The Better IR Newsletter

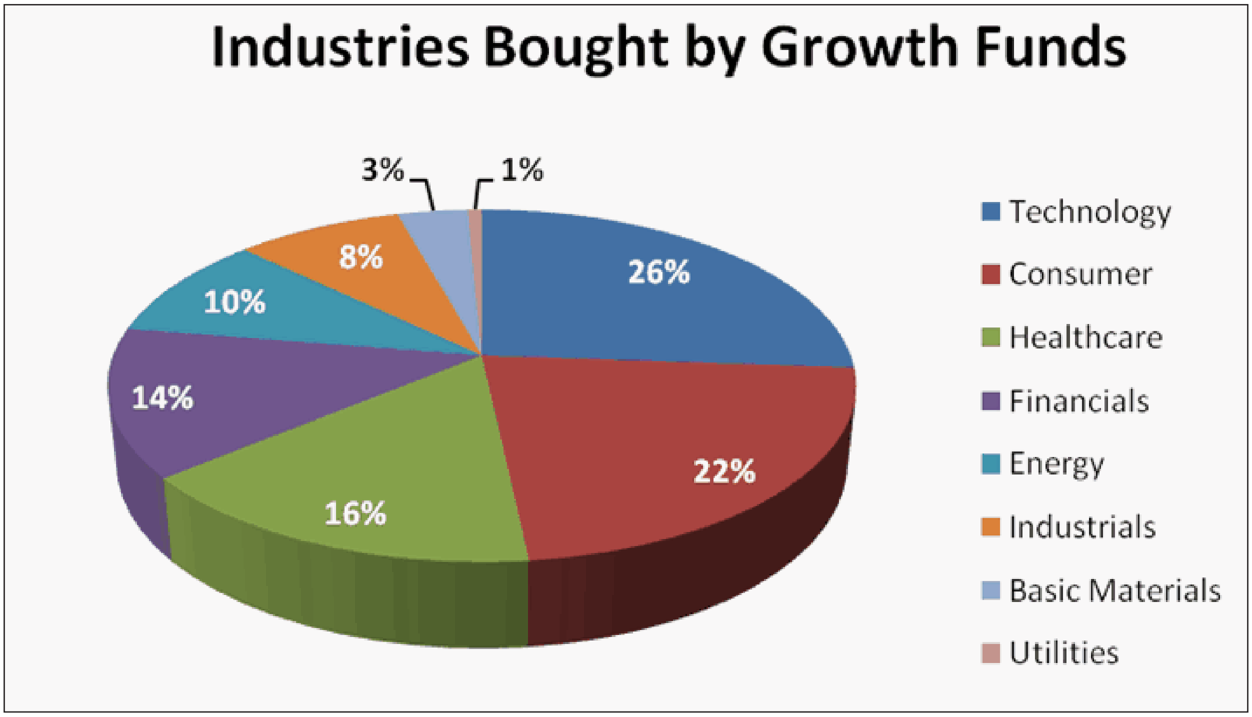
CONTENTS:

Volume 2, Issue 4
April 2009

Wheres the Growth?

With the broader market still down 5% year-to-date after rebounding, it is commonly stated that everything is a value opportunity these days. Company growth estimates are down significantly and uncertainty remains as to how prolonged the global recession will be. Growth investors are skittish and companies in every industry feel that they are a bargain. So what are growth investors doing? What are they investing in and where do "growth" companies fit in this environment?

To address these issues, Ipreo analyzed the stocks most widely bought by growth and aggressive growth mutual funds and developed a representative group of 175 companies that were bought by at least 10 growth oriented funds during the most recent filing period.



In looking at companies that were most widely bought by growth oriented mutual funds technology stocks generated the most interest, headlined by companies such as Qualcomm, Apple, Google, Research in Motion and Cisco. This new flow of capital indicates a reverse in sentiment as technology stocks experienced an early sell-off in response to the deterioration of the global economic outlook. Fueled by merger activity, investors are now looking at the sector for new investment opportunities.

Surprisingly, given the pressure the global recession will have on consumer spending, consumer stocks came in a close second. The interest in consumer stocks comes from two distinct areas: discounters and retailers with pricing advantages (Wal-Mart, Amazon and Target); and defensive consumer staples companies (Colgate-Palmolive, PepsiCo and Coca-Cola). Growth investors are focused on strong brand names with inelastic products that are best positioned to ride out the recession.

