

Navigating between Fear and Greed Using Checklists

Guy Spier

CEO, Aquamarine Capital

Boeing 727 Abnormal Checklist

DITCHING		
* Send Distress Signals		
* Advise Crew And Passengers		
* Dump Fuel As Required		
* Accomplish Appropriate Decent-Approach Checklist		
----- Below 5000 Feet -----		
Cockpit Door	Secure Open	F/E
Warning Horn Circuit Breaker (P6-3)	Pull	F/E
Grd Prox Warn CB(P18-1) if installed	Pull	F/E
Engine Bleed Air Switches	Close	F/E
Pack Switches	Off	F/E
Cargo Heat Outflow Switch	Close	F/E
Life Vest	On	All
Shoulder Harness And Seat Belts	On	All
Passenger Cabin Preparation	Complete	F/O
Radio	Transmit Final Position	F/O
----- Ditching Final -----		
Landing Gear	Up & Off	C
Flaps	xxxx Green Light	C
* Advise Cabin Crew Of Imminent Touchdown		
* Maintain Airspeed At Bug		
* Maintain 200-300 fpm rate of decent		
* Plan Touchdown, Flare and Thrust Reduction		
After Impact Procedure	Review	All
* Start levers to CUTOFF		
* Pull engine fire switches and discharge fire bottles, time permitting		
* Initiate evacuation		
Ditching Checklist	Complete	F/E
CAUTION		
Do NOT Open Door To Aft Airstairs		
No Memory Items		

Navigating between Fear and Greed Using Checklists





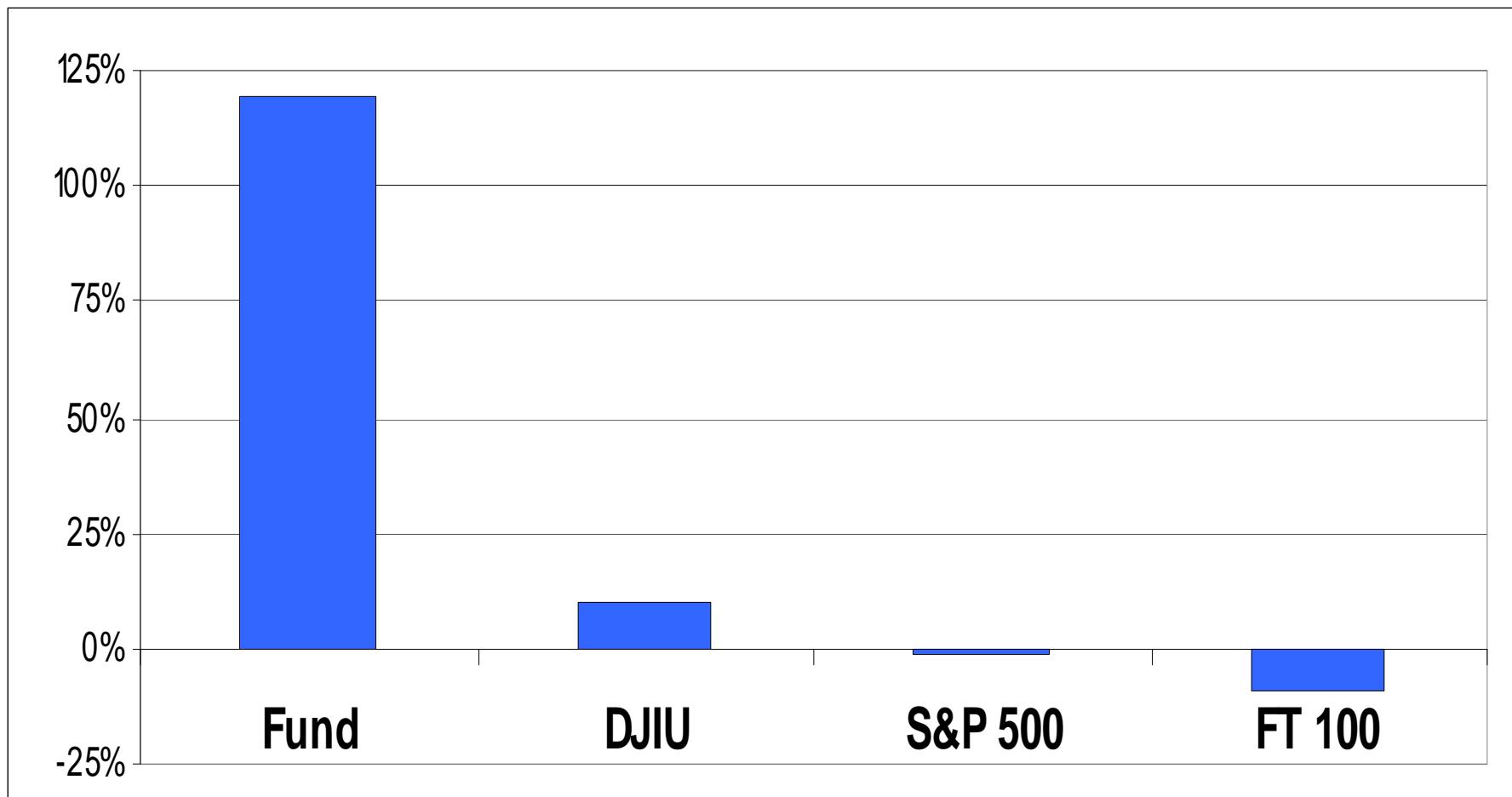
Results





Cumulative Return (Net of Fees Since Inception Sep, 1997)

(as of May 19, 2009)



Historical performance represents Aquamarine Fund, Inc. Returns are based on estimated results as of 5/19/08.



Investment Performance

(As of May 19, 2009 net of fees since inception – Sep 1997)

Cumulative Return	119.5%	10.1%	-1.1%	-9.0%
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Trailing 12-Months Return	-38.1%	-34.8%	-36.2%	-30.0%
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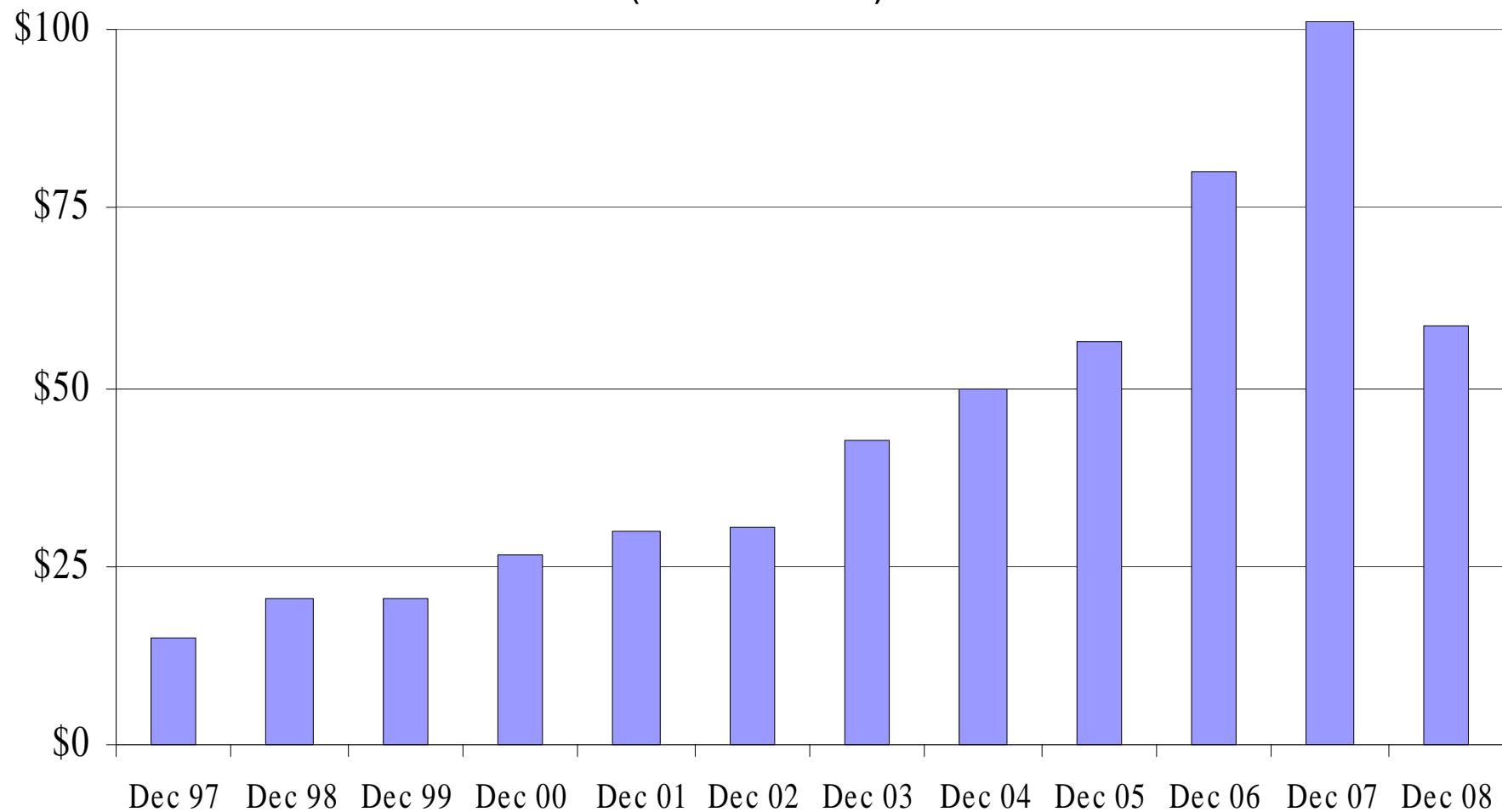
% of Positive Months	63.8%	57.4%	61.7%	56.7%
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Months with Negative Returns	51	60	54	61
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Historical performance represents Aquamarine Fund, Inc.

