

THE SCRATCH REPORT COMPENDIUM

August 2008

Kimberly-Clark (KMB)
Coach (COH)
Clorox (CLX)
Walt Disney Co. (DIS)

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The Scratch Report*

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Murray's Musings

Home Sales Numbers

The new home sales number is a very important indicator of the health of the real estate sector. As of the most recent reckoning released on July 25th the annualized rate of new home sales is roughly 533,000, which means 533,000 new homes would be sold if the current rate, seasonally adjusted as it is, were to persist for the next 11 months. That number represents a substantial decline from the well over 800,000 new homes recorded a year ago. The new home sales number at its height was in the neighborhood of 1.25 million; therefore, new home sales have declined in the last year and a half or so by approximately 57.4%. This decline in and of itself would qualify as one of the worst housing contractions in American history.

During the last several months the number has been gravitating to somewhat in excess of 500,000 homes. Though it is quite possible that the number might go lower, it's not a mere statistical accident that this figure gravitates toward 500,000, because it represents an important constant in housing. At the moment there are slightly fewer than 120 million households in the United States, and 68% of those prefer to live in single family homes. There are 81.6 million single family homes in the United States. The household population growth rate is roughly 0.6%, so if you multiply the single family housing figure by 0.6%, you arrive at a number that is slightly less than 500,000. That's the approximate number of homes that have to be built each year in the United States to provide housing for the population increase. If the number were significantly smaller than 500,000, in principle, the American population would begin to be de-housed. The reason why that's true is several-fold.

One reason is that, if one were to review the historical data of new home sales, even at points of time in the last quarter century when the United States had a lower population, one would clearly see that the worst new home sales numbers were in the upper 400,000s. Since now the U.S. population is somewhat larger, it may well be that the number is closer to 500,000.

Another reason is that, in order for the figure to be meaningfully lower, the population preference for single-family homes, vis-à-vis the alternative, which is an apartment, would have to change in some material manner. Since the figures have been kept, there has never been a material downward trend established in terms of preference for single family homes, although there have been quarters during which the single family home preference has diminished.

The number 500,000 might represent a floor of sorts. Even if it did not represent a floor and that number were to decline significantly further from this point, it would, nevertheless, represent a statistical watershed in the following sense. Up to this point, the decline has been not far from 750,000 homes, and that has had its proportionate impact

on the economy. Once we attain a figure of 500,000 homes, we can't diminish by more than that figure, so it's not possible to replicate the experience of the last 18 months, which was the diminution in construction figures of 750,000 homes. Even if the number were to go to zero (and no reasonable person suspects it's going to go to zero) it could never have the same negative impact on the economy that the reduction in construction has exerted to this point in time.

Regarding the inventory of unsold homes, the papers and financial media report the number in a somewhat different manner than does the Census Bureau, which actually tabulates the number. The most popularly quoted figure in terms of inventory is the number of months of supply of unsold new homes, which is currently 8.6 months. By way of comparison, in better times that number was 5.7 months. That difference is taken to be an indicator of a large increase in inventory. The Census Bureau publishes the inventory figures, and they are presented in Table 1 below.

A year ago, in June 2007 the inventory of unsold homes was 543,000. In June of 2008, according to the most recently produced figures, the inventory of unsold homes is 425,000. The inventory of unsold homes has diminished substantially.

Table 1: Inventory of Unsold Homes

June 2007	543,000
July 2007	538,000
August 2007	538,000
September 2007	527,000
October 2007	518,000
November 2007	508,000
December 2007	496,000
January 2008	488,000
February 2008	475,000
March 2008	465,000
April 2008	459,000
May 2008	448,000
June 2008	425,000

The Census Bureau refines the inventory figure further into three components: (i) new homes that are not yet built (not started) (ii) homes that are under construction (iii) completed new homes not yet sold.

Table 2: Components of Housing Inventory (in thousands)

	Not Started	Under Construction	Completed
June 2007	80	281	181
July 2007	77	280	181
August 2007	80	270	187
September 2007	76	261	191
October 2007	73	253	192
November 2007	73	241	194
December 2007	69	228	198
January 2008	69	220	199
February 2008	68	214	194
March 2008	66	212	187
April 2008	65	211	183
May 2008	65	202	182
June 2008	63	191	170

You might think a category called new homes that are not yet built is a logical absurdity. How can there be a new home that has not yet been built? It can exist because, a builder may acquire a plot of land, improve it so that it is possible to build a home on it, but then delays construction of the home. There are 63,000 such homes as of June 2008, and in June of 2007 there were 80,000. The number of homes that are not yet started is roughly 15% of inventory.

The category of homes that are under construction covers those that are in any phase in the construction process. A year ago in June 2007, there were 281,000 such structures and in June of 2008 there were 191,000 such structures. The number of homes under construction has dramatically diminished, which has had consequences for the economic statistics that are published regarding the general economy.

In June 2007, the total number of completed new homes not yet sold was 181,000, and at the moment it is 170,000. People usually interpret the housing inventory statistic as the number of completed homes that can't be sold; however, that number is a rather small part of the actual inventory of unsold homes. As can be seen in Table 2, the inventory increased from June 2007 to December 2007 then declined to 199,000 in January 2008, and kept decreasing to 170,000 in June, which is the latest figure available.

It should be self-evident that the supply of completed new homes is powerfully influenced by the number of new homes that are currently under construction. As the number of new homes currently under construction diminishes, as can readily be seen from the accompanying table, it must follow that the supply of completed new homes would diminish as well. The only exception would be if the sales rate of new homes were to diminish substantially from the current level but, as noted previously, that's not

likely to happen since the take-up rate, so to speak, of new homes is more or less equivalent to the increase in population.

For the take-up rate of new homes to diminish substantially from this point, there is every reason to believe that the number of homes under construction would diminish as well. Since that number is indeed diminishing, there is every reason to believe that, at least insofar as new home construction is concerned, supply is rapidly coming into balance with demand. In the original short sale reports that Horizon Research wrote on the housing industry, it was presupposed that the ultimate housing construction figures would tend to gravitate to the 1997 figures when upward of 700,000 new homes were constructed. That figure, it was presumed, would allow for the population growth rate, some allowance for the natural wastage rate of existing homes (it should be self-evident that existing homes do not have an infinite life span) and some modest allowance for the continuation of the apparent preference for a single family home lifestyle vis-à-vis apartment living that most households exhibit. There is very little sociological evidence that would indicate that people are materially altering that preference.

I've made a statement about the direction of inventory, and the figures clearly show that the inventory is declining. Table 3 presents more figures from the Census Bureau for the Total New Home Inventory Months of Supply. In June 2007, that figure was 5.8 months, and it grew to 8.4 months by June 2008. The months of supply figure has been increasing each and every month with the salient exception of August 2007. In that month the figure decreased slightly, but otherwise it has increased in an exponentially smooth manner throughout.

