NOTTINGHILL INVESTMENT ADVISERS, Ltd.

An Update **Vol. XV No. 3** **August 2010**

Recent News

Bonds. They have a place in virtually every investor's overall portfolio, but is now the right time to have an above-average commitment? Or, put another way, are the current massive dollar flows into Treasuries warranted? With a 10-year Treasury yielding all of 2.93% and a five-year yielding 1.66%, we think not. Equities are cheap relative to Treasuries.

Double-Dip. Certain to be a popular Google search, the economic pattern here is recession-recovery-back to recession. Can it happen? Of course. Is it likely to happen? History and the weight of the current evidence argue against it happening. Anyway, equities are cheap relative to Treasuries.

Diversification. One of the four D's of risk control...in fact, probably tied with Discipline for the top spot. We have a few thoughts, which are presented on the reverse side.

Website. Once again, we invite you to visit, www.nottinghilladvisers.com, for a good look at all the work that we do.

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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 QI-QII	**-4.51**	-5.12	69.4	53	42.8	62	--
Annualized							
Life of the Strategy	**7.10**	5.39					
10 Years	**4.87**	2.37					
Five Years	**1.26**	-1.64					
Three Years	**-9.71**	-12.33					

Nottinghill results are presented net-of-the management fee; all annualized returns are associated with time periods ending June 30, 2010

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 2002-2009 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: On two occasions in this space, we've discussed the so-called Four D's: Debt, Diversification, Dividends, and Discipline, as important risk control themes. Of the four, none deserves its own space more than Diversification, which we in fact did discuss separately in early-2002. The following is an updated version of that earlier piece.

Diversify, Diversify, Diversify

"Too much of a good thing can be wonderful."
--*Mae West*

"As long as it stays good."
--*Editor*

Years before the housing bubble, the subprime mess, and all those bailouts, there was Enron. You remember, that little Houston energy company with its revolutionary ways of doing business and, unfortunately, its cooked books. Well, it turns out that diversification was a large part of the Enron story since over 60% of the average Enron employee's 401(k) supposedly was invested in Enron common stock, which ultimately became worthless.

To diversify, Webster tells us, is to "balance defensively," and nobody could have said it better because the emphasis is where it should be: the risk side of the equation. There's something commendable about loyalty and pride in one's employer, but having 60% (or more) of one's assets exposed to the same risk doesn't make much sense. Let's stay on this line of thought and be even more specific about what proper diversification is not.

1) Having assets invested in different securities of the same issuer

You may be snickering, but please trust us, we've heard more than one of these tragic stories. A company goes the way of an Enron or a Lehman Brothers, and an investor is quoted as saying that he's shocked at what happened to his portfolio. Sure, he owned a lot of the company's common stock, but didn't he "spread his risk" by also owning some of the company's bonds and preferred stock? Not much to say here.

2) Owning 10 tech, or 10 bank, or 10 gold, or 10 etc. (some other group) stocks instead of just one

A common sin, particularly during the 2000-2002 and 2007-2008 bear markets. What happened is that investors committed way too much of their portfolios to several tech (2000-2002) or bank (2007-2008) stocks, and considered their portfolios well-diversified. Not so fast, however. The group affect is alive and well, and was a huge factor in the widespread demolition of these two groups. Specifically, all the tech companies in that earlier era were victimized by the same incendiary combination of supply/demand imbalances and high valuations, and most banks in 2007-2008, of course, were victimized by the same bout of complacency and lax lending standards. Diversification means owning different industries and/or stock market sectors because the same forces continually lift and pound the stocks of homogeneous groups.

3) Having 60%, 70%, 80% or more of one's assets tied up in one stock...any stock

We hear it all the time, particularly about a hometown favorite: "XYZ is a great company, and it's been good to me." That's fine, but keep in mind, that's what hundreds if not thousands of people at Enron said. The point is, bad things can happen to the very best of companies, and nobody is smart enough to get it right all the time, just before the music stops and no chairs are left. We advise everyone to have no more than 25% of his/her financial assets invested in even a low-cost, "emotional" favorite and to have no more than 5-10% invested in anything else.

4) Having everything invested in one asset class

Figure 1
Equities and Five-Year Treasuries During Times of Stock Market Stress
1926-2009

	S&P 500 Index*	Five-Year Treasury Note*
1929-1930	-31.22%	13.13%
1930-1931	-57.43	4.24
1940-1941	-20.22	3.47
1973-1974	-37.27	10.56
2001-2002	-31.36	21.54
2007-2008	-33.54	24.48

**Unannualized total investment return*

In calendar year terms, 2007-2008 was one of the stock market's all-time worst two-year periods. The damage was significant, but of course, much more palatable if asset classes other than common stocks were represented in the portfolio. Treasuries, for example, had a very good 2008 as fearful investors exited the stock market in droves, and the price of gold (+5.50%) also increased in 2008...for the eighth straight year. The lesson ? Balance is a good thing, and the absolute key is to be well-represented in asset classes that typically do not go up and down in price together. Take a look at Figure 1, which shows how a five-year Treasury note performed in 2007-2008 as well as in five other difficult two-year periods for the stock market. Five-year Treasuries may not have a lot of sex appeal and may not beat common stocks over the long haul, but these notes would have been valuable members of the team during these times of considerable stress. Same with gold during the latter periods when it was allowed to trade freely.

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As reported by James Glassman of the Washington Post, Warren Buffett is fond of the old Mae West line at the top of the page. Unfortunately, putting together a Buffett-like portfolio of a few very good things (that stay good) isn't that easy for most investors. The answer: Stay disciplined and diversify by issuer, diversify by group, diversify by asset class. Diversify...and sleep.