HAWK 100

HAWK Talon

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Swing Time.

We have heard plenty of comparisons of modern times to the depression. Recent stock market behavior has lately reminded Hawk100 of another 1930s-era trend. Swing jazz style music took a path of fast-paced up and down tempo changes.

November markets bee-bopped to the tunes of the Euro crisis, the congressional budget supercommittee failure, robust holiday spending, then globally-coordinated central bank intervention.

Through November 25, the S&P500 fell 7.5% since the end of October. Then, during the last three trading days of November, the index rose 7.6%.

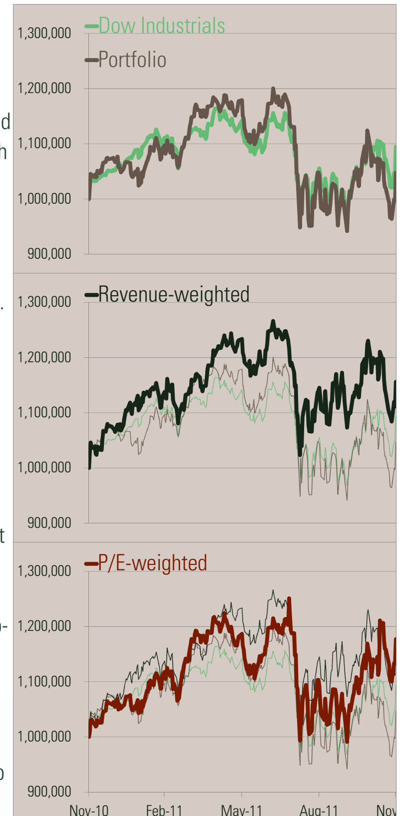
International stocks turned the volume up to play its swing dance rendition. The MSCI EAFE fell 11.3% then rose 10.3%.

Even bonds bumped to the bouncy tunes. The 10-year US treasury note, yielding just 2.1% after bouncing from its low of 1.9%, plays the base accompaniment in the rag-tag jazz band. 30.0% yields on Greek 10-year notes hit the alto notes, and Italy's 7.3% yield mixes an operatic tenor to the global swing.

Hawk100 expects market swings to settle. Recent corporate results signal strength. The era of swinging markets may soon end just as the high era of swing jazz ended decades ago. Meanwhile, Hawk100 will remain watchful for portfolio opportunities and risks.

Your wealth.
Your life.
Aligned.

Lessons to Take to Heart.



Source: Edgar Online, Dow Jones

Each December, *Columbus Business First* publishes a "Book of Lists"[1] to rank businesses along many lines of distinction. One list ranks large publicly-traded companies. The 2010 list showed thirty-three companies from Cardinal Health ($99.5 billion revenue) to SCI Engineered Materials ($8 million). To measure investment performance of companies appearing on the list, Hawk100 constructed hypothetical portfolios reflecting thirty or those companies from the 2010 list. We excluded two companies that merged into other firms and Huntington Preferred Capital since Huntington Bancshares is already included.

Price-weighted approach. Having thirty stocks, we selected the Dow Jones Industrial Average (also comprising thirty companies) as a benchmark. The Dow is a price-weighted index that can be replicated by holding an equal number of shares in each component stock. For the one year from November 2010 through November 30, 2011, the Dow returned 9.4%.

To build a hypothetical portfolio of stocks, we invested $1,000,000 and bought 1,388 shares of each company at its closing price on November 30, 2010. Diamond Hill was the largest holding at 9.6% of the portfolio and National Investment Managers was smallest at 0.003%. The top chart shows the hypothetical portfolio behaving basically like the Dow. While the portfolio outperformed the Dow through the spring, it ended the year having lagged by 4.7%.

Revenue-weighted approach. To align our approach with the *Business First* ranking methodology and to follow an approach that is commonly used to create fundamentally-weighted indexes, we reconstructed the portfolio to weight each stock by company revenues, measured for the trailing 12 months based on information available at November 30, 2010. Because companies can be dramatically different sizes, the revenue-weighted portfolio was concentrated in Cardinal Health (63.8%) while Neoprobe comprised 0.002%. The middle chart adds this portfolio to our graph and presents the marked improvement in portfolio performance during the period evaluated. The revenue-weighted portfolio returned 15.6% and outperformed the Dow by 6.1% and the price-weighted portfolio by 10.9%.

P/E-weighted approach. A third approach, weighting the portfolio based on relative price:earnings ratios, enhances the portfolio along three factors. First, we reduce the risk of an unintentionally concentrated portfolio positions. Second, we reflect a more comprehensive view of operating results (earnings) rather than top-line revenues. Third, we acknowledge that securities trading at high earnings multiples may have reduced future investment potential as the price already rose relative to earnings or earnings has fallen relative to price. We invested the portfolio in companies with positive earnings only and focused on companies with low P/E ratios. A 5.8 P/E made Pinnacle Data Systems the largest holding (6.5%) and only eighteen companies would be bought with the smallest being Abercrombie & Fitch (2.6%). The P/E-weighted portfolio returned 17.7% and outperformed the Dow by 8.3% and the revenue-weighted portfolio by 2.1%.

This hypothetical exercise from Ohio ("the heart of it all") offers lessons to take to heart. First, buy companies that you can watch like a Hawk. Second, invest based on comprehensive fundamentals, and third, pay attention to price.

[1] The Book of Lists is published by Columbus Business First which is a publication of American City Business Journals, Inc..

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