
THE STAHL REPORT COMPENDIUM

November 2011

Featured Companies

DIRECTV (DTV)
W. W. Grainger, Inc. (GWW)
Quest Diagnostics Inc. (DGX)
McKesson Corporation (MCK)



*Exclusive Marketers of
The Stahl Report*

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Murray's Musings

GOOGLE

Google appears to be preparing to launch a proprietary video content channel on YouTube. The object is clearly to compete with existing content providers, which has both immediate and long-term implications. From the point of view of any potential competitor, the immediate implications of Google's entry into this sphere are not serious, because it's unlikely that Google will have a sufficient variety of content to attract enough people to change the advertising landscape materially. It will only change the situation at the margin. One of the changes will be that there will be more content available on the internet, which would be negative for traditional cable. More and more content will be available on the internet. Traditional cable generally doesn't own content, although Comcast is something of an exception in that regard.

The internet has a capital cost advantage over cable in the long run. It's clear that cable is very gradually, but nevertheless inexorably, losing cable customers. For example, in the most recently release of Cablevision earnings, the average revenue per subscriber was down a modest 58 basis points, but it was down. Even though the company added 17,000 high-speed internet customers and 38,000 more voice lines, it lost 19,000 video customers and 15,000 customers overall. In the same vein, Time Warner Cable lost 128,000 video customers and 9,000 customers overall.

At the moment, the cable companies have a strong position in high-speed internet; in fact, it's probably not an exaggeration to say that the traditional cable companies have the lead in high-speed internet. However, in the long term, high-speed internet access is going to be available wirelessly, a process that is only beginning in the United States.

Google's video content channel is one more example of the manner in which recent technological developments are affecting the historical pattern of equity earnings for many companies. It's an emerging factor that needs to be considered very carefully in relation to the companies in the S&P 500.

Industry Thoughts

PUBLICLY TRADED PRIVATE EQUITY FIRMS

The business of publicly traded private equity firms is not classified as an industry; nevertheless, it is one. It should be distinguished from the range of companies that hold bond interests in various leveraged buyouts, which are merely the general partners of private equity firms. I'll focus on three of the U.S. publicly traded firms: Blackstone Group (BX), Kohlberg Kravis Roberts & Co. (KKR), and Apollo Global Management, LLC (APO).

Private equity in Europe and Canada takes a different tack; still, there are investment companies similar to these three that make investments on the basis of leverage. Some examples include Ratos AB (RATO A SS) in Sweden, HAL Trust (HAL NA) in the Netherlands, Onex Corporation (OCX CN) in Canada, Ackermans & van Haaren N.V. (ACKB BB) in Belgium, Eurazeo (RF FP) in France, and Wendel (MF FP) in France.

To believe in private equity as an asset class is really to believe that money can be made by employing substantial leverage to buy entire companies, holding them for about a decade, and then reselling them in a public offering at a large premium. Since that approach to making profits is possible, it is obvious that one could make more money by investing in the General Partner (GP) that orchestrates those partnerships than by investing in them as a Limited Partner (LP). In other words, it's much better to be the GP than the LP.

At the moment, all of the publicly traded GPs are under pressure because leveraged buyouts, as a generalization, can't be arranged without the cooperation of banks. The banks have to provide the leveraged loan tranche but, because of their diminished capital positions, banks are very reluctant to supply leverage to such enterprises. As a consequence, the amount of capital committed to private equity is greatly in excess of the private equity deals that are completed.

The private equity firms still earn a management fee on the money that's committed. Eventually, that capital is going to be invested and some portion of it will probably be successful, since interest rates are very low and valuations are not high, especially in relation to rates. In reality, private equity is leveraged equity, and it might not be a bad industry upon which to focus in the next several months.

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Facts & Figures

STATISTICS ON EDUCATION

The following statistics on education are from the U.S. Department of Education's National Center for Education Statistics (NCES). The first is the percentage of the U.S. gross domestic product (GDP) that is spent on 'post-secondary degree-granting institutions' and the percentage of GDP it spends on elementary schools.

In 1929, the U.S. spent 0.6% of its GDP on post-secondary degree-granting institutions, while in 2009—the last year for which I have available data—that number is 3.3%, or five times greater.¹ At the elementary and secondary school level, in 1949—the first year for which the government collected data for this group—the U.S. spent 2.3% of its GDP. By 2009, it was up to 4.6%. The question we should ask is whether that amount is enough, or is it too much?

