NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

**An Update** **Vol. XVI No. 3** **August 2011**

## Recent News

*August 2011. They're never easy, and for sure, they're never fun. We're talking about stock market corrections, of course, and market behavior in early-August certainly qualifies. A replay of 2008? We don't think so. In addition to several still-positive quantitative market relationships, U.S. corporations are in great shape, and there are no obvious economic/market excesses to be wrung out over an extended period of time. Problems? Yes, but there always are. Discipline is key.*

*"The Four Ds…" Speaking of discipline, it's time for an updated, third look at this piece, which we originally penned in 2002. That's on the reverse side (P-2), and actually, this updated version is a very good segue into…*

*Total Portfolio Management. TPM, as it's known, is our approach to the management of a taxable investor's or tax-exempt institution's overall portfolio, and is the subject of P-3. We invite you to take a look at how the four Ds come together in the TPM structure, and to see what TPM can do for you.*

*Website. You're always welcome at www.nottinghill advisers.com.*

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## ABOUT THE FIRM

Nottinghill Investment Advisers, Ltd., is an SEC-registered adviser specializing in quantitative approaches to the management of large capitalization Value equities. Multiple sets of buy/sell disciplines govern all equity and balanced portfolios. The Firm also serves as the General Partner of Southampton Capital Partners, L.P., an Ohio limited partnership.

## THE FLAGSHIP STRATEGY
## Value Plus

Our flagship Large Capitalization Value approach. Portfolios typically contain 20 stocks, 15 of which are selected on the basis of traditional Value criteria and five of which are selected on the basis of superior corporate and stock-price performance. During certain high-risk periods, which are determined objectively, intermediate-term Treasuries are held instead of the latter, five-stock Momentum Group.

## Investment Results

| | | | End of the Period | | | | |
|---|---|---|---|---|---|---|---|
| | **Value Plus (%)** | **Russell 1000 Value Index (%)** | **Firm Assets ($/mm)** | **Composite Portfolios (#)** | **Composite Assets ($/mm)** | **% of Firm Assets (%)** | **Annual Composite Dispersion (%)** |
| 1997 | **26.03** | 35.18 | 15.1 | 8 | 5.2 | 34 | 0.32 |
| 1998 | **18.26** | 15.63 | 23.4 | 9 | 6.8 | 29 | 1.42 |
| 1999 | **14.97** | 7.35 | 31.7 | 10 | 9.8 | 31 | 0.53 |
| 2000 | **5.09** | 7.02 | 27.0 | 12 | 12.5 | 46 | 1.02 |
| 2001 | **0.29** | -5.60 | 31.5 | 13 | 13.5 | 43 | 0.75 |
| 2002 | **-17.17** | -15.52 | 36.1 | 15 | 17.9 | 50 | 0.46 |
| 2003 | **37.22** | 30.03 | 57.7 | 16 | 22.5 | 39 | 1.03 |
| 2004 | **18.44** | 16.50 | 70.8 | 20 | 26.7 | 38 | 0.62 |
| 2005 | **11.10** | 7.05 | 123.1 | 37 | 72.1 | 59 | 0.88 |
| 2006 | **18.23** | 22.23 | 162.3 | 40 | 97.8 | 60 | 0.79 |
| 2007 | **-6.38** | -0.17 | 162.5 | 64 | 103.3 | 64 | 0.48 |
| 2008 | **-37.10** | -36.86 | 88.0 | 59 | 63.0 | 72 | 0.99 |
| 2009 | **40.66** | 19.70 | 107.6 | 53 | 77.4 | 72 | 1.36 |
| 2010 | **13.44** | 15.51 | 80.5 | 50 | 50.4 | 63 | 1.76 |
| 2011 QI-QII | **4.11** | 5.92 | 77.9 | 52 | 50.2 | 64 | -- |
| **Annualized** | | | | | | | |
| Life of the Strategy | **8.17** | 6.87 | | | | | |
| 10 Years | **4.89** | 3.98 | | | | | |
| Five Years | **1.48** | 1.15 | | | | | |
| Three Years | **5.82** | 2.28 | | | | | |

*Nottinghill results are presented net-of-the management fee; all annualized returns are associated with time periods ending June 30, 2011*

Nottinghill Investment Advisers, Ltd., has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS™) for the period from July 1, 1996 to December 31, 2005 and the Global Investment Performance Standards (GIPS®) beginning in 2006. No regulatory or governing body has been involved in the preparation or review of this report.

