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Lessons Learned from the Past Year

Lessons from the past year -- well, over the decades I certainly have learned many lessons the hard way.

I thought I would discuss one lesson I learned in 2008 and one lesson I learned in 2009. In 2008, most value investors did not have a good year at all. I think value investors, historically, have tended to see themselves as bottom-up investors exclusively and as paying very little or no attention whatsoever to the top-down. It served them well for decades until in 2008, when the top-down impacted everyone in a major negative way.

We have always paid a bit of attention to the top-down from a negative standpoint. In other words, the intrinsic values we establish – and update – for the securities we own or for the securities we are considering owning, they don't assume eternal prosperity. They assume that the world muddles through, which is what the world basically did in the post-World-War-II period. But, those intrinsic values certainly do not assume several years of extraordinarily difficult economic and financial circumstances, because if that were to happen, then our intrinsic values would prove to be, at least temporarily, too high.

Now, at the beginning of the '80s and continuing in the '90s and particularly after the turn of the century, I was somewhat troubled by what I saw to be a big credit boom. A lot of the economic growth taking place in the U.S. – and sometimes elsewhere – was on the back of a credit boom. I was also vaguely familiar with the so-called Austrian School of Economics. In April 2006, I came across a paper by the then chief economist of the Bank for International Settlements, William White, and in the subdued tones of Bank for International Settlements papers, he was basically telling you what was going to happen in the reasonably near future. He alluded to the Austrian School when he wrote about what the Austrians warned against in the late 1920s, the Roaring '20s, that every sensible banker throughout the world was fat and happy, because there was overall prosperity with low inflation. The Austrians -- Mises, Hayek -- said, "It's not enough to have overall prosperity and low inflation. You have to be very careful not to let a credit boom go too far, because a credit bust will follow a credit boom just like night follows day."

Unfortunately in 2008 we [First Eagle Global Fund] were down 21%. When I first became an adviser at the end of 2004, we had had several very good years. There was something very nice about being an adviser when everything goes well. But, in 2008 we were down 21% and, even though I had read this paper in April 2006, I should have drawn the logical conclusion. I think it goes to show that the bottom-up investor in me did not listen closely enough to the top-down investor.

Moving on to 2009, I think that between October of 2008 and March 2009, when the stock market seemed to be going down every day, investors sold because of forced selling – any investor with leverage or in hedge funds was forced to sell. There are two things about leverage. Number one, it works both ways; and number two, it reduces or eliminates your staying power. So, there was some forced selling because there were redemptions in hedge funds. There was leverage and the margin call came. We, of course, don't use leverage. And, while we were facing redemptions, albeit moderate redemptions, we didn't have to engage in forced selling.

The second thing is that there are some investors, including professional investors, who simply could not take it any more from a psychological standpoint. We go back to what Warren Buffett said, "In order to be a reasonably successful investor over the long term, it does not take a high IQ [thank God], but it takes temperament. It takes a willingness to go against the grain, to swim upstream -- not systematically, because then you're simply a contrarian -- but whenever you think it's appropriate." And it's hard, psychologically, to swim upstream. With a market that seemed to be going down every day, the great temptation was to join the majority, which was selling.

We don't mind swimming upstream. Somebody once asked, "Well, how come you have that kind of attitude?" I'm not sure it's a strong explanation, but when I was growing up in France in the late '40s, I went to church on Sunday because the great

majority of the French people at the time were Catholic. And at church, the priest would get up for the sermon and basically tell you, “Don't expect to be happy on this earth. This is a valley of tears. The good stuff is in the afterlife.” And so, contrary to many Americans, who it seems to me expect to be happy every day, I almost expected, as a child, to be unhappy every day. And so I'm more willing to suffer the psychological wounds associated with swimming upstream.

And finally, I think investors who sold between the fall of 2008 and the spring of 2009 were investors who believed that the ultimate outcome was going to be deflationary and possibly a return to the Great Depression. If you believed that then maybe you were justified in selling stocks, because if we were to go back to the Great Depression it would be a killer for stocks at almost any price. We did not think that the ultimate outcome would be a return to the Great Depression and, indeed, we were net buyers of stocks during the period.

You don't want to listen to politicians, most of the time, but we observed that both Obama and Bernanke had said, “We will do whatever it takes.” And we listened to that and we said, “Hey, in a pure paper money system, which is what we've been under since 1971, you can always create inflation. You can always inflate.” But some people say, “Ah, yes, but the central bank can print money, indeed, but if the banks don't want to lend, if the borrowers don't want to borrow, then you're pushing on a string.”

Bernanke wrote a paper where he said that you can always put a few Treasury people on to a helicopter with bags of $100 bills. Helicopters take off, they open the doors, they open the bags and they rain the $100 bills on the population. That's why he's nicknamed Helicopter Ben.

In a pure paper money system, there are no constraints. There may be, at some point, market constraints, but there is no constraints such as the constraint associated with the gold standard, even after it was weakened, it was softened up. So today, what we have in developed countries is government policies. Indeed, it reflects not only the opinions of government people or the desires or preferences of government people, but it's also prevalent in business and finance. It's prevalent in academia. Everybody is a Keynesian or post-Keynesian or pseudo-Keynesian or crypto-Keynesian or an ultra-Keynesian.