Healthcare stocks came in third; driven by biotechnology and medical device companies. Despite the overall strength of the sector, big pharma was not a strong play for growth investors as economic pressures, and government policy uncertainties have dampened the industry's outlook. To an extent, these same issues are even challenging healthcare's status as a recession proof safe haven.

Not surprisingly, financials ranked fairly low on the list; however there is a strong dichotomy in the industry, with the fourth, fifth and sixth most widely bought stocks being JPMorgan, Goldman Sachs and Visa. Growth investors have to be selective in this industry, but they are still identifying industry leaders poised to outperform despite weak credit markets and the risk of toxic assets.

Growth investors are focusing on leaders in each industry that are best positioned to emerge out of the economic downturn in a position of strength. This is perhaps most apparent in the consumer and financial industries; however within every industry more of a rift between the leaders and laggards is developing. The market dynamic forces growth investors to look at potential investments with a keen eye to find opportunities in areas that would not normally be in focus. For instance, the energy sector, once a growth industry in the bull market, has since experienced a dramatic pull back as oil prices have declined significantly. Despite the effects the global economic downturn will have on the industry, several Janus growth funds have been investing heavily in oil and gas exploration and production.

For investor relations officers of traditional growth companies, messaging and company positioning in the current environment can be a challenge. Difficulties can be twofold: 1) how to manage current investors who are growth oriented when top line growth is moderating, and 2) what type of investors to target. Forming relationships with value investors can help support the stock by lining up potential buyers should the share price weaken. Growth investors by nature can be quick to react to negative global and macro news which will add to pressure on the stock price even if this news is contrary to actual company performance. For industries with a significant amount of uncertainty, a helpful exercise is to scenario test how your shareholder base might be affected if top line growth slows to certain levels and predict how many shares would be at risk. This can be taken further to identify potential targets given certain fundamental assumptions. Maintaining relationships with value investors can help alleviate some of the pressure and attract investors that are more patient as they wait for growth to return. Even if your shareholder base has not experienced much turnover to this point, being proactive now will help alleviate potential pressure in the future.

Author: Justin Vieira

Justin Vieira is the Director of Corporate Analytics at Ipreo.

Retail Investors and Volatility

An April 1 article in The Wall Street Journal* may have identified some of the investors that have turned the largest profits in the March/April 2009 rebound in the US equity market – individual investors that took hefty positions in beaten-down financials.

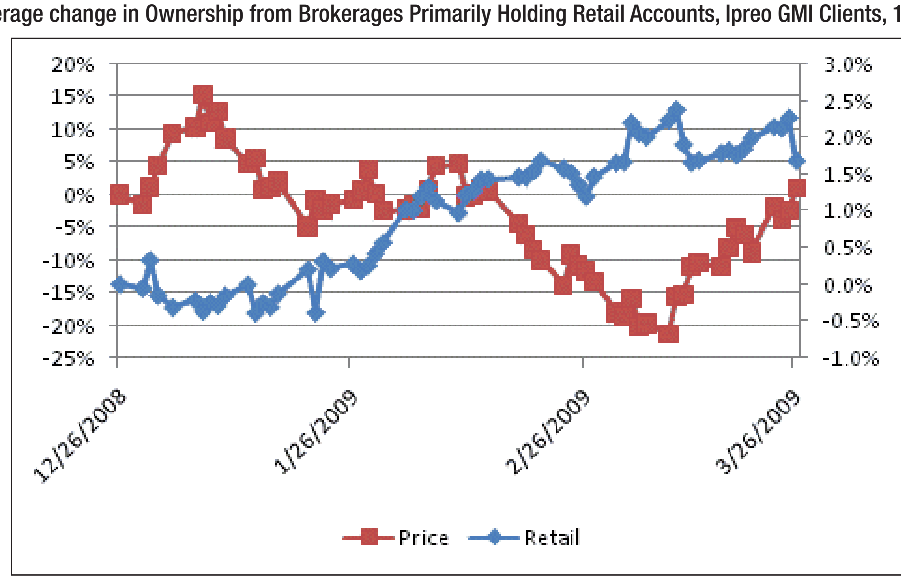
> *"Some discount-brokerage firms report a surge of individual, or retail, investors buying shares of Citigroup during the past five months, amid the New York bank's stock-price slide. For some investors, the chance to buy a Dow Jones Industrial Average stock at a low price, and the hope for a quick buck on a rebound, have proved too tempting to refuse.*
>
> *"'We're speculators, and that can be really risky, but it's worth it to take a shot,' said Jin Chen, a 22-year-old Rowland Heights, Calif., resident who recently bought 10,000 shares of Citigroup at $3.10 a share."*
>
> *"Citigroup shares have consistently been among the most actively traded stocks during the past several months at online brokers TD Ameritrade Holding Corp., E*Trade Financial Corp. and TradeKing."*