1. Nottinghill Investment Advisers, Ltd., ("Firm") is an independent, SEC-registered investment adviser utilizing a number of primarily large capitalization equity investment strategies. Berge & Company, Ltd. and BKD,LLP, Certified Public Accountants in each case, completed Firm-wide Verifications of Nottinghill's compliance with the AIMR-PPS™ for, respectively, the 1996-2001 and 2002-2005 periods. The Verifications associated with years after 2005 also were completed by BKD, LLP, and tested Nottinghill's compliance with the aforementioned Global Investment Performance Standards (GIPS®). Verifications are conducted annually; a copy of the most recent report is available by request.

2. The Value Plus performance composite (Composite A: all non-wrap fee accounts and those with a fixed annual broker charge less than 0.25% of assets), formerly Growth & Value 20 Composite A, officially was created on January 1, 2002; however, the composite as currently defined has an effective date of compliance with the AIMR-PPS™ of January 1, 1997. Berge & Company, Ltd. and BKD, LLP, Certified Public Accountants in each case, completed Performance Examinations of the investment results presented for, respectively, the 1997-2001 and 2002-2010 periods.

3. No segments of other portfolio composites and no accounts with a fixed annual broker charge are included in the Value Plus composite.

4. The most appropriate benchmarks for the Value Plus strategy are the style-specific Russell 1000 Value Index and the more broadly representative S&P 500 Index. Both are unmanaged, capitalization-weighted, and consist of primarily U.S. corporations. Index performance in both cases includes price change and income, however, neither index has any expenses. The S&P 500 Index was the sole benchmark prior to January 1, 2010.

5. Investment results have been calculated net-of–the management fee, which was deducted from the results achieved by every account in the composite. The annual fee schedule is 1.0% of the first $1 million, 0.75% of the next $4 million, and 0.50% of remaining assets.

6. Investment results calculated net-of-the management fee are appropriate for presentation or redistribution in all settings, but must be accompanied by this disclosure language.

7. All performance calculations are based upon trade-date accounting, and, except where otherwise noted, are associated with time periods ending December 31.

8. Performance is expressed in U.S. Dollars.

9. Annual composite dispersion is the asset-weighted standard deviation of gross investment returns.

10. Exchange-Traded Fund shares may be utilized in this strategy from time to time. No other derivatives and no leverage are employed.

11. Past performance is no guarantee of future results.

12. A complete list of Nottinghill performance composites and additional information regarding the calculation and reporting of Nottinghill performance are available upon request.

*Editor's Note: In November 2002 and again in August 2007, we penned "The Four Ds and the Worst of the Four-Letter Words" for the Cincinnati Business Courier (2002) and this space. The piece attracted a lot of attention on both occasions, and seems just as relevant in 2011. So, we once again are pleased to present an updated version of the original for your consideration and reading pleasure.*

# The Four Ds and the Worst of the Four-Letter Words (III)

**R-I-S-K**. All but forgotten in bull markets, this onerous four-letter word has taken on new meaning in the wake of 2007-2008. What to do in 2011? Same as 1995 or 2000 or 2006, or any other year. Why? Because the things that should be done with respect to one's overall portfolio are always appropriate. We call them the four Ds.