Aquamarine Capital Assets Under Management

($\$$ in millions)

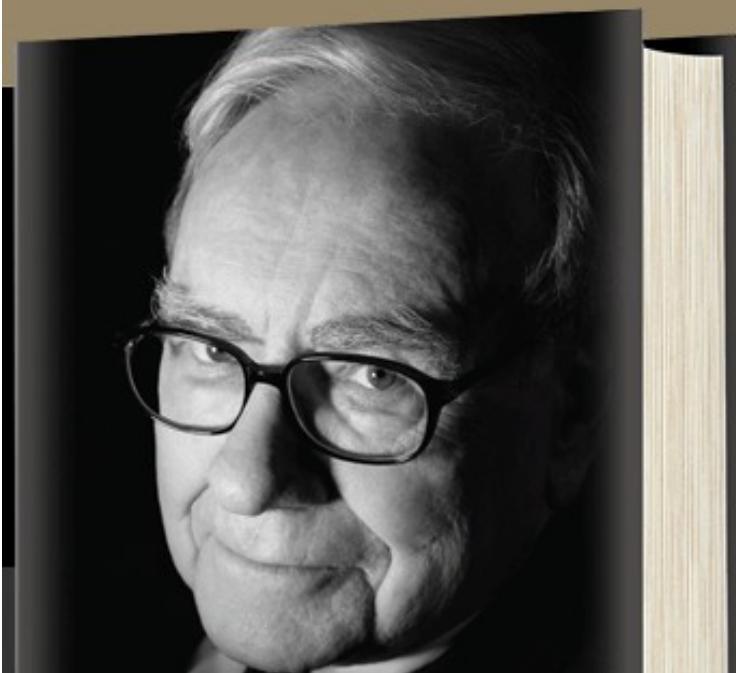


- Behavioral Finance revisited
- Some examples
- Use of Checklists
- Application in finance
- One fish

Common Mental Mistakes

- 1) Overconfidence
- 2) Projecting the immediate past into the distant future
- 3) Herd-like behavior (social proof), driven by a desire to be part of the crowd or an assumption that the crowd is omniscient
- 4) Misunderstanding randomness; seeing patterns that don't exist
- 5) Commitment and consistency bias
- 6) Fear of change, resulting in a strong bias for the status quo
- 7) "Anchoring" on irrelevant data
- 8) Excessive aversion to loss
- 9) Using mental accounting to treat some money (such as gambling winnings or an unexpected bonus) differently than other money
- 10) Allowing emotional connections to over-ride reason
- 11) Fear of uncertainty
- 12) Embracing certainty (however irrelevant)
- 13) Overestimating the likelihood of certain events based on very memorable data or experiences (vividness bias)
- 14) Becoming paralyzed by information overload
- 15) Failing to act due to an abundance of attractive options
- 16) Fear of making an incorrect decision and feeling stupid (regret aversion)
- 17) Ignoring important data points and focusing excessively on less important ones; drawing conclusions from a limited sample size
- 18) Reluctance to admit mistakes
- 19) After finding out whether or not an event occurred, overestimating the degree to which one would have predicted the correct outcome (hindsight bias)
- 20) Believing that one's investment success is due to wisdom rather than a rising market, but failures are not one's fault
- 21) Failing to accurately assess one's investment time horizon
- 22) A tendency to seek only information that confirms one's opinions or decisions
- 23) Failing to recognize the large cumulative impact of small amounts over time
- 24) Forgetting the powerful tendency of regression to the mean
- 25) Confusing familiarity with knowledge

“Life is like a snowball. The important thing is finding wet snow and a really long hill.”
—Warren Buffett



THE SNOWBALL

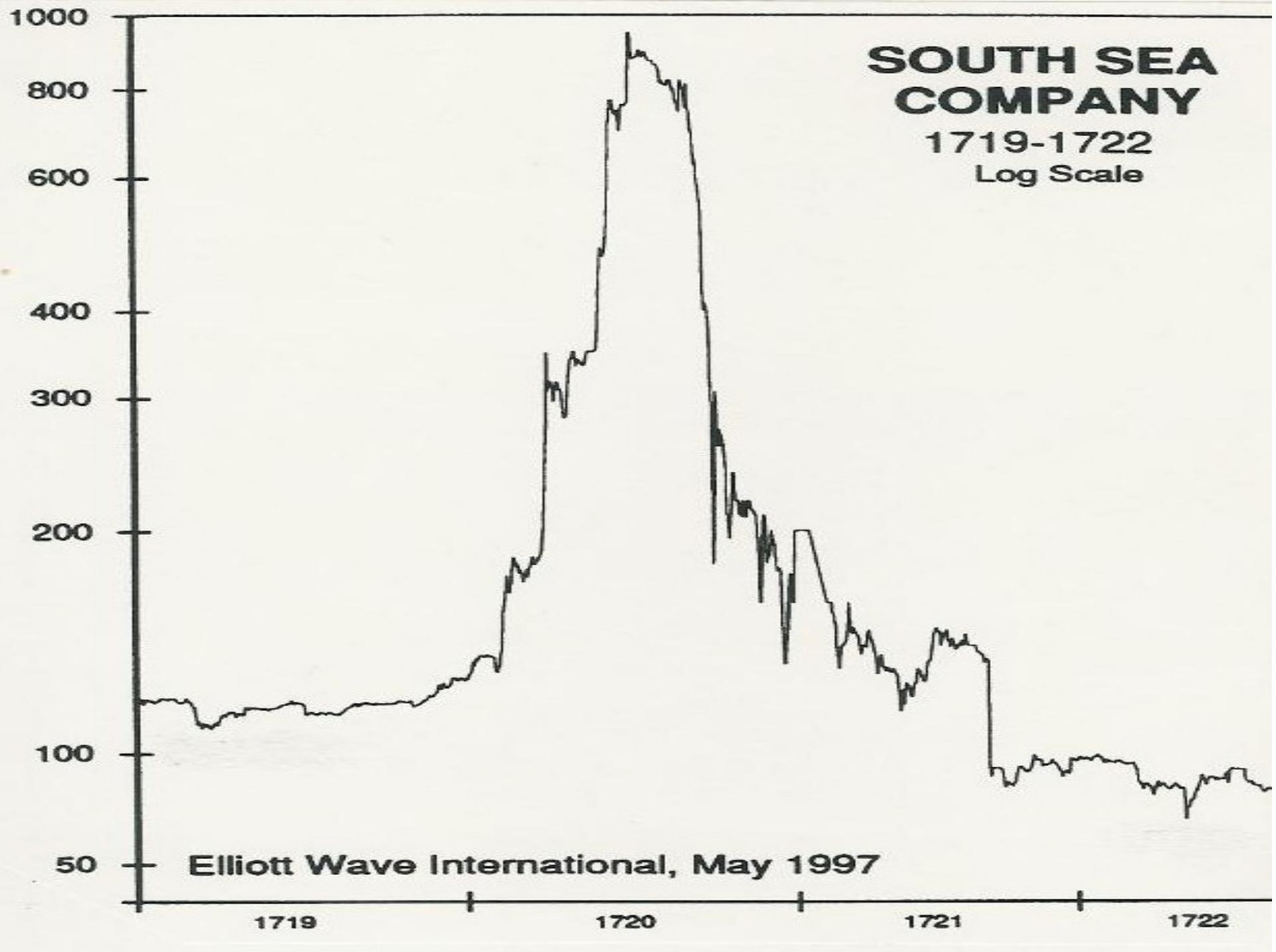
Warren Buffett

and the Business of Life

by Alice Schroeder







BUBBLE CARDS

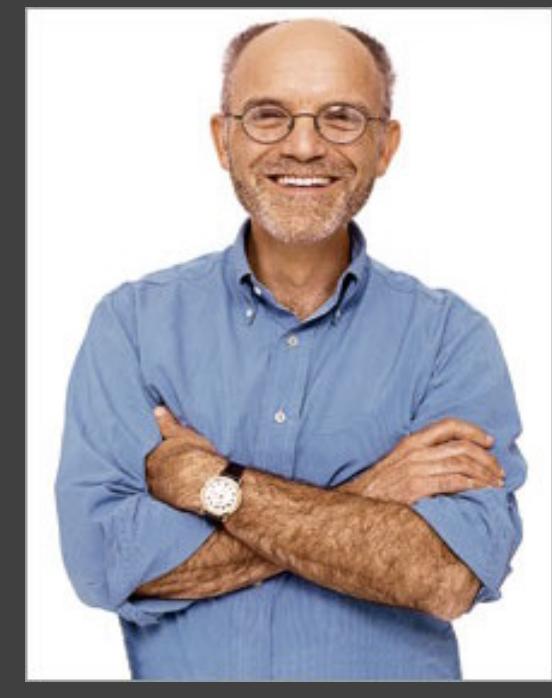
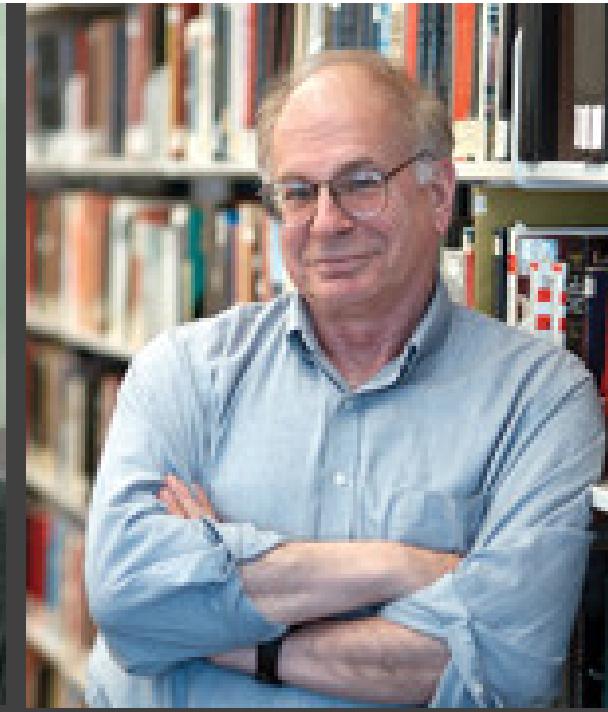
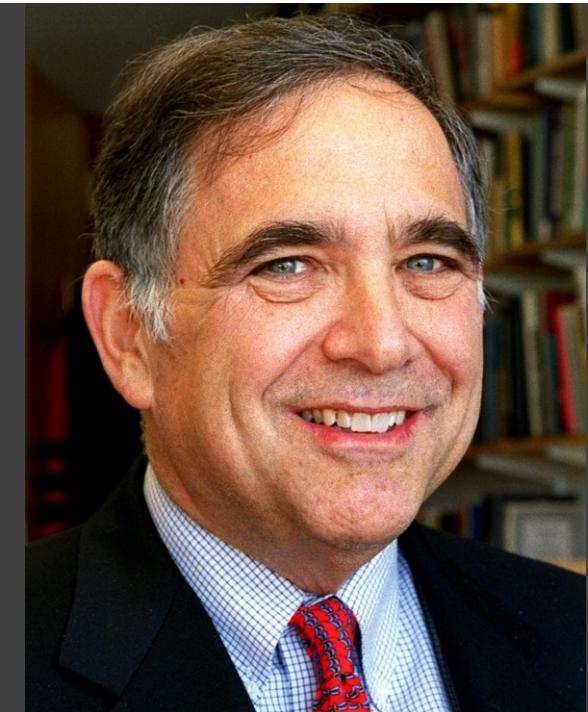


