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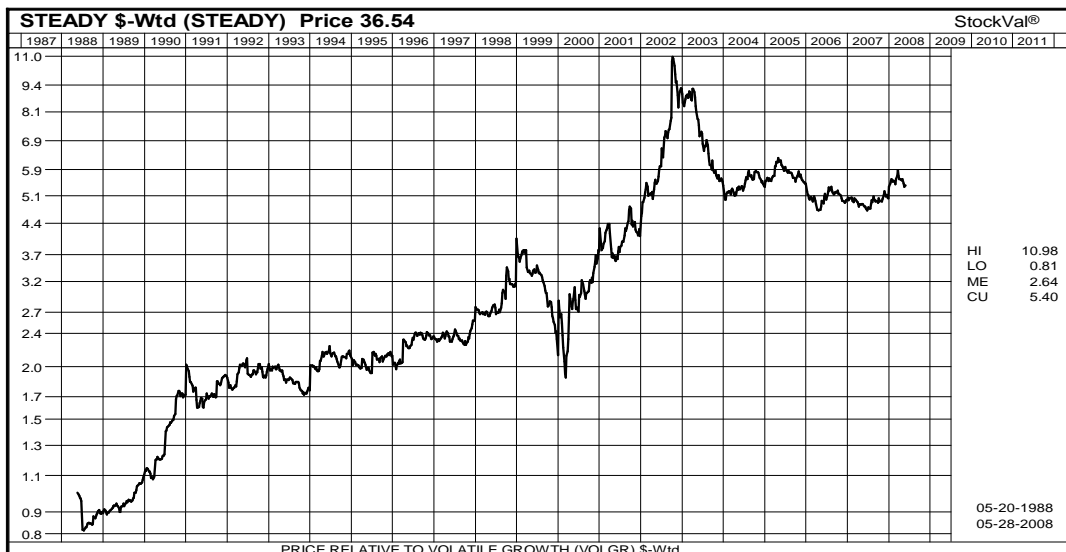
## Slow and Steady Wins the Race

We continue to believe the most attractive values in the market today, are those companies with a history of delivering the numbers in all economic environments. While many of these companies already trade at a premium valuation to the market, we anticipate that premium to grow significantly in the coming years as the field of companies able to deliver predictable growth narrows.

Companies can grow earnings steadily for a variety of reasons. Some companies sell products or services that are less economically sensitive, like food or data processing services. Others have well-diversified customer bases, product lines or geographic footprints that insulate them from specific supply or demand shocks. While the rationale for their steady growth may differ, they generally share one thing in common. Their relative performance has historically been negatively correlated to the market. In other words, when the market is strong, and economic tailwinds are the strongest the steady growth companies tend to underperform because their pace of growth remains the same. However, when times get tough and the wind dies down, their steady internal growth engines keep them moving forward while the rest of the field stalls. Historically, once investors recognize that the economy has stalled and the next period of expansion is not right around the corner they increasingly embrace the steady growers and have been willing to pay significant premiums for the certainty they can provide.

**Chart 1:** This chart shows the relative price performance of the steady earnings growth stocks, which we define as those with earnings stability in the upper-third of the market, versus the volatile earnings growth stocks (EPS stability in bottom third). From the chart three things are apparent:

1. Over time, investors should prefer the Steady growers over the Volatile growers, since over time the Steady group continues to grow in relative value.
2. During strong market periods like 09-00 and late 02- mid-07, the Volatile universe outperforms the Steady universe.
3. The period of outperformance for the Volatile group may have ended. Steady stocks have been outperforming since Mid-2007.



*Chart Courtesy StockVal*

**Chart 2:** Chart 2 displays the relative valuation on a price/sales basis of the Steady group versus the Volatile group. From the chart we can discern a few things.

1. The relative valuation of Steady growers has dropped significantly over the last six years. The significant premium valuation they had enjoyed has dissipated to just 1.35x the valuation of their Volatile peers.
2. The current valuation of 1.35x is below the historical average premium of 1.54 and **WELL BELOW** the premium they have historically received during recessions (00-01 and 01).
3. While the Steady stocks have enjoyed some appreciation since mid07, it would appear that plenty of upside still exists if the economy does significantly strengthen in the near-term.



Chart Courtesy StockVal

**Implementation:** There are many places to find companies with steady earnings growth. Sectors likely to benefit from a rising valuation multiple include Consumer Staples, Utilities, Data Processing, Software, etc. One way to participate in this theme is through a large or mid-cap growth ETF. Two of our favorites are: Powershares Large-Cap Growth (PWB-O-\$17.85) and iShares Morningstar Mid-Cap Growth (JKH-A-\$99.28)

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