THE STAHL REPORT COMPENDIUM

February 2011

Featured Companies

Philip Morris International, Inc. (PM)
Lorillard, Inc. (LO)
Time Warner, Inc. (TWX)
The Walt Disney Company (DIS)

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Murray's Musings

ARE CURRENT PROFIT MARGINS SUSTAINABLE?

This section includes a number of tables that readers may wish to study very carefully. The first is the year-to-date performance of the 50 largest market capitalizations of the S&P 500 that outperformed the market for 2010. It includes companies from Apple, General Electric and Chevron all the way down to DuPont. Most of the P/Es fall within a very narrow band of between 11 and over 16 times earnings, with Amazon.com's P/E of 51-plus times as a notable exception.

Year to Date 2010 Outperforming S&P Large Capitalization Through 12/24/2010

Company	Symbol	P/E Ratios	Total Return 2010 (%)
Apple, Inc.	AAPL	14.4	53.1
General Electric Co.	GE	13.8	24.3
Chevron Corp.	CVX	9.2	22.9
Wells Fargo & Co.	WFC	11.0	15.6
Coca Cola Co.	KO	17.0	19.0
Citigroup, Inc.	C	10.1	42.9
Oracle Corp.	ORCL	14.1	28.6
Schlumberger Ltd.	SLB	21.8	30.0
Philip Morris International, Inc.	PM	13.4	27.2
Verizon Communications, Inc.	VZ	15.7	23.1
ConocoPhillips	COP	10.2	38.8
McDonalds Corp.	MCD	15.3	26.9
Occidental Petroleum Corp.	OXY	13.8	22.8
The Walt Disney Co.	DIS	13.6	17.6
Amazon.com, Inc.	AMZN	51.8	33.8
Ford Motor Co.	F	8.1	67.9
Comcast Corp.	CMCSA	15.0	33.1
Caterpillar, Inc.	CAT	16.4	68.6
The Home Depot, Inc.	HD	15.7	25.0
Kraft Foods, Inc.	KFT	13.7	20.4
Freeport-McMoRan Copper & Gold, Inc.	FCX	11.3	52.6
Altria Group, Inc.	MO	12.6	33.9
U.S. Bancorp	USB	12.3	20.8
The Boeing Co.	BA	14.1	23.6
EMC Corp.	EMC	19.3	31.1
E.I. du Pont de Nemours and Co.	DD	14.2	54.5

Source: Company Reports, Bloomberg

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The next table looks at the net profit margins of those very same companies. This is all before extraordinary items, but only General Electric had any meaningful extraordinary earnings. Even ignoring General Electric, the point can still be made that there are quite a few companies with very high absolute profit margins. For example, Apple, Coca-Cola, Oracle, Schlumberger, McDonald's, Occidental Petroleum and Freeport-McMoRan Copper & Gold all have the common feature of after-tax net profit margins well in excess of 20%.

Most Recent Quarter Net Profit Margin

Company	Symbol	Net Profit Margins (%)
Apple, Inc.	AAPL	21.1
General Electric Co.	GE	8.8
Chevron Corp.	CVX	7.5
Wells Fargo & Co.	WFC	14.5
Coca Cola Co.	KO	21.3
Citigroup, Inc.	C	8.0
Oracle Corp.	ORCL	21.7
Schlumberger Ltd.	SLB	21.2
Philip Morris International, Inc.	PM	10.7
Verizon Communications, Inc.	VZ	3.3
ConocoPhillips	COP	6.1
McDonalds Corp.	MCD	22.0
Occidental Petroleum Corp.	OXY	24.2
The Walt Disney Co.	DIS	8.5
Amazon.com, Inc.	AMZN	3.0
Ford Motor Co.	F	5.4
Comcast Corp.	CMCSA	9.1
Caterpillar, Inc.	CAT	7.1
Kraft Foods, Inc.	KFT	5.0
The Home Depot, Inc.	HD	6.3
Freeport-McMoRan Copper & Gold, Inc.	FCX	22.6
Altria Group, Inc.	MO	17.6
U.S. Bancorp	USB	17.5
The Boeing Co.	BA	4.9
EMC Corp.	EMC	11.2
E.I. du Pont de Nemours and Co.	DD	5.1

Source: Company Reports, Bloomberg

In general, a 20% profit margin for any company, and for a large capitalization company in particular, is an historical rarity. If one were to examine the other 50 largest market capitalization companies in the S&P 500 that have much lower profit margins than these

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26, it would still be observable that in most instances their profit margins, although lower than those of the most profitable companies, would be well in excess of their historical averages.

The table below provides the peak profit margin for the last ten years, which I think is more interesting than looking at the average.

Company	Symbol	Peak Margins (%)	Year Achieved
Apple, Inc.	AAPL	21.5	2010
General Electric Co.	GE	13.0	2008
Chevron Corp.	CVX	8.8	2008
Wells Fargo & Co.	WFC	33.5	2004
Coca Cola Co.	KO	21.1	2006
Citigroup, Inc.	C	31.2	2003
Oracle Corp.	ORCL	26.4	2004
Schlumberger Ltd.	SLB	22.4	2007
Philip Morris International, Inc.*	PM	12.7	2006
Verizon Communications, Inc.	VZ	9.0	2004
ConocoPhillips	COP	8.2	2006
McDonald's Corp.	MCD	20.0	2009
Occidental Petroleum Corp.	OXY	27.9	2008
The Walt Disney Co.	DIS	13.2	2007
Amazon.com, Inc.	AMZN	8.5	2004
Ford Motor Co.	F	5.4	2010
Comcast Corp.	CMCSA	10.2	2009
Caterpillar, Inc.	CAT	8.5	2006
The Home Depot, Inc.	HD	7.3	2006
Kraft Foods, Inc.	KFT	11.3	2002
Freeport-McMoRan Copper & Gold, Inc.	FCX	24.1	2006
Altria Group, Inc.	MO	16.9	2006
U.S. Bancorp	USB	45.4	2004
The Boeing Co.	BA	6.1	2007
EMC Corp.	EMC	12.1	2007
E.I. du Pont de Nemours and Co.	DD	17.1	2001