Many issuers operate under a traditional assumption that retail investors are a more stable presence than institutional investors, often having the "buy-and-forget" strategy that produces the calls into the shareholder relations group asking about what their cost basis would have been for a purchase on a particular date in 1974. With the advent of online trading, there is now a significant constituency within the retail community that is short-term trading focused. Conversely, the spread of 529 college savings plans and ETF's have made it much easier and more economical for retail investors to conduct their medium-term investments in vehicles other than common stocks. In a way, it's more likely nowadays that the total value of retail investment should be seen as a barbell-shaped investment horizon – a large concentration of day-traders on one side, a large concentration of "buy-and-forgetters" on the other, and very few investors in between.

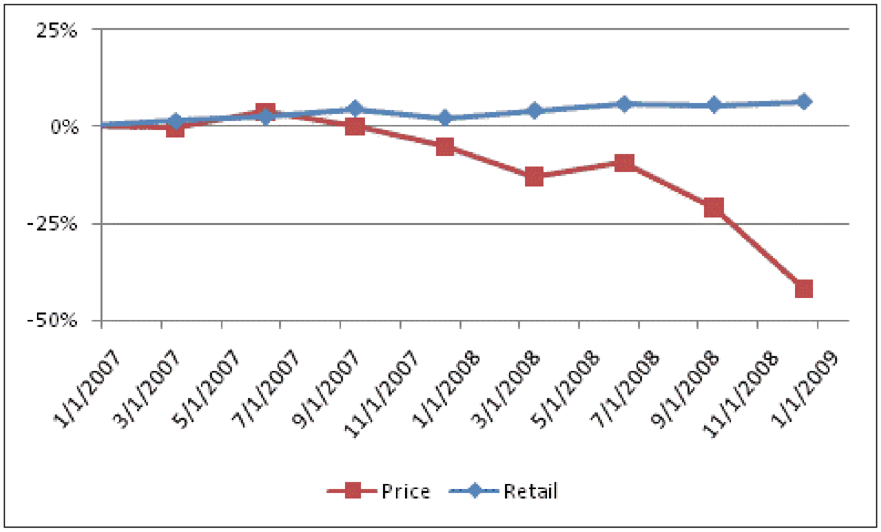
The question of how to attract retail investors is always one that's given at least limited lip service from corporate managements. The usual methods (a clear and easy-to-use IR website, plain-English fact sheets, etc.) may be obscuring one unfortunate fact: the most effective route to increased retail ownership is to have your stock price drop by a significant percentage.

Over the past several months we have noticed an inverse correlation between stocks' price change and retail ownership. In the short term (graph 1Q09), we can see an obvious inverse correlation of price to retail investor ownership. As institutional investors get out of high risk, volatile stocks, presumably in a flight to quality, prices decline, and retail investors pile into the stocks as they see value opportunities. Once institutional investors begin buying back into the volatile issues, retail investors sell off and take their gains. Over the long term, however (graph Dec '06 – Dec '08), retail investors remain loyal owners of stocks, typically holding and increasing positions throughout long-term price declines.

Average change in Ownership from Brokerages Primarily Holding Retail Accounts, Ipreo GMI Clients, 1Q09.



*Average Change in Ownership in Brokerages Primarily Holding **Retail** Accounts, Ipreo GMI Clients, Dec '06 – Dec '08*



Source: Ipreo Research, Depository Trust Company

Institutional investors are more often the "price makers" instead of the "price takers" in the trading of nearly every type of security; typically, absent a major company-specific news item, significant price dips are more likely to be correlated with net institutional selling, and the shares from this selling end up in the hands of retail investors (sometimes, they're left holding the bag). In this case, you have retail investors acting as speculators on very risky stocks.

IRO's generally spend the majority of their time focusing on their institutional ownership base; with limited IR resources, it's the area where they can have the most impact. However, it is important for IRO's to keep track of the overall split between the retail and institutional ownership base. Traditionally, this split stays pretty stable, but in this environment fluctuations are more likely. Keep your eyes peeled on the total shares held by brokers on your reports from DTC. While this figure will include prime brokers that primarily custody on behalf of hedge funds, changes in this figure will be the first sign that something is happening with the retail investor base.

Consequences of Increased Retail Ownership

The table below illustrates that the long-term ownership trend is clearly towards increased institutional ownership. In the last six months this trend has appeared to reverse, and at least in the short term, the retail ownership base may see a relative increase in its sway with the company.

