

# CHART OF THE MONTH

JUNE 2011

While the stock and bond markets grapple with Greece, the end of the Federal Reserve's monetary program dubbed QE2, and the resolution of the debt ceiling, we continue to focus on the fundamentals and valuations as part owners of some of the best companies in the world. One example we would like to highlight is Apple Inc., one of our largest holdings for clients desiring prospects for long-term capital appreciation. The same could be said for Abbott Labs, Coca-Cola, Chevron, and McDonald's for clients more interested in dividend income.

We believe Apple is the best of both worlds right now -- a great company and a great value. The Company is not only one of the largest, strongest, and most profitable businesses in the world, the stock trades at a market multiple of 13x the consensus EPS estimate for calendar 2011 despite growing its earnings and cash per share at an astounding clip over the past half dozen years. As shown in the graphs below, Apple has increased its earnings and cash about ten-fold during this period. Of note, more than 20 percent of its \$300 billion-plus market capitalization is in the form of net cash on its balance sheet (estimated to exceed \$70 billion as of the end of June).

Meanwhile, Apple continues to develop new products and services for its ecosystem, setting the stage for continued growth in the years ahead. The Company unveiled iCloud, which stores content and wirelessly pushes it to devices automatically, as well as its latest and most advanced desktop (Mac OS X Lion) and mobile (iOS 5) operating systems earlier this month at the Worldwide Developers Conference in San Francisco. In addition, Apple is expected to release new iPhone and iPads in the months ahead.

What happens if Steve Jobs resigned for health reasons or passed away, you ask? Well, we have little doubt that the stock price wouldn't fall by up to 10 percent on the news. That said, as much as we admire Jobs, we would be more likely to add to our positions on any material decline in the price than to sell due to our belief that Apple is a highly regarded and well managed business with or without Jobs and has an extraordinarily deep bench of executives and engineers in position to guide the Company well into the future.