According to a different study of annual public and private education expenditures, this one from 2007, the U.S. spent 7.1% of its GDP on all levels of education and 4% on primary and secondary education. The numbers are not consistent with the numbers for 2007 in the earlier NCES table, so perhaps these figures are not even right.²

In the Statistical Abstract of the United States, the numbers are not given as a percent of the GDP, but they are presented in aggregate. These are nominal numbers, as opposed to the real numbers collected by NCES. The nominal numbers make more sense to me. Between 1980 and 2008, education spending for all levels of government in the U.S.—federal, state, and local—grew six-fold, from \$101 billion to \$602 billion.³ It's an amazing number.

¹*Expenditures of educational institutions related to the gross domestic product, by level of institution*, Digest of Education Statistics, Institute of Educational Sciences, National Center for Education Statistics, U. S. Department of Education, 2011, http://nces.ed.gov/programs/digest/d10/tables/dt10_028.asp.

²David C. Miller, Laura K. Warren, and Eugene Owen, *Annual public and private education expenditures as a percentage of gross domestic product (GDP) by education level and country: 2007*, Comparative Indicators of Education in the United States and Other G-8 Countries: 2011, Institute of Education Sciences, National Center for Education Statistics, U. S. Dept. of Education, 2011, <http://nces.ed.gov/pubs2012/2012007.pdf>, 45.

³U. S. Census Bureau, *Public Elementary and Secondary Estimated Finances: 1980 to 2009, and by State, 2009*, Statistical Abstract of the United States: 2012, 2011, <http://www.census.gov/compendia/statab/2012/tables/12s0262.pdf>; or see link to Excel spreadsheet: http://www.census.gov/compendia/statab/cats/education/elementary_and_secondary_education_staff_and_finances.html

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The same office, the National Center for Education Statistics, worked in cooperation with the Justice Department's Bureau of Justice Statistics to produce the data in the following chart of the number of crimes committed in U.S. schools against 12- to 18-year-old students.

Crimes in Schools against 12- to 18-Year-Old Students⁴

Year	# of Crimes	Rate/1000 students
1992	3,409,200	144
1993	3,795,200	155
1994	3,795,200	150
1995	3,467,900	135
1996	3,163,000	121
1997	2,721,200	102
1998	2,715,600	101
1999	2,489,700	92
2000	1,946,400	72
2001	2,001,300	73
2002	1,753,600	64
2003	1,930,100	73
2004	1,445,800	55
2005	1,487,900	56
2006	N/A	N/A
2007	1,510,900	57
2008	1,248,800	47

In 2008, the last year for which this data was available, 1,248,800 crimes were reported in American middle and high schools—and you know a lot of them don't even get reported. That equals 47 crimes per 1,000 twelve- to eighteen-year-old students. Thus, you have roughly a 5% chance of being the victim of a crime if you go to school. If you go to school for 20 years, chances are you may be a victim of a crime.

In 1992, that number was 3,409,200, so school systems have cut the chances of being a victim of a crime in school by almost two-thirds. In a certain sense, they've achieved something. No doubt it cost a lot of money to accomplish, but they did it. It's just to show you that it's possible.

I present these figures is to illustrate a point about the S&P 500. The S&P 500 is supposed to represent, in aggregate, all the major spending that happens in the economy, but it's clear that there are major kinds of expenditures that happen in the U.S. economy in which

⁴Simone Robers, Jijun Zhang, Jennifer Truman, and Thomas D. Snyder, *Number of student-reported nonfatal crimes against students ages 12-18 and rates of crimes per 1,000 students, by location, type of crime, and year: 1992-2008*, Indicators of School Crime and Safety: 2010, National Center for Education Statistics, U.S. Dept. of Education and Bureau of Justice Statistics, U.S. Dept. of Justice, 2011, <http://nces.ed.gov/pubs2011/2011002.pdf> (page 90)

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it's not possible to participate via the S&P 500. Certainly there are education companies that may or may not benefit from increased education spending. It's fairly obvious that a substantial amount of educational spending was devoted to decreasing crime rates in the schools. It's not obvious how you would invest in that.

Looking at macro data, discerning a trend, and finding a company with which to express that trend in investment is easier said than done, although it's not impossible.

