Knightsbridge Asset Management, LLC

April 4, 2011

Spring Quarterly Commentary

"All our reasoning ends in surrender to feeling"

Blaise Pascal, 1623-1662
French Mathematician, Physicist, Inventor, Writer, & Catholic-Philosopher
Inventor: La Machine d'arithmétique

Just when the bull market was heating up, world events conspired to take it back down. It has been said that stock purchases are made with logic and stock sales made with emotion. Monsieur Pascal expressed similar thoughts a century-and-a-half prior to the founding of the NYSE. In the first quarter, the MENA (Middle East North Africa) rebellions followed by the Fukushima Dai-Ichi nuclear problems provided the rationale for reassessment of risk. Although this reassessment resulted in a 7% correction, by quarter's end virtually all had been recovered.

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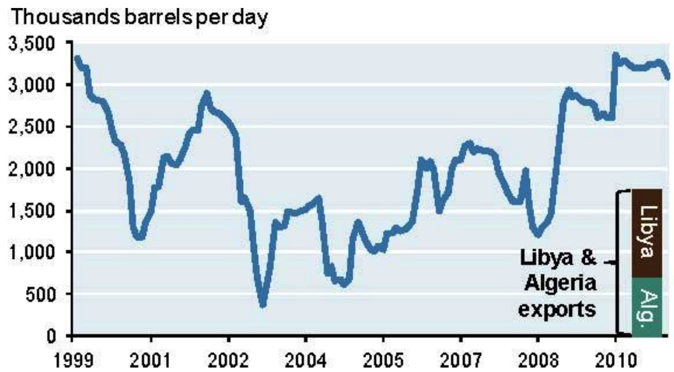
The following chart shows Saudi spare oil capacity relative to Libya and Algerian exports:

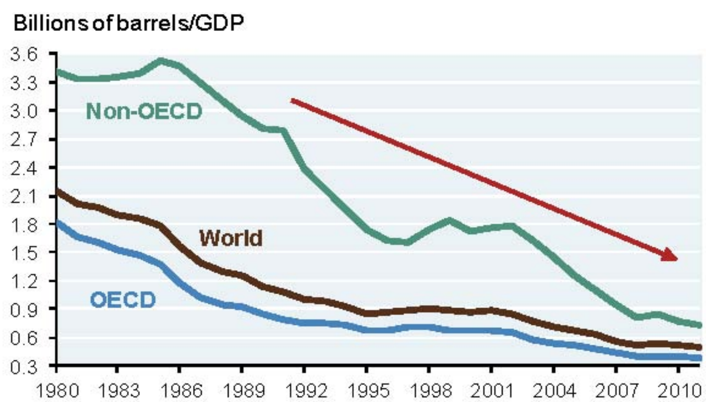
Saudi Arabia spare capacity vs. potential supply loss



Source: Bloomberg.

It would seem Saudi Arabia has enough spare capacity to handle *today's* short falls. But for the future? And as a footnote, we should remember that although oil usage worldwide has been decreasing per unit of GDP output as shown below; it is not at a rate that would provide relief on a shorter-term basis:

Oil intensity declining worldwide

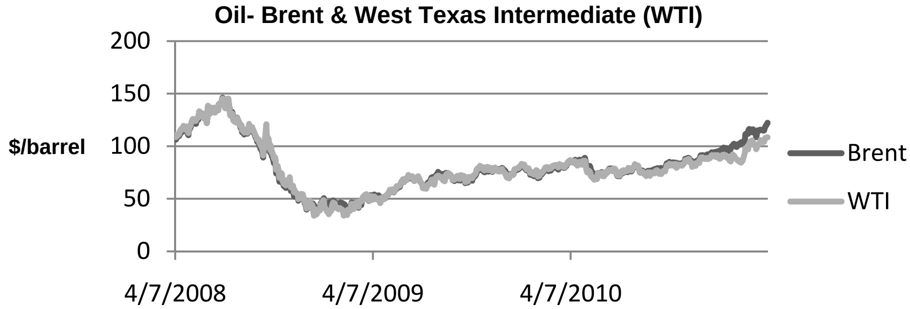


Source: ISI Group.