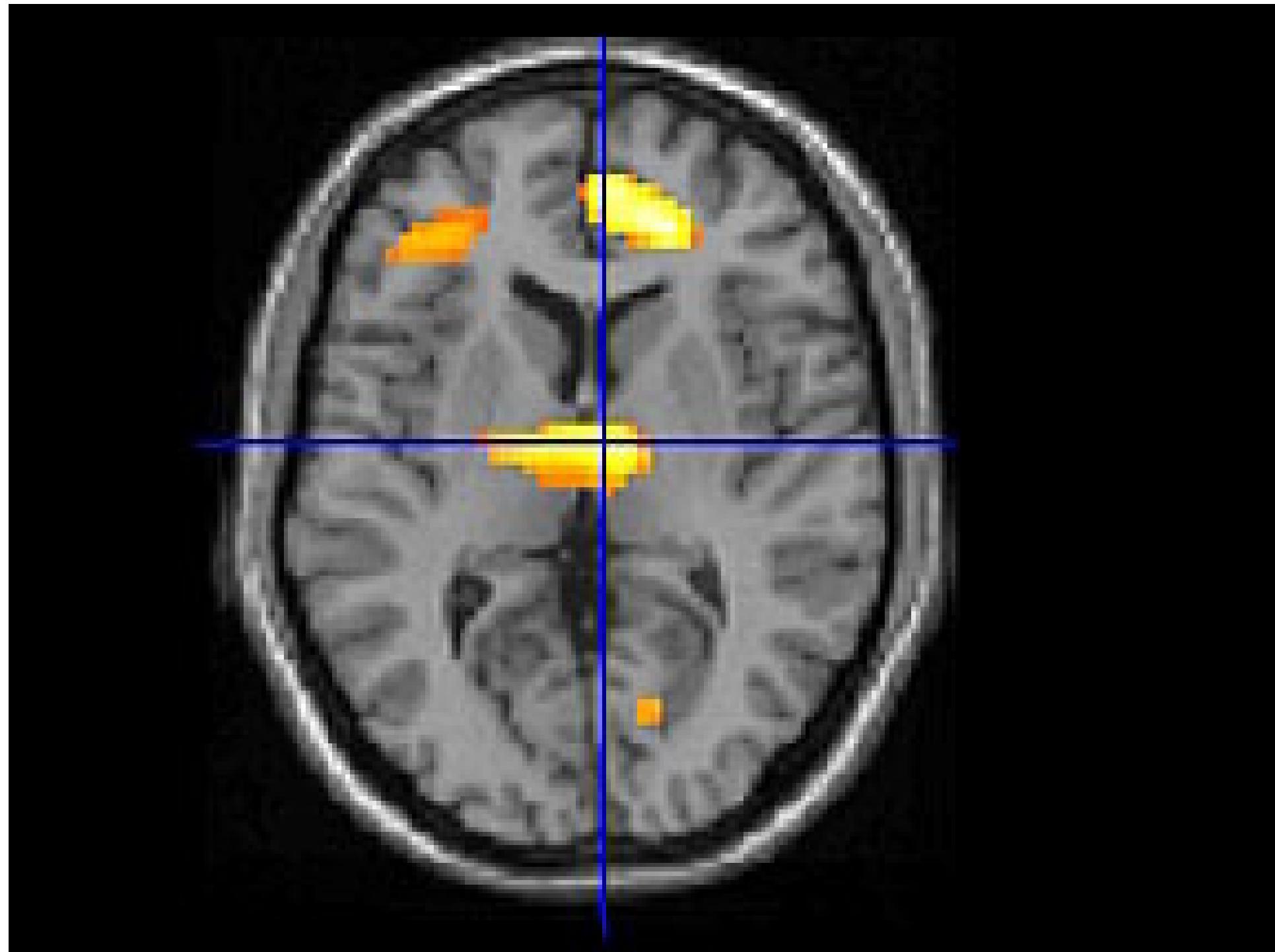
The Headlong Fools Plunge into South Sea Water.
But the Sly Long-heads Wade with Caution after.
The First are Drowning but the Wise Last —
Venture no Deeper than the Knees or Waist. —

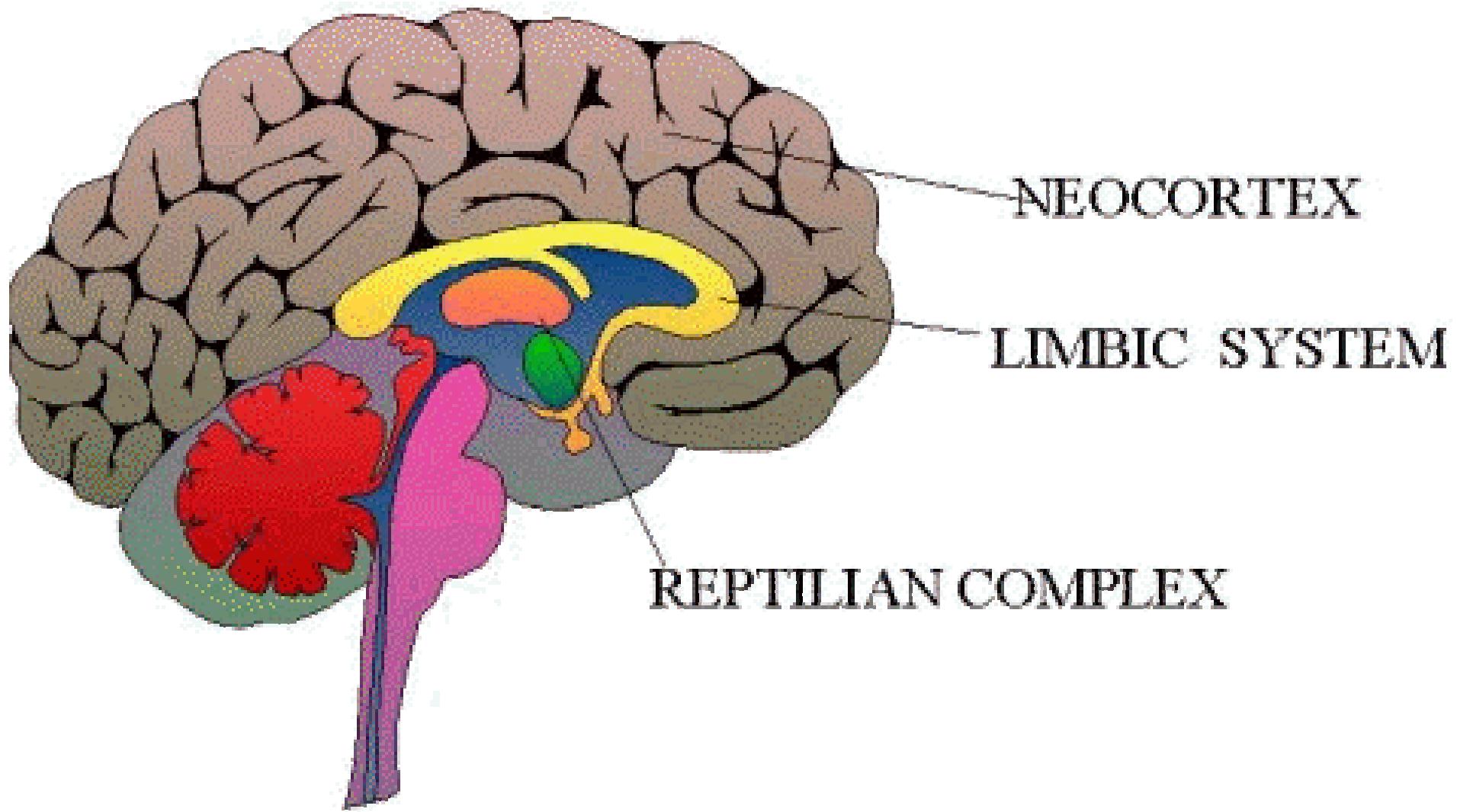


"I can calculate the movement
of the stars, but not the
madness of men"