**Table 3: Total New Home Inventory
Months of Supply**

June 2007	5.8
July 2007	6.0
August 2007	5.7
September 2007	5.8
October 2007	5.9
November 2007	6.0
December 2007	6.2
January 2008	6.7
February 2008	7.1
March 2008	7.4
April 2008	7.8
May 2008	8.2
June 2008	8.4

The graph of those figures is what appears in the newspaper, but it's not necessarily indicative of what the supply situation actually is. Since the market is a discounting mechanism, we need a leading indicator, and the best one for what the inventory situation is going to be is the supply of new homes currently under construction. As that figure declines, it will take the inventory figures with it.

Q: Is it not the case that people can defer for some time the purchase of a new home?

A: There's no question that purchase of a home can be deferred, and there might well be some deferral occurring as we speak. It's difficult to measure because, of the people who could have bought homes, we have no idea how many will ultimately decide to buy homes. There's no question there is deferral ongoing. In that connection it's important to note that, as a generalization, many of the people who buy homes are those who already own a home. That would logically follow because, if you look at the number of existing homes that are purchased and add to it the number of new homes that are purchased, even at current depressed rates, you're at a number not far from five million, and in more resilient times it approaches eight million.

If one defers purchase of a home, usually one is also deferring selling a home. In many cases, it is a sale of an existing property that funds the purchase of a new property. People are clearly deferring the sale of their existing property, maybe because the market simply can't absorb the supply of homes that could come on the market. At least as far as the preference for being in a home, since most of the people who could buy a home are themselves homeowners, the statistic speaks for itself. They obviously prefer to own a home.

Q: For those who buy a home, the alternative is to rent an apartment. What does it cost to own and maintain a home relative to what it costs to rent an apartment?

A: I engaged in that calculation some months ago in another *Compendium* report.¹ The relevant section of that report is excerpted below. An apartment rental is powerfully affected by inflationary tendencies so that if fuel prices are going up, which is the price of gas and oil, then it's a fairly safe assumption that the rent will go up. If home prices are going down and the factors that lead to rental increases are going up, essentially those two lines create a scissor-like chart, and at some point they will intersect.

To calculate it, one would look at the median price for a property, calculate what an average property tax would be, and what average insurance would be on such a property. Assume that the buyer would have a 20% down payment, and would carry the balance as a mortgage. With the mortgage interest rate, one could calculate what the monthly payment is likely to be. Even at depressed home prices, the average mortgage payment, assuming a 20% down payment, would not be very far removed from the average rental payment. Even if home prices were to decline by 10% from what they are at present, and if rental costs were to increase 5% from here for no other reason than increases in the CPI, I think it is self-evident that you should be in a home and not an apartment. It's actually cheaper to be in one, assuming one has the 20% down payment.

¹ *The Contrarian Research Report Compendium, Murray's Musings* February 2008

Q: *It's not necessarily a choice between owning a home and renting an apartment is it? One could also rent a home.*

A: True, one could rent a home, but you'll find that the home rental rate is powerfully affected by the national apartment rental rate. From the point of view of establishing the rental price, landlords clearly use the equivalent apartment rental rates as a benchmark. They really have to do so, because they have to calculate things like potential wear and tear on the home, damages that might be created, the possibility of not collecting the rent. Chances are that the landlord is carrying a mortgage on the home, and is certainly interested in receiving the rent. I don't think you'll find a huge supply of homes for rent that represent marked values relative to apartments in the same size category in the same neighborhood. I don't think that they are two different markets by that standpoint at all; it's one market. [The following is excerpted from *The Contrarian Research Report Compendium, Murray's Musings*, February 2008.]

According to the National Association of Realtors, the current median selling price of an existing home is \$208,400. The median household income, as reported by the U.S. Bureau of Census, which calculates these numbers, is \$48,200. Putting these two numbers together tells us that, according to the National Association of Realtors, the median home in the U.S. sells for 4.32x the median household income. If 2.8x were the average, it must follow that, in order to reestablish equilibrium, home prices must decline by about 35%. Perhaps the number wouldn't be quite that severe, since it might take several years, and there would be several years of 3% or 4% inflation improving the median household income. Perhaps the decline in the average price of a home might be only as small as 27%, but even that would be absolutely devastating for the consumer. If these statistics can be taken at face value, then one could readily appreciate the concern.

As it turns out, those statistics contain a basic definitional problem, as do all economic statistics. The basic definitional problem is that the U. S. Bureau of Census, which calculates national household median income, also calculates the national median home value. According to the Bureau of Census, that home value is \$167,500, which is very different from the National Association of Realtors' number. The Census Bureau number was released in January 2008. Before we perform any calculations, our challenge is to reconcile the Census number with that of the National Association of Realtors.

In Appendix A is a table of the median price of a home for which I've selected 112 cities. The table includes essentially all of the cities that are analyzed by the National Association of Realtors, with the exception of the very expensive locations like the New York, Boston, Los Angeles and San Francisco metropolitan areas, though it does include other very large communities like Chicago. Excluding the expensive home markets, a glance at this table illustrates that there are many, many communities with home sale prices far below \$200,000. For the communities that have home sale prices above \$200,000, in almost all instances, they're not very far above \$200,000. Based on visual inspection, I would be more inclined to make use of the Census data rather than the National Association of Realtors' data.

One should resist the temptation to calculate a simple average for the 100-plus communities delineated on the table in Appendix A, because we're interested in the median. If one were to compare Beaumont, Texas and Birmingham, Alabama, the number of homes sold in each of those localities is necessarily different, so you can't simply average the cities. Another problem is that, generally speaking, more affluent people have more life choices and change residence more frequently. The National Association of Realtors is looking at home sale prices, and even though there are only a few very large communities in America that have exaggerated home prices, those communities have a much higher transactional volume as a percent of the whole than, let's say, a Corpus Christi, Texas or a Charleston, South Carolina.

For those reasons, I would be more inclined to use the Census data, which is a tabulation not of sales, but of the median value of all homes in America. One can obtain that information fairly easily by looking at tax rolls, because tax rolls levy taxes on homes based on the market value, and all homes are taxed. In the following calculation, let's presume that one is going to make use of the Census data number, and take the median value of a home as \$167,500. Let's assume that a hypothetical human being wishing to buy such a home is going to draw on a conventional mortgage financed in a conventional manner, which is a 20% down payment and an 80% mortgage to have an 80% loan to value ratio.

If we multiply \$167,500 by 0.8, we derive the mortgage amount of \$134,000. At a 5.5% interest rate, such a mortgage would require a monthly payment of approximately \$760. Assuming the property taxes are 1% of assessed value, we would have \$167,500 times 0.01 divided by 12, and we would add, crudely speaking, another \$140 of property taxes. Let's further assume that the maintenance is 0.75% of the assessed value, which is a fairly standard real estate calculation. That would give us another \$105 per month. That would give us a grand total monthly payment of \$1,005.