According to Ed Hyman from economic consultancy ISI Insights, every $10 increase in the price of crude oil will slow GDP growth by 0.3%. Most observers believe a stable oil value to be around $82 per barrel. Prices as seen today (for West Texas Intermediate) in $100's area portend about 0.5% less GDP growth. This is enough to generate a slight economic slowdown but not enough to derail the unfolding recovery.

Many believe prices of $120 per barrel for WTI would put the US into recession, should they persist for a year's duration.

Unfortunately, Brent crude reached $120 per barrel this week. It remains to be seen if WTI will follow.



Source: Bloomberg Finance, L.P

As for Japan, at 6% of world GDP for the entire country, it is unlikely the Fukushima Dai-Ichi nuclear problems will initiate a prolonged negative downturn here. National disasters do not tend to be catalysts for extremely deep or protracted declines in economic activity. As for US companies, Japan accounts for about 1.5% of total S&P 500 revenue; not enough to be damaging in a majority of cases. It is certainly true that supply disruptions may affect individual American companies, but we do not see this as being a long-lasting phenomenon.

Toward the end of the first quarter, the market was able to shrug off the 7% decline posting a strong recovery led by Exxon and Chevron accounting for 0.8% of the S&P 500's quarterly gain. The market has several things going for it which could mean much higher prices.

First of all, forward P/E's for the S&P 500 have historically averaged 15.1 times earnings, and currently trade at only 13.7 times earnings.

Sector	12 Month Forward Earnings Growth Expectations (%)	Forward P/E Ratio	
		Current	Historical Mean since 1995
Utilities	-3.2	12.9	13.3
Health Care	10.3	11.8	19.1
Telecom Services	17.1	17.2	17.1
Consumer Staples	12.8	14.8	17.8
Information Technology	27.0	13.4	23.2
S&P Total	21.8	13.7	15.1
Consumer Discretionary	20.4	15.7	18.4
Industrials	24.7	15.9	16.8
Energy	40.3	13.2	15.5
Financials	20.9	12.7	12.9
Materials	33.1	14.4	15.9

Source: Bloomberg Finance, L.P/Thomson Reuters/IBES

Duration of U.S. Economic Cycles

Start Date	End Date	Duration (Months)
December '00	September '02	21
August '04	May '07	33
June '08	January '10	19
January '12	January '13	12
December '14	August '18	44
March '19	January '20	10
July '21	May '23	22
July '24	October '26	27
November '27	August '29	21
March '33	May '37	50
June '38	February '45	80
October '45	November '48	37
October '49	July '53	45
May '54	August '57	39
April '58	April '60	24
February '61	December '69	106
November '70	November '73	36
March '75	January '80	58
July '80	July '81	12
November '82	July '90	92
March '91	March '01	120
November '01	December '07	73
June '09	*Ongoing*	*22*
	Average	**45**
	Post WWII Avg.	**58**

Source: Strategas Research Partners

Secondly, by historical standards, the economic cycle is still young. As seen to the left, the average economic cycle is somewhere between 45 and 58 months, and we are currently at only 22 months.

Thirdly, merger and acquisition activity is accelerating with deal size going up. AT&T just announced a $39 billion offer for T-Mobile owned by Deutsche Telekom. Texas Instruments is offering $6.5 billion for National Semiconductor and Deutsche Boerse is offering $10.5 billion for NYSE Euronext.

Fourthly, GDP and corporate profits are both at new highs while the S&P 500 is still 20% off its October 2007 peaks.

Fifthly, with the end of QE2 stimulus in sight, the Fed is not tightening. Normally it takes two or three tightenings to get the attention of the equity markets, and weakness to appear.