**Prior to spinoff.*

For many of the selected companies, the net profit margins are currently at or very close to their peaks. That point is important because, historically, when the economy emerged from a recession, the profit margins would rise along with revenues while costs didn't necessarily rise proportionately. In the current position, since companies have been very aggressive in controlling their costs and even lowering them in many cases, one has to wonder how much, if any, margin improvement is achievable. This is an historical anomaly and it's an issue for large capitalization stocks in particular. One could argue that

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the earnings growth that might be achievable would need to come from higher revenue. Yet, in most instances, these companies truly dominate their industry group, so it's difficult to see how they could substantially increase their revenues.

Stocks in general, and large capitalization stocks in particular, have benefited from a number of factors over the past 50 years. The first is that since the end of the Second World War, corporate taxes have generally been declining. The second is that there have been vast increases in government spending during and since the Second World War. In one way or another that government spending has benefited the large companies. It may be in the form of transfer payments to individuals who use that money to buy products and services, many of which are produced by these large companies. Alternatively, it may be from money that is spent by the government itself when it buys products and services from the large companies. The third is that increasing profit margins comprise a great part of the rate of return experience for these companies over the last 50 years.

It's difficult to see how the increase in profit margins could be sustainable in the long run. Phrased philosophically, if the corporate tax rate were 36%, then theoretically the highest net profit margin one could achieve would be the reciprocal of that, or 64%, assuming products were produced without any raw material costs or employee expenses. Of course, that would be impossible, so net profit margins would have to be lower. Therefore, when a company has a net profit margin above 20%, it should be viewed as running at one third of the maximum that is theoretical possibility. It's the economic equivalent to moving at one-third the speed of light. It's theoretically possible to move at a faster pace, but it's exceedingly difficult.

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Industry Thoughts

HIGH NET MARGIN COMPANIES

As is not infrequently done in this section, it's possible to create industry categories that facilitate an entirely different analysis than is possible using the traditional classifications. In this case, the newly created industry is that of high net margin companies. The table below mirrors in part those listed in the tables in the *Musings* section, but here the list is further narrowed to include only the 15 largest companies in the S&P 500 with very high net profit margins.

Company	Symbol	Net Margins (%)
Amgen	AMGN	32.4
Google	GOOG	29.7
Qualcomm	QCOM	29.3
Microsoft	MSFT	28.2
Intel	INTC	26.6
Coca Cola	KO	24.4
Occidental Petroleum	OXY	24.3
Johnson & Johnson	JNJ	22.8
Freeport-McMoRan	FCX	22.7
McDonald's	MCD	22.0
Oracle	ORCL	21.8
Schlumberger	SLB	21.2
Apple	AAPL	21.2
Cisco	CSCO	18.0
Altria	MO	17.7

Source: Company Reports, Bloomberg

The lowest of the high-net profit margins is Altria at 17.67% and the highest is Amgen at 32.39%, which comprises about 0.5% of the S&P. Apple is 2.6% of the index, Microsoft is almost 2%, and Coca-Cola is 1.25%. This entire list of companies accounts for well over 15% of the S&P. If the average profit margin of companies that comprise more than 15% of the S&P 500 well exceeds 20%, how can the S&P possibly exhibit its historical post-recession expansion of profit margins and earnings? It's not likely to happen.

In the longer run, this situation poses a great danger, because high profit margins historically have attracted competition. That competition wouldn't necessarily arise only from within the geographical boundaries of the nation of origin, but high profit margins generally attract competition. That risk element is very difficult to quantify, because it doesn't exist at the moment. It's reasonable to suppose, however, that it will one day exist.

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The maintenance of profit margins at these high levels is essentially, but not completely, an earnings risk in itself. For example, if a company has a 24% profit margin that ultimately stabilizes at 20%, while that margin is still an extraordinary accomplishment, it would nevertheless represent a 20% earnings decline from its peak to its stabilized margin. A company with a 29% profit margin that stabilizes at a 20% profit margin might have, *ceteris paribus,* a 33% earnings decline.

There is a certain element of danger in these types of companies and the danger doesn't even have to come from competition. As noted in the previous section, it can also come from changes in the pattern of government spending. Since such companies have already controlled their costs, curtailment of government spending in any meaningful way, either by a reduction of its own expenditures or by curtailment of transfer payments, would translate into a diminution of revenue for the high-margin companies. With no concomitant opportunity to lower expenses, that change would arithmetically create a profit margin decline. It's not yet apparent in the Federal government, but virtually every state government is making strenuous efforts to control and, in many cases, even lower expenditures. The states are simply not able to sustain their current expenditure levels. It's hard to believe that the cost cutting efforts of 50 states and many thousands of municipalities will not eventually translate into some type of revenue and margin erosion of some subset of these companies.

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Facts & Figures

THE HOUSING INDUSTRY

Housing is one of the most interesting cyclical industries in the United States, and it is perhaps the most cyclical. The December 2010 single family home sales at a seasonally adjusted annual rate of 329,000 was 17.5% higher than the November 2010 figure of 290,000, which was close to the lowest number on record. Even a slight increase in demand for new homes will have a very powerful impact on the earnings and profitability of any company involved in new home construction at any level.

