Drink] provokes the desire, but it takes away the performance." I must confess that I was a little taken aback (and no, I hadn't heard it before) but proud she had such good retention of what she's learning in school or on her own. It also reveals the timelessness of Shakespeare's writings because I'm pretty

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sure that what she cited is still an issue to this day.

With this in mind, and wrapping up my 25th year I thought it would be a good time to reflect on the past quarter century of my time at CWS, and identify some of the most important things I have learned in terms of creating the highest probability of investment success and helping to run a business. Shakespeare's plays had five acts so that is how I will organize this with relevant Shakespeare quotations interspersed to amplify the points. I must say that we have had quite a journey over the last 25 years. It has encompassed all aspects of comedy, tragedy, and historical drama, and led to a very fulfilling, rewarding, and joyful life for me.

On paper our job looks pretty simple; avoid investments that can result in the permanent loss of capital, identify those that offer the appropriate return for the risk borne, evaluate them, get them capitalized, execute on the business plan, and deliver competitive cash flow and appreciation for the risk incurred, which ultimately includes making good sale decisions. Yet this is easier said than done as not many firms have been able to survive and prosper for over 40 years like CWS has. So, while far from perfect, we must be doing enough right things to have navigated such turbulent seas as we have experienced, particularly over the last 25 years. These include:

- 1987 stock market crash • S&L crisis •
- RTC • Two Iraq wars • Afghanistan •
 - 9/11 • Dot com collapse •
 - NASDAQ dropping by 80% •
 - Housing boom and crash •
- Bankruptcy of Lehman Brothers •
- Government conservatorship of Fannie Mae and Freddie Mac • European crisis •
- Implosion of Long-Term capital •
 - Asian crisis of 1997-98 •

So how are we still standing?

There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.

Act I: Know and Be Thyself

To be successful requires avoiding self-sabotage from blind spots that can get in the way of evaluating situations honestly and realistically and character defects that can trip up even the best intentioned people.

Scene 1: Avoid self-delusion, learn your blind spots

With mine own weakness being best acquainted.

If we ignore that which can cloud our judgment, then we have lowered our chances of success. It is important to identify our blind spot triggers and to surround ourselves with people who see the world differently than we do and are not afraid to tell us what they believe is the truth, even if it's something we don't want to hear.

Marry, sir, they praise me, and make an ass of me.
Now my foes tell me plainly I am an ass; so that by
My foes, sir, I profit in the knowledge of myself, and
By my friends I am abus'd; so that, conclusions to
Be as kisses, if your four negatives make your two
Affirmatives, why then the worse for my friend and
The better for my foes.

Scene 2: Know your character defects

We all have weaknesses and compulsions which, if not held in check, can inhibit our growth and success and even destroy us at their most extreme. We are not immune so it is important to identify our vulnerabilities and do all we can to shield ourselves from them if we know they can do harm to us or others.

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We are all men,
In our own natures frail, and capable
Of our flesh; few are angels.

Scene 3: Cultivate independent thought and tame our emotions

Unfortunately human beings are subjected to waves of fear and greed which often lead them to buy at the top and sell at the bottom. It is imperative to develop independent thinking

Let every eye negotiate for itself,
And trust no agent.

and to tame one's emotions so that we don't get caught up in the madness of the crowd.

I will not jump with common spirits,
And rank me with the barbarous multitude.

It is critical that we try to keep as much perspective when times are good - not get too giddy and focus on what could go wrong - as it is when things are not good and we are tempted to wallow in despair.

You should have feared false
Times when you did feast.

Scene 4: Honesty/Integrity

This goes without saying that this is vital for long-term success.

This above all: to thine own self be true,
And it must follow as the night the day
Thou canst not then be false to any man.

Act II: Prepare Thyself

Adversities in life are inevitable so it is vitally important that we be as prepared as we can be to deal with them in as healthy manner as possible when they arise. In addition, there are some people who experience great fortune as well and are equally ill-prepared to handle this as those who run away during times of challenge.