The national median rent calculated by the Census Bureau is \$728. The monthly payment for a homeowner, in gross terms, is 38% larger than the national median rent. In order to put the two numbers in equilibrium, however, we have to make a crude calculation for the tax subsidy associated with home ownership. Certainly in the initial years of a mortgage, virtually the entire monthly mortgage payment and all the property taxes would be deductible. In our example, that amount would be \$900. In most states, the typical homeowner might receive about 32% of that amount back in the form of a tax refund, which would be \$288. After adjusting for taxes, a \$1,005 monthly payment equates to a \$717 monthly payment, which compares very nicely to the \$728 of rental expense. Using that calculation, the median home is as affordable as the median apartment. I don't know what value people assign to the ultimate equity accumulation of home ownership, but it does have some value. Of course, there's the intangible benefit of having more space and of owning one's dwelling.

It appears to me that there is no reason to support the view that home prices are destined for a massive loss in value. That's not the conventional view, at the moment, and it's certainly not the consensus view, but it is the view that one is

led to if one accepts these numbers. In the interest of full disclosure, if one were merely to use the National Association of Realtors' number, one would arrive at a monthly payment that is approximately 24% higher than the one I calculated. Instead of \$717 on an after-tax basis, it would be more like \$892. Even a monthly payment of \$892 compares favorably with the \$728 median rent, which probably increases by 3% or 4% a year due to inflation. In 2008, that median rent is likely to be \$750, and though the property taxes are likely to increase, the bulk of a monthly mortgage payment is fixed in a 30-year mortgage.

Assuming that I've been performing the appropriate calculations, even when using the National Association of Realtor's number, in the long run people are better off owning their own homes rather than renting, although the equilibrium point wouldn't be reached for many years. Perhaps it is not a coincidence that in the last five or so weeks, even in light of the substantial decline in the stock market, the home builder companies, the title insurance companies and other companies related to real estate have all risen. That segment of the market concerned with home ownership appears to take a view that is different from the consensus view.

Industry Thoughts

Logical Inconsistency?

Table 4 (below) includes selected financial services companies and their price-to-book values. Obviously, these aren't all the financial services companies I could have listed, but it includes examples that are relevant in different segments of financial services; for example, government sponsored enterprises, general finance companies, investment banks, banks, insurance companies, credit card companies and others. The price-to-book value ratios in this particular table range from a low of 0.14x for Freddie Mac to a high of 0.6x for CNA Financial. What this means is that Freddie Mac, fair value accounting aside, trades at 14% of book value, and CNA Financial trades at 60% of book value.

If a company trades at 50% of book value, and can one day trade at book value, assuming the book value remained constant, the stock would double. When a financial company trades at a material discount to book value it is usually because the analysts doubt the reality of the book value. The analysts in question clearly doubt the reality of the book values of the companies listed in Table 4, and they are anticipating significant diminutions to these values in the foreseeable future.

Table 4: Price-to-book Value Ratios of Selected Financial Services Companies

Company	Price-to-Book Value
Freddie Mac	0.14x
Fannie Mae	0.18x
CIT	0.27x
Lehman	0.27x
Wachovia	0.27x
KeyCorp	0.38x
Zions Bancorp	0.39x
Genworth	0.45x
Sovereign Bancorp	0.49x
Capital One	0.49x
Old Republic	0.49x
Sun Trust	0.50x
American International Group	0.54x
Bank of America	0.58x
Fifth Third Bancorp	0.58x
CNA Financial	0.60x

In other tables included in this report, I valued companies using P/E ratios. I did not do so in Table 4, because the earnings of financial services company are derived from the return on the book value. The raw material with which a financial services company

earns money is the capital that it has in place. If one diminishes the capital, the earnings diminish. The P/Es are much less relevant than the earnings, but I think it's fair to say that if the book values of these companies were diminished to the degree that analysts forecast, it seems self-evident that the earnings would decline significantly as well.

Incidentally, on this list the value of the total assets for all of these companies handily exceeds \$10 trillion. That's an important statistic for several reasons. First, it's difficult to envisage the United States government taking control of companies with a total of trillions of dollars of assets, because it's unlikely that the U.S. government balance sheet would be able to sustain that without a downgrade to its own credit rating, which I don't think it wishes to occur. Much more importantly, as we'll see in a moment, these companies are not alone in their dilemmas. I could replace companies on this list with peers in the industry and have a list as large, and I could replace, for example, Wachovia with Citigroup, or Lehman with Merrill Lynch without radically altering the character of the list.

For the purposes of this exercise, let us presume that the book values and, therefore, the earnings of these companies and many others in financial services are likely to be significantly diminished. Table 5 includes the P/E ratios of various companies given the 2009 earnings estimates that exist, and the percentage by which the analysts expect their earnings for 2009 to increase relative to the earnings for 2008. Generally speaking, the companies listed are consumer non-durables companies heavily weighted towards the food industry. The P/E ratios range from the high of 28.4x for Wrigley, which is on the verge of being acquired, to a low of 14.6x for Johnson & Johnson.

In the next column, the expected percentage increase ranges widely from a 20.4% projected increase in profits for Anheuser Busch to as low as a 4.9% increase in profits for Johnson & Johnson. Of the eight companies on the list, three have projected earnings increases in the double digit range, and seven of the eight are in excess of 8%, which is well above the presumed inflation rate.

Table 5: 2009 Estimates

Company	2009 P/E Ratio Estimates	2009 % Increase Expected
Coca Cola	15.2x	9.4%
Pepsi Cola	16.3x	11.0%
Wrigley	28.4x	10.3%
Anheuser-Busch	17.9x	20.4%
Heinz	15.7x	8.3%
Campbell Soup	16.1x	8.3%
McDonald's	15.6x	8.0%
Johnson & Johnson	14.6x	4.9%

At this point, we have to ask ourselves a question: in the event that the forecast implicit in Table 4 of the financial services companies were to become a reality, is it conceivable that the companies in Table 5 would experience no disruption in their earnings-per-share growth rate? That point could be argued, but I suppose it could always be asserted that they are essentially consumer staples, and they're not likely to be dramatically affected even by a financial debacle which rivals, and perhaps even surpasses, that experienced in the Great Depression.

Without the intention of making a trite remark, I will nevertheless make a trite remark. If one looks through the lists in Table 4 and Table 5, it's very hard to imagine that the mass unemployment and financial chaos that would result from the insolvency of the largest financial services companies in America would, in the same time period, allow McDonald's earnings to increase by 8%. It's possible, but it's very difficult to imagine. It's much easier to imagine that even McDonald's would suffer some diminution in the number of its customers.

As one can note from the character of the 16 industrial companies included in Table 6, they are central to the functioning of the American economy as are, for example, General Electric, United Technologies, Danaher, 3M, Caterpillar Tractor, Intel, Cisco and a variety of others. The P/E ratios on the companies range from a low of 7.2x earnings in the case of Freeport-McMoRan Copper to a high of 16.4x estimated earnings in the case of Danaher. In the case of Freeport-McMoRan the low multiple is clearly the result of much doubt about what the level of copper prices might be, and it should be self-evident that, if copper prices were to decline, the earnings of Freeport-McMoRan Copper would decline as well and, therefore, this P/E would not be representing reality.

