

## The Value Investment Portfolio (VIP)



Equity Guardian Group  
Investment Management & Research

PLW 0.001 MAI 0.62 MCC 0.38 MEGA 0.07 MEGw 0.001 MFS 0.038 MIN 0.092  
Nasdaq 1902.36 ↑19.45 S&P 500 1036.80 ↑5.67 SIRI 2.338 ↓0.102 MSFT 27.0... 3.387 ↓0.197

### Our Value Investment Portfolio (VIP) approach can best be described as the 'opportunistic investment' approach.

In the end, profit is all that matters, and value investing is solely concerned with getting the most profit at the lowest cost. Even the best companies, industries, and sectors fall out of favor from time to time. A fully-informed investor, with a pocket full of cash and a firm understanding of the situation, can calmly stride into the turbulent market and buy up shares of these underdogs at a fraction of their value. We intend to be there when it happens, and we'd like to bring you along.

Since value investing is all about buying 'out of favor' companies at cheap prices before they recover, some might think that a good investment approach might be just to look for the companies that are headed downward and buy all they way down. It may sound right, but no one should ever invest in a company because everyone else is running from it - sometimes there are good reasons to run. After the share prices of WorldCom and Enron had been cut in half, they still didn't constitute a good investment. There are many companies that aren't worth buying at any price. *The key is knowing the difference.*

After all, the stock market is controlled by people who have emotions. The two most prominent being fear and greed. Because of this, the market can make volatile moves and breaks without warning. The good news is, this instability can make you very rich if you know what to look for. Here's a quick example of what happens in the stock market every single day: Let's say there's a fellow who has a small

coffee shop in Seattle that brings in \$100,000 per year in sales, and he wants to sell it to you for \$350,000. Every weekend you get together and over drinks he offers to sell you his business for what he thinks it's worth that day. He puts in a new filtration system and spends \$50K in promotions. The next weekend, he hears that Seattle coffee is the next hottest thing to molten lava and he offers to sell it to you for \$400,000. You sit back and say, "No deal." Then the following weekend, he whispers to you in a sweaty, but hushed panic, "I just heard that coffee causes impotence. Can I sell you my coffee business today for, say, \$50,000? You jump for your checkbook and accept the deal and quickly buy the company for a fraction of what it will make you every year.

Like the shop owner acting on fear, and for various other reasons, a company's stock value can drop quickly, and people will often panic and sell when its price drops for no apparent reason. But think for a moment...If your company is still making the same amount of money and nothing has changed about it - then this behavior is irrational; and yet thousands of investors do it every day. It makes an investor feel better to wait until the price is going up... and

### Sample VIP holdings 2002-2007

Advanced Micro Devices • Goldcorp Inc. • Bristol-Myers Squibb • Olin Corp. • Intel Corp. • Oracle Corp. • Corning Inc. • Duke Energy Corp. • Sprint Nextel Corp. • Alliant Energy Corp. • Sun Microsystems Inc. • Eastman Kodak Co. • Wal-Mart Stores Inc. • Sara Lee Corp.

For more information, visit our website at [www.EquityGuardian.com](http://www.EquityGuardian.com)

Call us today to find out if the Equity Guardian Group's Value Investing Portfolio fits with your investment goals, and to discuss your investment potential. We want you to succeed, and we want to help you do it. Call us at (800) 769-6980 and ask to speak with Mark Young.

## About The Value Investing Portfolio (VIP)

then buy, but if your favorite Seattle based coffee-product went on sale, would you wait until the price *doubles* before you buy it? Investing in the stock market isn't about feeling good about being in with the crowd of investors out there, *it's about making money by not being in that crowd.*

Experienced investors know that great fortunes can be made during corrections and even times of economic downturns. Our long-term value investment approach is based upon accumulating a high quality portfolio of dividend paying stocks at uncommonly low prices. In theory, most of these stocks would be held for an indefinite period, compounding their value internally and free of tax.

The VIP hybrid strategy has several unique benefits:

- ▶ Constant exposure to market gain
- ▶ Risk reduction
- ▶ Reduced taxes
- ▶ Benefits of both a 'Buy and Hold' as well as a tactical asset allocation strategy.

Ideally this VIP approach will buy higher quality dividend paying stocks at historically cheap prices and relatively high yields, then hold these investments indefinitely, portfolio rebalancing and dividend re-investment notwithstanding. We have traditionally focused on holding domestic equities of medium to large capitalization for our clients, but when market conditions are not ideal for this approach, or until such time as we can find adequate values for our clients, an active management approach is taken where issues are

bought and sold, varying levels of cash will be held, and occasionally hedges will be put in place.

Also, when immediate diversification and liquidity is desired, exchange traded funds (ETF's) may be purchased, and short-sales in ETF's may also be employed to provide partial or full hedges. Occasionally bonds or bond funds may be purchased as well, if the risk adjusted returns are perceived as appealing and the opportunity cost is low.

Such an approach might entail the purchase of stocks that represent relatively good values, the use of stop loss orders, implementation of hedging strategies, shorter holding periods, and similar risk reduction strategies. Whenever possible, and when we deem the risk to be acceptable, we will attempt to extend holding periods such that gains will receive long-term tax treatment.