This ambitious foul infirmity,
In having much, torments us with defect
Of that we have; so then we do neglect
The thing we have.

Scene 1: Health

Good health is critical to deal with challenging times and to make sure we don't drop our guard and make poor decisions. This incorporates physical, emotional, mental, and spiritual health.

Our bodies are gardens, to the
Which our wills are gardeners.

A major contributor to one's health is a good conscience which allows one to be more present, calm, and serene.

A peace above all earthly dignities,
A still and quiet conscience.

Scene 2: Gratitude

Gratitude is a key component of happiness. It helps keep us in the now, cultivates joy and appreciation for the people and things in our lives, and can be a strong source of strength when times get tough.

What we have we prize not to the worth
Whiles we enjoy it, but being lacked and lost,
Why then we rack the value, then we find
The virtue that possession would not show us
Whiles it was ours.

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Scene 3: Power of mind

It is essential to cultivate a disciplined and powerful mind that does not allow negativity to take hold. We must realize the power we have to reframe our circumstances in a more positive, growth-oriented way.

Every bondman in his own hand bears
The power to cancel his captivity.

[F]or there is nothing either good or
Bad, but thinking makes it so.

Scene 4: Visualize success

Seeing is believing and being able to visualize a future desired state is an important tool in our arsenal to manage through adversity and unexpected fortune.

We are such stuff
As dreams are made on.

Scene 5: Family

A great support system goes a long way to navigating through the ups and downs of business and investment cycles. I am fortunate to have an amazing wife and two wonderful children to help keep me grounded and intentional.

Wife and child
Those precious motives, those strong knots of love.

Act III: The Power of Adversity

No investor can avoid adversity. It is impossible for everything to go as planned.

Oft expectation fails, and most oft there
Where most it promises.

It is critical that we have the strength, courage, tenacity, and perseverance to battle through the tough times, learn from them, and come out on the other side wiser and stronger.

Let me embrace thee, sour Adversity,
For wise men say it is the wisest course.

Scene 1: Need for a powerful purpose

In order to find that reservoir of strength to tap into when times get tough it is vital to be living through the prism of a powerful guiding purpose. This helps us look beyond ourselves and enables us to realize that what we are enduring will be worth the sacrifice and will make us stronger.

There's a divinity that shapes our ends,
Rough-hew them how we will.

Scene 2: Deal with bad news early

I have learned that when we are off plan it is important to communicate the bad news early in a manner that is comprehensive, understandable, and transparent.

Honest plain words best pierce the ear of grief.

Investors do not like negative surprises and while they may not like the news we deliver, they appreciate us being open with them, treating them like partners, and ultimately enjoying the benefits that can often accrue if we can make it together to the other side. We have always attempted to communicate with our investors in the same manner we would want from another company managing our money, especially when things go differently than expected.

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I must go and meet with danger there,
Or it will seek me in another place,
And find me worse provided.

Defer no time, delays have dangerous ends.

Scene 3: Staying power & perseverance

You can't survive the downturn and capitalize on the recovery if you do not have financial and emotional staying power. It is vitally important to have sufficient financial reserves to support investments that need additional capital so that you do not have to sell under pressure or lose properties to lenders. Unfortunately (or fortunately) we have had a lot of experience in this regard and each time we have not only been able to generate a competitive return on the new money invested, but we have been able to protect the original capital as well that would have been lost had we not been able to convince our investors to support their investments during difficult times.

Thrift, thrift, Horatio. The funeral baked meats
Did coldly furnish forth the marriage tables.

Our purses shall be proud, our garments poor.

Scene 4: Don't be too hard on yourself

I have learned over the years that life never unfolds precisely the way we expect it to a lot of the time. If our intentions were good, then we cannot wallow in beating ourselves up too much over what we should have done differently.

We are not the first
Who with best meaning have incurred the worst.

Things without all remedy
Should be without regard: what's done is done.