Sixthly, employment numbers, though improving, have yet to exhibit the strength levels that would indicate caution for the stock market.

And seventh, corporations continue to be flush with cash.

The 50 week moving average of the S&P 500 has now again risen above the 200 week moving average. As seen below, such moves

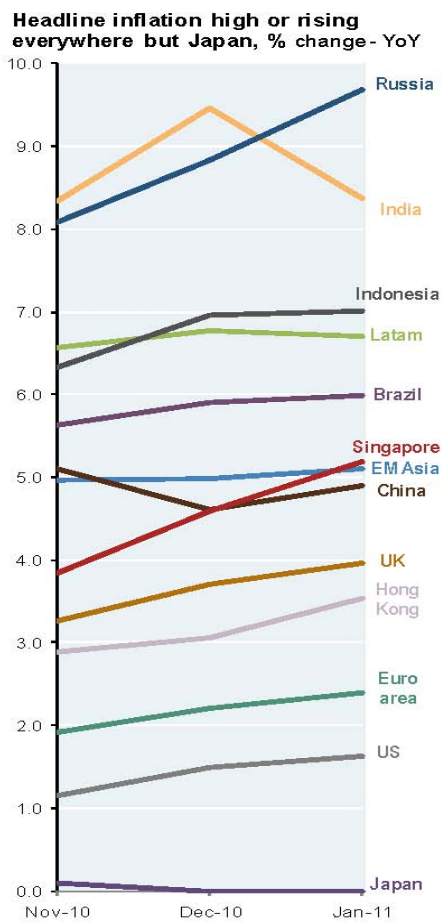
S&P 500 Performance Following 50-Week Moving Average Crossing Above 200-Week Moving Average

	Date of Cross	S&P 500	+1 Year	+2 Years
1	10/12/1934	9.19	29.3%	84.5%
2	7/9/1943	12.41	6.9%	21.2%
3	3/3/1950	17.29	26.8%	34.7%
4	10/17/1958	51.46	11.4%	6.2%
5	5/17/1963	70.29	15.4%	27.4%
6	8/20/1971	98.33	13.7%	3.3%
7	7/16/1976	104.68	-3.6%	-6.6%
8	1/12/1979	99.93	10.5%	33.6%
9	7/16/2004	1101.39	11.5%	12.2%
10	3/11/2011	1304.28	?	?
		Average	13.5%	24.1%
		% Positive	88.9%	88.9%

Source: Strategas Research Partners

Impressive Track Record

portend positive market returns 89% of the time going back to 1934. The average one-year-forward returns are 13.5% and the average two-year-forward returns are a positive 24.1%.



Source: J.P. Morgan Securities LLC.

Nevertheless, although we are positive on balance, there are negatives lurking in the wings. Inflation is one such negative and has been increasing worldwide and most notably in the emerging market countries where inflating food prices make up a greater percentage of GDP expenditure.

Another negative is the likelihood that Japanese sales of US Treasury bonds (in order to repatriate yen for rebuilding in the homeland) could drive down US Treasury prices and drive up yields.

Another negative could be the deflationary force of the ending QE2.

Yet another threat is that Saudi Arabia confronts Iran in Bahrain where the US Fifth Fleet is anchored. There is already a Saudi presence in Bahrain.

The removal of the Fifth Fleet from Bahrain would be a big negative for stability in the Persian Gulf.

So as we tiptoe to higher prices in the continuing bull market, we are reminded that all reasoning can quickly surrender to "feelings" as it did in 2008-2009 for a majority of investors. We remain ever mindful to temper our bullishness just as some day it will be required of us to temper our bearishness. Indeed, our survival in the markets depends on this. To be successful investors, we must fight the inclination for "all reasoning to end in surrender to feelings."

We thank our clients and constituents for their patience, understanding, equanimity and loyalty.

Very Truly Yours,

Alan T. Beimfohr **John G. Prichard, CFA**

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