- Isaac Newton

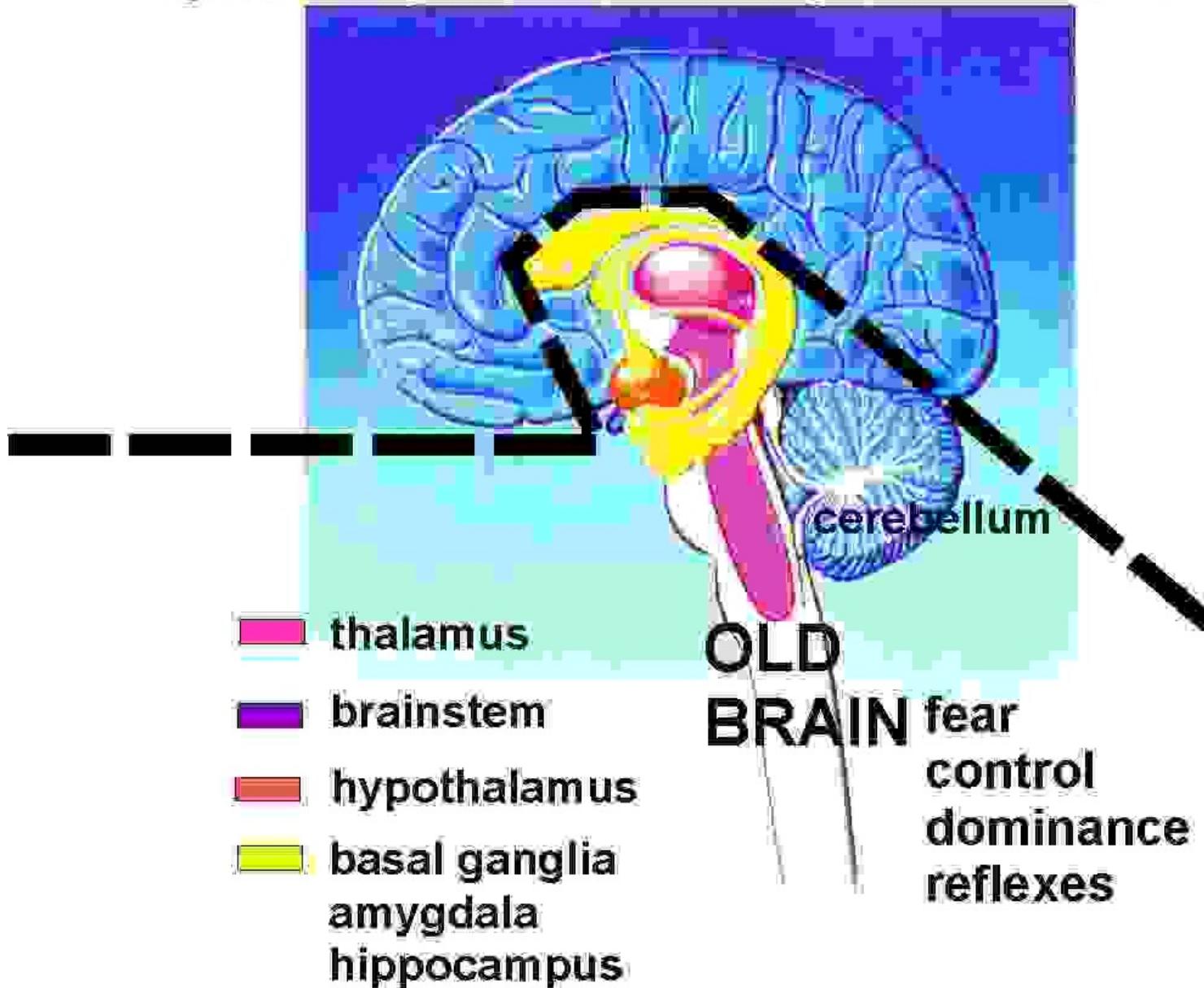






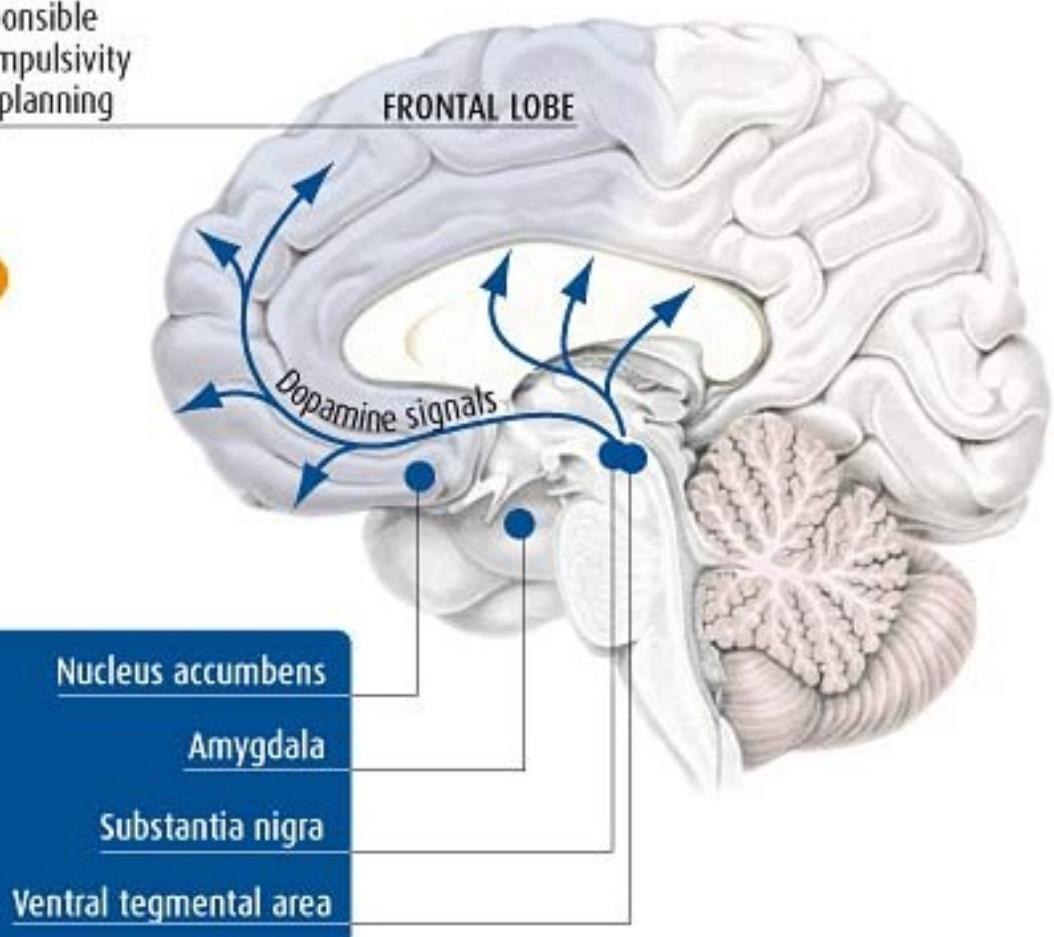
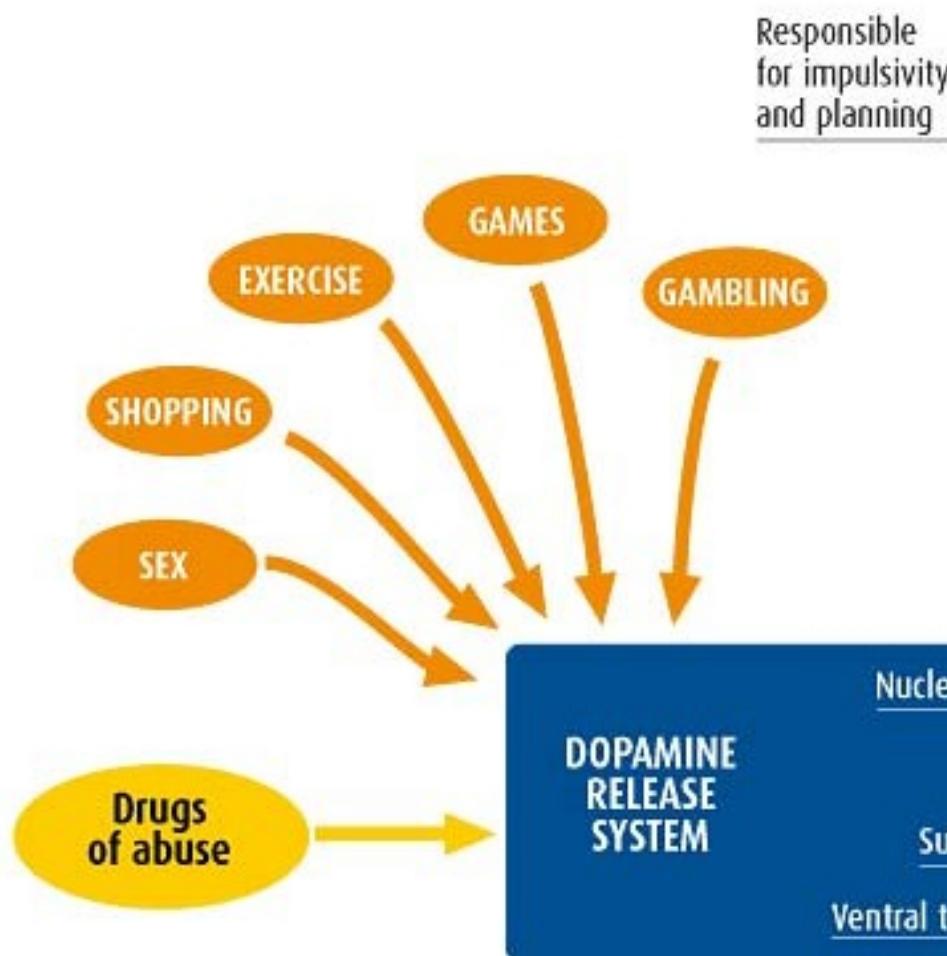
NEW BRAIN

cognition empathy art sociability consciousness



THE MANY TRIGGERS OF ADDICTION

Drugs of abuse and excessive behaviours seem to trigger a similar rise in dopamine release in the reward circuits of the brain – a crucial step on the way to addiction

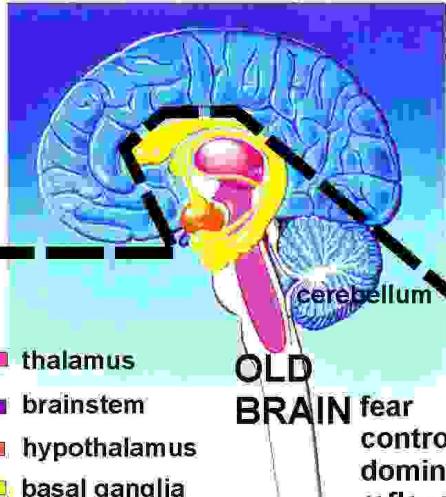






NEW BRAIN

cognition empathy art sociability consciousness



OLD
BRAIN

fear
control
dominance
reflexes



- Interactive Services Worldwide
- EVCI Career Colleges Corp.
- DeVry Inc.
- American Express

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Interactive Systems Worldwide Announces Extension of Agreement With Sportingbet

- WEST PATERSON, N.J., Jan. 30 /PRNewswire-FirstCall/ -- Interactive Systems Worldwide, Inc. (Pink Sheets: ISWI) has announced that its wholly-owned subsidiary, Global Interactive Gaming Limited (GIG), has extended its agreement with a subsidiary of Sportingbet Plc, the online sports betting and gaming group, until the end of 2011.
- The financial terms of the previous agreement regarding GIG's fees, which specified that GIG's monthly revenue would be determined by the greater of a revenue share percentage and a minimum monthly guarantee, are unchanged and will remain in effect for the duration of the extended agreement. In addition, Sportingbet has agreed to provide to GIG, in a series of four quarterly payments, an advance payment of a portion of the next three years' monthly minimums. The companies have agreed to a schedule of credits to be provided by GIG to Sportingbet applicable to future monthly service invoices to offset the advance payments.
- As a part of this agreement, ISWI has issued to Sportingbet a 5-year warrant to purchase 500,000 shares of ISWI common stock at a price of \$0.50.
- Bernard Albanese, the Company's CEO, stated, "We are extremely pleased with Sportingbet's decision to extend the agreement for another three years. It validates the uniqueness of our offering, and attests to their satisfaction with our services. Sportingbet is one of the premier on-line gaming companies in the world, and we are proud to be associated with them in this strategic relationship."

► Global Interactive Gaming

BRAZIL Vs MEXICO

BALANCE £200.50

Stake Amount £ 10.00

use arrow keys to
choose bet and
then press Select



Team to score the first goal	MEX Win £18.00	BRA Win £16.00
Team to get the next free kick	MEX Win £19.00	BRA Win £18.00
Team to get the next corner	MEX Win £18.00	BRA Win £19.00

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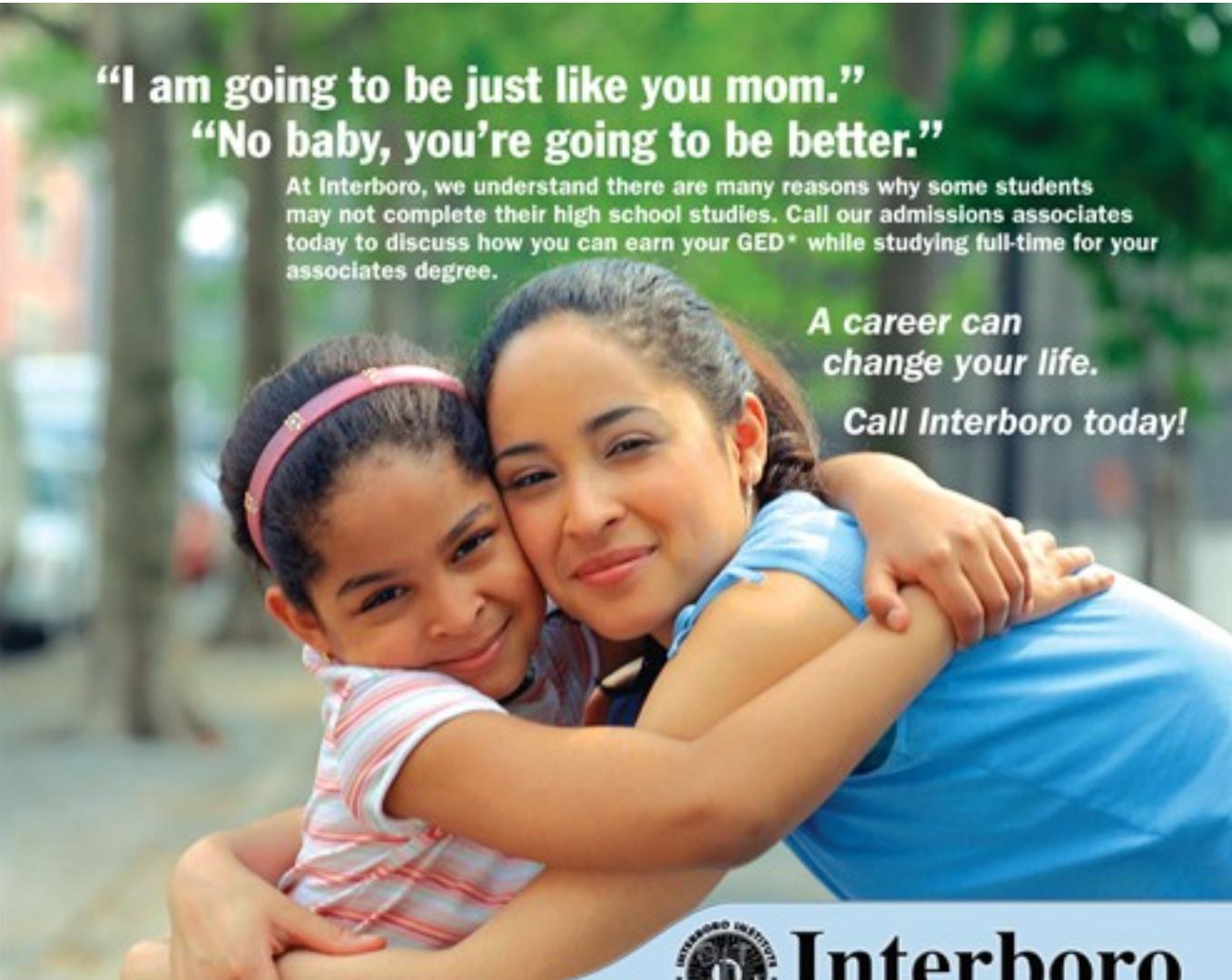
Interactive Systems Worldwide ISWI (Pink Sheets)

Some of ISW/SportXction/GIG partners past and current:

- Wirex Corp (Italy)
- Steve Lizak (Canada)
- Sunderlands (ultimate ownership in Curacao)
- SportingBet PLC (UK)
- Ladbrokes Gaming (UK)
- Kirsch Media (German)
- Telewest (UK)



- Interactive Services Worldwide
- EVCI Career Colleges Corp.
- DeVry Inc.
- American Express



“I am going to be just like you mom.”
“No baby, you’re going to be better.”