We are definitely our harshest critics because we hold ourselves to very high standards, we hate to lose, and we particularly don't want to let down our investors.

The private wound is deepest.

We view the money our investors have entrusted with us as "stored labor" and honor what went into earning the capital that has been invested with us.

Uneasy lies the head that wears a crown.

I live with bread like you, feel want,
Taste grief, need friends – subjected thus,
How can you say to me, I am a king?

Act IV: Recognition, Courage, and Action

It is vital to get the big trends right because it allows one to have a framework to view developments as they unfold. I have learned to pay particularly close attention to investment bubbles - how they form, how to spot them, the consequences when they burst - in order to better spot risks and opportunities present in the economy. By doing so we better position ourselves to avoid losing money and being able to take advantage of the opportunities that arise in the aftermath of a financial dislocation.

Show me one scar characterized on thy skin:
Men's flesh preserved so whole do seldom win.

Nothing will come of nothing.

Scene 1: Understand cycles

Knowledge of cycles is invaluable in terms of determining when we should be fearful while others are greedy and greedy when others are fearful. It is critical for me to have some guiding paradigms

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through which I view the world and how I think things will unfold economically to help separate the signal from the noise. It's been said that history doesn't repeat, it rhymes. No two cycles are ever exactly the same because the excesses don't always materialize in the same parts of the economy. For example, with the over- investment in home ownership having caused the crash, there is no way home ownership will be the source of recovery as it has in so many previous cycles. I am working from three very powerful models that influence how I see economic events unfold. These models are Richard Koo's balance sheet recession, Modern Monetary Theory, and the sectoral balances approach from the Levy Institute that breaks down where spending and savings are coming from in the economy. These have lead me to believe that renting will be vital for many years to come, interest rates will stay low for a very long time, and there is nothing to fear in terms of our large federal deficits. The bigger risk is government tightening through spending cuts and tax increases.

How many ages hence
Shall this our lofty scene be acted over,
In states unborn, and accents yet unknown?

Scene 2: Evaluate risk and reward

It is important to keep a cool head and evaluate opportunities objectively, as free of bias as possible. The first objective is to not lose money. Once this is a reasonable probability, then we can turn to making money. It's important to avoid errors of optimism, believing the good times will continue indefinitely, as well as too much pessimism when times are tough since that is usually when the best opportunities are found.

When clouds appear wise men put on their cloaks.
When great leaves fall, the winter is at hand;
When the sun sets, who doth not look for night?

Untimely storms make men expect a dearth.

Hercules himself must yield to odds;
And many strokes, though with a little axe,
Hews down and fells the hardest-timbered oak.

Scene 3: Courage & action

If to do were as easy as to know what were
Good to do, chapels had been churches,
And poor men's cottages princes' palaces.

It takes courage to make an investment, especially when there is a great deal of pessimism and negative sentiment, yet these are often the best times to take action because prices are cheap due to a lack of capital and investor/lender disinterest. Those who correctly assess the opportunity and access the capital only then need the courage to take action.

Be bloody, bold, and resolute.

Be swift like lightning in the execution.

The opportunity to strike is often times fleeting because eventually investors realize that things are not as bad as they thought, the future looks brighter, and prices are compelling. This leads to more competition and higher prices so it is important to act when the stars are aligned.

Courage mounteth with occasion

You come most carefully upon your hour.
Make use of time, let not advantage slip.

At the end of the day it feels good to take action. It is easy to delay, over analyze and to be consumed by fear, however what separates those that make money in the long run from those who don't is the ability to seize the opportunity when the timing is right without concern of what others think.

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Action is eloquence

Scene 4: Execution, simplicity, and focus

It is important to have strong capabilities to execute on compelling opportunities. The more focused an organization is on its core competencies and simplicity versus being all over the map and complex, the better chances of success.

Take but degree away, untune that string,
And hark what discord follows.

Put thyself into the trick of singularity.

