



## Recent News

*Up, Up, and Away (II)?* On March 6 of this year, the S&P 500 Index briefly touched 666.79. Over the next five months, the Index advanced 48% to the 987.48 of July 31. Inevitable snap back in the midst of continuing problems, or the start of a major rebound? Obviously, a lot depends upon all those green shoots - actually the budding signs of economic revival that they symbolize - and their ability to sprout into something sturdy. There's room for encouragement.

*Value and Growth.* The two grand investment styles. Value may be the long-term winner, but both styles should have a place at the portfolio table. See "Fundamentally Contrasting Styles" on the reverse side.

*Index Plus.* In the first seven months of its life, our new "core-satellite" approach has done just fine. That's because the actively managed "satellite" (25% of portfolio assets) had a very good run to go along with a resurgent S&P 500 index fund (75% of assets). Of course, those low fees and low transaction costs didn't hurt. Contact us if you would like to learn more.

## ABOUT THE FIRM

Nottingham Investment Advisers, Ltd., is an SEC-registered adviser specializing in disciplined, quantitative approaches to the management of primarily large capitalization equities. The Firm's principal equity strategies are combinations of two or more independent, frequently contrasting selection processes. The investment professionals at Nottingham also manage balanced portfolios. Nottingham Investment Advisers, Ltd., is a Cincinnati firm founded in May 1996 by Douglas G. McPeck and W. Russ Stewart.

## THE FLAGSHIP STRATEGY Growth & Value 20

Our Core 20-stock approach. Three independent processes are used to select the portfolio's three groups of stocks. Two selection processes are value-oriented, and are applied to the Nottingham LARGCAP Universe of 75 candidates. The third process is growth-oriented, and is applied to the entire S&P 500. During certain high-risk periods, which are determined objectively, intermediate-term Treasuries are held instead of this third group of five Growth stocks.

## Investment Results

	End of the Period						
	Growth & Value 20 (%)	S&P 500 Index (%)	Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
1997	26.03	33.36	15.1	8	5.2	34	0.32
1998	18.26	28.58	23.4	9	6.8	29	1.42
1999	14.97	21.04	31.7	10	9.8	31	0.53
2000	5.09	-9.10	27.0	12	12.5	46	1.02
2001	0.29	-11.89	31.5	13	13.5	43	0.75
2002	-17.17	-22.10	36.1	15	17.9	50	0.46
2003	37.22	28.68	57.7	16	22.5	39	1.03
2004	18.44	10.88	70.8	20	26.7	38	0.62
2005	11.10	4.91	123.1	37	72.1	59	0.88
2006	18.23	15.80	162.3	40	97.8	60	0.79
2007	-6.38	5.49	162.5	64	103.3	64	0.48
2008	-37.10	-37.00	88.0	59	63.0	72	0.99
2009 QI-QII	3.43	3.16	84.2	47	58.9	70	--

### Annualized

Life of the Strategy	5.46	3.51
10 Years	1.41	-2.22
Seven Years	1.40	0.92
Five Years	-2.26	-2.24
Three Years	-12.49	-8.22

Nottingham results are presented net-of-the management fee; all annualized returns are associated with periods ending June 30, 2009

Nottingham 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. Nottingham 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 Nottingham'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 Nottingham'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 Growth & Value 20 performance composite (Composite A: all non-wrap fee accounts and those with a fixed annual broker charge less than 0.25% of assets) 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 2002-2007 periods. On June 30, 2009, accounts with a fixed annual brokerage charge less than 0.25% of assets contained 58% of total composite assets. The purpose of this fee is to cover trading costs.

3. No segments of other portfolio composites are included in the Growth & Value 20 composite.

4. The most appropriate benchmark for the Growth & Value 20 strategy is the S&P 500 Index, an unmanaged, capitalization-weighted index of primarily U.S. corporations. Index performance includes price change and income, however, the Index has no expenses. The S&P 500 Index has been the benchmark since inception.

5. Investment results have been calculated net of management fees, which were 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 \$14 million, 0.65% of the next \$35 million, and 0.50% of the next \$50 million.

6. Investment results calculated net of management fees 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 Nottingham performance composites and additional information regarding the calculation and reporting of Nottingham performance are available upon request.

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# Fundamentally Contrasting Styles

	THE THEORY	THE EMPHASIS
<b>Growth Investing</b>	Economic and stock market trends persist	Superior growers
<b>Value Investing</b>	Buy low/sell high	Out-of-favor bargains

As the market's opening bell tolled the morning of July 1, we looked back on the year's first two quarters, and saw a familiar **Growth & Value 20** pattern. In the first quarter, with its 2008-like doom and gloom, the portfolios' Value side had all kinds of problems, while the Growth side did just fine. Then came the second quarter with all that talk of revival and green shoots. The Value side snapped back with a vengeance, while the Growth side paused to catch its breath. Again, an all too familiar pattern: Two fundamentally contrasting investment styles alternatively in- and out-of-favor and, in the end, giving us the well-finished Core product that we've come to expect.