Table 6: 2009 Estimates

Company	2009 P/E Ratio Estimates	2009 % Increase Expected
3 M Co.	11.9x	9.54%
Illinois Tool Works Inc.	11.6x	8.11%
Danaher	16.4x	12.8%
United Technologies	12.0x	10.8%
General Electric	12.4x	5.0%
Freeport-McMoRan Copper & Gold	7.2x	22.8%
Alcoa	8.7x	37.6%
Emerson	14.6x	10.7%
Deere	11.3x	20.2%
Caterpillar	10.6x	8.3%
IBM	13.2x	11.3%
Hewlett Packard	11.0x	11.2%
Microsoft	10.9x	12.1%
Intel	14.6x	17.1%
Cisco	14.5x	9.2%
Corning	10.2x	5.2%

The second column in Table 6 includes the estimated increase in earnings as projected by the various analysts that follow these companies. No companies on this list are estimated to have a negative earnings experience in 2009. Most of the companies on the list are anticipated to increase earnings by double digit quantities. Freeport-McMoRan, for example, is expected to increase its earnings by 22.8%.

The only companies listed in Table 6 that are projected to have single digit increases are the following, in ascending order: General Electric projects 5% earnings increase, Corning projects a 5.2% increase, Illinois Tool Works projects an 8.1% increase, Caterpillar Tractor projects an 8.3% increase and 3M projects a 9.5% increase. In each and every case, the increases, including General Electric, are in excess of the presumed inflation rate. It is worthwhile noting that these P/E ratios and estimated increases in the earnings are devoid of the color necessary to properly appreciate them.

For instance, in the case of Corning, the earnings estimates presume a 30% net margin. The glass business of Corning is its most important, with much of that used for electronic devices. A 30% net margin is virtually unheard of, although not entirely; for example, Intel and Cisco managed 30% net margins during the Internet bubble. In the latter parts of the housing bubble, Fannie Mae and Freddie Mac managed 30% net margins, but margins that high are rare. Neither do they last very long, for the obvious reason that they attract competitors. At the moment, Corning doesn't have a great deal of competition in the glass business, so I suppose the margin might be sustainable for some period of time; however, I would not wager a prediction that this margin is a permanent feature of the earnings of the company.

The important point with regard to Table 6 is that we pose a question. Of the financial services companies presented in Table 4, is it possible for them to suffer the collapse implied by their valuations when, at the same time, the industrial segment of the economy remains relatively untouched? It's very, very difficult to imagine.

Let us go further. One of the reasons that the financial services companies trade at their current valuations is that many analysts anticipate the losses from subprime will approach \$1 trillion. That figure represents 7.2% of all the mortgages outstanding. If every mortgage in the United States defaulted with no exceptions whatsoever, the collateral were seized and the average severity rate were to be 7%, one would have \$1 trillion in losses. Similarly, if half the mortgages in the U.S. defaulted with a severity rate of 14.5% one could arrive at a \$1 trillion loss figure. In addition, if one quarter, or fully 25% of all the mortgages in the U.S. were to default with a severity rate of 28%, it could happen as well, but one would need numbers that large. Therefore, the point of listing these financial services companies is not to tabulate what the losses might be, but to tabulate how widespread the defaults would need to be. If they were that widespread, they would necessarily impact the consumer because, ultimately, the consumer is also the holder of the mortgage.

Table 7 lists four companies: Wal-Mart, Target, Home Depot and Lowe's. Wal-Mart and Target are included, because they are the largest retailers in the U.S. Home Depot and

Lowe's are very large retailers, but their sales are clearly dependent upon the housing market, since they sell almost nothing other than building materials and supplies.

Table 7: 2009 Estimates

Company	2009 P/E Ratio Estimates	2009 % Increase Expected
Wal-Mart	14.8x	9.1%
Target	11.5x	10.3%
Home Depot*	12.9x	6.9%
Lowe's**	12.5x	6.6%

*Home Depot earnings in 1st Quarter 2008 declined by 22.6%

**Lowe's earnings in 1st Quarter 2008 declined by 14.6%

The analytical consensus is that Wal-Mart will increase its earnings in 2009 by 9.1%, Target will increase its earnings by 10.3%, Home Depot, oddly enough, will increase its earnings by 6.9% and Lowe's will increase its earnings by 6.6%. How could those increases possibly occur if the magnitude of the financial calamity were as widespread as is implied by the valuations accorded the financial stocks?

Surely it is arguable that there will be declines, not increases, in earnings. It is worthwhile noting that in the first quarter of 2008, the earnings of Lowe's declined by 14.6% and the earnings of Home Depot declined by 22.6%. Since there is nothing surprising in those figures, one might wonder why the decline in earnings is presumed to be interrupted for these companies, while the financial services stocks are expected to suffer far more grievously than they already have.

Table 8: 2009 Estimates

Company	2009 P/E Ratio Estimates	2009 % Increase Expected
Burlington Northern	13.9x	18.7%
CSX	14.8x	19.9%
Norfolk Southern	14.7x	14.4%
Union Pacific	15.5x	23.4%
Apple Computer	26.4x	18.0%
Applied Materials	17.0x	40.3%

Table 8 lists six companies that are directly and indirectly tied to the industrial economy. Four of the companies are railroads: Burlington Northern, CSX, Norfolk Southern and Union Pacific. The other two are technology companies: Apple Computer and Applied Materials. The P/E ratios accorded the 2009 estimates for these companies range from a high in the case of Apple Computer of 26.4x to a low in the case of Burlington Northern of 13.9x. These companies were placed in one table, because the analysts are forecasting very large increases in earnings for these companies. In the case of Apple Computer, the consensus view is that the earnings of Apple will increase by 18% resulting from the

success of the new iPhone. I'll permit myself one more trite remark. How can we have a massive default rate in the economy and still have a very successful take-up of the iPhone?

More interestingly, Applied Materials, the manufacturer of equipment used to manufacture semiconductors, is presumed to be able to increase its earnings by 40.3%. This increase for a business that all agree is cyclical is apparently expected to occur at the same time as what is touted as one of the most grievous financial calamities ever to befall the United States continues to worsen. Yet, analysts don't appear to expect this financial disaster to adversely affect the earnings growth of companies present in the economy. Surely these forecasts are logical inconsistencies. I looked for examples in history to find analogous cases, but could find none. Perhaps the analogies exist, but they were beyond my ability to locate. I have never seen a greater disparity in forecasts among groups.