At Interboro, we understand there are many reasons why some students may not complete their high school studies. Call our admissions associates today to discuss how you can earn your GED* while studying full-time for your associates degree.

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- Unique open college admissions*
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* Speak with your admissions associate for more information.



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EVCI Exceeds Guidance for Revenue, Net Income, and EPS.

YONKERS, N.Y.--(BUSINESS WIRE)--May 14, 2003

EVCI's Net Earnings Per Share Advances from \$.01 per share to \$.16 per share on a 54% Revenue Increase for 1st Quarter

EVCI Career Colleges Incorporated (Nasdaq:EVCI), a rapidly growing post-secondary education company reported record revenues and net income for the first quarter of fiscal 2003. The results reflect EVCI's successful implementation of its growth strategy and better than expected enrollment for the spring semester.

EVCI reported revenues of approximately \$6.0 million for the first quarter ended March 31, 2003 versus revenues of approximately \$3.9



- Interactive Services Worldwide
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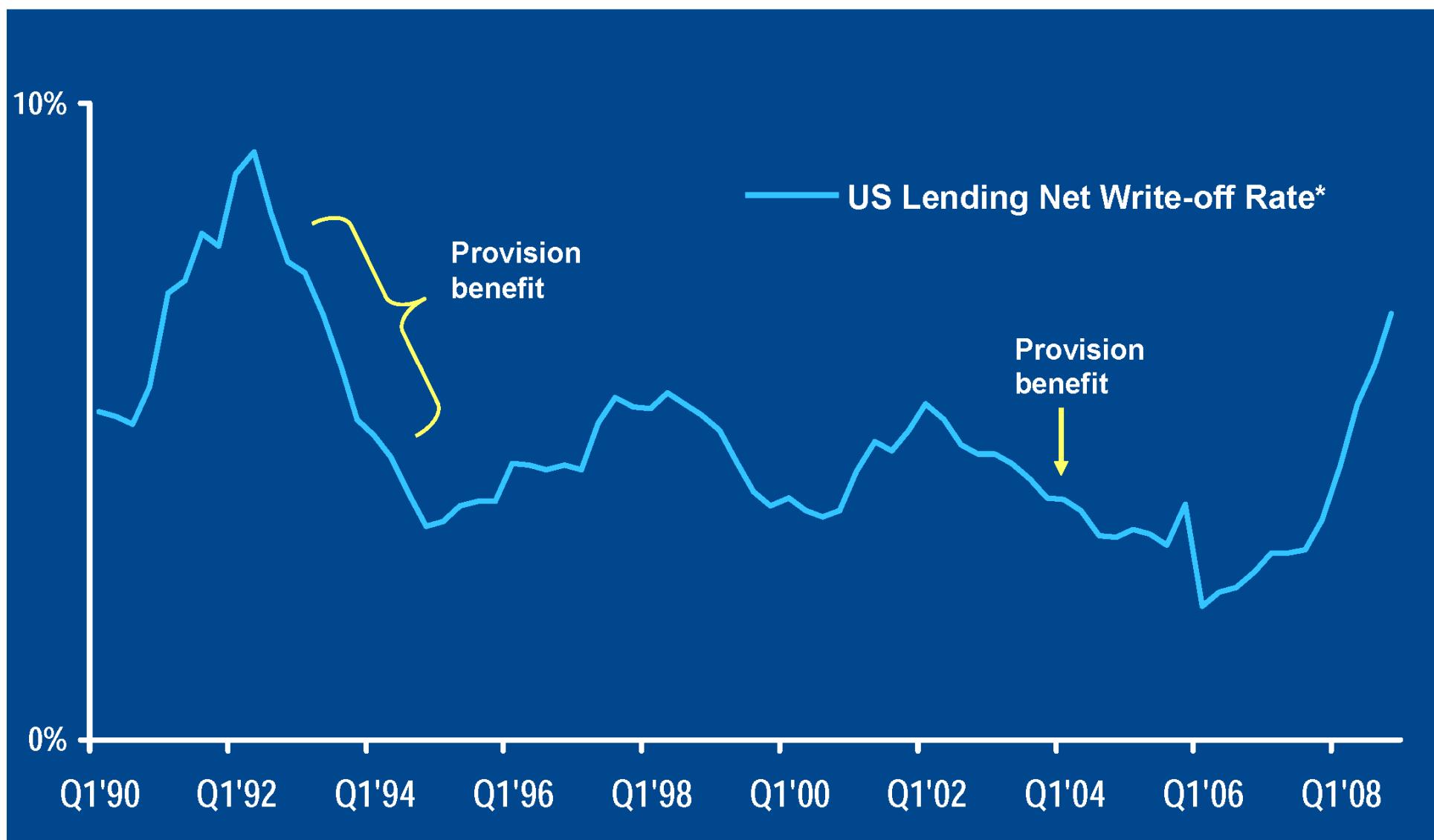
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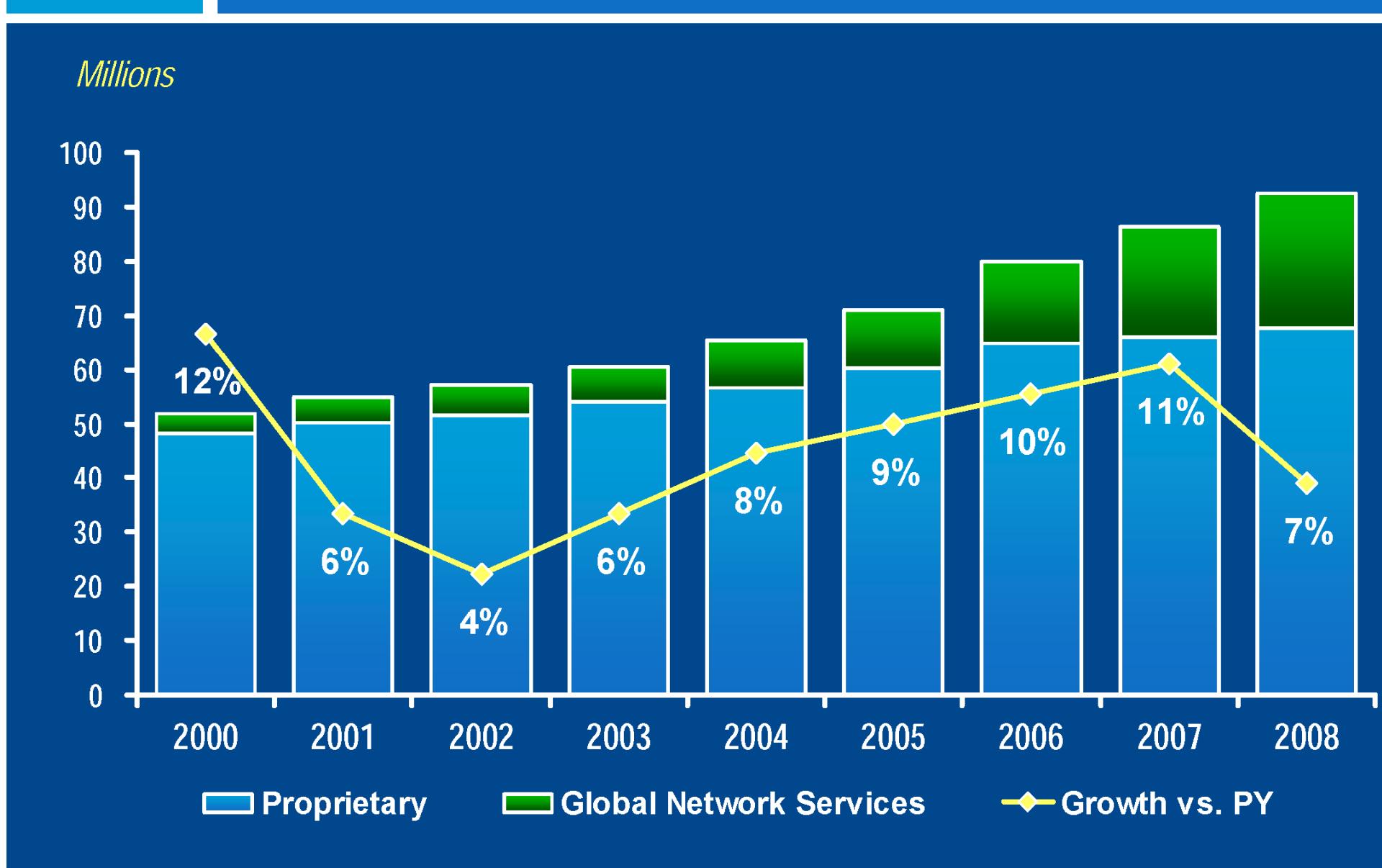
US Lending Managed Net Write-off Rate



*Historical US lending managed net write-off rates are adjusted to exclude an estimate for interest and fees.