MEDICAL INDUSTRY

I believe that the medical industry is the most misunderstood of all the industries in the S&P. The reason is that the valuations reflect the ever-present threat of margin deterioration due to medical cost containment. It's easy to talk about cost containment in the medical industry, but it's very hard to accomplish that goal.

The Bureau of Labor Statistics reports that in 2008, more than 14 million people worked in the healthcare industry in the U.S., which is roughly 10% of the work force.⁵ Chances are that number is higher right now. The national healthcare bill became so costly because employing 10% of the workforce involves a lot of money. Even if they were doing it with absolutely no equipment, it would be expensive but, of course, they require equipment for everything they do. Further, the equipment that you're going to see in a typical hospital or physician's office is usually much more expensive than you would see in most other businesses, which also contributes to the high costs.

Another factor is that the industry must be in a position to provide care on a 24-hour basis whether or not care is required at all times. Staffing a typical medical institution cannot possibly be as efficient as staffing most typical companies. The latter can choose to be closed during periods that don't attract enough customers to justify the fixed cost of remaining open. Few retail establishments are open at 2:00 a.m., although there are some. A hospital, however, must be fully staffed, functioning, and prepared for any contingency. Occasionally, a substantial amount of staffing is required at 2 a.m. but, generally speaking, the hospital does not make a profit in the late evenings, so it can't be run as efficiently as a typical business.

Another inefficiency in healthcare is that the labor itself is more expensive than the average labor in the U.S. According to the Bureau of Labor Statistics, there are 512,000 surgeons and physicians in the U.S. I personally think that figure underestimates the actual number, which may even be 300,000 higher. In addition, there are 2.2 million registered nurses in the U.S., many of whom have to be paid a night differential. That's a large

⁵Bureau of Labor Statistics, *Career Guide to Industries, 2010-11 Edition: Healthcare*, U. S. Dept. of Labor, <http://www.bls.gov/oco/cg/cgs035.htm#empty>.

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number of nurses. There are 142,000 emergency medical technicians, 619,000 vocational nurses, 67,000 pharmacists, and 278,000 lab technicians.⁶ Most of these employees earn above the average wage in America.

Therefore, healthcare will continue to be very expensive. It's going to be very difficult to limit the cost to the American public unless something is done in the field of labor productivity. It's obvious that labor and the fixed cost of the equipment are the largest portions of the medical industry. Those observations should be borne in mind. Two of the featured companies in this report, Quest Diagnostics and McKesson Corp., are in the medical industry.

Featured Companies

DIRECTV (DTV)

Data as of 10/28/11

DIRECTV has a \$33.6 billion market capitalization, and it is yet another example of a company in the S&P 500 that has negative tangible equity. It has \$13.6 billion of long-term debt and \$2.5 billion of cash. It has a number of businesses, and is the largest satellite TV company in the U.S. It owns the PanAmericana channels in South America where it serves Argentina, Chile, Colombia, Puerto Rico, and Venezuela. It owns 93% of Sky Brasil, 41% of Sky Mexico, and three regional sports networks in the United States that are located in Seattle, Denver, and Pittsburgh. It has a 60% interest in the Game Show Network.

In Latin America, it's growing very rapidly because there is no major installed base of cable TV there with which to compete, so satellite TV became much more popular than in the U.S. There are huge economies of scale in satellite TV. I would argue that the economics of satellite at huge scale are much better than for cable. Both require large capital expenditures, but I believe that the marginal cost of a connection in satellite is less than for a connection in cable.

When satellite capital expenditures are made, they occur in discrete quantum bursts. After launching a number of satellites, very little in the way of capital expenditures need to be made for the next decade or two. When the satellite orbit begins to degenerate, it's necessary to launch another satellite, in which case the company would go through a cycle of major capital spending.

For the time being, this particular company has no major capital expenditures and, as a consequence, it will probably have at least \$1.6 billion of free cash flow per annum with

⁶Ibid.

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which to buy back shares for the next several years. The company has been doing just that, and very aggressively. In the last year, this company has repurchased over 100 million of its shares, or 10% of the total. It probably can't keep doing that at the same rate, but it can certainly buy back a significant number of shares with its excess cash flow.

It is growing its cash flow at the same time that it is repurchasing its shares and it has very little in the way of capital expenditures for years to come. It trades at 15.4x earnings, and is likely to outperform the S&P 500. Therefore, it is recommended.