U.S. Single Family Home Sales

	December 2010	November 2010	December 2008
Single Family Home Sales (seasonally adjusted annual rate)	329,000	290,000	331,000

Source: http://www.census.gov/const/newressales

The December inventory of 190,000 unsold new homes is also about the lowest number on record. That figure represents 6.9 months of supply at the current sales rate, but that rate is unsustainably low. The 190,000 unsold new homes inventory was comprised of 80,000 homes under construction, 80,000 completed homes, and 30,000 homes yet to be started. Divided by 50 states and 12 months per year to reflect the annual rate, it's not a great number of homes for a nation with a population in excess of 300 million people.

U.S. Inventory or Unsold Homes

	December 2010	November 2010	December 2008
Homes under construction	80,000	86,000	137,000
Completed homes	80,000	83,000	173,000
Homes yet to be started	30,000	28,000	47,000
Total Inventory Unsold Homes	190,000	197,000	357,000
Supply at then current sales rate	6.9 months	8.2 months	12.9 months

Source: http://www.census.gov/const/newressales

By way of comparison, at the end of 2008, when the contraction of home sales had already started, the inventory was comprised of 173,000 completed homes, 137,000 homes under construction, and 47,000 not yet started, for a total of 357,000. The current inventory is nearly 47% below the inventory achieved at the end of December 2008, when the credit market had absolutely ceased functioning. It's an extraordinary statistic if one reflects on it in that context.

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ETF AND MUTUAL FUND CASH FLOWS

The Investment Company Institute, sponsored by the mutual fund industry group, calculates weekly cash flows into and out of long-term domestic equity funds.

Weekly Flows of Long-Term Domestic Equity Funds

	($ in millions)
10/27/2010	($2,980)
11/3/2010	(1,132)
11/10/2010	(660)
11/17/2010	(2,805)
11/23/2010	(2,595)
12/1/2010	(1,728)
12/8/2010	(2,631)
12/15/2010	(2,395)
12/21/2010	(419)
12/29/2010	431
1/5/2011	(4,231)
1/12/2011	3,762
1/19/2011	3,311
1/26/2011	3,248

http://www.ici.org/research/stats/flows

It's amazing that even though of late the equity market has been going up, there's been outflow in ten of the last fourteen weeks, and that outflow has not been an insubstantial number. For example, in the week ending December 15, 2010, $2.4 billion left equity mutual funds, and the week ending January 5, 2011, $4.2 billion left such funds.

In the world of ETFs, the numbers are almost the exact opposite. The table below shows the net cash flow for the top ten ETFs by year-to-date net cash flow.

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ETF Net Cash Flow ($ in millions)

Issuer	2011 YTD	Dec. 2010	Nov. 2010
Vanguard	$4,233	$1,572	$6,803
Invesco/PowerShares	3,223	(942)	(246)
State Street	2,726	10,634	(488)
Van Eck	1,085	591	726
ProShares	495	(952)	(267)
First Trust	462	515	383
WisdomTree	413	412	490
Schwab	308	416	205
Rydex	204	1,030	89
PIMCO	168	10	506

Source: http://www.nsx.com/content/etf-net-flows-list

An enormous amount of money is going into exchange traded funds of the equity variety. These numbers represent all exchange traded funds, of which there are some bond funds, but the equities dominate the exchange traded funds by far. The numbers aren't precisely comparable to the domestic long-term equity mutual fund numbers, because in a certain sense it's actually counting some bond numbers. It's also noteworthy that there is positive flow into foreign equity mutual funds.

In December 2010, PowerShares had outflow of $942 million and Proshares had outflow of $952 million. The pressure is coming from Vanguard. For many of the most popular categories of exchange traded funds, Vanguard has created very low-cost alternatives to the traditional ETF offerings, and that has implications for individual stocks, if nothing else. It puts pressure on certain ETF companies like State Street, which has the SPDR S&P 500 ETF. Vanguard's Largest 500 is a sufficiently close approximation of the S&P that people are clearly choosing the Vanguard fund with its lower fee structure.

Another implication is that as the ETF industry addresses the question of expense ratios, the pressure is not merely on the manager fee, but also on the custodial fee, and it will ultimately be on index provider fee as well. It hasn't happened yet, but it's likely to happen. In addition, the narrowness of the interest at the individual ETF level is apparent, since there are well over 900 ETFs, most of which have yet to capture the imagination of, or even be noticed by, the investment public.

A handful of very large funds are getting the lion's share of the flow. For example, the Vanguard Emerging Markets Fund (VWO) raised $19.2 billion in 2010, while the iShares MSCI-Emerging Markets Fund (EEM) raised $2.3 billion in 2010. Those two funds compete with one another and, since Vanguard is clearly low-cost, if it continues to have its current magnitude of positive inflows, it's not inconceivable that the iShares EEM fund might begin to see outflows.

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The SPDR Gold ETF (GLD) raised $6 billion in 2010 by the end of November, and the SPDR S&P 500 ETF (SPY) lost, for reasons stated previously, $10.2 billion in the same time period. The Gold ETF (GLD) is the second largest of all ETFs and had $57.2 billion of assets at the end of December 2010. In this fund, assets mean ounces of gold. If individuals and institutions decide that gold is a legitimate asset class, and they allocate some percentage of their assets to gold, there simply wouldn't be enough gold to fulfill the aspirations of the holders of gold at current prices. These comments are not to be interpreted as a forecast of higher gold prices, but merely as an example of the effect that many individuals and institutions who reach the same investment conclusion simultaneously can have on price. Some truly extraordinary changes might happen in gold.

