Recent News

Large Caps vs. Small Caps. Small company stocks have been on a tear for over 10 years — no Lost Decade here. Is it time for the pendulum to swing back, or are things "different" this time? We have some thoughts, which we gladly provide on the reverse side.

Total Portfolio Management. Since Day One, we've managed balanced portfolios (large cap Value equities and Treasuries), and we've done a pretty good job of it too. Now, we're offering a portfolio structure that covers all the bases: large cap equities (the Value Plus 20), mid and small cap equities (Vanguard index funds and ETFs), emerging markets equities (Vanguard index fund and ETFs), and gold, as well as fixed income securities. The widely diversified complete answer, as we say, and it comes with low transaction costs, low fees, and low taxes (if applicable). Check out our website (click on ***Value Plus Approach****) for the rest of the story.*

Website. Speaking of which, you're always welcome at www.nottinghilladvisers.com for a look at all the good work we do.

Southampton Square
7414 Jager Court
Cincinnati, OH 45230
513.624.3000 Tel
513.624.3003 Fax
www.nottinghilladvisers.com

NOTTINGHILL INVESTMENT ADVISERS, Ltd.

An Update **Vol. XVI No. 2** **May 2011**

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	**1.66**	6.46	76.8	52	49.8	65	--
Annualized							
Life of the Strategy	**8.14**	7.03					
10 Years	**5.58**	4.53					
Five Years	**1.74**	1.37					
Three Years	**3.39**	0.60					

Nottinghill results are presented net-of-the management fee; all annualized returns are associated with time periods ending March 31, 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.

The Coming Large Cap "Revival": Inevitable Reversion-to-the Mean, or...Waiting for Godot?

"The line it is drawn, the curse it is cast.
For the slow one now will later be fast."

--The Times They Are A-Changin',
Bob Dylan (1964)

The stock market's large caps versus its small caps. The fact is, small company stocks have been outperforming large caps for as long as anyone can remember. Actually for 11 years, or a full four years longer than the last small cap boom (1977-1983). And, looking at this small cap outperformance another way, the so-called Lost Decade of the 00's was "lost" only for such things as the S&P 500, not the small cap indexes - investment returns here were positive and healthy. Yesterday's news, however. What happens now?

That's an important question, particularly to those of us who specialize in large cap stocks. Before we give it a shot, let's attach some numbers (Figure 1) to the large/small cap rivalry of the last two decades. Chapter One (1990-1999): The Golden Age of the S&P 500, 18.20% vs. 15.09%. Chapter Two (2000-2009): Small is Beautiful, 6.22% vs. –0.95%.

Which brings us back to the earlier question: What happens now, i.e., are the 10s more apt to be like the Lost Decade (the 00s) or the 90s? We think the latter, primarily because most stock market phenomena are cyclical. The longer they deviate from what we'll call "equilibrium" and the greater the magnitude of that deviation, the greater the pressure(s) to move back, or, in the language of statistics, revert-to-the mean. In other words, the large caps are due.

Figure 1
Large Cap vs. Small Cap Equities
1990-2009

	Annualized Rate of Return	
	1990-1999	2000-2009
Large Cap Equities*	18.20%	-0.95%
Small Cap Equities**	15.09	6.22

* S&P 500 Index
** DFA U.S. 9-10 Small Company Portfolio 1990–March 2001; DFA U.S. Micro Cap Portfolio thereafter

That's the very simple, yet elegant, statistical answer to the question. Pendulums constantly swing; traditional relationships constantly change, and then (more often than not) are re-established. But, that's purely the statistical part. For the rest, we'll lean heavily on a recent, excellent piece ("Waiting for the Large Cap Revival") by Douglas Cohen, Morgan Stanley Smith Barney's Senior Equity Strategist. In that piece, Cohen presents four fundamental reasons for the upcoming reversion-to-the mean phenomenon.

Valuation. Boring and unloved, the S&P 100 Index (the largest cap of the large caps) trades at 12-13x the estimated 2011 earnings of its component companies, versus a P/E of 17-18x for the small cap S&P 600. That's a 40% premium, which is considerably greater than the 20-year average of 15%. And, making similar comparisons for price/sales, price/book value, and other valuation metrics, we get similar evidence of small cap excess. By these measures, large caps are seriously undervalued relative to small caps.

The Market Cycle. March 6, 2009 - S&P 500 Index 666.79 intraday. Fast– forward to mid-2011. Here we are in the third year of a very rewarding bull market (+100%), and it turns out that the third year typically is the Year of the Large Cap. Why? Because most small caps are significant underperformers in bear markets, and then can snap back big time on very little volume the first year off the bottom. By the third year, the phenomenon has run its course, and the big guys take over. On average (1926 forward) the three-year record for small caps: first year 41%, second year 12%, third year 9%. And for large caps: 27%, 21%, 17%.

Money Flows. Memories of '07 - '08 (and '31 - '32, '73 - '74, and '00 - '02) die hard. As sure as night follows day, the period following a bear market is a period of loathing for equities. Now, in the wake of a serious market advance, there are signs that that period is coming to an end. Money flows into mutual funds are picking up, and, when the toes of smaller investors first are dipped back into the water, the beneficiaries if history is any guide will be the more familiar large caps. Nothing wrong with having exposure in all capitalization ranges (in fact, we recommend it), but at this point anyway, relative advantage - large caps.

Emerging Market Exposure. Let's face it, the hardware store down the street has less exposure to the Brazilian or Chinese growth story than, say, Abbott Labs. The same can be said for most smaller, publicly traded companies. Of course, this particular large cap tail wind has been with us for awhile, but ultimately, this tail wind will be too significant to ignore. For the time being, the world's so-called emerging markets are where the growth is, and that's where the big guys have a lot of exposure.

After presenting and discussing the four fundamental reasons for large cap reversion-to-the mean, Cohen goes on to present a few counter-arguments. But, they are not really that compelling. Not nearly as compelling as the pressures of reversion-to-the mean, or the above, more fundamental pressures.

But, is it conceivable that we could end up sitting around, waiting endlessly for you-know-who? Conceivable yes, likely no. "Never is a long time, Marian," as Shane said. You-know-who in the form of large cap outperformance eventually will show up. The slow one now will later be fast.

Oh, and did we mention that large cap Value investing is the long-term winner, and that our **Value Plus** strategy is the only way to go? We should have.