

Thornhill - The Death of Fantasy Value?

April 17, 2009

Presented by:

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“Identifying true value is...complicated by the rules of financial score-keeping. The principles of accounting are not hard and fast. They are in fact, remarkably subjective...”

James Grant - Mr. Market Miscalculations: The Bubble Years and Beyond, AXOS Press 2008

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- **PREMISE I: DEAD IDEA** - “The Kids Will Earn More Than We Do” or the economic pie will continue to grow
 - **REAL IDEA:** Historical prosperity is based upon the dead ideas of overestimation of the power of the individual to shape his or her own economic destiny; America’s sense of entitlement and exceptionalism, i.e. our economy is immune from the travails that ordinary nations face; and the imprudent conviction that we can live beyond our needs because somehow we will earn enough later to deal with any problem.

Matt Miller - The Tyranny of Dead Ideas: Letting Go of the Old Ways of Thinking, Times Books 2009

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- **PREMISE II: HISTORICAL PRICE CHART FOR S&P INDEX**
 - **ASSUMPTION I:** Since 1925 the S&P 500 has averaged a little over 10% growth per year. This translates into a double in value “roughly” every seven years.
 - **ASSUMPTION II: SEPTEMBER 7 TO OCTOBER 7, 2008:** The month in which the bill for fifteen plus years of excess was presented in full A bill Wall Street and other financial centers were incapable of paying.

Larry Elliott and Dan Atkinson - The Gods that Failed: How Blind Faith in Markets Has Cost Us Our Future, Nation Books, 2009

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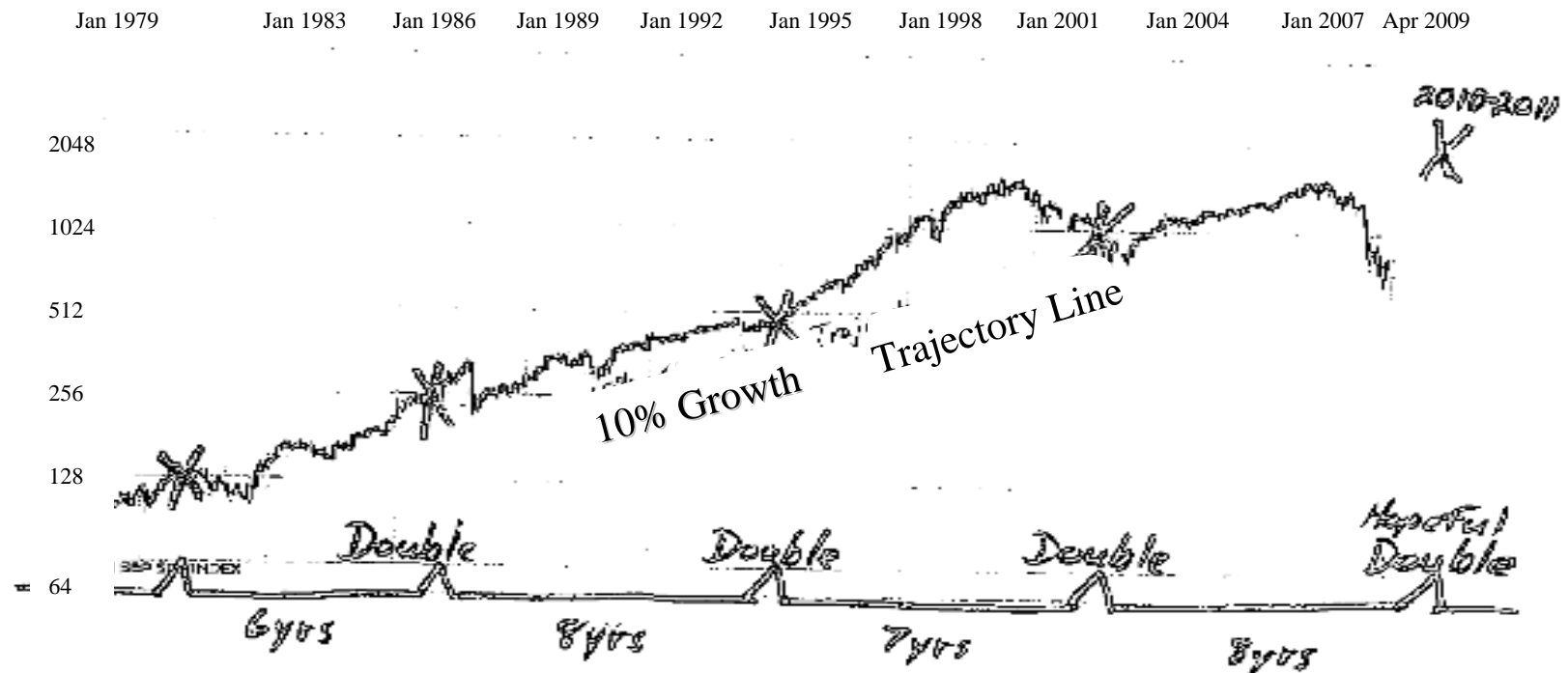
834.79 $\Delta+0.41$ +0.05%