Along similar lines, if one were to combine the iShares Emerging Markets ETFs (EEM) and the Vanguard Emerging Markets ETF (VWO), their joint assets under management would be $84 billion, or 8.4% of the total of all ETF assets which, as of December 31, 2010, was nearly $995 billion. That number is important, because China's GDP, in purchasing power parity terms as estimated in 2010, is $9.782 trillion, which is 13.3% of the Gross World Product 2010 estimate, also in purchasing power parity terms. Add to China's GDP that of India, which is $4.046 trillion, and that of Russia, which is $2.229 trillion to get a total of $16.147 trillion (all in terms of purchasing power parity). [1] That figure is 21.7% of world GDP in purchasing power parity terms, and it does not include the GDP figures for various other emerging market countries. If the asset allocators decide that the emerging markets allocation should be GDP weighted, there aren't enough emerging markets equities to satisfy the resultant demand. That situation could result in what is commonly referred to as a bubble in emerging markets. I think it will actually happen.

Of all ETF assets, 74% are still long equity with 13% in bonds, but that's going to change. An ETF is a very efficient way of owning bonds, but that doesn't mean that equities will suffer in popularity. The next wave of ETF growth is likely to be on the bond side. Normally, individuals don't have access to bonds, but fixed income ETFs will allow the democratization of bonds by providing individuals with greater opportunities to invest in those securities.

[1] The World GDP 2010 estimate in purchasing power parity terms is $74.43 trillion. Data source: <https://www.cia.gov/library/publications/the-world-factbook/index.html>

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How They Did It

FELIX SOMARY

Felix Somary was probably the most successful and most astute Swiss banker of the first half of the 20th century. He made some of the most amazingly accurate predictions that any investor has ever made. In short, he was able to navigate the great financial crises of the early 20th century.

Somary was born in Vienna, Austria. He studied at the University of Vienna with Joseph Schumpeter, among others. [2] He studied what in German is known as *rechtswissenschaft* which, loosely translated, means jurisprudence. Literally translated, it means legal science. After his graduation, he became a financial secretary at the Anglo-Austrian Bank until 1909, when he went to Berlin and became a professor of political science at the Hochschule für Staatswissenschaftliche Fortbildung (the Institute for Postgraduate Political Science Education). In 1919, he became the Direktor of Blankart & Company, a very successful Swiss bank headquartered in Zurich. He held that position until his death in 1956. Blankart & Company still exists, although under the name of Bank Sarasin, the institution with which it merged in 1978.

To give you an idea of some of the extraordinarily accurate predictions that Somary made, which enabled his clients to navigate the many crises of the time, let's first turn our attention to an example that occurred prior to his assumption of the directorship of Blankart & Company. During the First World War, he and Max Weber, the great sociologist, jointly authored a memo to Kaiser Wilhelm II and the German General Staff warning that waging unrestricted submarine warfare would bring the Americans into the war with very adverse consequences for Germany. Their warnings were not heeded.

The following quote is from in Somary's memoirs entitled *The Raven of Zurich*: *the Memoirs of Felix Somary,* in which the memo that he and Weber wrote can be found. One would have to read the entire memo to understand the prescience of Somary's predictions. Incidentally, he's called a raven, because he's always the bearer of bad news.

> One thing is certainly true: American intervention, whether sooner or somewhat later, would equip our enemies with the material and psychological resources to continue the war for a practically indefinite time. The mere possibility that coincidence could bring about

[2] Joseph Schumpeter (1883-1950), who conceived of the concept of "creative destruction," was an Austrian-born author, economist and political scientist. After World War I, he served as the Austrian Minister of Finance and president of Biedermann Bank. He became a professor of economics and government in Germany before emigrating to the United States when the Nazis came to power. He taught at Harvard University from the time he immigrated until his death.

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> American intervention will enable our opponents to keep going, despite severe setbacks, until that chance of America's entry into the war has been eliminated.[3]

In 1920, shortly after becoming director of Blankart & Company, Somary made a speech at the Verein fur Sozialpolitik in Freiburg im Breisgau in which he accurately predicted the hyperinflation of Germany and Austria.

> If matters go on this way, within a few years the entire savings of the German middle class, as well as the capital reserves of the social security system will have disappeared completely. I beg you to concentrate all your intellectual efforts on the fight to stabilize the value of our currency. It is a matter of life and death for Germany and for Europe.[4]

It's hard to imagine a clearer warning against what was coming. In the preface to that speech he began:

> I have asked Professor Herkner to convene today's meeting because I am filled with urgent concern about the fate of the German and Austrian currencies. If things go on as they are now, we are threatened by the danger of a complete collapse of both currencies with all the consequences that would entail for international payments and internally[5].

Even more extraordinary were his predictions of the Great Depression and the stock market collapse. In the following excerpt from a speech on September 10, 1926 at the University of Vienna, Somary predicts the stock market collapse, the Great Depression, and the collapse of the gold standard that occurred three years after the great crash. Keep in mind that these predictions were not made in 1929 when the markets were reaching what some observers at the time called unsustainable levels, but in 1926 before the upsurge.

> Shall we not anticipate significant upheavals if in the United States itself there is a stronger heating up of the economy, and if the cheap money there leads to a stock market boom? Such a boom would lead Americans to invest their liquid capital in more profitable ventures in their own country. And cannot the return of vast sums of French money to Europe in the context of a revaluation of the French franc—which must come soon—cause upheavals in the short-term capital markets if these sums are not re-lent to the same debtors? Can we really rely on a continuation of the gold exchange standard even in a crisis? And would not the changes that should occur if the still unproven gold-exchange standard is renounced have decisive influence on international capital movements?[6]

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[3]Felix Somary, *The Raven of Zurich*: *the Memoirs of Felix Somary*, Trans. A. J. Sherman (London: C. Hurst & Co, 1960) 273-74; Felix Somary, *Erinnerungen aus meinem Leben* (Zurich: Manesse Verlag, 1955) 368.