**Debt**. Bonds, that is. We recommend bonds for just about everyone's portfolio; but, after the massive flow into Treasuries over the past few years, we no longer restrict ourselves to this part of the bond market. Instead, laddered Treasuries constitute only about 25% of our fixed income assets, while the remaining 75% is invested in three actively managed bond mutual funds. The key rationale: Stocks and bonds typically do not move together in price, and bonds typically are a place of sanctuary in times of stress. Take a look at Figure 1. These are the seven two-year periods (1926-2010) during which the S&P 500 Index (with dividends) lost 15% or more. The five-year Treasury note (as proxy for intermediate bonds in general) may not beat U.S. equities over the long haul, but these securities would have been valuable members of the team when all was not well with stocks. Bonds currently are far from cheap. We know that. But, bonds almost always deserve a seat at the table.

**Diversification**. Remember the old Mae West line: "Too much of a good thing can be wonderful." Well, that's the case only as long as that thing stays good. The truth is, no investor knows all there is to know about each investment, and spreading investment dollars around in some intelligent manner is the obvious solution. But, isn't "intelligent manner" the $64,000 question? Not really. There are certain rules/guidelines that we continually discuss with our clients. For example, make sure that portfolio equities are diversified by group in addition to issuer; have no more than 25% of the total invested in even a low-cost or "emotional" favorite; have no more than 5-10% invested in anything else; etc. What's important is that the investor frequently ask himself/herself the following question: What can sink this ship? The answer should be: no one thing.

**Dividends**. During most of the 90's and 00's, they didn't matter. You remember the reasoning. The tax laws are stacked against them; management knows best what to do with corporate cash; stock buy backs are the way to go; etc., etc. We never bought into all this, and had zero trouble maintaining our reverence for that old dividend check, i.e., that proverbial risk-reducing "bird in the hand." Dividends mattered then and they matter now for two very good reasons. First, as one noted hedge fund manager once said, dividends (unlike earnings and book value, for example) aren't an abstraction—they are real dollars and cents landing in a client's account. Second, if you look at Ibbotson's multi-decade work on stock market returns, you will see that dividends accounted for over 40% of the S&P 500's annualized total return. Sure, no guarantees attached; but, emphasizing the more certain part of total investment return helps reduce overall risk.

**Discipline**. Short and sweet, the best has been saved for last. In fact, each investor is faced with a bewildering array of combinations and alternatives, so it's essential to have a Grand Plan, i.e., a well-conceived asset allocation structure. Sure, corrections and bear markets are painful, but we recommend that the Grand Plan be based to a very large extent on longer-term needs and risk tolerance and to a much smaller extent on something called "the market outlook." Of course, if circumstances change, the Grand Plan should change, but the key word is "infrequent." Staying the course can be hard to do, but staying the course with a well-conceived Grand Plan does eliminate what one noted investor referred to as "emotional risk," a potentially harmful tendency to throw in the towel at exactly the wrong time.

**Debt, Diversification, Dividends, Discipline**. They should be part of the investment mix throughout the stock market cycle. Long-term success means controlling the worst of the four-letter words, and the four Ds are the tools.

**Figure 1**
**The Healing Power of a**
**Five-Year Treasury Note**

| Two-Year Period | S&P 500 Index* | Five-Year Treasury* |
|---|---|---|
| 1929-1930 | -31.2% | +13.1% |
| 1930-1931 | -57.5 | +4.2 |
| 1940-1941 | -20.2 | +3.5 |
| 1973-1974 | -37.3 | +10.6 |
| 2000-2001 | -19.9 | +20.6 |
| 2001-2002 | -31.4 | +21.6 |
| 2007-2008 | -33.5 | +24.5 |
| 2008-2009 | -20.3 | +12.1 |

*Unannualized total investment return

# Total Portfolio Management

And, where do the four Ds come together? In **Total Portfolio Management**, our brand new approach to the management of a taxable individual's or tax-exempt institution's overall portfolio.