S&P 500 Average Ownership Breakout 12/03 – 12/08

	Institutional	Insider	Retail*
Q4 '08	75.39%	5.35%	19.27%
Q4 '07	76.37%	4.61%	19.02%
Q4 '06	72.08%	5.07%	22.85%
Q4 '05	68.17%	5.36%	26.47%
Q4 '04	65.39%	5.12%	29.49%

In the current proxy season, issuers face a shareholder base in which nearly every investor has faced heavy losses across their portfolio. Increased scrutiny of management decisions and compensation in a period like this (highlighted by the celebrity website TMZ altering the marketing plans for banking giant Northern Trust Co.) is leading to both retail and institutional investors scrutinizing their holdings more closely. The moves by the SEC in recent years to expand CD&A disclosures mean that more retail investors have access to management's record in their hands, and based on early returns may be showing a more anti-management bias. Electronic communication makes it more likely that retail investors can voice their concerns about a company to other investors, far beyond just the usual Yahoo! Finance message boards.

In addition, proposals for the proportional voting of brokerage accounts by the NYSE Proxy Working Group could magnify the impact of retail investor voting. Currently, brokers are given discretion to vote shares in the election of Directors of accounts that do not turn in proxy cards in whatever way they choose (more often than not voting with management). However, these recent proposals focus on brokers applying the percentages voting for/against management's slate of Directors from the proportion of their account base that do cast votes to the proportion that do not cast votes – in a negative environment for management, the typically small number of retail investors that do vote their shares and oppose management can have the impact of their votes magnified across the entire retail base.

In sum, while individual investors may require less direct support or attention, the financial crisis appears to have had the impact of tilting the scales back towards the retail base; being aware of its size and sway can help you allocate resources and measure risk.

Authors: Chris Taylor, Christopher Stroh, and Brian C. Matt, CFA

Chris Taylor is EVP and Managing Director, Global Investor Relations, with Ipreo. Christopher Stroh is an Analyst in the Corporate Analytics Group at Ipreo. Brian C. Matt, CFA is a Director in the Data Strategy & Analytics group at Ipreo.

**Wall Street Journal quotes from "Individual Investors Pile Into Citi" by Joe Bel Bruno, April 2nd, 2009*

BetterIR - Firm Snapshot

Targeted Firm: Cooke & Bieler, L.P. ($3,576.03mm)

Targeting Profile:
Philadelphia-based Cooke & Bieler is a conservative, deep value investor. The firm maintains a three-to-five year investment horizon and adheres to a "business owner's approach" to investing. While this may sound like an activist euphemism, the owners approach relates more to Cooke & Bieler's in-depth knowledge of each investment, and the close watch they keep on performance and fundamentals. Amongst the firm's highest objectives is preservation of capital. To that end, Cooke & Bieler typically invests in value or turnaround plays where downside is largely priced-in, or sticks with stable bellwethers.

In the fourth quarter, Cooke & Bieler sold widely across the more 'stable' section of its portfolio. The firm pared exposure to traditionally safer healthcare/consumer products player Johnson & Johnson (-$15.3mm). Notable sales were also recorded in personal product maker Kimberly Clark (-$19.9mm), and a 2008 haven, Family Dollar Stores (-$22.5mm). Meanwhile, buying occurred in consumer-tied value plays from Carnival Corporation (up $15.81) to Kohl's (up $15.3mm). Cooke also added $25mm a piece to bottom-up plays in Fiserv Inc. and Boston Scientific. The firm invests across all cap sizes, but prefers mid and large cap issues, together occupying approximately 60% of the portfolio.

How to Approach:
A successful approach to Cooke & Bieler will focus on pitching your company as opposed to your sector. While macro context is important, Cooke & Bieler will work largely bottom-up to evaluate your investment story. A detailed understanding of your firm's financials as well as costs and competitive positioning is a must. If your company qualifies as a turnaround play, be sure to articulate a clear plan to restore growth and profitability. As a conservative, long-term investor, building a level of trust is critical in winning over Cooke & Bieler. It is also worth noting the firm's overall concentration and fourth quarter bullishness in the industrials sector. Approximately 15% of the portfolio is devoted to industrials, with 7% alone devoted to Machinery, Tools & Accessories. Buying in Eaton Corp and Illinois Tool Works in the fourth quarter added further weight to the sector.