[4] Felix Somary, *The Raven of Zurich*: *the Memoirs of Felix Somary*, Trans. A. J. Sherman (London: C. Hurst & Co, 1960) 279; Felix Somary, *Erinnerungen aus meinem Leben* (Zurich: Manesse Verlag, 1955) 380.

[5] Ibid.

[6] Felix Somary, *The Raven of Zurich*: *the Memoirs of Felix Somary*, Trans. A. J. Sherman (London: C. Hurst & Co, 1960) 281; Felix Somary, *Erinnerungen aus meinem Leben* (Zurich: Manesse Verlag, 1955) 383.

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All he was really trying to say is that Europe is dependent upon American capital, and if American capital seeks its own market rather than European financial markets, it's hard to see how the budgets of the various companies could possibly be managed. Those predictions may seem rather simplistic in the light of history, but they were extraordinarily daring in 1926.

How was Somary able to make these predictions, and upon what basis did he make them? To begin with, his view of the world was partially colored by his strategic investments in certain key enterprises. That's not to say that he had insider information, but that he saw the world via his investments. He was not an opportunistic trading investor; he looked at the investments as businesses. As a result, their information content had implications that extended to the European economy.

That idea is better expressed using an example. Blankhart & Company owned 80% of a company called Mitropa, which was otherwise known as the European Sleeping Car Company. It was the European equivalent of Pullman, and it was active all over Europe. Since distribution was predominantly accomplished by rail, knowing the demand for rolling stock revealed a great deal about bookings, orders and the prospects for employment. From his access to that key information, Somary could also infer what the tax receipts and revenues might be for the various governments. Others had access to the same information, but they didn't examine the data with the same analytical perspective as Somary. He utilized that skill throughout his entire investment career.

For example, at the end of the Second World War, Somary was active in the creation of Mediobanca, which became the primary Italian investment bank. He didn't end up investing in it; nevertheless, he was a participant in the negotiations for its creation at its inception and, from that, he was able to derive a certain information quotient. There were others with access to the same information, but his understanding of its importance gave him an advantage.

Viewed from Somary's perspective, the activities of certain strategic companies could provide insight into aspects of the economy. Blankart & Company's large investment in Mitropa meant that Somary looked beyond the diminution of rail traffic and its effect on the company's cash flow after the First World War to ascertain the cause. In other words, his vision extended beyond the financial statements of that company into the larger economy. He saw that the settlement that provided for creation of new countries, including Poland, Czechoslovakia, and Yugoslavia, had placed barriers in the path of free trade.

Another Somary strategy for gathering information was to follow the activities of important individuals. Just as Mitropa was a key company for understanding certain international economic issues of that time, there were individuals who were key decision

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makers. For example, Somary made it his business to follow the activities of Walther Rathenau, a foreign minister of Germany who was later assassinated. Knowing that Rathenau would be negotiating World War I reparation settlements, Somary followed his activities. He also followed the activities of Hjalmar Schacht who was head of the Reichsbank, Germany's central bank. That institution played a key role in the international economy, because Germany was responsible for making reparation payments. Without those payments, countries couldn't rebuild. Ultimately, since Germany wasn't able to make the reparation payments, Schacht's activities revealed a great deal about the future of the European economy.

To a lesser extent, Somary was alert to the activities of the Rothschild Banking Firm, because its activities were so important to the restructuring of certain government finances. As an aside, Somary predicted the Nazi seizure of the Rothschild Bank's Vienna assets when the Nazi's created the so-called Anschluss in 1938 between Germany and Austria. He warned Baron Louis de Rothschild to remove his money and, more importantly, to remove himself from Vienna. Baron Louis failed to do so and was promptly arrested. Eventually, he was repatriated, but he was in jail for a not brief period of time.

In his memoirs, Somary discusses aspects of his education and his reading, which is important. An educated person living in that time period had a very different sense of history than does a typical well-educated person of today. In his lifetime, a good education included study of the classics, including Thucydides, Plutarch and Herodotus. His understanding of history would have encompassed the sweep of thousands of years, rather than the more narrow focus on certain discrete events or data points. When Somary talked about the end of the First World War and the idea that the United States could become the world's primary creditor nation, his analysis was informed by his knowledge of the history of the Roman Empire after the Carthaginian War, which marked a seminal change in history. Not all data points are created equally; some are truly salient. Recognizing the difference requires cogent, well-informed analysis.

Let's return to Somary's prediction of the American response to unrestricted submarine warfare. If one considers unrestricted submarine warfare only in terms of data, then one might reason only in terms of numbers. The Germans had a certain number of submarines and the British had a certain number of ships with which to defend their merchant fleet. If a certain number of the merchant vessels are sunk, Britain wouldn't be able to transport enough goods to sustain its economy. As a result, its economy would collapse, which would allow Germany to win the war. From an operations research point of view, one you might well reach the conclusion that engaging in unrestricted submarine warfare was the logical way to proceed. If, however, one considered it as an historical problem, which Somary did, one would have factored in that twice in its history, the United States went to war over freedom of the seas. The first incident was in 1803 against Napoleon, which was

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an undeclared naval war. The second was in 1812 against Britain, which was a declared war.