That disparity can be explained in the following way. Historically, the correlations among industry groups were much greater; for example, if there was a serious problem in one industrial group, it would be presumed, logically, that the banking sector would suffer greater defaults, and that the real estate sector would suffer diminished sales. As a result, there'd be fewer railroad car loadings, and the railroads would suffer a decline in earnings. The industry groups tended to be related as they logically are in the economy.

If one were to try to calculate the correlations of the companies on the list in Table 8 thus far in 2008 vis-à-vis the financial services companies listed in Table 4, I think it's not a stretch of the imagination to say that the correlation is as little as it has ever been in history. A possible explanation, although at the moment it has to rest as a hypothesis and not something that's provable, is that the marginal dollar that's invested today is not necessarily a long only dollar, but a hedge fund dollar.

In the modern age, as can be seen in the 130/30 funds, as an example, one is short the worst item in the market and one is long the best item in the market. It's not really important whether or not the best item rises or diminishes in value. It's only important that the worst item in the portfolio, which is the short, diminishes at a greater rate than the best item in the portfolio that's long. Even if both items diminish in value, the portfolio itself could have a positive rate of return.

It is possible for a given bank to become insolvent and be taken over by the government, but it is not likely that Wal-Mart will become insolvent. Even in the extremis, Wal-Mart might close stores, reduce inventories and make certain employees redundant, but the company would still be able to fund all of its liabilities. Structures in which one is long and short similar items illustrate the logic of extreme performance.

Ultimately, there will have to be a tighter correlation between these types of enterprises. The correlation is as loose as it is, because the marginal dollar is the pairs trade dollar. Where the marginal dollar is invested on the short side is evident in the New York Stock Exchange short sale list, which is more or less populated by real estate and financial companies. Many of the funds that engage in this activity are actually long other assets.

They might even be long assets that, in principle, should be correlated, but the same selling pressure doesn't necessarily exist. One might be long Target and short a financial services company, or long a railroad and short a financial services company and so on and so forth.

I believe that it is this hedging activity that explains the absence of the customary correlation. Of course, if indeed the valuation proves to be a precursor of a certain reality and all of these companies become genuinely insolvent, as opposed to being forecast that they will become insolvent, then I think the real damage will befall the companies with the more optimistic forecast, since the pessimistic forecast is already reflected in the price of the financials.

Featured Companies

Kimberly-Clark Corp. (KMB)

Everyone knows that Kimberly-Clark is basically a branded consumer paper company that makes products like Cottonelle, Huggies, Scott, Depends, Viva Paper Towels, Kleenex and other brands. It's important to note that Kimberly-Clark's shares trade at more or less the same price that they traded at in December 1999. For nearly nine years the shares have failed to increase in value; however, the company has been engaging in a number of actions to try to improve the valuation of its shares. At the moment, the stock trades at 11.9x 2009 earnings.

Much of what the company has done revolves around share repurchase; for example, in the second quarter of 2008 the company repurchased 3.5 million of its shares for \$220 million, or \$60.80 per share. That price is higher than the current price of the stock. The company asserts that it intends to repurchase between \$700 million and \$800 million of stock in 2008. In addition, the company has launched a massive cost reduction program.

It's worthwhile noting that one company's cost reduction program is another's revenue reduction program. Kimberly-Clark is not the only company to initiate a cost reduction program. Ultimately, the effect of that action will be experienced in places other than the income statement of Kimberly-Clark. It might be a very successful course of action for this company, because its products should be largely immune to the vicissitudes of economic action. In a very weak economy, however, it is readily conceivable that the company might have to lower prices for some of these products. Nevertheless, the company announced recently that it will be increasing, not decreasing, prices by 6% to 8%. The company feels that it is in a strong enough position to be able to raise prices for its products.

Kimberly-Clark is an example of a company that doesn't have a tremendous amount of leverage, but does have some leverage. One might even refer to it as a quasi-publicly traded LBO. The debt-to-equity ratio is 1.16x debt to shareholders' equity. If the company did nothing in the next several years other than repay debt, it's likely that the equity market capitalization would increase.

Why is the company undertaking these actions? To begin with the company views its markets as more or less saturated; therefore, it doesn't need its cash earnings to be reinvested in the business. Instead, it deploys its cash earnings to repurchase its shares. The only way to get the maximum return on equity that is theoretically possible when one isn't reinvesting in the business is to have a diminished amount of equity, and to earn a return on that diminished amount of equity by using a fair amount of financial leverage. It's nothing that is potentially injurious to the enterprise, but it is something that's being monitored.

The company has the possibility to earn higher margins. In the last year the company earned 8.3% net margins. History demonstrates that the margins could be in the range of 13% to 14%, although it might take several years to accomplish. The price increases coupled with share buybacks and cost reductions such as they are announced are the mechanisms the company is putting in place to realize shareholder value. Whether or not they're successful is an open question, but the company is undertaking vigorous action to increase shareholder value and they have reasonable prospects of success.

Coach Inc. (COH)

Coach primarily makes leather handbags and accessories like shoes, briefcases and wallets. It is considered to be a luxury goods company and, like many luxury goods companies, it trades at a relatively modest 12x earnings multiple. It is priced as if it were a cyclical company, but it behaves as if it were a growth company. A short while ago, for example, the company decided to buy its own headquarters building at 516 West 34th Street in New York City for \$128 million. That action in itself merits some comment.

The company has leased its headquarters building for many years, and there's no reason to believe it couldn't continue to lease it from a new owner, if the existing owner wished to sell. There's also no reason to believe that the company is unaware of the current real estate crisis. According to Coach, this transaction is sensible, because owning this real estate is a way of reducing costs, since the company will have lower real estate costs by owning the property rather than by leasing it. The transaction will be financed entirely out of cash reserves because, as of March 31, 2008, the company had a \$616 million cash balance, which is more than adequate to fund the \$128 million purchase.

Incidentally, Coach itself is not merely debt free, but it is using its very extensive excess cash flow to repurchase its own stock. In the past year it repurchased 28 million shares or 7% of the shares outstanding. The current share repurchase program is in place through

June of 2009, and the authorization is to repurchase \$1 billion worth of stock, or one-ninth of the company.

During the last several years, the company has been increasing the number of its retail stores. You don't have to buy Coach products in a retail store; it is possible to buy them directly, yet the company is very interested in increasing its retail presence, particularly its international presence. As of year end December 2007, of its 259 stores, only 37 of them were international, with the exception of Japan. The company does have a large and growing Japanese presence.

The company's international business has been increased dramatically over the last several years with the non-Japan number of stores growing from 14 in 2005 to 21 in 2006 and 37 in 2007. This action by Coach is similar to that which a variety of other luxury goods companies have been engaging in, which is redeploying assets, or perhaps in their case, deploying new assets in the markets with much new wealth as opposed to traditional wealth.²

The company is acquiring a number of retail stores in China, Hong Kong and Macao that have been carrying Coach material, and the company's ownership presence in that Chinese sphere is certain to increase dramatically. In a sense, that geographical shift corresponds with the sourcing of the product. The product itself is manufactured in places like China, Hong Kong, South Korea, Indonesia, Turkey, Singapore, Taiwan and India.