W.W. GRAINGER, INC. (GWW)

Data as of 10/28/11

Although W.W. Grainger is in a completely different industry it has almost the same dynamic as DIRECTV. It has a \$12.1 billion market capitalization, and it trades at 17x its 2012 consensus estimated earnings. This company actually has tangible equity, which is unusual for some of the large companies in the S&P 500. It has \$2 billion of tangible equity and modest debt consisting of \$163 million of long-term debt and \$214 million of short-term debt. It has \$360 million of cash so, net of cash, it has virtually no debt at all.

Grainger is a distributor of what the company would refer to as 'maintenance supplies,' which includes anything from spare parts to spray paints, filters, and motors; Grainger distributes it all. It has 1.7 million customers. Its catalog offers 350,000 products that can be ordered, and it has another 700,000 items available on its website. The company is merely a distributor of parts.

Ninety-four percent of the Grainger business is in the United States and Canada, and 6% is in the rest of the world, so it's truly an American company. It has been robust for many years and it continues to be robust, which means it's rapidly growing. This growth is for one reason and probably one reason only: for many years now, there has been a rise in just-in-time inventory, because companies would much rather hold cash than hold inventory of anything, including spare parts. Grainger provides the inventory as needed.

Since the company serves so many customers, there's a certain economy of scale to its business. The company needs warehouses to store the spare parts and, the faster the inventory turns, the greater the economy of scale. The more customers you have, the more throughput there is to the system and the higher your margins. As more and more companies avail themselves of the services Grainger offers, the company's margins have gone up. They are high for a distributor, which would ordinarily attract competitors. However, it's very difficult to see how a competitor could displace Grainger, because of its scale and the demand for its services. It's certainly an activity that companies could do for themselves; it's just that they choose not to. In 2001, Grainger had a 3.7% net profit

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margin and it's now 7%. That nearly doubled margin has played no small role in the outperformance of Grainger over the last decade.

Another important component is that a distribution company isn't really required to make many capital expenditures, because it's merely a distributor. As a consequence, much of its earnings are available as free cash flow. In the last decade, this company has repurchased 25% of its shares outstanding, which is another factor in its earnings expansion.

Further growth has begun as American companies expand globally and wish to avail themselves of the same service on an international scale that Grainger has supplied in the U.S. Therefore, the company is gradually and judiciously expanding abroad to serve the same customer base it has in the U.S. That expansion is likely to be successful; therefore, Grainger is recommended.

QUEST DIAGNOSTICS INC. (DGX)

Data as of 10/28/11

Quest Diagnostics is a company that I've recommended it before. As the name indicates, it is a diagnostic testing company. It's another example of a company with negative tangible equity. It has a P/E of 12.1x and a \$9.1 billion market capitalization. It is a leveraged company, at least in a balance sheet sense, with \$3.4 billion of debt.

Technically speaking, the revenues of Quest Diagnostics are growing, although it's very hard to argue that they are growing in an organic sense. They're not expanding in any robust way, because the company has more or less saturated its marketplace. The business of diagnostic testing is effectively a duopoly with LabCorp. Any growth will occur either because of new technological innovations, or the possible need for more tests. It won't change the aggregate testing statistics or the margins.

There will be some population growth and that might lead to some revenue growth, but medical costs are under pressure. Although margins have doubled in the last 10 years, it will very hard to increase margins beyond this point because of efforts to contain medical costs. You might say that the margin expansion in this industry is largely completed. The business expansion is also largely completed, which means that this company has a fairly healthy amount of cash flow available with which to repurchase shares. In the last five years, it has bought back 15 percent of its shares outstanding.

Assuming that Quest continues to buy back shares at the same rate, and assuming some modest revenue growth, this company should provide a modest rate of return. It's probably superior to the rate of return than will be provided by a typical S&P 500 company, only because the valuation is sufficiently low at the moment that buying back shares makes a meaningful difference. If the P/E ratio were 15x instead of 12x, this recommendation

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would be decidedly different. At this valuation, however, it's possible for the company to create a reasonable rate of return for shareholders.