Somary's way of analyzing the available data was completely different from the approach most people of the era would have used. Knowledge of history was one spine upon which Somary could organize the data. Another was his training, which was not in economics but in law. He came to economics and investing from a legal background in which he was trained to relate facts to facts, not ideas to ideas. That perspective constituted the framework of his analysis.

Lastly, Somary's perspective, whether one agrees with it or not, is refreshing and interesting. For example, the below observation of the United States provides a sense of the way in which he approached phenomena and data. Although it reveals a certain elitist outlook on life, it's interesting nonetheless.

> In New York, an ordinary physician must not deal with throat problems, the dentist does not extract teeth—those problems are left to specialists—but anyone may become President. Who would dream of arranging a game between a world chess master and someone who has never played a game of chess in his life, or who would consent to undergo a complicated surgery at the hands of someone who did not know the first thing about surgery?[7]

The issue of legal reasoning and jurisprudence is compelling from another standpoint. In history, certain insightful individuals have in common that they all seem to have been influenced by certain key legal books. It is well known that Abraham Lincoln was an attentive reader of *Blackstone's Commentaries on the Laws of England*, and that Winston Churchill was an attentive reader of Henry Hallam's *Constitutional History of England.* From his memoirs, we know that Lee Kuan Yew was an attentive reader of R.M. Jackson's *The Machinery of Justice in England.* Legal reasoning when applied to facts in relation to other facts is a much more powerful tool than deductive reasoning relating ideas to other ideas.

[7] Felix Somary, *The Raven of Zurich*: *the Memoirs of Felix Somary*, Trans. A. J. Sherman (London: C. Hurst & Co, 1960) 253; Felix Somary, *Erinnerungen aus meinem Leben* (Zurich: Manesse Verlag, 1955) 332.

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Featured Companies

A common feature of the companies chosen for this section is that they may have the ability to raise their profit margins, whether greatly or slightly. Failing that, their profit margins, while perhaps high, are not necessarily under the same threat as those of the firms discussed in the *Musings* and *Industry Thoughts* sections.

PHILIP MORRIS INTERNATIONAL, INC. (PM)

Philip Morris International is an international producer of tobacco products, primarily cigarettes. As such, it's a very high return on equity business. Normally, businesses that generate such returns attract competition. This business is less appealing, however, because of the legal challenges that all tobacco companies face. Philip Morris International, however, has far fewer of those than have the American tobacco companies. In addition, Philip Morris International is not in a growing business. While there may be certain regions of the world that are increasing their tobacco consumption, global tobacco consumption is in decline. As the years progress, it's not unreasonable to believe that the rate of decline might even increase. As a result, the industry doesn't attract competitors in the way that a growing business with fewer legal challenges would. Say what you will about this company, it does have a certain daunting, and possibly even growing, economy of scale advantage over potential competitors.

Philip Morris International trades at 15.7 times its estimated earnings for 2011. One way the company grows its earnings is that the earnings and cash flow, such as they are, are not far from being free cash flow, because it's not a growing business and the assets themselves are relatively long lived assets. It's not necessary to reinvest a great quantity of earnings to maintain the business as it is right now. Therefore, much of the earnings are available for either dividend payments or stock repurchases. The table below shows how the share repurchase program has reduced the number of shares outstanding in the last four quarters.

Philip Morris International
Share Repurchase Program

Qrtr.	Year	Shares Outstanding (billions)
3Q	2009	1.927
4Q	2009	1.899
1Q	2010	1.874
2Q	2010	1.846
3Q	2010	1.828

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There's no reason to believe that situation can't continue indefinitely. Between the dividend yield of 4.1% (trailing 12-month) and the stock repurchase rate of about 6% during the past year, there's already a fairly substantial rate of return.

Interestingly enough, Philip Morris International has a 10.75% net profit margin. By way of comparison, Altria has a 17.67% net profit margin, Reynolds American has 17.02% and British American Tobacco has 20.9%. British American Tobacco is probably the best comparison, because it is a worldwide company with a geographical scope of operations not very different from those of Philip Morris International. If Philip Morris International goes through the same multi-year cost rationalization process that British American Tobacco has been experiencing for the last 15 or 20 years, it's not unreasonable to believe that it could one day achieve the same margins. Phrased alternatively, it's much more reasonable to suppose that the margins of Philip Morris International can rise to a level that approaches, though perhaps not equals, the margins of British American Tobacco than it is to suppose that British American Tobacco will increase its own margins. It's also quite possible that British American Tobacco's margins might decline in the direction of Philip Morris International's margins.

Philip Morris International has a 15.4% market share outside the United States. It owns, for better or worse, the world's primary tobacco brand, which is the sought after Marlboro brand. Certain areas of the world are rapidly growing and that explains the Philip Morris profit margin. To maximize its own market share, Philip Morris is investing heavily in those regions that are experiencing vigorous growth. At some point it will attain whatever market share it believes is possible and, by investing in advertising and distribution, brand establishment will have been achieved. For example, Eastern Europe is rapidly growing and, as might be readily surmised, Asia is rapidly growing.

To illustrate this point, in the most recently reported quarter, Asian shipment volume was up 28.8%. That increase is not because Asian nationals are increasing their cigarette consumption by 28% per annum, but because they are switching to a more recognizable brand, like Marlboro. Asia now represents 30.5% of Philip Morris's worldwide reported volume. There's some point at which the volume will stabilize. When that happens, the need for advertising and the establishment of new distribution outlets will be correspondingly reduced, and Philip Morris International's profit margins should gradually rise for many years.