Coach is another example of a company that trades as if it were a cyclical, but doesn't behave as if it were a cyclical.

Clorox Co. (CLX)

Clorox is another one of those companies that has not increased shareholder value in the last 8 to 10 years at a rate acceptable to the management. From the point of view of the management, the company has been taking actions to remedy that situation. For example, since the year 2000, the company has repurchased 40% of its shares outstanding, and it continues to buy back stock. Nevertheless, the margins of the company have gradually, and perhaps inexorably, come under pressure. The net margins in 2008 will be the lowest since 2000.

Essentially, the company's bleach product is in more of a commodity position than it's been in a very long period of time. It appears to be losing some its brand name edge. Nevertheless, the company is undertaking sensible actions to reverse that trend, one of which is to acquire businesses whose cash flow is sufficiently large that they would

² *The Industry Thoughts* section of the August 2008 issue of *The Spin-Off Report Compendium* discusses the international expansion of many luxury goods companies, and its significance as an indicator of expected changes in global wealth distribution.

enable Clorox to grow by acquisition. Recently the company acquired a business known as Burt's Bees Natural Personal Care Products. Basically, this company focuses on natural cosmetics as opposed to chemically based cosmetics. Given the price that Clorox paid, and given the historical experience of Burt's Bees, it appears that the transaction itself adds two percentage points to the growth rate of Clorox. The company is effectively a publicly traded LBO because, with all the share buybacks over the years at a premium to book value, the company has no shareholder's equity.

Oddly enough, the consensus predicts that the earnings of Clorox will grow by 16.7% in 2009. Not only is the consensus enthusiastic over the acquisition of Burt's Bees, but the company formed a partnership with McKesson to produce disinfectants at hospitals. That business is one in which Clorox is already present, and it's a product line that is sorely needed, given the number of illnesses and infections that occur in hospitals. The earnings progress is potentially achievable.

The company currently yields 3%, the business is unquestionably stable and the acquisition of Burt's Bees is anti-dilutive to the extent of at least 2%. One might, therefore, ask how much margin improvement and/or shareholder repurchase is necessary in order to attain a double-digit rate of return from this company? I think the answer is that not a great amount is required. It appears to be a low expectation stock. At the moment, it trades at 14.3x the 2009 estimates based on the consensus.

Walt Disney Co. (DIS)

Even though Disney has greatly increased its earnings over the last several years, it trades at 12.7x 2009 estimates, and it trades as a cyclical company. The estimates themselves are not very aggressive, because they assume that earnings will increase 5.2% next year. That's a nominal increase since, given an inflation rate of not far from that magnitude, the analysts are effectively saying that there will be no organic growth in the balance of the businesses. That assumption may not be correct, because Disney, unlike many other companies in a similar circumstance, has the ability to undertake some value enhancing actions. The company is already undertaking one of those actions. In the last year, Disney has repurchased \$61 million in shares of its stock.

It should be observed, however, that Disney has a broadcasting business that has a very high valuation, and it will probably find difficult to grow in the future. Disney owns ABC network TV stations in New York, L.A., Chicago, Philadelphia, Houston, San Francisco, Raleigh, Fresno, Flint and Toledo. It also has a large radio broadcasting business.

These businesses, while they're not growing very much, are not very cyclical either, but they are valued inside Disney at cyclical multipliers. For example, Disney trades at 1.59x revenues, so implicitly the radio station businesses and the TV broadcasting businesses, which are not really strategic to Disney, effectively trade at the same multiple of revenues. Where there exist publicly traded broadcasting companies, the valuations are

much higher; for example, Hearst-Argyle trades at 2.5x revenues and 3.5x enterprise value to revenues.

If one took the Disney broadcasting business, which has \$5.8 billion of revenue, and either created a separate company through a spin-off, or sold the business to a third party, which I think is more likely, given current comparatives, that broadcasting business could be worth about \$20 billion or, more or less, one-third the market capitalization of the company. An interesting transaction might be to engage in a split-off and distribute shares in the broadcasting business in exchange for Disney shares. The company, thereby, would engage in a massive share repurchase.

That transaction is not the only one that's possible, but it is a reasonable transaction to be undertaken. Since the market isn't going to accord to Disney the valuation that it merits, given the unique sources of its cash flow and the stability thereof, the company should try to rationalize its asset structure and concentrate on the unique aspects of the business. There's very little to be gained, in my view, by holding onto the broadcasting businesses because, given the audience fragmentation in video and radio, it is likely to further erode the value of the business.

Q: Do you think that Disney will make any acquisitions in the sports broadcasting sphere?

A: I would make a distinction in Disney between broadcasting and programming. We can see an analogous case with Scripps, which made that distinction. Scripps successfully spun off Scripps Networks, which is the programming part of the business. The TV station part of the business is not as essential. ESPN is content, and how that content is delivered, be it on a TV channel, a cable channel or over the Internet, is not that important. Historically, in order to guarantee distribution of content, it was important to own the medium of distribution. That was so, because the medium of distribution was basically a monopoly. There were a handful of network TV stations and there was, of course, the local cable monopoly, and it was necessary to be able to force one's way into the consumer's home.

Now, with the multiplicity of media by which content can be carried, I don't think it's necessary any longer to have hard assets. I think content, or the rights to distribute certain types of programming, is all that one needs. I think that the broadcasting business is going to become much less capital intensive, and much more lucrative for those companies that have content, of which Disney is one self-evident example.

APPENDIX A

Median Price of a Home in Selected Cities

1	Akron, OH	\$124,700
2	Albany/Schenectady, NY	\$204,500
3	Albuquerque, NM	\$204,800
4	Amarillo, TX	\$123,100
5	Appleton, WI	\$128,500
6	Atlanta Marietta, GA	\$175,300
7	Austin, TX	\$188,200
8	Baton Rouge, LA	\$176,700
9	Beaumont, TX	\$129,100
10	Binghamton, NY	\$119,600
11	Birmingham, AL	\$165,900
12	Bismarck, ND	\$161,600
13	Bloomington, IL	\$155,800
14	Boise, ID	\$209,000
15	Buffalo, NY	\$110,900
16	Canton, OH	\$115,700
17	Fort Myers, FL	\$236,700
18	Urbana, IL	\$142,600
19	Charleston, SC	\$212,300
20	Charleston, WV	\$123,400
21	Charlotte, NC	\$220,100
22	Chattanooga, TN	\$133,200
23	Chicago, IL	\$286,400
24	Cincinnati, OH	\$145,300
25	Cleveland, OH	\$132,700
26	Colorado Springs, CO	\$222,400
27	Columbia, SC	\$149,500
28	Columbus, OH	\$151,600
29	Corpus Christi, TX	\$140,600
30	Dallas/Fort Worth, TX	\$146,800
31	Dayton, OH	\$121,400
32	Decatur, IL	\$85,900