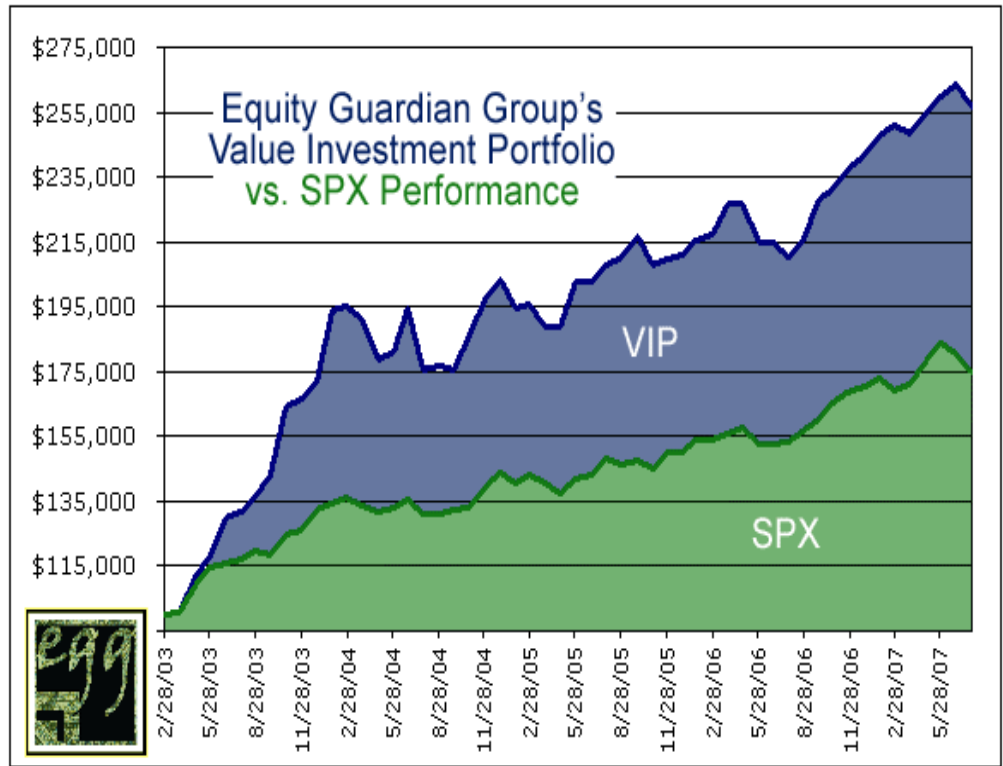
The next time the market is cut to its knees - we will be searching for the great, solid, blue chip companies that have weathered bad economies countless times before. They'll be selling at discount prices, and when the market finally does recover, we will have made a great deal of money. One secret to wealth has always been to "buy when there's blood running in the street" meaning that you have to have enough faith to be willing to buy when the rest of the market is selling. Most people don't have the self-confidence and resolve to do so, and always end up following the crowd. Another important secret to wealth is knowing when to be patient and allow your investments to work for you. At Equity Guardian Group, we've helped our clients determine the path that is best for them, and we've done an excellent job of doing so. We'd like the opportunity to discuss what we can do for you.

For more information, visit our website at [www.EquityGuardian.com](http://www.EquityGuardian.com)



## The Value Investing Portfolio (VIP) Performance

| Date   | VIP Account | Quarterly Return |
|--------|-------------|------------------|
| Mar-03 | \$100,826   | 0.83%            |
| Jun-03 | \$129,743   | 28.68%           |
| Sep-03 | \$142,939   | 10.17%           |
| Dec-03 | \$171,587   | 20.04%           |
| Mar-04 | \$191,189   | 11.42%           |
| Jun-04 | \$194,631   | 1.80%            |
| Sep-04 | \$175,662   | -9.75%           |
| Dec-04 | \$203,341   | 15.76%           |
| Mar-05 | \$188,538   | -7.28%           |
| Jun-05 | \$202,737   | 7.53%            |
| Sep-05 | \$216,625   | 6.85%            |
| Dec-05 | \$210,977   | -2.61%           |
| Mar-06 | \$227,105   | 7.64%            |
| Jun-06 | \$214,628   | -5.49%           |
| Sep-06 | \$227,962   | 6.21%            |
| Dec-06 | \$242,003   | 6.16%            |
| Mar-07 | \$248,382   | 2.64%            |
| Jun-07 | \$263,766   | 6.19%            |



“ We are prudent investors. When we buy a stock, the news on that stock or that industry is likely to be quite bad. Many people might think that buying such a stock at that time is risky or scary. In fact, quite the opposite is true. If the problems are obvious and well understood, then the risk in that security is relatively low. Conversely, when the brilliant future and earnings of a stock or industry is trumpeted, I am willing to bet that the risk is far greater than many would presume. As my former colleague Bill Miller III (of Legg Mason fame) used to say, *"If it's in the papers, it's in the price."* Obvious problems make it hard to feel comfortable buying a stock, but that's what makes it a good value, and that's what we have to do in order to beat the market. ”

Past performance is not an indication of future returns. The above model returns are derived from actual net portfolio results, but do not necessarily include all management fees. Such fees would decrease returns by an amount roughly between 1% and 1.5% each year. It is imperative to note that the initial tracking account used as much as 20% margin debt and that such use of margin not only increased returns but also risk. In the typical management of an account in the future, we do not expect to employ margin except in rare periods of exceptional value or to hedge, thus clients should expect more modest, and less risky returns. Investors who wish to employ this approach should be willing to commit to longer-term holdings and be able to weather more significant market-related equity fluctuation.