It's important to note that Philip Morris International has no tangible equity on its balance sheet. It does have equity, but it's all from intangible assets. It has total debt of $17.5 billion and cash on the balance sheet of $3.5 billion. Even though cash is a small percentage of a debt, the cash flows and revenue are sufficiently stable that Philip Morris International has very little use for $3.5 billion of cash on its balance sheet. It could spend a not inconsiderable portion of its cash flow to buy back shares, and it could also spend down the cash on its balance sheet.

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An interesting statistic that applies more to the worldwide cigarette industry than it does to Philip Morris involves the international (non-American) consumption of Philip Morris cigarettes by unit volume. Outside the United States, 75.9 billion Philip Morris brand cigarettes are consumed annually. That figure does not include the cigarettes consumed that are produced by other companies. If the world's population, excluding the United States, is about 5.7 billion, then that figure means that the average person in the world smokes 13.3 Philip Morris cigarettes per year, and many people have yet to be reached by the company's advertising.

LORILLARD, INC. (LO)

Lorillard was a spin-off from Loews and is an exclusively American entity with a market capitalization of $11.4 billion. It produces the Newport, Kent, True, Maverick and Old Gold brands. It trades at 11.6 times estimated 2011 earnings and yields 5.9%. It has been aggressively repurchasing its shares, because its cash flow is, apart from dividends, truly free cash flow. The table below shows the shrinkage of shares in the last four quarters, which has been fairly significant.

Lorillard Share Repurchase Program

Qrtr.	Year	Shares Outstanding (millions)
3Q	2009	163.58
4Q	2009	158.61
1Q	2010	154.55
2Q	2010	152.04
3Q	2010	151.33

Lorillard trades at a lower valuation and a higher yield than Philip Morris International for the primary reason that it just lost Evans v. Lorillard, a not insignificant tobacco case. The allegation made in that case was that in the 1960s, Lorillard distributed cigarette samples to children with the objective of seeing to it that they would become addicted to the product. The jury found for Evans. Key ingredients of contemporary tobacco litigation are the very clear warnings against the dangers of cigarette smoking printed on every pack of cigarettes along with other means of gaining information on the dangers of smoking. With the passage of each day, it's becoming increasingly difficult for plaintiffs to assert that they were unaware of the dangers of smoking, which presents problems for aspiring tort litigants.

As a result, the character of tobacco litigation has becoming increasingly bizarre. A multi-decade smoker who was a child in the 1950s and '60s might be expected to have been cognizant of the warnings against the dangers of cigarette smoking that have been

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delivered over the last four decades. It could be argued, however, that this individual might not have been in a position to take heed of those warnings if the nefarious activity of distributing cigarettes to children had caused him or her to become addicted at a young age. How does one prove or disprove the proposition that the company was distributing cigarettes to minors? The company is very confident that it will prevail on appeal, since the tobacco companies generally do. The market appears to have discounted much of this issue.

Lorillard has another problem that contributes to its low multiple. The Food and Drug Aministration (FDA) is currently debating whether or not to place a ban on the manufacture and distribution of menthol cigarettes. Menthol itself is not harmful, but it is argued by some that the inclusion of the menthol ingredient in cigarettes makes them more alluring. There are studies showing that most young smokers in the United States seem to prefer menthol cigarettes. The primary Lorillard brand is Newport, which is a menthol brand, and the danger for the company would be if the FDA ruled to ban menthol cigarettes as a way to make it more unpleasant for younger people to smoke. By law, the FDA must report its findings to the President by March 2011. It's unclear if the FDA has the legal authority to ban menthol cigarettes, though it is clear that the agency does not have the authority to ban cigarettes. If the menthol cigarette ban does occur, it will be litigated for many years.

If the FDA were to conclude that it does not wish to incur the expense of legislating a ban on menthol cigarettes, and the expense of the litigation that would likely follow, then Lorillard will probably trade up two multiple points to a valuation commensurate with the other tobacco companies. In the interim, Lorillard is buying back its shares in an aggressive manner, and it is recommended for purchase.

TIME WARNER, INC. (TWX)

Time Warner trades at 16.09 times its consensus estimated earnings for 2011. It has a market capitalization of $39.68 billion. In certain aspects of its business, Time Warner has very stable margins, while others have very cyclical margins. Some facets of its business are not only stable, but have relatively high margins. They include networks like HBO, Cinemax, Cartoon Network, CNN and Court TV. The operating margin for the networks is 30.3%. For reasons that are self-evident, the film business has much more variable margins. For instance, the margins for Warner Brothers, New Line Cinema, and Castle Rock Entertainment fluctuate with the popularity of new releases. At the moment, the film business has an operating margin of 10%.

Time Warner's publishing business margins wax and wane with the economy, because they're heavily dependent upon advertising revenue. At the moment, advertising revenue is deficient and, therefore, the operating margins of the publishing business are only 6.6%. It's important to note that Time Warner not only publishes *Time* magazine, but also many

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specialty magazines, including *Amateur Gardening, Country Home, Country Life, Cycling, Golf* magazine, *Money* magazine, *People Magazine* and *Sports Illustrated*

The whole company's current net margin of 9.75% could be higher, since the manner in which many of the products are distributed is rapidly changing, particularly in the publishing and the film businesses. To this very day, the film and entertainment industry is powerfully dependent upon the theater-going public. Even when a film is distributed in DVD form after its initial run in theaters, that disk has to be produced and physically distributed. It involves manufacturing and transportation costs. There is a marginal cost for distributing a film after the movie is made, because something physically has to be produced for the benefit of the customer. In the world of digital streaming, however, the marginal cost of distributing the product is essentially zero. The economics of the movie business are likely to change favorably. There may even be a permanent margin enhancement in the world of films.