McKesson Corporation (MCK)

Data as of 10/28/11

McKesson Corporation is involved in the medical products business as a distributor. It has two businesses: McKesson Technology Solutions and McKesson Distribution Solutions. Its Technology Solutions segment provides software tools to manage a wide range of workflow in the medical industry, including clinical, patient care, financial, supply chain and others. It provides only 3% of the company's revenues. The Distribution Solutions segment contributes 97% of revenues and distributes drugs, medical supplies and equipment, and health and beauty care products.

One of the amazing characteristics of this company is that annual revenues equal about 0.85% of the U.S. GDP. It is a huge company in terms of revenue but, in terms of its number of employees, it is relatively small with only 36,000 employees. Its margins are razor-thin with a profit margin of less than 1% due to efforts to contain costs. The reason its revenue is so big is that hospitals, clinics, and even doctors' offices would much rather hold cash than inventory. It's all part of the cost containment effort. Over many years, that practice has led to a vast increase in the McKesson business, but it has prevented the company from raising its margins.

McKesson has a \$20 billion market cap, \$3.9 billion of cash and \$3.6 billion of debt on its balance sheet. Even though it has substantial debt, it's not really a leveraged company. It trades at a P/E of 12x. In the past five years, this company has repurchased 16% of its shares outstanding.

In one sense, it's a mature business. It's hard to imagine how it would gain a much larger market share but, as a mature business, its cash flow is largely its own. As a mature business, however, one cannot exclude the possibility that it might be able to improve its margins. If, via whatever efficiency it's possible to create, the company could ever increase its margins to a level of 2%, rather than its current margin of less than 1%, the stock could literally double without any valuation improvement whatsoever.

There is a possibility, and not a small possibility, that with slight changes in the company business profile, this stock could be a very big stock. If not—and it's quite possible that “not” will be the reality—the company will buy back its shares. There will be some degree of organic growth because drug consumption and medical products consumption does expand in the U.S. In the latter case, the company could provide a rate of return that is certainly competitive with the average S&P 500 company.

How They Did It

DAVID DODGE: NOVELIST AND ECONOMIC STIMULATOR

This essay focuses on David Dodge, author of *To Catch a Thief*, the novel upon which the Alfred Hitchcock film of the same name was based. It also illustrates the unpredictable nature of demand for discretionary goods and the effects of that demand on the economy.⁷

When Dodge completed his service in the United States Navy during World War II, he had two interests: writing and traveling. During the time that he and his family toured South America on the Pan-American Highway, he earned a living by writing about his experiences for various magazines. He enjoyed himself so much that he continued his travel writing while he and his family toured Europe. During that time, he wrote a moderately successful travel book called *The Poor Man's Guide to Europe*.

The earnings of that book enabled him to rent a small house above Golfe Juan near Cannes on the French Riviera that was not far from a villa owned by a very wealthy person. The lavish parties given there were attended by the very affluent, and also attracted a clever jewel thief who insinuated himself among the guests before perpetrating his theft. Dodge based *To Catch a Thief* on details he learned during his inadvertent involvement in the police investigation of that burglary.

Early on the morning after the robbery, Dodge had to drive to Italy to gather information for a travel article on the Italian Riviera. He was completely unaware that a burglary had taken place at the villa on the previous evening, because the victims only discovered their loss in the morning. During the initial investigation by the French police, they noted that Dodge was the only person in the neighborhood who had left the area in an unexplained manner. For some number of days, he was the primary suspect until the police managed to apprehend the true malefactor, who was apprehended because he had an argument with a local “entrepreneur,” shall we say, over the sale of the stolen goods. Dodge realized that the incident had the makings of an intriguing novel, and the entire plot of *To Catch a Thief* is based upon that series of events.

An interesting post-script to this story is that after Dodge's novel was published and had attained a certain degree of success, he was sued by the thief for plagiarism and copyright infringement. The thief asserted that his burglary methods were proprietary and were effectively stolen by the novelist. Under French law, however, it was not possible to copyright or trademark-protect crime methods, so the earnings from the novel were left for Mr. Dodge and his family to enjoy.

⁷David Dodge, *To Catch a Thief* (Eugene, OR: Bruin Books, 2010).

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The movie rights for *To Catch a Thief* were purchased by Alfred Hitchcock, who made the famous movie with Cary Grant and Grace Kelly shortly thereafter. Quite a number of dollars were invested to shoot the movie on location. The French government believed that the making of the film attracted more people to visit the South of France, and they gave Dodge an award in recognition of how his book had ultimately contributed to increased tourism in that area. He went from being a suspected burglar to a local hero of sorts.