Growth and Value. Both investment styles are represented in our **Growth & Value 20** portfolios, and we among others toss the terms around with impunity; but really, what are they? Which is better? By how much? As Will Rogers might say, anything we "know" that ain't so? How can we use the answers to these questions?

**What are Growth and Value?** They're the two equity investment styles around which all else revolves. In fact, we've always maintained that, if you line up 40-50 money managers and ask each how he/she manages stocks, you'll get 40-50 different responses. But, no matter. Each of those managers falls under one of two headings: Growth or Value. The Growth manager continually looks for favorable economic/market trends and the superior growers basking in the sunshine of those favorable trends. In sharp contrast, the Value investor wants to buy stocks that are cheap in terms of the companies' earnings, dividends, or underlying assets. He/she concedes that superior earnings growth, if recognized early and sold early, does produce superior stock-price appreciation. But, the Value investor is persuaded to a much greater extent that most things are cyclical and that the constant motion from cheap cyclical pariah to fully valued cyclical favorite is a more exploitable stock market phenomenon.

**So, which is better?** If you had to go with just one, Value. The theories abound, but, paraphrasing Ibbotson and others, it's probably due to the stock market's frequent overreaction to a company's bad news and frequent underreaction to one's good news. Value stocks are the market's Bad News Bears; therefore, these already-downtrodden have more room to improve, thereby outperforming Growth stocks with their already-high expectations.

**So, how much better?** Let's look at the remarkable Fama-French data, which are based upon NYSE, AMEX, and NASDAQ returns from the beginning of 1928 up through 2008. The work is rigorous and the details many, but the most important data series for our purposes are the ones associated with Large (Cap) Growth Stocks and Large (Cap) Value Stocks. Bottom line: Large Value outperformed Large Growth in 50 of the 81 years; the respective

compound annual returns are 10.68% and 8.48%, a not insignificant gap of 2.20% per year. As proof - and despite Lord Keynes' famous observation about the long run - the Value dollar of January 1, 1928 would have turned into \$25,914 by December 31, 2008, versus the Growth dollar's \$3,700 over that same span. The cost: Volatility, i.e., the Value returns were quite a bit more volatile than the Growth returns. But, the bottom line is the bottom line, and the Fama-French small cap data for the same period further support the case for Value, by an even greater margin. All the data are summarized in Figure 1.

**What's the catch?** First, Large Value's greater volatility is not to be dismissed casually. The returns are greater, so this extra volatility (risk) probably is justified; but, it does exist. Second, let's call the other catch Value's Perfect Storms, which always begin with the Financials. What happens - and there are no better examples than 1990 and 2007-2008 - is that serious problems in the Financial arena (commercial real estate in 1990, subprime mortgages in 2007-2008) invariably spill over into the entire world of Value investing. Why? Because the Financials are the centerpiece of most Value strategies, and Value companies, which tend to be weaker credits, tend to be hit hardest when there are problems among the credit dispensers. Unfortunately, for all its virtues, Value's greater volatility and periodic Perfect Storms are facts of life.

**What to do?** Even with Perfect Storms thrown in, Value investing is the long-term winner, and the Fama-French study is only the latest and most lengthy to prove it. But, Value should not be the sole bread winner. The Growth cycle is different from the Value cycle, and "different" in the world of

investing frequently means "diversifying" (another virtue). Value may deserve the larger share of the portfolio pie—as it does in our **Growth & Value 20** portfolios—but the fundamentally contrasting style known as Growth investing definitely deserves a seat at the table, and a portion of the assets. This year's experience is a perfect example of why this is true. In the first quarter, which was reminiscent of the dark days of 2008, Value had a particularly difficult time, while Growth (and our version of Growth in particular) came on very strong. Since the March bottom, however, the Value world has made a powerful come back, and Growth has paused (in a relative sense) to catch its breath. That's the way it's supposed to work when fundamentally contrasting styles are part of the same team.

Figure 1  
*The Fama-French Growth and Value Series  
Total Returns and Return Volatility  
1928-2008*

	Compound Annual Rate of Return	Return Volatility*
Large Growth	8.48%	20.48%
Large Value	10.68	28.00
Small Growth	8.70	33.61
Small Value	13.37	32.70

\*Standard deviation of annual returns