In publishing, magazines are still produced in hard form and many millions of copies are distributed. They cost a lot of money to manufacture and, since they're heavy, they are expensive to transport. The future mode of distribution is clearly going to be the Internet. In principle, there's no reason why someone couldn't subscribe to and read *Time* magazine on a tablet computer like the iPad. It'll take several years for that transition to occur, but when it does, the marginal cost of distribution is going to change and the character of the business might change as well.

Time Warner is also engaged in a stock buyback program. It's hard to say that it's an aggressive stock buyback program, but there's no reason to believe that Time Warner, if it wished to, couldn't buy back 3-6% of its shares per annum.

Time Warner Share Repurchase

Qrtr.	Year	Shares Outstanding (billions)
3Q	2009	1.179
4Q	2009	1.164
1Q	2010	1.149
2Q	2010	1.136
3Q	2010	1.121

When one factors in a modest dividend yield, the share repurchases—consistent as they are—and the possibility of margin improvement—indefinite though it may be—it's not difficult to see how this share price could produce a double-digit rate of return. Since that return could perhaps occur over a series of several years, not just in one year, the company is recommended.

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THE WALT DISNEY COMPANY (DIS)

Disney trades at a P/E of 16.62 times, has a market capitalization of $77.6 billion and a 10.4% net profit margin. In 2007, it manifested a 13.7% profit margin. This company also repurchases shares from time to time. The company's businesses have varying degrees of cyclicality. For Disney, the networks are the least cyclical, and they include the Disney Channel, Lifetime, A&E, the History Channel, the Crime Network and ESPN. Marvel Comics experiences some cyclicality in its licensing, but not an enormous amount, and it will be discussed separately. The theme parks are more cyclical, as are the movie production businesses, which include Disney Pictures, Touchstone Pictures, Pixar, and Buena Vista. They suffer from the same cyclicality as the rest of the movie industry.

Disney's resort business is clearly economically sensitive, and no new resorts have been built in a while. Those that exist include the resorts in Anaheim, California; Orlando, Florida; Paris, Hong Kong and Tokyo. Expansion of the resort business would generate a certain amount of cash that could be used to repurchase shares. As an aside, Tokyo Disney is operated by Oriental Land (4661 JP), which owns the land upon which Tokyo Disney resort stands. Oriental Land is one of the few Japanese stocks in the last decade that outperformed the S&P on a non-currency adjusted basis, which illustrates that much is possible in the resort business

The earnings for some of the businesses are far below what they had been even a decade ago, including the product licensing business. Disney can license products not just of its own Disney content, but also of its content created by Marvel and Pixar. The licensing product revenue is at the same level as it was for the year 2000, and it is 33% below the 1997 level. Licensing is a 100% marginal profit business in which one receives a licensing fee in exchange for granting another the right to use an existing product. Disney could dramatically improve its margins if it found a way to aggressively exploit its content through licensing.

The networks have been growing relatively nicely. The theme parks have not grown in four years for reasons that are self-evident but, since they are economically sensitive, they should book more revenue in an improving economy. That revenue would have no concomitant increase in cost, because the resort business has largely fixed costs with very little in the way of variable costs. It's not unlikely that Disney will expand its margins.

In 2007, Disney had a 13.7% net profit margin. With some improvement, not even great improvement, in film and entertainment, in licensing and in the resort business, Disney could possibly achieve a 13.7% margin. That margin would be on higher revenues, and its earnings might be vastly in excess of what they are now. It might take several years to achieve, but Disney has margin expansion potential. Accordingly, it is recommended for purchase.

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Money Manager Index

From Jan 1983 to Jan 2011

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized 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	119.94	120.55	109.69	72.70	62.95	67.91	2008	67.91	(49.9)%	18.1%
2009	57.51	51.76	65.63	79.49	85.67	90.79	99.97	101.69	107.32	107.36	110.94	115.01	2009	115.01	69.4%	19.7%
2010	106.84	110.32	118.13	114.91	100.179	88.170	97.650	89.635	103.589	108.286	108.642	119.584	2010	119.58	4.0%	19.1%

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		

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International Money Manager Index

From Jan 1983 to Jan 2011

Year	39113	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	Annualized 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	57.03	48.21	45.75	2007	45.75	(7.3)%	19.8%
2008	38.71	39.71	38.59	40.18	39.25	35.10	34.59	33.33	26.09	18.72	14.50	15.79	2008	15.79	(65.5)%	13.3%
2009	14.62	13.24	14.96	19.63	22.82	23.73	26.14	27.05	28.41	28.53	28.69	29.83	2009	29.83	89.0%	15.8%
2010	28.50	27.58	29.90	29.58	25.53	24.72	27.82	26.74	30.36	33.68	31.85	34.52	2010	34.52	15.7%	15.8%
2011	34.91												2011	34.91	1.1%	15.8%

Name	Amount Invested	Name	Amount Invested
IGM FINANCIAL INC	$1,000	HENDERSON GROUP PLC	$14,447
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	EVEREST FINANCIAL GROUP LIMITED	$23,437
RATHBONE BROTHERS PLC	$1,208	CHARLEMAGNE CAPITAL LTD	$36,848
ABERDEEN ASSET MGMT PLC	$1,208	PARTNERS GROUP-REG	$36,848
CI FINANCIAL INCOME FUND	$2,585	INVISTA REAL ESTATE INV MNGT	$36,589
MAN GROUP PLC	$2,862	ASHMORE GROUP PLC.	$36,688
AGF MANAGEMENT LTD-CL B	$3,343	BLUEBAY ASSET MANAGEMENT/UNI	$37,469
SPARX GROUP CO LTD	$11,762		

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