Open: 835.13 High 836.61 Low: 826.70

Previous Close 834.38 Volume: unch

Eastern Time

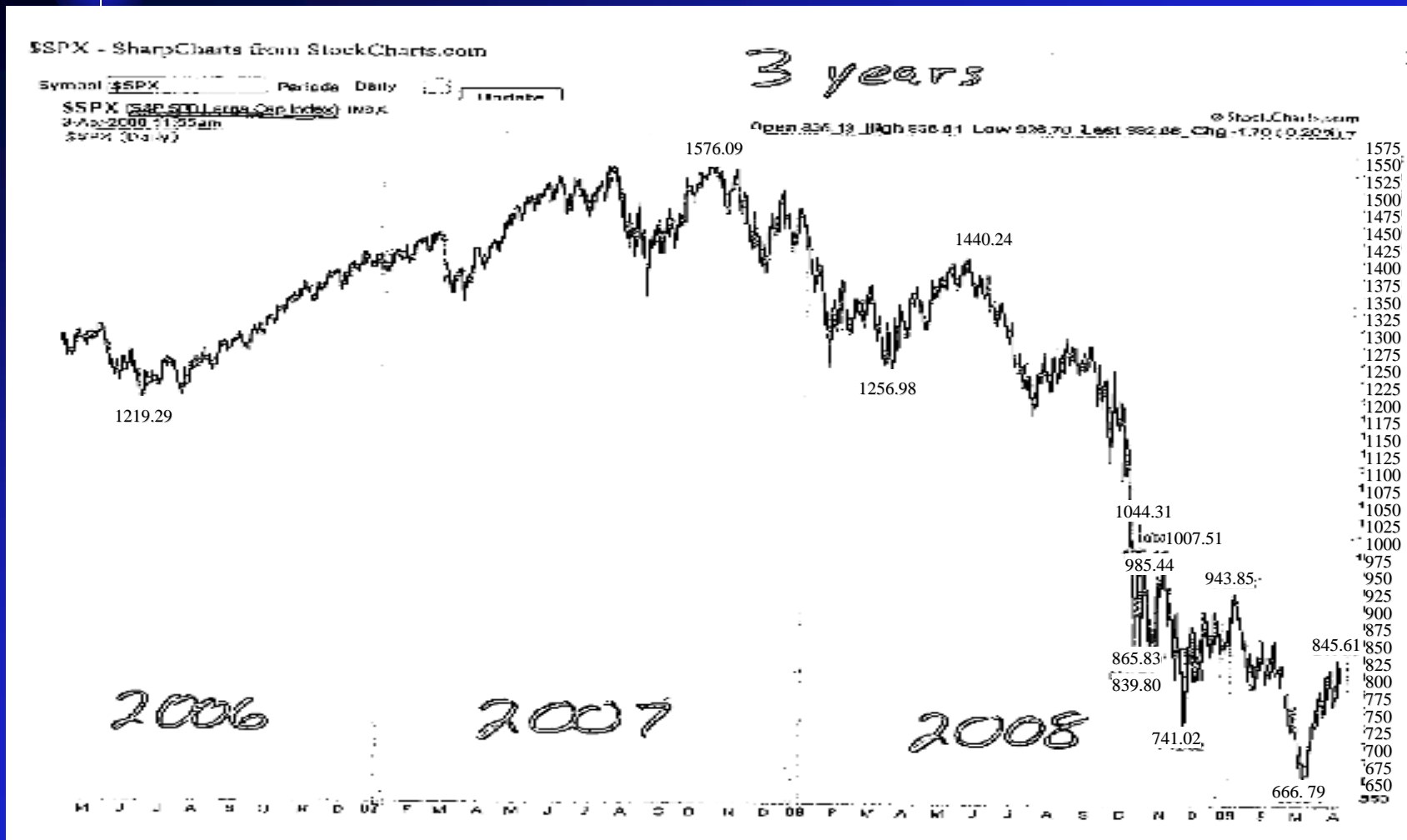
Price History - \$INX (1/1/79-4/2/2009)



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- **PREMISE III: THE FALLACIES IN ANALYSIS - WHY ACCOUNTANTS FAIL AND MAKE MISTAKES (BECAUSE THEY ARE JUST LIKE THE REST OF US)**
 - **ASSUMPTION I:** The mechanisms by which our brains see the world see far less randomness I.e. far more structure than we actually see...
 - **ASSUMPTION II:** “fat tails” are those wild stands of uncertainty and randomness which cause larger changes than we can appreciate

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- **ASSUMPTION III:** The following mistakes in analysis create assumptions that we can understand and predict the future...
 - **Narrative fallacy:** Our need to fit a story or pattern to a series of connected or disconnected facts.
 - **Retrospective Distortion:** examining past events with adjusting for the forward passage of time (creates the theory of posterior predictability).
 - **Confirmation error:** You look for instances that confirm your beliefs or your construction of a model and you find them.

Nassim Nicholas Taleb - Fooled by Randomness: The Hidden Role of Chance, Random House 2nd Edition, 2004

Nassim Nicholas Taleb - The Black Swan: The Impact of the Highly Improbable, Random House, 2007

Leonard Mlodnow - The Drunkards Walk: How Randomness Rules Our Lives, Pantheon Books, 2008

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Definition of Claw Back

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Definition of Earn Out

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Thornhill Acceptance of Writ

No. 08SC777

Court of Appeals Case No.
07CA1654

**In re the Marriage of
Petitioner/Cross-Respondent
Chuck Thornhill,
And
Respondent/Cross-Petitioner
Antoinette F. Thornhill**

Petition of Writ of Certiorari
DENIED. Cross-Petition for
Writ of Certiorari GRANTED.
EN BANC.

Summary of Issues

Whether the appellate court erred by refusing to extend the holding of Pueblo Bancorporation v. Lindoe, Inc., 63 P.3d 353 (Colo. 2003), to divorce proceedings, thereby allowing the application of a marketability discount in valuing a closely held corporation operated as a going concern at the time of the parties' divorce proceedings

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What Will The Supremes Do?