

August 27, 2013

*Our investment letter mission:
to give hard-to-find facts with
lively writing and no soporific
jargon™.*

INVESTMENT LETTER

Diamonds Are a Girl's Best Friend but Precision Castparts (NYSE: PCP) Believes That Titanium Is Its Best Friend

I was watching *CBS This Morning* while Tom Casey, the affable owner of Professional Image, the barber shop in Utica Square in Tulsa, cut my hair. After the television commercial—a company was selling mattresses, declaring that their mattresses were extra firm, and, because of the company's proprietary manufacturing process, extremely comfortable—Jeff Smisek, President and CEO of [United Continental Holdings, Inc. \(NYSE: UAL\)](#), came on the set. Charley Rose asked Smisek whether it worried him that should the merger of [American](#) and [US Airways \(NYSE: LCC\)](#) go through, [United](#) would lose its first place in size, with size presumably measured by balance sheet assets and revenue.

Smisek's answer could not have been more clever or more polished. He said, and throughout the interview, he showed great presence, that his interest was being the best airline in the world, not necessarily the biggest.

The interviewer asked him for details. What did he mean by the best? Smisek answered: having a culture in which employees and customers felt that they had a voice, a culture where both customers and employees had the respect of management.

As far as Smisek's view of what is important in corporate culture, management experts would say he hit the nail on the head. These experts would also say that, facing staggering debt loads with annual interest payments in the hundreds of millions of dollars, and fighting for survival in a viciously capital intensive business, spending

energy and time to bring [United's](#) culture to a more civilized level will keep Smisek busy for a long time to come.

The domestic airline industry is not in great financial shape, and that probably explains why the airlines are forced to cram every coach passenger into a tight space, a space so tight that each passenger can almost feel that he inhabits the body of the passenger in the seat next to him.

Financial stress and brutal service attitudes may also explain why a coach passenger must pay an exorbitant price for a sandwich with stale, bland tasting bread, a parsimonious portion of meat, and a limp pickle delivered by a steward or stewardess who looks as if he or she is counting the days toward retirement, days when he (she) will not have to go over safety instructions for the nth time.

The industry, nevertheless, is slowly entering a new era of prosperity. Catalyzed by consolidation—the merger of [Delta](#) and [Northwest](#) into [Delta Air Lines \(NYSE: DAL\)](#) is an example—and thanks to the bankruptcy of many airlines and the survival of four majors, the survivors can now enjoy the benefits of an oligopoly, such as rational pricing, a most creative euphemism.

Competition has fallen by the wayside. Now if the industry could only exert its influence to make the [Transportation Security Administration \(TSA\)](#) act in a more thoughtful, respectful manner with the

flying public, another challenge to airline management would be satisfied.

Is it too cynical to believe that the airlines silently applaud the [TSA](#), knowing that this faceless bureaucracy plays a critical role in lowering the expectations that the public has for the airline traveling experience? After all, if the ordinary traveler has been cowed and intimidated by the [TSA's](#) innumerable orders, it will be easier for the flight attendants to order the passengers around, even the most truculent, intransigent flyers, and to make them turn off their cell phones and other electronic devices before takeoff and landing.

Whatever the relationship between the airlines and the [TSA](#), the bureaucracy's presence appears irreversible. We might as well accept it, as Tom Casey found out this summer when he returned from a vacation on a flight from Fresno to Tulsa.

Casey was returning to Tulsa on July 4. After he had exited the cylindrical contraption that air travelers must survive, a contraption described below in the box on page four, he was asked to step aside while the [TSA](#) employee applied a chemical solution to his hands. After the application, he was allowed to proceed. But he was curious, asking why he had been subject to such a test. The answer: the [TSA](#) employee wanted to make sure that he had not applied explosives to his hands.

As I listened to Tom's story, I wondered whether the [TSA](#) security screening process could be made less intrusive, less unpleasant. I do not have the answer. But surely the airlines must be aware of the arduous experience that the [TSA](#) imposes on the flying public, an experience that damages the airlines' attempt to create fantasy about air travel.

If You Want to Fly on Your Own Terms, All Is Not Lost

If you find yourself in an affluent, self-indulgent mood, or have two business meetings to attend in one day, call my friend, [Dan Burnstein](#), at [Omni Air Transport](#) at 3217 North Sheridan Road in Tulsa. (For your convenience, the [Omni](#) Charter Hotline number is 918-836-3131). Give him just 90 minutes' notice, and he can have a Lear 35, a Lear 45, a Lear 60, or a Legacy 600 ready to whisk you away to any destination that you choose. I just have to warn you that flying private jet, such as through [Omni](#), can be a dangerously seductive experience, making even first class commercial on [American](#), [Delta Air Lines](#) ([NYSE: DAL](#)), [United Continental Holdings](#) ([NYSE: UAL](#)) or any other domestic commercial aircraft feel second rate.

With the [Omni](#) experience, or any private aircraft experience, there are no security lines. You do not have to get undressed and dressed in order to board the aircraft. You do not have to obey any other nonsensical orders from officious personnel, either before the plane takes off or during flight. You can drive your car within a few yards of your plane. The pilots will greet you, put your luggage on the plane, and within a few minutes you are roaring down the runway. If you have to deal with the idiosyncrasies of your fellow travelers, at least you know what those idiosyncrasies are. Flying with [Omni](#) or with any private jet service is an exciting, thrilling experience, short-circuiting the anxieties and frustrations of commercial air travel. Best of all, you decide when to depart and return from Tulsa or any other city.

To read the full Investment Letter, please email us at contact@ferimc.com or call (918) 743-5959. You could also fill out your contact information at <http://www.ferimc.com/contact.html>, we will contact you as soon as possible.