## What's included in a TPM portfolio?

Consistent with the five Fundamental Beliefs in the box, all of the significant investment bases are covered. **TPM** portfolios include U.S. equities in all capitalization ranges, a meaningful position in emerging markets (international) equities, a fixed income component consisting of a Treasury ladder and three actively managed bond funds, and an investment in gold.

## How are TPM portfolios structured?

The correct answer: Any way the clients want them structured. But officially, there are three possible asset allocation structures: Conservative (50% equities), Baseline (65% equities), and Aggressive (80% equities). The Baseline structure is the following:

**Total Portfolio Management**
**FUNDAMENTAL BELIEFS**

- Common stocks - over time the highest return
- Value investing – superior to Growth
- Indexing - often an effective competitor
- Diversify, diversify - by security and asset class
- Investment expenses - keep them low

**Portfolio Equities - 65% of the Total Portfolio**

| | |
|---|---|
| U.S. Large Capitalization - Actively Managed | 60% |
| U.S. Mid Capitalization - Indexed | 10 |
| U.S. Small Capitalization - Indexed | 10 |
| International Emerging Markets - Indexed | 20 |

Large capitalization equities are governed by our flagship Value Plus strategy, with its traditional emphasis on big-dividend payers and its well-above average track record. The indexed positions are invested in low-cost Vanguard mutual funds and/or Exchange-Traded Funds (ETFs).

**Portfolio Fixed Income Securities - 30% of the Total Portfolio**

Treasury notes with staggered maturities between two and 10 years, a select group of actively managed bond mutual funds.

**Portfolio Non-Traditional Assets - 5% of the Total Portfolio**

Exchange-Traded Fund shares tracking the price of gold.

The portfolio sectors and the individual securities comprising those sectors are combined in such a way that the rate of return potential comfortably exceeds the economy's expected rate of inflation and the knowable level of investment expenses. And, if history is any guide, this objective will be achieved at a low level of investment return volatility.

## If I become a TPM client, what are the benefits?

When evaluating **Total Portfolio Management**, consider **TPM**'s principal benefits.

**The complete answer**
**TPM** covers all of the significant investment bases. The structure is easy to understand, easy to explain. One destination for all of the investor's needs. One consolidated statement, covering both taxable and tax-exempt assets.

**Wide Diversification**
The risk side of the equation is covered. Typically, the **TPM** asset classes and the investments in those asset classes respond differently to different economic/market forces, and the result is a smoother, more consistent pattern of investment returns.

**Very low transaction costs and management fees**
Turnover rates in all **TPM** asset classes are relatively low, and that means low transaction costs. Management fees? The best news of all. Index fund fees traditionally are low, and the annual fee for **TPM** fixed income management is only 0.25% of assets. Investment expenses have a significant impact upon a portfolio's long-term rate of return. They must be kept low.

**Very tax-friendly (if applicable)**
Value Plus' gains are almost all long-term, index funds by their very nature are tax-efficient, the gold ETF position is permanent and rebalanced only as needed, and a significant portion of the fixed income sector is entirely passive. **TPM** delivers throughout the year, particularly in April.

The complete answer. Wide diversification. Very low transaction costs and management fees. Very tax-friendly. The case for **Total Portfolio Management** is a strong one. After all, long-term investment success means controlling the worst of the four-letter words, the four Ds are the tools, and TPM is where the four Ds come together.

*Contact us and learn more about **Total Portfolio Management**.*

**A few recently discovered, Oval Office-type gems…**

"If a dog will not come to you after he has looked you in the face, you ought to go home and examine your conscience."
--Woodrow Wilson

"Nine-tenths of my callers want something they ought not to have. If I keep dead still, they will run down in three or four minutes."
--Calvin Coolidge

"If you have spent six months on your back trying to move one toe, nothing seems difficult."
--Franklin Delano Roosevelt

"Forgive your enemies, but never forget their names."
--John F. Kennedy

"He (Ronald Reagan) believes the same things as Barry Goldwater, but says them with a smile."
--William Rusher