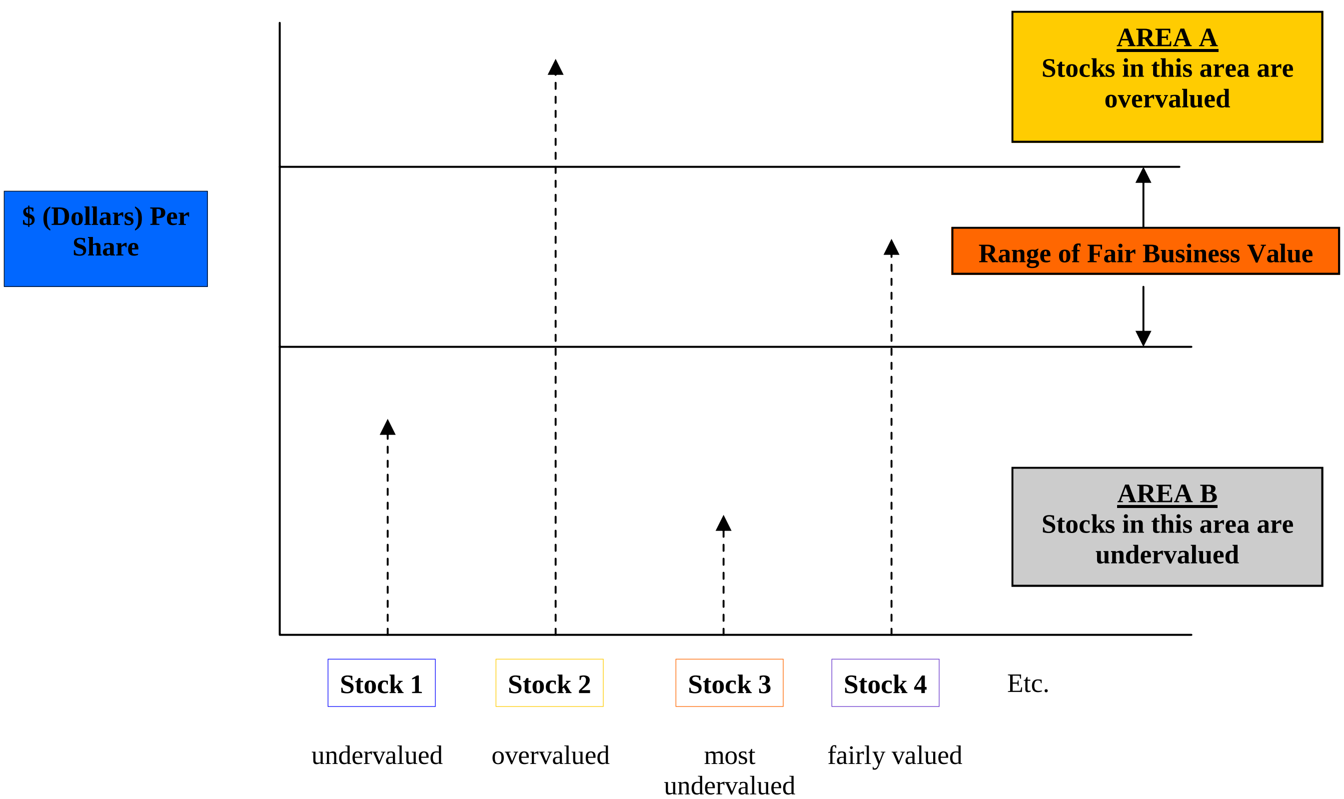
Depiction of Overall Portfolio Valuation As Indicative of Future Progress

- An account completely invested in individual equities will typically have anywhere from 15 to 25 stocks. How your stocks are distributed among the overvalued, fairly valued and undervalued categories will determine the appreciation of the overall portfolio going forward.
- The depiction below shows 4 stocks as an example. Stocks 1 and 3 are undervalued; Stock 4 is fairly valued; and Stock 2 is overvalued. Stock 3 is the most undervalued.
- The more stocks you have in AREA B at any one point in time, the more likely your recent account progress has been lackluster, as undervalued stocks take time to work out; ironically, the future appreciation potential is the greatest because it is the undervaluation that creates the potential for appreciation in the future. This is a significant reason why clients should not give up on their value strategy after lackluster periods, because that is precisely the time when potential gain is at the greatest. Think of the situation like a coiled spring.
- The more stocks you have in AREA A at any one point in time, the more likely you just experienced a period of strong account progress, as the stocks rose from undervalued to overvalued levels. At this point, grossly overvalued stocks will be sold ("harvested"), with the proceeds reinvested ("seeds planted") in more undervalued securities, setting the foundation for the next stage of potential capital appreciation. As you shift more stocks in your portfolio from AREA A to AREA B, your portfolio will shift from a period of strong progress to another period of slower performance, as "seeds" or undervalued stocks need time to bloom, before they can be "harvested." That is why your account progress will go through alternating strong and slower periods.



Different Securities in Client's Portfolio With Varying Degrees of Under- or Over-Valuation