Never anything can be amiss
When simpleness and duty tender it.

Act V: Love the Learning and Playing the Game

I have a personal mission to grow wealth through discovery and effort. I love puzzles, finding the pieces that go together, and seeing the picture unfold over time. Life isn't as well organized as a puzzle or game, however, where the pieces and rules are laid out. We have to discover what those are and how they fit together and determine cause and effect. I have found that approaching the world of investing from this perspective makes it much more interesting and improves the probability of success because I want to know why something worked, why it didn't work, then form investment hypotheses from this research.

Learning is but an adjunct to ourself
And where we are learning likewise is:
Then when ourselves we see in ladies' eyes,
Do we not likewise see our learning there?

What many men desire! that 'many' may be meant
By the fool multitude, that choose by show,
Not learning more than the fond eye doth teach,
Which pries not to the interior, but, like the martlet,
Builds in the weather on the outward wall,
Even in the force and road of casualty.

Scene 1: Chess metaphor

The Nobel peace prize winning physicist Richard Feynman described learning physics as figuring out the rules of chess by observing how pieces move and interact versus being given the rules, pieces, and board at the outset. This is one of the most influential descriptions for me in terms of the mindset and sense of wonder and discovery we need if we want to master anything in life. We need to learn how things work—cause and effect—so that we can develop an intuition and broad domain knowledge to see how the game will unfold before others do. By developing this sixth sense, we can avoid the pitfalls that ensnare others and take advantage of opportunities that others either don't see as clearly or don't feel confident acting upon.

This fellow is wise enough to play the fool,
And to do that well craves a kind of wit.
He must observe their mood on whom he jests,
The quality of persons, and the time;
And like the haggard, check at every feather
That comes before his eye. This is a practice
As full of labor as a wise man's art;
For folly that he wisely shows is fit,
But wise men, folly-fall'n, quite taint their wit.

Blest are those
Whose blood and judgment are so well
Commeddled
That they are not a pipe for Fortune's finger
To sound what stop she please.

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Scene 2: Patience/One step at a time

Long-term success requires patience. Opportunities tend to come in waves created by a buildup of financial excesses that leads to easy money pushing up asset prices which leads to more easy money creatively structured to finance higher and more aggressive valuations. Eventually the unstable foundation gives way, leading to a collapse and destruction in its wake. To take advantage of the opportunities that materialize out of the carnage requires having capital, an opportunistic mindset, the ability to execute on taking advantage of the opportunities, and the courage to take action in the wake of the widespread pessimism that a burst bubble leaves among market participants. To have these capabilities, however, necessitates having avoided the problem to begin with so that you can be on the offensive when everyone else is on defense. This requires discipline, perspective, a conservative orientation, a deep understanding of cycles, how bubbles form and burst, and an organization that can slow down while others are going fast and still keep on firm financial footing and able to retain its talent.

To climb steep hills
Requires slow pace at first.

It is surprising how much success can accrue if you're willing to develop a plan and establish principles you adhere to in terms of the risk you're willing to take, the opportunities you are comfortable investing in, and the savings goals you are trying to achieve.

What you cannot as you would achieve,
You must perforce accomplish as you may.

There is no need to try to get rich quick or take enormous risks to earn large, quick returns because it usually backfires. Remember that a 50% drop in the value of one's investment requires it to go up by 100% just to get back to even.

Wisely and slow; they stumble that run fast.

Scene 3: Enjoy the journey

If you are constantly focused only on the destination then it is difficult to build up sustainable levels of satisfaction and joy from the work. Mastery requires digging more deeply and deriving great satisfaction out of incremental improvement, learning what are the right things to do and doing them right, and recognizing that you're traveling down the path of success and can look back to see how far you've come while still having many miles of beautiful terrain ahead.

Things won are done; joy's soul lies in the doing
To business that we love we rise betime
And go to't with delight.

I look forward to someone reading this in 2412 (or perhaps 2052 would be satisfying as well) and finding value in it.