How Not to Approach:
Cooke & Bieler holds no non-US stocks— likely owing to the close watch they prefer to keep over portfolio plays, and the relationships they like to develop with management. If your firm has maintained higher valuations through the downturn or trades at a premium to your peer group, Cooke & Bieler will be less likely to invest. Additionally, plays across the Energy and Basic Materials sectors were rare in the fourth quarter. Again, given Cooke & Bieler's conservative nature, stocks exposed to commodity price swings and macro demand shocks are likely of less appeal. In the fourth quarter, Cooke & Bieler pared exposure uniformly across financial holdings including Bank of America, JP Morgan, City National, and Wells Fargo. Given the financial sector's persistent headwinds, Cooke & Bieler may have been uncomfortable with the group's numerous unanswered questions.

Largest Funds Managed:
- Advisors Inner Circle-C&B Large Cap Value Portfolio ($458.0mm): Kermit Eck , Daren Heitman, Michael Meyer , James Norris , Edward O'Connor , Mehul Trivedi
- MassMutual Select Focused Value Fund ($361.8mm): Kermit Eck , Michael Meyer , James Norris , Edward O'Connor , R. James O'Neil , Mehul Trivedi

Investment Potential:
- Mega: $30.3mm
- Large: $25.6mm
- Mid: $41.5mm
- Small: $23.9mm
- Micro: $ 5.6mm

Average Equity Holding Period: 3.3 years

BetterIR - Fund Snapshot

Targeted Fund: Putnam Voyager Fund ($2,394.84mm)

Portfolio Manager: Nicholas C. Thakore (Nick), 617-292-1000, nick_thakore@putnam.com

Targeting Profile:
Boston-based Putnam Investment Management has endured a difficult run since 2000. At the turn of the millennium, the firm's assets under management stood at $425 billion, but two downturns since have eroded holdings below $100 billion. The Putnam Voyager Fund hasn't fared much better. Once a flagship offering, the fund has lagged the S&P 500 for much of the past decade. Winds are changing at Putnam, however, with the recent appointment of Walter Donovan, former Fidelity Vice Chairman, as Chief Investment Officer. Portfolio managers are being shuffled as well, with Nick Thakore now at the helm of the Voyager Fund. Thakore assumed the role in November of 2008 after a five-year stint at RiverSource, before which he too was at Fidelity.

The Voyager Fund has traditionally been billed as a large cap growth fund, but Thakore's attempt to breathe life into the portfolio has resulted in some atypical activity. As of most-recent January fund filings, the Voyager Fund recorded investments in deep value Sirius XM ($13.3mm) and Dish Network ($25.1mm), while liquidating positions in more usual growth suspects like Wal-Mart (-$52.5mm), Texas Instruments (-$29.2mm), and Adobe Systems (-$29.9mm). All told, liquidations in the recent filing amounted to $1.1B across 101 individual sells. New buys totaled 1.2B across 94 individual plays. To be sure, the Voyager Fund recorded more standard growth buying in healthcare (Boston Scientific, Gilead), and tech (Research in Motion, Qualcomm), but overall evidence suggests the Voyager fund is in the midst of an awkward overhaul. Thakore even booked $64.5mm in new ETF buying across Financials, Emerging Markets, and Homebuilding— a sign that Thakore might be timing the market for quick returns.

How to Approach:
Given the apparent push for a quick turnaround, if you're confident your firm is oversold or has clear near-term growth potential, the Voyager Fund may be worth a call. In general, the fund was most active in the Healthcare, Telecom, and Tech Sectors, but more value-oriented plays were also plentiful in Aerospace & Defense and Commodities. Here, buying in Lockheed Martin ($21.7mm) and General Dynamics ($10.9mm) were notable, as well as a $13.8mm pickup in Newmont Mining. Fundamentals and financial strength appear to have been less of a decision-making factor as buys ranged from underwater Sirius XM to debt-free, higher-yielding Lorillard.

How not to Approach:
If you are a small or micro cap stock, the Voyager Fund offers less potential. International institutions may also find less opportunity, as the fund invests predominantly in the US (Europe being the possible exception, occupying 9.7% of the portfolio, according to filed positions). In general, securities in the Energy, Basic Materials, and Commodities sectors occupy a smaller percent of portfolio and were sold widely in the fourth quarter. If the timing of your recovery is uncertain, and risk remains to your firm's downside, the Voyager Fund may be a difficult pitch. Given Thakore's recent higher turnover, patience with non-performing issues may be limited.

Investment Potential:
- Mega: $25.2mm
- Large: $17.4mm
- Mid: $9.5mm
- Small: $5.4mm
- Micro: $0.0mm

Average Equity Holding Period: 1.31 years