

## E-Memo

**TO:** INVESTORS/MEMBERS AND FRIENDS  
**FROM:** Bob Ollech and Jon Bruss  
**Date:** August 14, 2006  
**Subject:** Ludwig von Mises, *redux* and why the South is Rising

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In May we wrote about *Free Market Capitalism, Banks & the late Louis Rukeyser*. At the risk of making life too easy for your erstwhile scribes and bank aficionados, we'd like to revisit (*redux*) that general subject, but leave Rukeyser to *Requiescat in Pace* (rest in peace). In any case, as you might guess, we get a kick out of doing this and wouldn't reduce the birth pangs of each edition for a single moment.

One of our "must reads" is the *de gustibus* column of the Friday edition of the Wall Street Journal. In the August 11 issue, much to our delight, was the *de gustibus* column written by one Kyle Wingfield entitled "Von Mises Finds a Sweet Home in Alabama." Needless to say, the title was a real eye-grabber for us. Von Mises? Home in Alabama? Von Mises, as you'll recall, was an economist of the Austrian School who preached a free-market philosophy. He was a leading light of Austrian economic thought in the 20's and 30's seeking to counter the growth of socialism throughout the free world, arguing for limited government, lower taxes, stronger property rights and less business regulation. Reaganesque, don't you think? Von Mises fled the Nazis in 1934, coming to America where this prolific writer and thinker died in 1973.

We learned from *de gustibus* that in 1982, just off-campus from Auburn University, an unaffiliated think tank called the Ludwig von Mises Institute was founded and, to this day, preaches and publishes the works of von Mises, Hayek, Joseph Schumpeter and others of and influenced by the Austrian school. It seemed rather strange to the author of *de gustibus* that the Mises Institute would be located in such an out of the way place in the deep South. That was our reaction as well but then the light went on for Wingfield and your bank aficionados—and the answer to the question, "How does a world class think-tank end up in east Alabama?" World class? Yes, the author explains that all over the Continent, bright, young free-marketeers from 23 countries (and 30 states) have attended Von Mises University—a one week annual session bringing together some of the best and brightest free-market thinkers from around the world. World class? You bet! But back to the South—and east Alabama. First off, Auburn University, in the 1980's, had one of the few "Austrian tolerant economics departments"—unlike your writers' alma maters economics departments. And of course, the campus isn't all that far away from Atlanta's airport and Auburn—the town is quite charming, which you know if you've ever been there, and Southern hospitality? Need we say more? Yes, we do. At its core, Austrian economic thought expresses itself as a skeptic of powerful central authority. The writer points out that Southerners have always been mistrustful of government, almost libertarian at times, which makes the South a natural ally for the Austrian tradition. Oh, and one more thing. Wingfield points out that we sometimes appear to the world as philistine in nature, especially in Europe. Having the Ludwig von Mises Institute located "far away from the usual urban hubs is itself a rejection of the central planning and authority that Ludwig von Mises spent his life fighting."

We have believed, and you can write this on a rock, that:

The **FOUNDATION** of a strong, free economy  
is its diverse and competitive banking system.



We believe interested and proactive shareholders  
promote efficiency and good performance and foster  
a healthy banking and economic system—  
the **FOUNDATION** of a free economy.

Since 1999, we have used those very words in marketing our sector-specific private investment fund which invests exclusively in micro- and small-cap banks.

The South holds a strong fascination for us. Why? Some of the reasons are the culture of free-markets which we see embodied in the management teams assembled by the banks in which we invest in the South and their distrust of big government and governmental interference. We also strongly believe that freedom is dependent on a well educated populace. We learned from one of our progeny, a classical languages professor at a liberal arts college in Tennessee, that his state is very concerned that it ranks only 7<sup>th</sup> in the nation in terms of adult education and adult vocational education. Seventh? That seemed pretty good to us until we learned that adjacent states like Alabama, Mississippi, Georgia and the Carolina's outrank Tennessee or are rapidly gaining on them. Leaders from the Volunteer State are adamant about retaining and improving their state's economic mojo. And that's another reason why we are excited about our investments in the South. No longer willing to bear the image of educational also-rans, southern states are investing in higher education. They understand the relationship between education, economic growth and economic freedom—the latter demonstrated by low taxes and fewer regulations than in the North.

More than one-third of the 23 banks in which we have some kind of stake are headquartered in Georgia, Florida, Alabama or Virginia and half of those on our "bench" of potential investments are located in the South. The South *is* rising and community banks are doing their share of the heavy lifting (and reaping the benefits of the region's economic growth).

We'd be remiss if we didn't point out that our other favorite investment newspaper, *Investor's Business Daily (IBD)*, regularly ranks 197 industry groups by recent relative price performance with "1" being the best and "197" the worst. As of the close of business on August 11 those rankings were as follows:

Bank Location/Sector	August 11, 2006 Rank	Rank Three Months Ago
West/Southwest	14	146
Southeast	40	155
Northeast	47	162
Savings & Loans	69	157
Midwest	97	179

We have been consistent, if nothing else, in pointing out that the relative price performance of the banks we follow has been improving. Our best barometer has been the Industry Group section of *IBD*, most days found on page B4. Here we look at the **52-Week Highs & Lows** to find the NASDAQ Banks and Savings & Loans hitting those marks. In the last 45 days it has been rare that Banks and Savings & Loans have **NOT** exceeded their percentage representation in the NASDAQ Composite (banks comprise about 16% of the names in the NASDAQ Composite). In fact, it has been more likely that they have represented 30% to 50% of NASDAQ companies hitting 52-week highs, or more than twice their representation in the Composite. In aggregate, these bank groups represent 615 banks and thrifts or about 50% of the publicly-traded banking universe in the US. The five groups above don't represent all the banks tracked by IBD. We didn't include Money Center Banks, Foreign Banks and Super Regionals, which are not part of the group our investment universe. Those banks have done well over the past 90 days, but not as well as the small banks in which we invest.

The banks in which we invest are community banks. And to paraphrase the late Speaker of the House, Tip O'Neill, *all banking is local*. Geography, markets and culture are all critical to banking success. Not all successful bankers are located in the South, that region has its fair share. There are, for example 149 banks in the Southeast group identified by IBD. In the West/Southwest group there are 96, the Midwest has 79, the Northeast 136 and the Savings & Loan group 155, for a total of 615, the vast majority of which are small-cap community or super-community banks.

The banks of the South have a leg up—a leg up provided by the culture in which they exist. It is a culture in which free market thinkers are grown and nurtured, not only for the United States but for the world over.

The banks of the South, and those in which we invest in general, embody our philosophy as *America's Bank Investor* that:

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**FORTRESS**

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