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Dear VAO Member:

“If It Ain’t Broke, Don’t Fix It vs. Kaizen”

Both of these philosophies have their positive points, but this seminar will focus on the second, “Kaizen,” which means continuous improvement in Japanese. I speak no Japanese but admire how the Japanese business community implemented this Kaizen philosophy to go from a destroyed nation after WWII to one of the world’s top industrial countries within fifty years.

How is continuous improvement relevant to this VAO group? Everyone here is already successful. You have no need for me to show you any route to fundamental achievement in life: you have already achieved it. Hence, when asked to do a seminar, I asked the question “How Can I Help?” The answer, at least to me, seems to lie with the Kaizen or continuous improvement principle. Specifically, I will introduce some investment tools and some basic investment fundamentals that might make you comfortable doing more investment analysis on your own than you do today. These principles can be applied to your orthodontic practice and to your overall financial life. Since each of you has a different comfort level coming into the seminar, this approach maximizes the chance of offering something to each of you. While you do not need the tools we will discuss to succeed, I am hopeful that their understanding and use may facilitate a new level of success for you.

Introduction

Thank you for the privilege of sharing this time with you. Whenever I have the opportunity to speak to a group of investors or to teach a class of executives or students at Notre Dame or William and Mary, I attempt to communicate my initial goals for the course in a letter like this one. The letter’s most important point is that the course exists to serve you, not me. Hence, if additions and/or subtractions to the course outline proposed in this letter would make the course more valuable for you, **I encourage you to tell me.**

Free Consult?

I arrive at the hotel in Bermuda on Thursday, June 26th, and am available to meet with any of you from that point on. One of the best ways for you to have a productive seminar experience is to read this letter and then to tell me any goals that you have for the course, so that I can orient the material to make the course most relevant for you. For example, if you are considering any major financial decisions in your practice, including but not limited to

- Purchasing an expensive piece of equipment
- Remodeling your entire office
- Leasing vs. buying a given asset

I would be delighted to answer any specific questions you might have or to have a general discussion about some potentially helpful analytical tools you might use in evaluating your options. Having these conversations prior to the seminar has several benefits:

- You receive for free a service for which you would normally have to pay fees.
- The seminar is customized to address the financial questions that you have posed.

- Your fellow attendees benefit by our discussing your example in the class. (We can disguise names and numbers to safeguard confidentiality.)

Dr. Warbucks and Mr. Munger

One of our firm's first and most important investors happens to be a vascular surgeon, let's call him Dr. Warbucks. Dr. Warbucks is an atypical doctor in that, independent of medicine, he has built an eight figure net worth via investments in areas ranging from oil and gas to financial services. First and foremost, however, he is a physician, and I have often heard him voice extreme frustration at how many of his medical colleagues get "fleeced" and "bamboozled" in allocating capital, whether for their medical businesses or for their personal investments.

Given his viewpoint, I asked him for any suggestions that he would like to share with you on business and investing. He responded saying "Invert, Always Invert", a mantra of our firm that we learned from reading essays and listening to speeches by Charlie Munger, Warren Buffett's business partner. (As you may know, Mr. Buffett is one of the world's wealthiest people, and he made his fortune through investing. As importantly, he and Mr. Munger, also one of the world's wealthiest men, are extraordinary teachers. In investing, and in other areas, they take complicated concepts and explain them in elegant, yet intelligible ways. At our firm, Prince Henry, we have many business and investment role models, with Munger and Buffett at the top of the list. If you have an interest in learning more about what these role models can teach you about investments, I encourage you to visit www.princehenrygroup.com, specifically the "Role Models" page. (Once on website, click on "Prince Henry Investments", then enter user name of "prince" and password of "henry"). Returning to inversion, Mr. Munger says "It is in the nature of things that many hard problems are best solved when they are addressed backward." Mr. Munger advocates approaching the study of how to create X by turning the question backward, that is, by studying how to create non-X.

Hence, regardless of whether one is considering buying a new CT scanner, remodeling an existing medical practice, building a new building, or buying stock in a company, if our general investment goal is to safeguard principal and to compound capital at compelling rates, inversion would have us ask how we could best destroy our invested capital. I ask you to think about your responses to this question between now and class. You can list as many as you like, but in the seminar I will suggest only four criteria that, if followed, will almost inevitably destroy capital. Conversely, we will examine ways to avoid all of these four, which constitutes the first step towards investment success regardless of the investment.

Roadmap

The probability of your having a valuable experience in the seminar increases if you have an outline of the topics and format planned for the course. We will NOT spend the same amount of time on each of these points; some are central themes while others are more ancillary points. While this outline is not all inclusive, it should give you a good sample of the material, and I ask you to bring it to the seminar with you.

Toolkit Tools

1. *Did We Win or Lose?* A simple, short case study that enables me to measure the different backgrounds of the participants in the seminar so as to orient the material towards the center of the class.
2. *The Four Drivers of Investment Return:* Whether one is considering buying a piece of medical equipment, remodeling an existing practice, moving to a new building, or investing for retirement, these four drivers serve as powerful analytical tools, enabling us to dissect each potential investment and to compare different investments with one another.

3. *“Every Profession Is A Conspiracy Against The Laity”*: Because there is truth in jest, we examine Mark Twain’s remark to see what one formula might prove most useful to a non-finance professional working to make finance and investment decisions.
4. *Intrinsic Value*: The discounted value of the cash that can be taken out of a business during its remaining life. We will examine the concept and the application of Intrinsic Value.

The above should give class participants a toolkit that they can use in evaluating various investment opportunities. Moreover, this toolkit has been relevant at least since Jefferson made the Louisiana Purchase from Napoleon, so it should leave all of us well equipped to analyze investment opportunities that we confront.

Orthodontic Investment Cases

5. *Purchasing A New Piece of Equipment*
6. *Remodeling An Existing Practice (Or Building A New Building)*

The Bigger Picture

7. *Stepping Back*: After using the formula to evaluate our own investment opportunities and to decide which initiatives merit our capital and which do not, we will spend a few minutes on the more general point of what potential benchmarks to use to evaluate investment opportunities.
8. *The Inversion Slide*: Based on your responses, we will analyze a variety of ways to destroy capital while focusing on four ways that almost guarantee a permanent loss of capital. The goal here is not to be cute but to really focus on how to maximize the probability of first preserving capital and then compounding it at a compelling rate.

Why Should I Care?

9. *Valuation of An Orthodontic Practice vs. That of a Standard Business*
10. *Three Drivers of Potential Value in an Orthodontic Practice*: we will rank them and then focus on one.
11. *How is an orthodontic practice like the Sees Candy business model?* Hint: This analogy harkens back to the three drivers of potential value discussion.
12. *Pabrai Presentation to the Young President’s Organization*. This presentation is one of the best that I have ever seen. It integrates historical investment data with the research and ideas from the leading investment practitioners over the past fifty years. More importantly, it challenges the very smart and distinguished members of the Young Presidents Organization, people who have achieved enormous success in their own field, to figure out what skills, tools, and desires they bring to their own investments.
13. *Harvard Management Case Study*: If time allows, I may ask for your views on how Harvard resolved this fascinating contrast of incentives relating to the Harvard Management Company, one of the most successful investment organizations in the last quarter century.
14. *Common Threads* (Time permitting): devil’s advocacy encouraged

I look forward to discussing these topics and examining specific cases with you during our two hour seminar. Again, I am here to be of service. Please let me know how the material can prove most relevant to you.

Sincerely,

Dan Anglin