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PDV *OBSERVATIONS*

A Quarterly Newsletter for PDV Clients and Friends

What You Will Find on PDV's Website

Thank you for your positive feedback on our website, ***www.pdvfinancial.com,*** since its launch last October. For those of you who have not yet visited the site, we describe below what information and resources you will find there.

Our website is organized in a way that allows you to select only the topics or areas (*presented on the tool bar to the left of the site*) which interest you; to read short summaries of relevant information pertaining to your chosen topics by clicking the "buttons" on the tool bar; and to access more detailed discussion and data by clicking the hyperlinks on the summary pages. We encourage you to go beyond the summaries to get a better understanding as to how we think about financial matters, and what we can do to help and be of service to you.

You can get a description of our services under *PDV Services* and *FAQ's*, and an understanding of our investment philosophy, strategy and approach under *Investment Philosophy*. Latest additions to the website are chronicled under *What's New*. If you are interested in whether we have discussed a particular financial topic in the past, you might peruse our quarterly newsletters, archived under *PDV Newsletter*. You can also give your contact information via *Contact Us* if you would like us to contact you about how we might be of service to you. Discussion of investment topics of more general interest might be available by scanning *Financial Resources* that provide links to other useful financial sites. That section also lists financial literature that we recommend.

With so many firms offering financial services**,** *you might be especially interested in what sets PDV apart from other investment advisory firms***.** Please be sure to find out how our investment approach, incentive system and thought process differ from the vast majority of other investment advisors by clicking on *What Sets PDV Apart*. We understand and are sensitive to the fact that choosing an investment advisor to whom you entrust your hard-earned assets is a highly important decision that can cause a certain amount of angst. We try to give you comfort by providing a roadmap of what you can expect from an investment advisory relationship with **PDV** in *What to Expect*.

Inside This Issue:

Any financial advisory arrangement begins with the development of a blueprint of investment parameters; these are established by completion of a Financial Questionnaire that is available under *Client Forms*. For prospective clients, if you are dissatisfied with your financial progress, you might peruse the section titled *Keys to Success*.

Please do take a few moments to visit our website if you have not already done so. Thank you!

Keys to Investment Success

By Che H. Lee
President

We are often asked how one can improve the odds of investment success. While by no means exhaustive, the following lists some of the factors that we think will likely improve your investment progress over time:

- Avoid margin, as margin calls can shorten the time available for your investments to work out; time is one of your most powerful allies when it comes to investing.
- Recognize a value-driven strategy is designed for winning financial *marathons* and not *sprints*, and give it enough time to work without demanding or expecting benefits to become apparent immediately.
- Avoid evaluating value driven strategies by listening to your friends, neighbors, colleagues, other herd-following investment managers, or the general print and broadcast media--such strategies by definition will be at odds with most, if not all, of these sources.
- Avoid sitting on losing positions that have very little chance of breaking even or would take too long to do so; suppress your ego, so you can reinvest sale proceeds into something with better capital appreciation potential going forward.
- Develop an *effective coping system to deal with the fear and greed* that come from inevitable market volatility; an effective way would be to avoid looking at your accounts more frequently than once a year.
- Expect alternating periods of strong and lackluster account progress; *avoid being tempted to change strategies* during inevitable intermittent slow periods.
- Do not extrapolate the recent past into the indefinite future; markets, businesses and companies have a strong tendency to regress to the mean; the further a trend has run, the more likely a reversal and an inflection point are close at hand.
- *Look at a long-enough period of time* before reaching any definitive conclusions about your investments; taking too narrow a snapshot time-wise gives you a distorted view of their long-term potential, after all the peaks and valleys are evened out over time.

- *Maintain realistic expectations* about your investments and what they are able to do for you.
- Welcome intermittent periods of market weakness, as they produce lower entry prices that form the foundation for future long-term appreciation for you.

What to Expect from PDV

By Che H. Lee
President

We understand and are sensitive to the fact that choosing an investment advisor to whom you entrust your hard-earned assets is a highly important decision that can cause a certain amount of angst. We provide the following roadmap of what you can expect from an investment advisory relationship with **PDV**.

- We will invest your assets with as much focus, care and attention as we do our own.
- We are not, nor do we seek to be, all things to all people. We are best able to serve patient clients interested in prudent wealth accumulation over time, but with realistic expectations as to how long it will take to get there and that there will be some inevitable bumps and detours along the way.
- We will be passionate about what we do and how we do it, and dedicated and committed to helping you reach your financial goals; we will be independent in our thinking and investment approach.
- Our investment strategy is based on long-term rational thinking--it's unlikely to produce the desired results in the short run, when powerful psychological forces of fear and greed suppress rational thinking from the market.
- We will not let possible criticism or embarrassment that might come from our investing in a non-conventional way deter us from doing what we believe is beneficial to you in the long run.
- Our competitive edge is in making valuation decisions that tend to have beneficial long-term benefits and in exercising patience and discipline, not in timing the market.
- *Valuation is a risk-evaluation tool*, not a market-timing device; we will not know when value and price will ultimately converge, though we seek a large enough discount to make the wait generally worth your while.
- There will be periods of market weakness, which you should welcome as they afford the opportunity for the long-term, patient investor to sow the seeds for future wealth accumulation via lower bargain entry prices.

- Generally speaking, your portfolio is unlikely to soar during roaring bull markets when caution is abandoned by the investment masses (as we are unwilling to chase momentum stocks with absurd valuations and huge embedded risks--these are the ones most likely to move up the fastest during speculative periods); generally, we are likely to do relatively better in weak markets, when our rationality and risk management focus are more recognized and valued by the market.
- You will have some down quarters and years for your portfolio--nobody is infallible when it comes to investing, especially in the short run which is subject to the vagaries of the market; *the valuation of your overall portfolio will dictate whether you will likely have a strong or more lackluster period ahead*.
- We will rather sell overvalued investments at a gain and cause you to pay taxes, than give back gains by sitting on overvalued investments so you have no taxes to pay.
- We will define risk of an investment by analyzing its *odds of success* as evidenced by its financial characteristics rather than the volatility of its stock price.
- We will not participate in the short-term performance "rat race" with your money, by taking imprudent risks in chasing momentum to look good in the short run, only to have you pay in the long run--we are prepared to sacrifice short-term gratification to achieve longer-term benefits for you; this may make us look out-of-touch or foolish in how we invest for you *initially*, but *eventually* we expect many of our decisions will likely be vindicated over time.
- We will seldom, if ever, be able to *sell a stock* at its high or buy it at its low; any ability to do so from time to time will be due purely to luck.
- Out of every 10 investment decisions we make on your behalf, our ***goal*** is to get at least 7 of them correct over time; this goal appears consistent with what other successful investment managers are able to achieve; there will inevitably be losers in your account, and it is our goal to keep them to a minimum.
- Any investments that we are interested in will tend to have temporary operating issues that have produced excessive pessimism, unduly depressing their stock price; such investments tend to be out-of-favor and unpopular with the media, other investment managers, your friends, neighbors, relatives and colleagues. Don't be surprised if you get ribbing from them about these investments. However, it *is* our goal to let you have the last laugh in due course, as the benefits of such investments have the opportunity to become apparent over time.