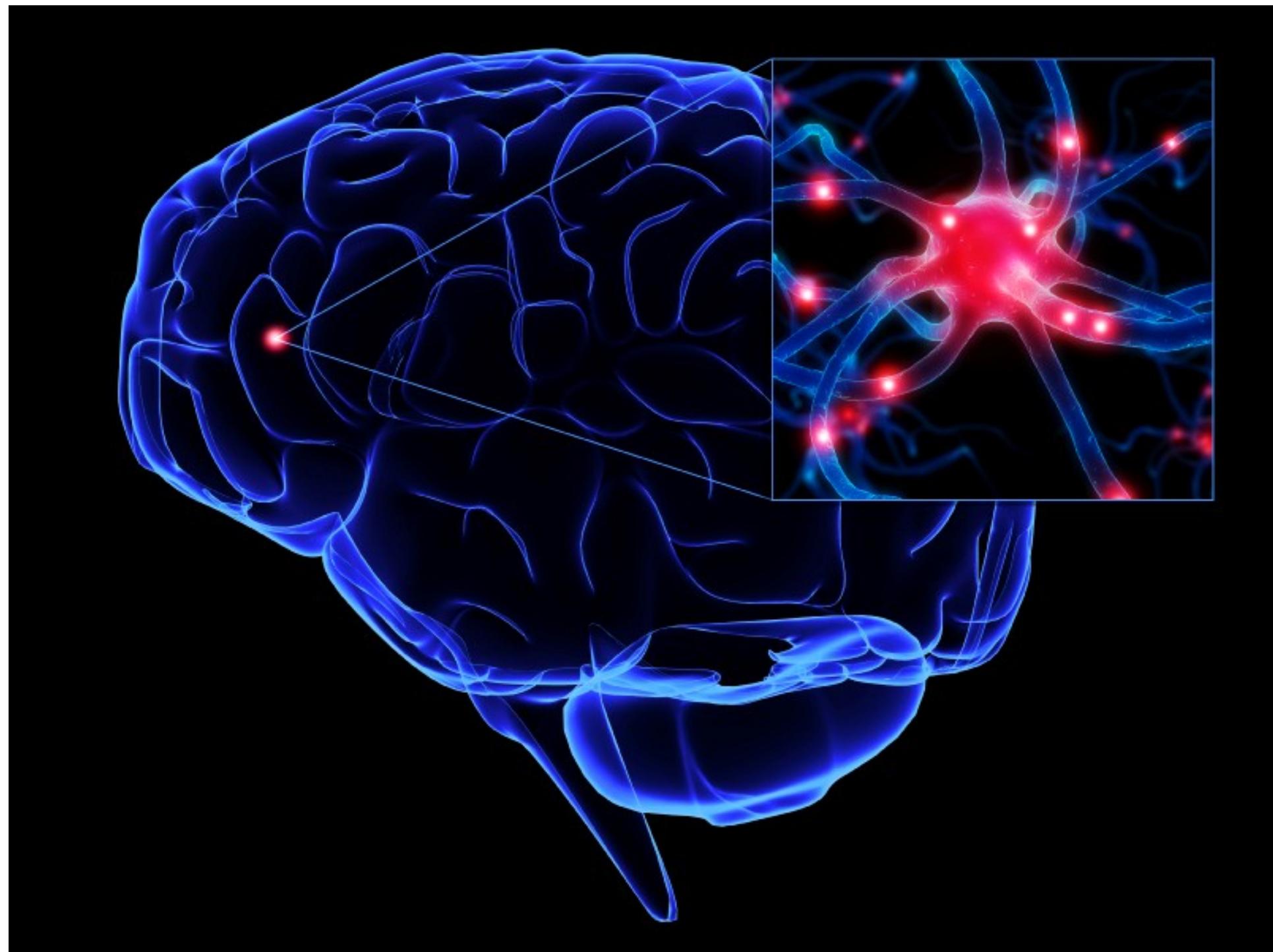
WW Total Cards-in-Force





The Low Road - Taking advantage of our neurobiology

- Mark to Model accounting
- Loss projections / expectation
- Student enrollment numbers
- Earnings projections
- Hockey stick projections
- Authority Bias
- Creating anticipation of good thing
- Reserve predictions in mining companies







Intellectual understanding is not sufficient – a behavioral response is required.

- ironic process theory









I've found my results for investment clients were far better here than when I had my office in 30 Rockefeller Plaza. When you're in Manhattan, it's much more difficult to go opposite the crowd."







I am here to rewire your brain!





“Washing hands
drastically decreases
the rate of infections”





Boeing 727 Abnormal Checklist

DITCHING

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Approach Checklist
----- Below 5000 Feet -----

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Cargo Heat Outflow Switch	Close	F/E
Life Vest	On	All
Shoulder Harness And Seat Belts	On	All
Passenger Cabin Preparation	Complete	F/O
Radio	Transmit Final Position	F/O



Using a written checklist for investing – as mandated by the FAA for pilots reduces by at least 30 the number IQ points required for successful investing.

-- Mohnish Pabrai, 2009



Checklist - New Highs (Dealing with Irrational Exhuberance)

- **Business Questions**

- Has there been a fundamental change in the business?
- Has there been a fundamental change in business conditions?
- Or is this a re-rating of the stock?
- What is the downside from current price?
- What is the upside from the current price?
- What is my time horizon?
- Can I find a better opportunity?
- If not, is it because I am being lazy?

- **Pyschological factors**

- How powerfully is the endowment effect acting on me?
- Have I made public statements to associate me with the stock?
- Does holding the investment enable me to derive non-pecuniary benefits?
- Am I substituting critical thinking for the comfortable company of other investors?

What sort of data I am looking at.

Are they generated by:

- Self aware
- Impersonal

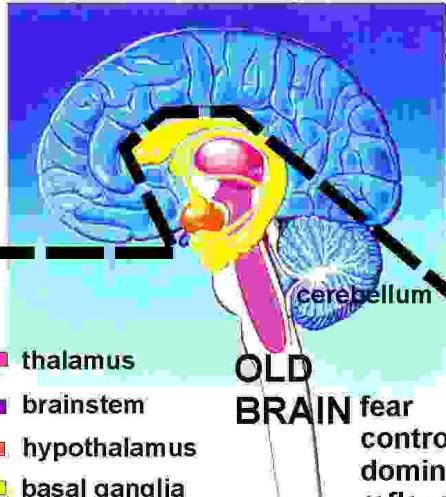


- Interactive Services Worldwide
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- Value Investing is the art of using the neocortex to invest in that part of human progress that is real.
- Approaches to investment whereby we become subject to the machinations of the reptilian brain are not value investing.

NEW BRAIN

cognition empathy art sociability consciousness



OLD
BRAIN

fear
control
dominance
reflexes



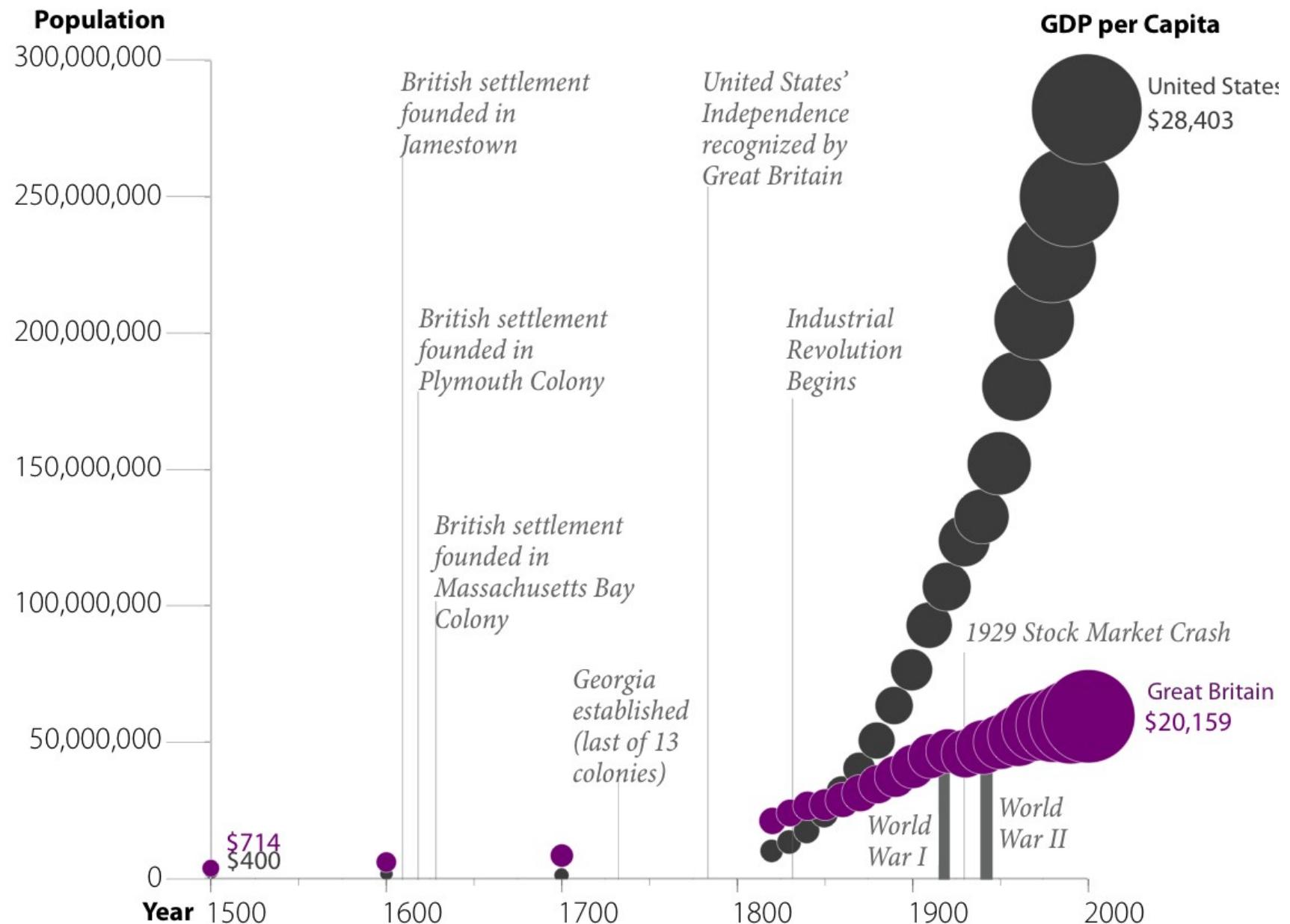
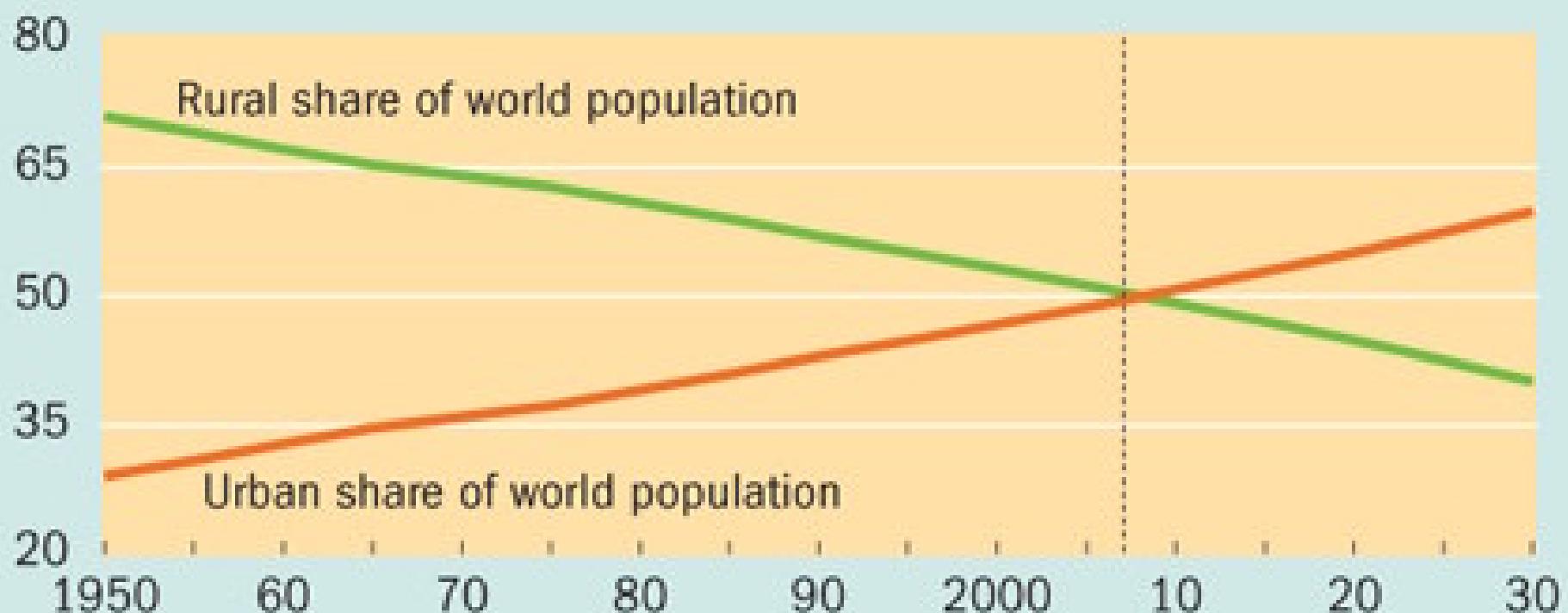