But I, for one, happen to agree with Jim Grant, when he says that Keynes’s system was quacked. Keynes appeals, by definition, to politicians because Keynes had a tendency to believe that private demand was, most of the time, insufficient so that it had to be supplemented by government spending. There is nothing that politicians like better than spend the taxpayers' money. So I'm not a Keynesian at all. If anything, I'm on the side of the Austrian School and, frankly, I'm not the only one in the shop not to be a Keynesian. Bruce Greenwald says he's a modified Minskian. Now, I'm not sure what the "modified" implies, but Minsky -- I have no problem with Minsky. There are two economists in the post-World-War-II period which I think are neglected today. It's Murray Rothbard and Minsky, who said really interesting things.

Milton Friedman competed with Keynes for a while because, of course, the Keynesians already had a big problem in the '70s because of their policies in the '50s and '60s, which ended up in the inflationary '70s. Milton Friedman emerged towards the end of the '70s, to some extent, because he was a consultant to and friend of Margaret Thatcher and Ronald Reagan. But Friedman was somebody who was genuinely intellectually honest and towards the end of his life, he acknowledged that there had been so many financial innovations that M1/M2/M3 didn't mean as much as it used to.

Minsky, among many other things, said stability leads to instability, something Ben Bernanke never heard because he pretended that the Great Moderation, as he called it, would go on forever. Now, I think Matt and Abhay are not Keynesian in the sense that if they were, I don't think they would be interested in retaining any gold in the portfolios of the funds. Keynes characterized gold as a barbarous relic.

Now, I have to acknowledge that the Keynesians -- in spite of what I have just said -- will be able to lever up the system once more and that in the traditional post-World-War-II style, we, after a major recession, will have three to five years of economic expansion, in which case the Keynesian policies would appear to be successful, at least for quite a while.

That's one possibility, which I certainly cannot exclude. Indeed, the key question is probably whether we're still in the post-World-War-II economic and financial landscape or whether in a more threatening landscape and, frankly, I don't have the

answer to that question. I think it's probably appropriate to continue to keep a wary eye on the top-down. I think it's equities by default. Both cash, yielding zip, and long-term Treasury bonds, yielding 4% or slightly more, are very weak competition to equities. If, indeed, the government continues to debase the currency, which is a possibility, one is much better off with some gold as the hardest of hard assets and a good chunk of equities at the expense of cash and Treasuries.

I'll end with a little story. Now that I'm an adviser, I have more free time, so I read the newspapers more closely than I used to and there was a story in the national section of *The New York Times*, about a gentleman who is 99 years old. He's a barber. He, at the age of 99, continues to go to the barber shop and cut hair maybe once a week. He said in the story that he's been a barber since he was 14, which means that he began in 1925. Towards the end of the article, he says that he charged 25 cents a haircut in 1925, and today, 85 years later, he charges $12 a haircut.

Now, $12 in New York City for a haircut for men is fairly cheap. It is not expensive, but what I was thinking was, if back in 1925 he had put the quarter in his pocket and left it there and took it out today, what could he buy with 25 cents? Not even a piece of bubblegum. Now somebody since has told me, that I should think in terms of him investing the 25 cents in the Dow Jones and look what would have happened.

But that is not the point. The point is, that at the beginning of the 19th Century in England you could buy a good or service for the equivalent of 25 cents and 100 years later at the end of the 19th Century, the same price would apply to that good or service. Not that the price had been stable at 25 cents for 100 years. It went from 25 to 35 to 18 to 22 to 17 and it ended the century at 25 cents. Keeping in mind that the Fed was created in 1913, just 12 years before the gentleman started cutting hair -- is the dollar a store of value if the price of a haircut moves in 85 years from 25 cents to $12, which is almost 50 times the 25 cents?

Average Annual Returns as of 06/30/2010	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund - Class A (w/o sales charge)(SGENX)	-1.43%	15.39%	7.25%	11.94%	1.19%
First Eagle Global Fund - Class A(w/sales charge)(SGENX)	-6.35	9.62	6.16	11.36	
First Eagle Overseas Fund - Class A (w/o sales charge)(SGOVX)	0.15	14.69	7.46	11.91	1.20%
First Eagle Overseas Fund - Class A (w/sales charge)(SGOVX)	-4.85	8.95	6.37	11.34	
First Eagle Gold Fund - Class A (w/o sales charge)(SGGDX)	10.07	33.21	21.14	24.16	1.26%
First Eagle Gold Fund - Class A (w/sales charge)(SGGDX)	4.57	26.55	19.90	23.52	

	Year to Date	1 Year	5 Years	Inception 09/04/01	Expense Ratio
First Eagle U.S. Value Fund - Class A (w/o sales charge)(FEVAX)	-2.29%	13.95%	3.85%	8.26%	1.26%
First Eagle U.S. Value Fund - Class A (w/sales charge)(FEVAX)	-7.18	8.25	2.79	7.63	

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The commentary represents the opinion of Jean-Marie Eveillard as of March 19, 2010 and is subject to change based on market and other conditions. Performance for periods prior to January 1, 2000 occurred while Mr. Eveillard was affiliated with another firm. Mr. Eveillard transitioned to Senior Adviser on March 26, 2009, a position he also held from January 2005 to March 2007, and continues to be a member of First Eagle Funds' Board of Trustees and a Senior Vice President of First Eagle Investment Management, LLC. The opinions expressed are not necessarily those of the firm. First Eagle Investment Management, LLC (FEIM) became investment adviser to the Fund commencing January 1, 2000. These materials are provided for informational purpose only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

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