33	Daytona Beach, FL	\$195,000
34	Denver, CO	\$254,100
35	Des Moines, IA	\$153,900
36	Detroit, MI	\$142,900
37	Dover, DE	\$219,800
38	Durham, NC	\$186,900
39	El Paso, TX	\$135,800
40	Erie, PA	\$103,800
41	Eugene, OR	\$241,900
42	Fargo, ND	\$145,700
43	Farmington, NM	\$190,400
44	Fort Wayne, IN	\$101,300
45	Gainesville, FL	\$206,600
46	Gary, IN	\$144,300
47	Glens Falls, NY	\$170,700
48	Grand Rapids, MI	\$128,600
49	Green Bay, WI	\$162,900
50	Greensboro, NC	\$155,500
51	Greenville, SC	\$159,600
52	Gulfport-Biloxi, MS	\$159,200
53	Houston, TX	\$155,800
54	Indianapolis, IN	\$123,500
55	Jackson, MS	\$145,400
56	Jacksonville, FL	\$189,200
57	Kansas City, MO	\$157,000
58	Knoxville, TN	\$158,400
59	Las Vegas, NV	\$295,500
60	Lexington, KY	\$150,100
61	Lincoln, NE	\$138,800
62	Little Rock, AR	\$131,600
63	Louisville, KY	\$141,900
64	Madison, WI	\$234,500

APPENDIX A

Median Price of a Home in Selected Cities

65	Memphis, TN	\$141,300
66	Milwaukee, WI	\$231,100
67	Minneapolis/St. Paul, MN	\$229,600
68	Mobile, AL	\$136,300
69	Montgomery, AL	\$148,400
70	New Orleans, LA	\$160,200
71	New London CT	\$266,000
72	Ocala, FL	\$160,800
73	Oklahoma City, OK	\$130,000
74	Omaha, NE	\$142,800
75	Orlando, FL	\$266,800
76	Pensacola, FL	\$170,000
77	Peoria, IL	\$125,200
78	Philadelphia, PA	\$243,000
79	Phoenix, AZ	\$255,500
80	Pittsburgh, PA	\$127,700
81	Pittsfield, MA	\$215,300
82	Portland, OR	\$299,700
83	Providence, RI	\$291,000
84	Raleigh, NC	\$229,500
85	Reading, PA	\$162,900
86	Richmond, VA	\$238,800
87	Rochester, NY	\$123,000
88	Rockford, IL	\$125,100
89	Saginaw, MI	\$85,900
90	Saint Louis, MO	\$150,500
91	Salem, OR	\$235,400
92	Salt Lake City, UT	\$246,700
93	San Antonio, TX	\$154,700
94	Sarasota, FL	\$287,400
95	Shreveport, LA	\$140,200
96	Sioux Falls, SD	\$147,100

97	South Bend, IN	\$95,200
98	Spartanburg, SC	\$134,400
99	Spokane, WA	\$206,800
100	Springfield, IL	\$111,200
101	Springfield, MA	\$214,900
102	Syracuse, NY	\$124,900
103	Tallahassee, FL	\$174,300
104	Tampa, FL	\$218,300
105	Toledo, OH	\$107,100
106	Topeka, KS	\$117,100
107	Tucson, AZ	\$244,800
108	Virginia Beach, VA	\$255,000
109	Cedar Falls, IA	\$115,800
110	Wichita, KS	\$118,800
111	Yakima, WA	\$163,200
112	Youngstown, OH	\$81,600

APPENDIX B

Money Manager Index

From Jan 1983 to JuLY 2008

Annualized return

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	(since inception)
1983								1.00	0.81	0.76	0.87	0.75	1983	0.75	(60.5)%	(50.2)%
1984	0.75	0.71	0.70	0.66	0.67	0.67	0.61	0.83	0.79	0.76	0.67	0.65	1984	0.65	(13.5)%	(26.5)%
1985	0.92	0.93	0.99	0.95	1.20	1.30	1.32	1.38	1.28	1.50	1.86	2.02	1985	2.02	211.8%	33.7%
1986	2.46	2.78	2.47	2.31	2.36	2.33	2.03	2.23	1.98	2.37	2.34	2.34	1986	2.34	15.9%	28.2%
1987	3.21	3.27	3.16	2.55	2.37	2.30	2.39	2.47	2.22	1.56	1.44	1.52	1987	1.52	(35.0)%	9.9%
1988	1.80	1.87	1.78	1.79	1.69	1.94	1.92	1.96	2.01	1.97	1.95	2.07	1988	2.07	36.0%	14.3%
1989	2.42	2.37	2.54	2.63	2.64	2.64	2.93	3.12	3.07	3.05	3.23	3.26	1989	3.26	57.8%	20.2%
1990	3.12	3.15	3.53	3.06	3.47	3.45	3.30	2.70	2.68	2.40	2.52	3.02	1990	3.02	(7.3)%	16.1%
1991	3.08	3.49	3.70	3.68	3.71	3.61	3.86	4.05	4.07	4.69	4.47	5.72	1991	5.72	89.4%	23.0%
1992	5.76	5.61	5.30	5.12	4.98	4.99	5.93	6.06	6.19	6.56	7.25	7.36	1992	7.36	28.6%	23.6%
1993	8.06	8.04	8.20	7.94	8.15	8.57	9.05	10.00	9.99	9.31	8.97	8.90	1993	8.90	21.0%	23.4%
1994	9.52	8.73	8.05	7.85	7.81	7.53	7.66	8.31	8.15	8.52	7.88	7.95	1994	7.95	(10.6)%	19.9%
1995	7.74	8.38	8.72	8.77	9.20	9.35	9.93	10.78	11.22	10.53	10.89	10.40	1995	10.40	30.8%	20.8%
1996	11.12	11.50	11.33	11.62	11.86	12.53	11.91	12.36	13.32	14.03	14.42	15.02	1996	15.02	44.4%	22.4%
1997	16.04	16.81	15.32	17.27	18.42	20.29	22.28	21.39	25.31	24.95	24.95	25.50	1997	25.50	69.8%	25.2%
1998	25.67	29.00	29.89	30.60	28.90	30.44	27.67	21.33	21.74	25.16	27.27	25.41	1998	25.41	(0.4)%	23.3%
1999	26.00	23.71	23.92	26.77	28.94	29.74	28.78	26.74	25.89	27.73	28.54	30.55	1999	30.55	20.2%	23.2%
2000	31.07	31.19	36.01	35.60	35.20	40.32	43.58	45.75	45.62	48.69	44.05	49.84	2000	49.84	63.1%	25.2%
2001	50.23	46.41	44.27	46.96	48.90	49.98	50.67	49.70	46.47	44.81	48.04	51.91	2001	51.91	4.2%	23.9%
2002	53.62	53.74	55.11	52.52	52.83	50.48	42.58	44.92	41.54	42.66	45.78	43.17	2002	43.17	(16.8)%	21.4%
2003	42.72	41.18	42.36	45.98	49.02	50.71	53.47	53.97	53.46	56.12	55.83	58.49	2003	58.49	35.5%	22.1%
2004	64.38	65.08	64.63	61.68	60.86	62.30	58.71	64.08	65.73	68.86	73.53	78.16	2004	78.16	33.6%	22.6%
2005	76.46	77.94	74.06	72.83	77.02	80.25	83.59	83.07	86.03	89.19	96.58	97.35	2005	97.35	24.6%	22.7%
2006	107.62	111.44	110.75	111.88	101.89	100.61	100.62	104.98	114.61	116.64	113.78	118.05	2006	118.05	21.3%	22.6%
2007	125.73	123.77	122.62	127.58	133.57	134.68	126.61	124.07	133.57	148.09	135.13	135.56	2007	135.56	14.8%	22.3%
2008	127.53	115.76	115.94	121.58	130.51	115.68	119.941						2008	119.94	(11.5)%	21.1%