Chart 1

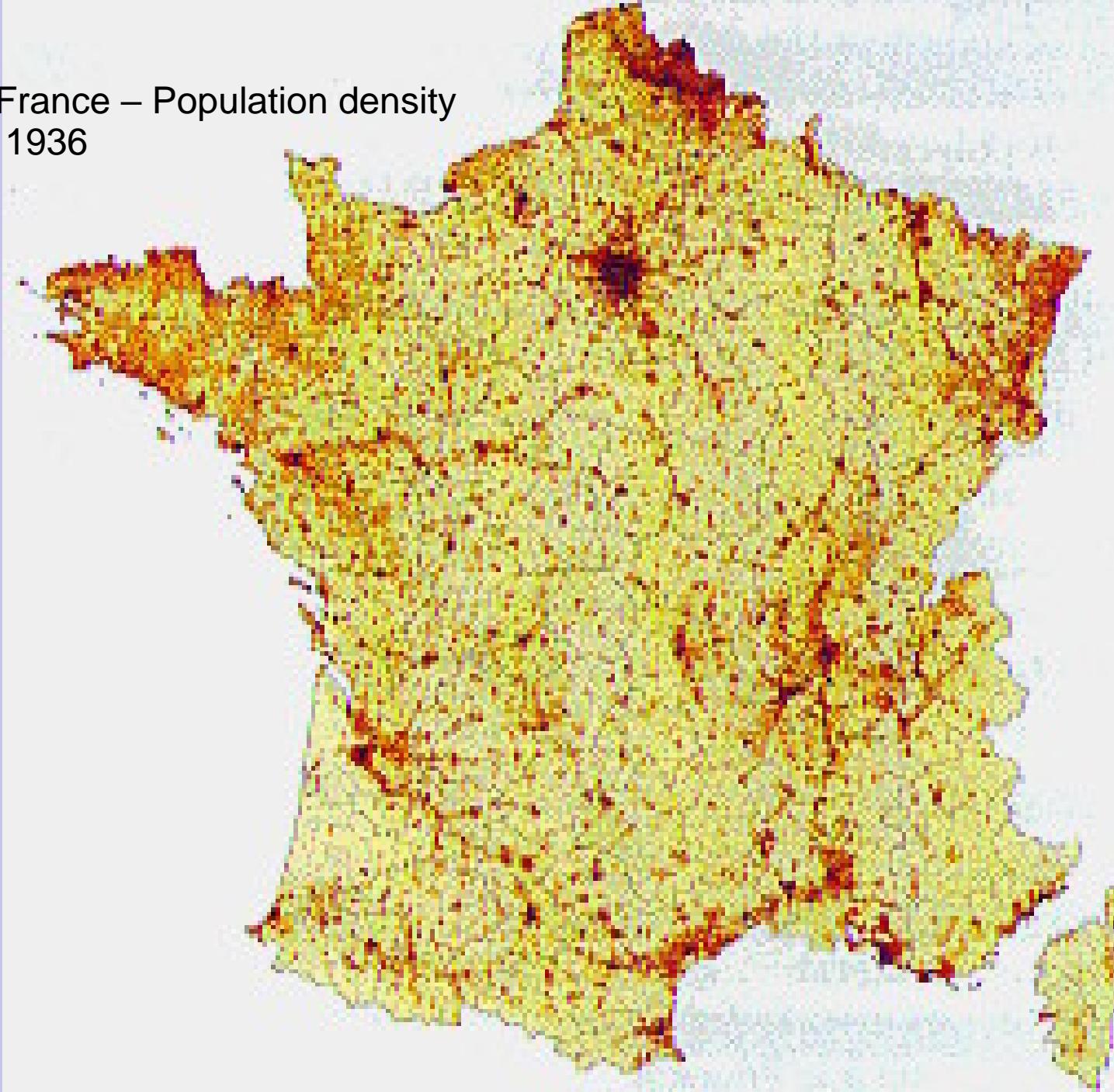
Tipping the scale

Next year, for the first time in history, more people will be living in urban than in rural areas.
(percent)

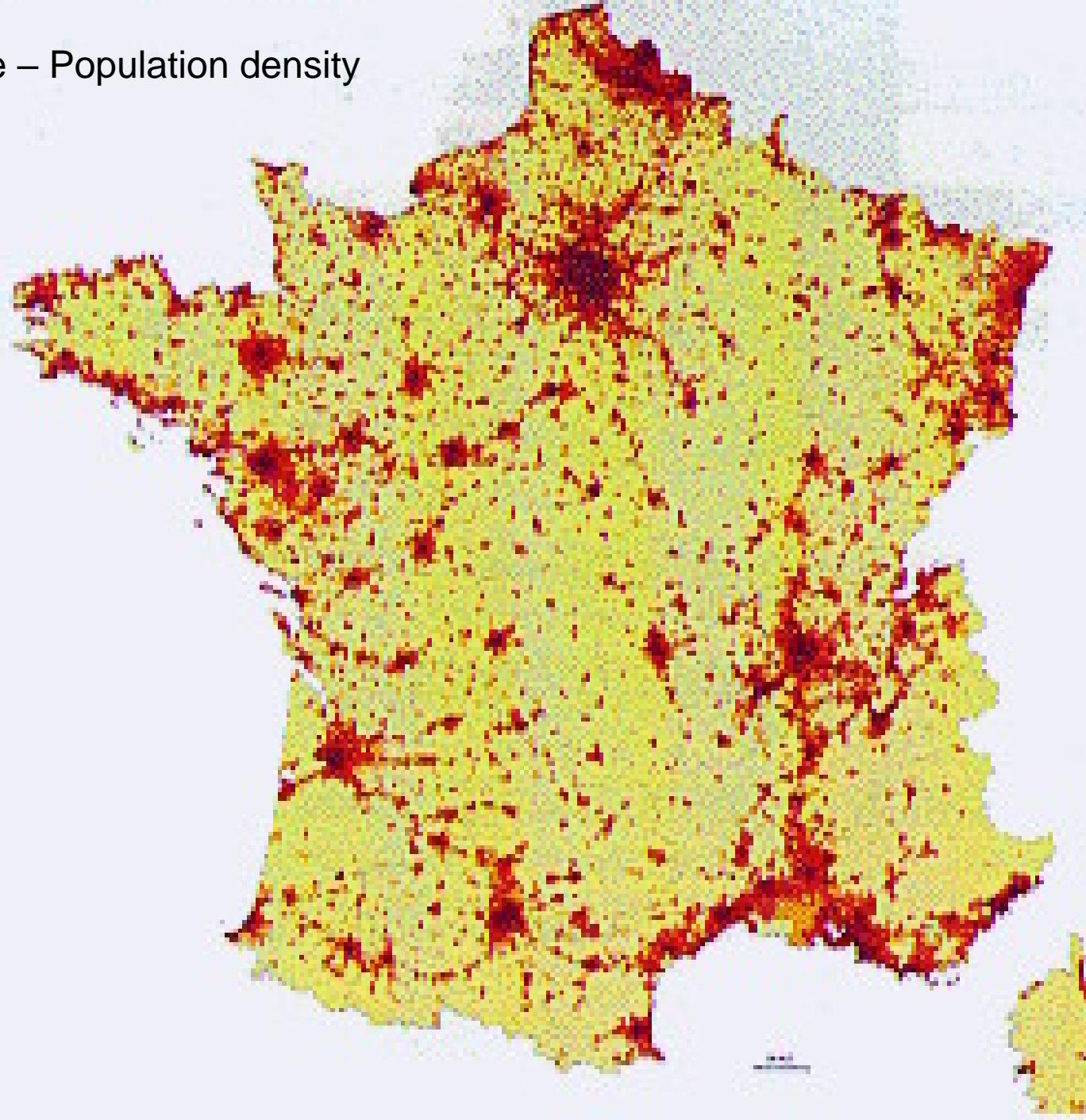


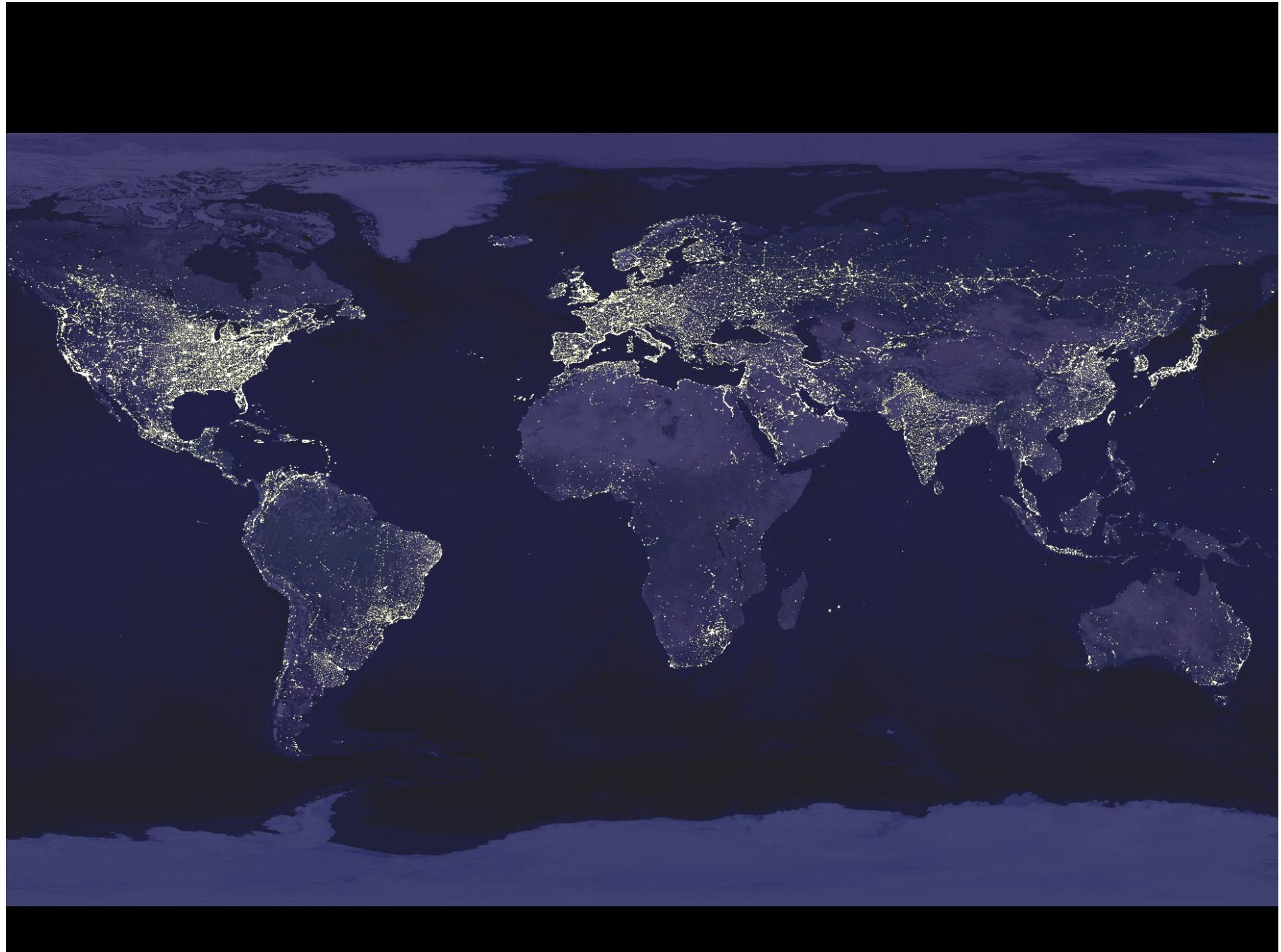
Source: United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects: The 2006 Revision* (2007).