Today, the rights to that film are quite valuable. The economic activity that grew out of Dodge's book all resulted from a series of coincidences. The subject of this essay could just as well have been the Fabergé Egg, or even a French pastry chef. The point is that most of the goods and services exchanged in the modern economy are not essential goods, but are purely discretionary. One can have a completely fulfilling life and never see the movie *To Catch a Thief*, yet its filming on location in the French Riviera stimulated tourism in the area, and created economic activity that extends to the present day. The movie itself still generates revenue when people choose to watch it.

The products sold by many companies in the world today are discretionary items. As such, they are subject to the consumers' whims, which make them inherently unpredictable. Therefore, aggregate demand must be inherently unpredictable, a fact with which investors, unfortunately, will have to learn to live.

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Money Manager Index

From Jan 1983 to October 2011

Year													Annualized return			
	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	119.94	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	100.18	88.17	97.65	89.64	103.59	108.29	108.64	119.58	2010	119.58	4.0%	19.1%
2011	122.80	128.28	127.94	127.97	126.06	121.03	115.49	104.250	91.32	102.440			2011	102.44	(14.3)%	17.8%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	AMG us equity	Affiliated Manager	\$22,947	1377	11/30/1997	127,506
2	ALNC us equity	Alliance	\$7,633	491	4/30/1994	15,108
3	BLK us equity	BlackRock	\$23,205	1658	9/30/1999	261,539
4	WDR us equity	Waddell & Reed	\$27,513	1587	3/31/1998	44,016
5	EV us equity	Eaton Vance	\$2,641	3998	1/31/1986	105,877
6	TROW us equity	T. Rowe Price	\$2,423	2014	4/30/1986	106,412
7	BEN us equity	Franklin Resources	\$908	1263	4/30/1985	134,688
8	LM us equity	Legg Mason	\$1,000	462	8/31/1983	12,747
9	FII us equity	Federated Inv	\$26,381	2206	5/31/1998	43,107
10	FIG us equity	Fortress Investment Group	\$102,249	3389	2/28/2007	12,099
11	PZN us equity	Pzena Investment Management	\$122,426	6317	10/31/2007	27,353

THE STAHL REPORT COMPENDIUM

Index Constituent Changes: 1. Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. The divisor has been adjusted accordingly. 2. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. The divisor has been adjusted accordingly.

International Money Manager Index

From Jan 1983 to Oct 2011

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	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	36.17	36.51	39.63	37.86	35.31	35.83	32.76	29.28	32.04			2011	32.04	(7.2)%	14.9%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	IGM CN Equity	IGM Financial Inc	\$1,000	73	31/11/1986	3,176
2	FCAM LN Equity	F&C Asset Management Plc	\$1,203	485	5/31/1989	584
3	IVZ US Equity	Invesco Plc (Previously Amvescap)	\$1,357	1,153	1/31/1991	11,565
4	SDR LN Equity	Schroders Plc	\$1,208	505	3/31/1991	11,637
5	RAT LN Equity	Rathbone Brothers Plc	\$1,208	736	3/31/1991	13,645
6	ADN LN Equity	Aberdeen Asset Mgmt Plc	\$1,208	1,827	3/31/1991	5,674
7	CIX CN Equity	CI Financial Corp.	\$2,585	3,224	6/30/1994	65,036
8	EMG LN Equity	Man Group Plc	\$2,862	6,344	10/31/1994	11,659
9	AGF/B CN Equity	AGF Management Ltd-CI B	\$3,343	1,346	1/31/1996	22,188
10	8739 JP Equity	Sparx Group Co Ltd	\$11,762	108	12/31/2001	8,644
11	HGG LN Equity	Henderson Group Plc	\$14,447	8,666	12/31/2003	13,485
13	AZM IM Equity	Azimet Holding Spa	\$21,908	4,977	7/31/2004	39,218
15	CCAP LN Equity	Charlemagne Capital Ltd	\$36,848	22,300	3/31/2006	4,631
16	PGHN SW Equity	Partners Group-Reg	\$36,848	578	3/31/2006	109,097
17	INRE LN Equity	Invista Real Estate Inv Mngt	\$36,589	21,540	9/30/2006	4,039
18	ASHM LN Equity	Ashmore Group Plc.	\$36,688	9,873	10/31/2006	54,936