Name	Amount Invested	Name	Amount Invested
Affiliated Manager	\$ 22,947	Pzena Investment Mgt	\$ 122,426
Alliance	\$ 7,633		
BlackRock	\$ 23,205		
Waddell & Reed	\$ 27,513		
Eaton Vance	\$ 2,641		
T. Rowe Price	\$ 2,423		
Franklin resources	\$ 908		
Legg Mason	\$ 1,000		
Federated Inv	\$ 26,381		

APPENDIX C

International Money Manager Index

From Jan 1983 to July 2008														Annualized return		
Year	31-Jan	28-Feb	31-Mar	30-Apr	31-May	30-Jun	31-Jul	31-Aug	30-Sep	31-Oct	30-Nov	31-Dec	Yr. End	Index	Yearly return	(since inception)
1986											1.00	1.02	1986	1.02	10.0%	10.0%
1987	1.25	1.37	1.48	1.48	1.37	1.33	1.39	1.40	1.33	0.81	0.76	0.73	1987	0.73	(27.7)%	(23.3)%
1988	0.75	0.92	1.02	0.95	0.80	0.89	0.88	0.82	0.86	0.88	0.89	0.93	1988	0.93	26.4%	(3.4)%
1989	1.03	1.02	1.06	1.17	1.19	1.18	1.25	1.16	1.17	1.20	1.21	1.28	1989	1.28	37.8%	8.1%
1990	1.24	1.24	1.18	1.19	1.22	1.24	1.26	1.26	1.23	1.24	1.25	1.33	1990	1.33	3.7%	7.0%
1991	1.34	1.52	1.56	1.58	1.57	1.47	1.52	1.64	1.81	1.89	1.94	1.92	1991	1.92	44.8%	13.5%
1992	2.01	1.93	1.88	2.14	2.19	2.13	2.08	1.99	1.95	1.77	1.76	1.96	1992	1.96	1.9%	11.5%
1993	1.98	2.03	2.20	2.39	2.42	2.45	2.54	3.05	3.01	3.07	3.01	3.30	1993	3.30	68.7%	18.1%
1994	3.72	3.39	3.17	3.04	2.99	2.89	3.01	3.14	3.13	3.19	3.15	3.15	1994	3.15	(4.7)%	15.1%
1995	3.07	3.12	3.28	3.41	3.56	3.59	3.87	3.76	3.76	3.77	3.70	3.73	1995	3.73	18.6%	15.4%
1996	3.76	3.85	3.70	3.79	3.96	3.90	3.75	3.96	4.16	4.47	4.90	4.86	1996	4.86	30.3%	16.8%
1997	5.11	5.37	4.99	4.96	5.43	5.94	6.57	6.32	7.45	7.24	6.80	7.19	1997	7.19	47.9%	19.3%
1998	7.12	8.05	8.78	9.25	8.95	8.74	8.91	6.67	6.08	7.01	7.51	7.71	1998	7.71	7.3%	18.3%
1999	7.99	8.21	8.68	9.07	8.71	8.61	8.63	8.43	8.47	8.79	9.80	10.79	1999	10.79	39.9%	19.8%
2000	11.23	12.27	13.95	13.50	13.73	15.39	15.85	16.82	17.07	16.31	14.43	16.76	2000	14.43	33.8%	20.7%
2001	17.42	15.88	13.46	15.14	15.84	15.15	14.21	13.61	10.77	11.43	13.90	14.12	2001	14.12	(2.2)%	19.1%
2002	14.74	13.78	15.09	15.11	16.38	14.14	12.92	12.10	11.23	11.06	11.33	10.50	2002	10.50	(25.6)%	15.7%
2003	10.18	9.52	9.69	10.62	12.17	13.04	13.98	15.38	16.67	17.88	18.16	18.07	2003	18.07	72.1%	18.4%
2004	20.00	22.41	29.98	35.46	26.68	30.80	25.37	25.20	23.67	23.34	27.56	31.48	2004	31.48	74.2%	20.9%
2005	32.19	32.57	31.88	27.79	27.36	29.05	30.38	31.49	33.39	32.24	32.95	37.18	2005	37.18	18.1%	20.8%
2006	41.01	40.97	43.69	46.45	42.39	41.58	40.60	43.32	43.55	43.70	44.58	49.38	2006	49.38	32.8%	21.3%
2007	50.95	51.18	53.59	56.09	58.16	56.37	53.90	48.65	50.96	56.52	47.62	44.45	2007	44.45	(10.0)%	19.6%
2008	37.54	38.40	37.12	37.76	36.13	32.19	31.65						2008	31.65	(28.8)%	17.2%

Name	Amount Invested	Name	Amount Invested	Name	Amount Invested
IGM FINANCIAL INC	\$1,000	HENDERSON GROUP PLC	\$14,447	BLUEBAY ASSET MANAGEMENT/UNI	\$37,469
F&C ASSET MANAGEMENT PLC	\$1,203	RAB CAPITAL PLC	\$24,603		
INVESCO PLC (PREVIOUSLY AMVESC)	\$1,357	AZIMUT HOLDING SPA	\$21,908		
SCHRODERS PLC	\$1,208	AUSTRALIAN WEALTH MANAGEMENT	\$27,789		
RATHBONE BROTHERS PLC	\$1,208	EVEREST BABCOCK & BROWN LTD	\$23,437		
ABERDEEN ASSET MGMT PLC	\$1,208	NEW STAR ASSET MANAGEMENT	\$27,700		
CI FINANCIAL INCOME FUND	\$2,585	CHARLEMAGNE CAPITAL LTD	\$36,848		
MAN GROUP PLC	\$2,862	PARTNERS GROUP-REG	\$36,848		
AGF MANAGEMENT LTD-CL B	\$3,343	INVISTA REAL ESTATE INV MNGT	\$36,589		
SPARX GROUP CO LTD	\$11,762	ASHMORE GROUP PLC.	\$36,688		