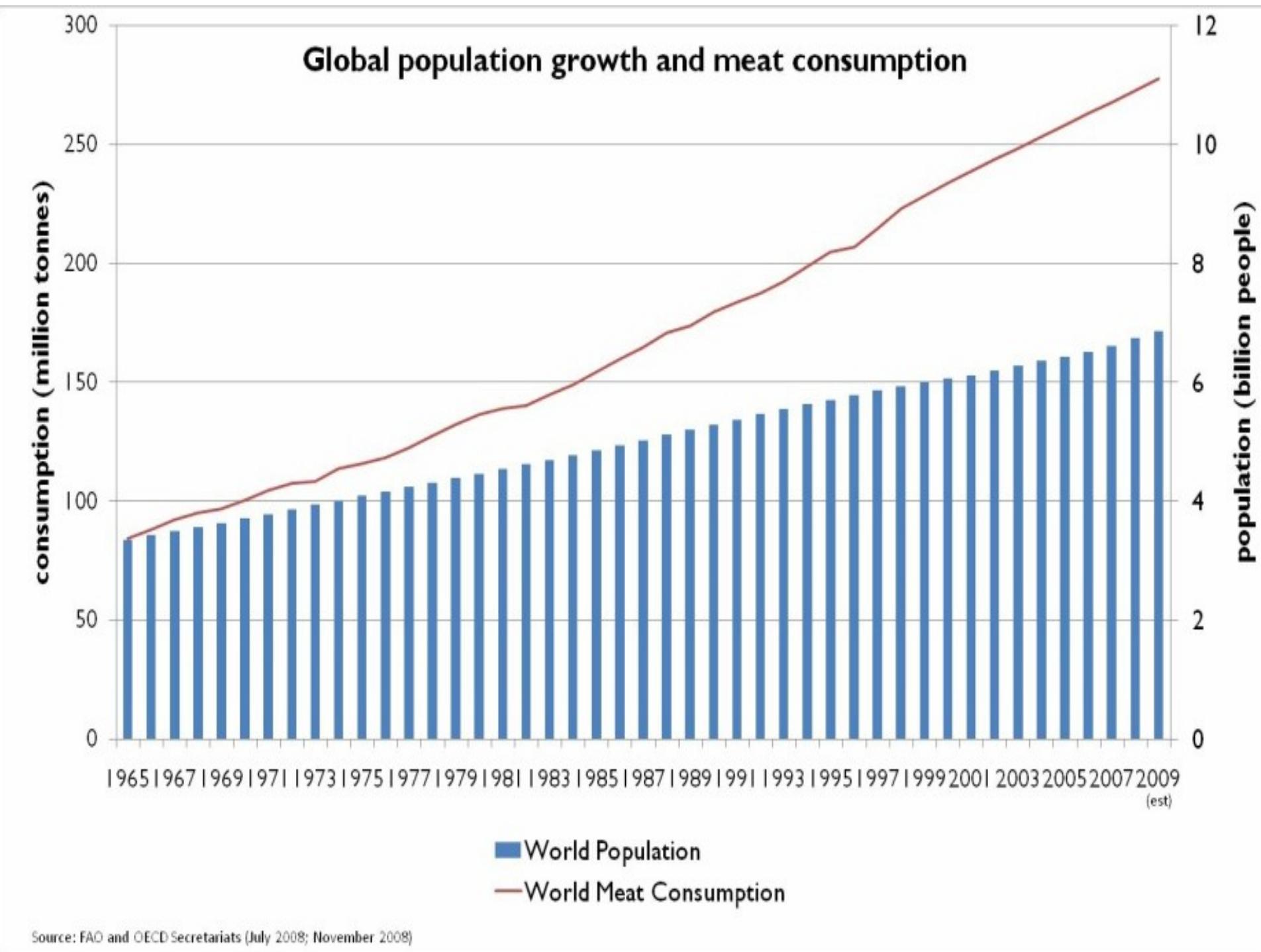
France – Population density
1936



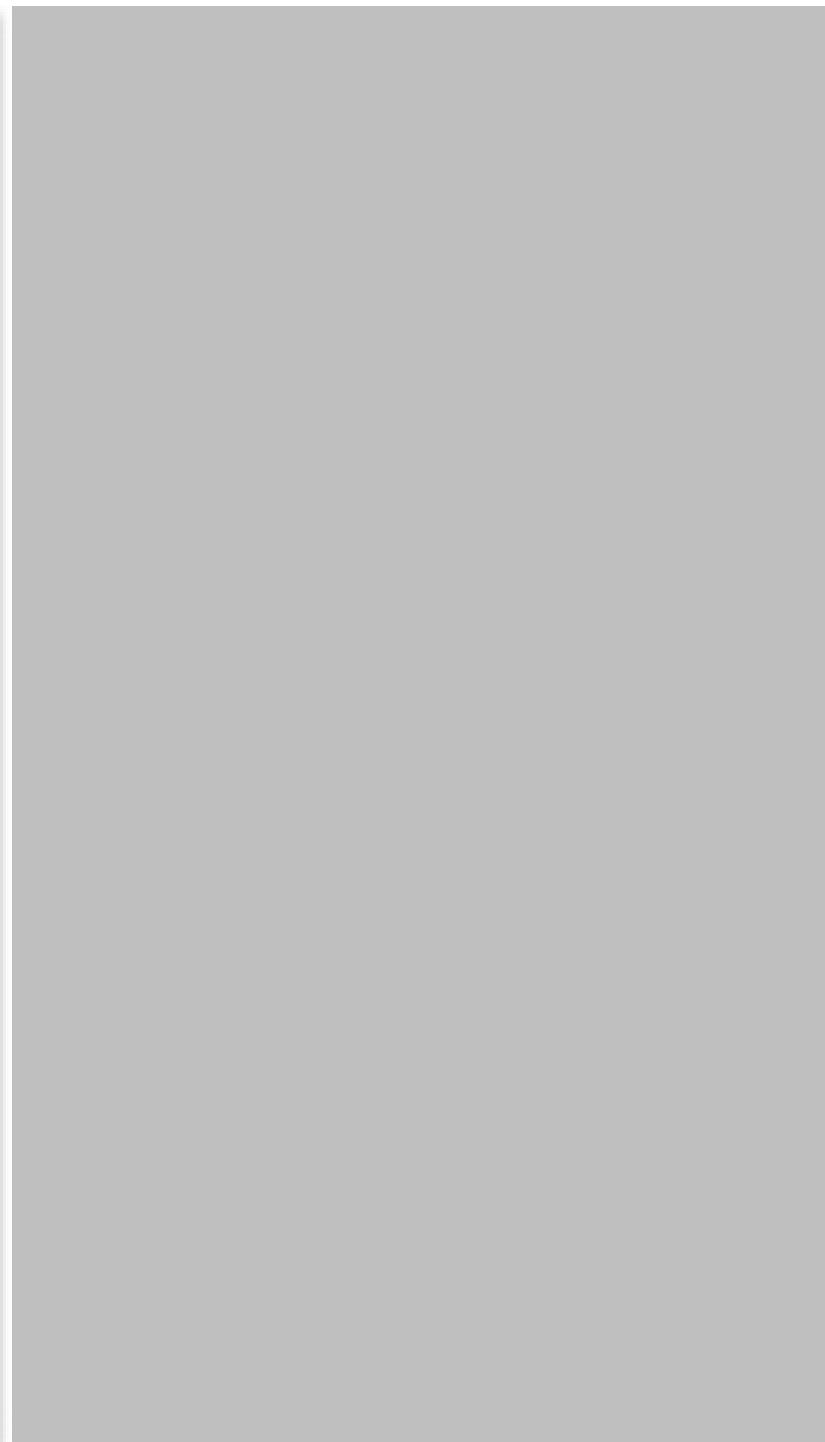
France – Population density
1999











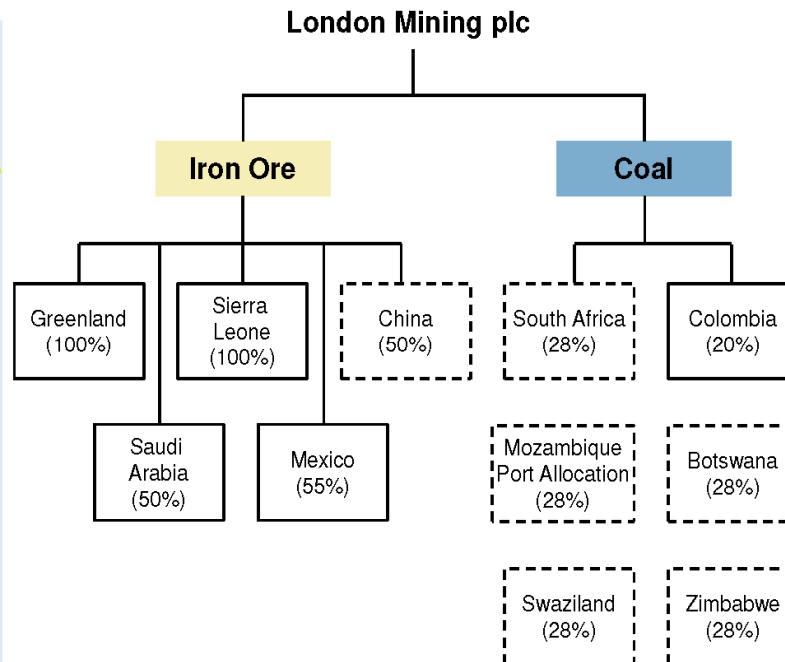


London Mining – an Investment opportunity

Maximise shareholder value by developing mines for the Global Energy and Steel Industries

- ▶ Market cap USD 146¹ million (NOK 9.1)
- ▶ USD 316 million cash for future investment
- ▶ Funding identified/in place for all projects
- ▶ Rich in resource
(attributable 1.2bnt Fe; 121mt Coal)
- ▶ Independent supplier of bulk commodities
- ▶ Focus on global steel & energy industries
- ▶ UK based, Oslo Axess listed
- ▶ Strong management team – proven record

¹. As at 23rd February 2009



Grazie!



Guy Spier

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