Spring

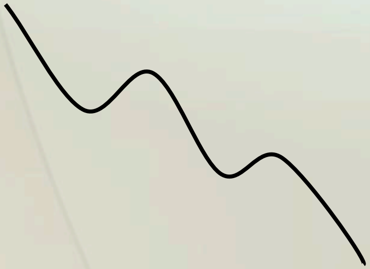
Summer

The Douglas C. Smith Company, LLC

presents

Market Seasons Investment Process

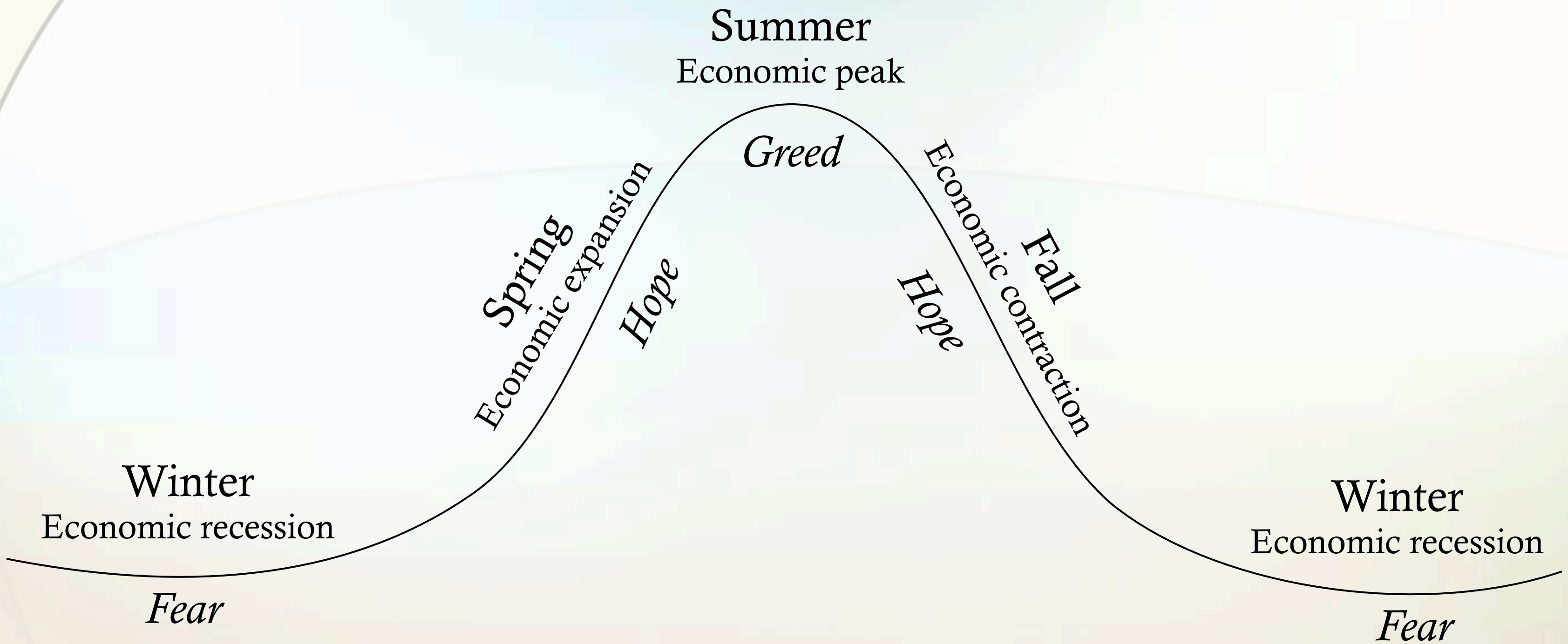
A process that preserves and grows asset values using value - growth and income strategies



Fall

Winter

The Emotions of the Market Seasons



Measurements to identify market highs and lows

	P-E	Dividend Yield	Price/Dividend
Market High/Economic peak	20+	3% or less	30 or more
Market Low/Economic recession	Around 10	4.5- 6% or more	15 or less

The Market Seasons Investment Process

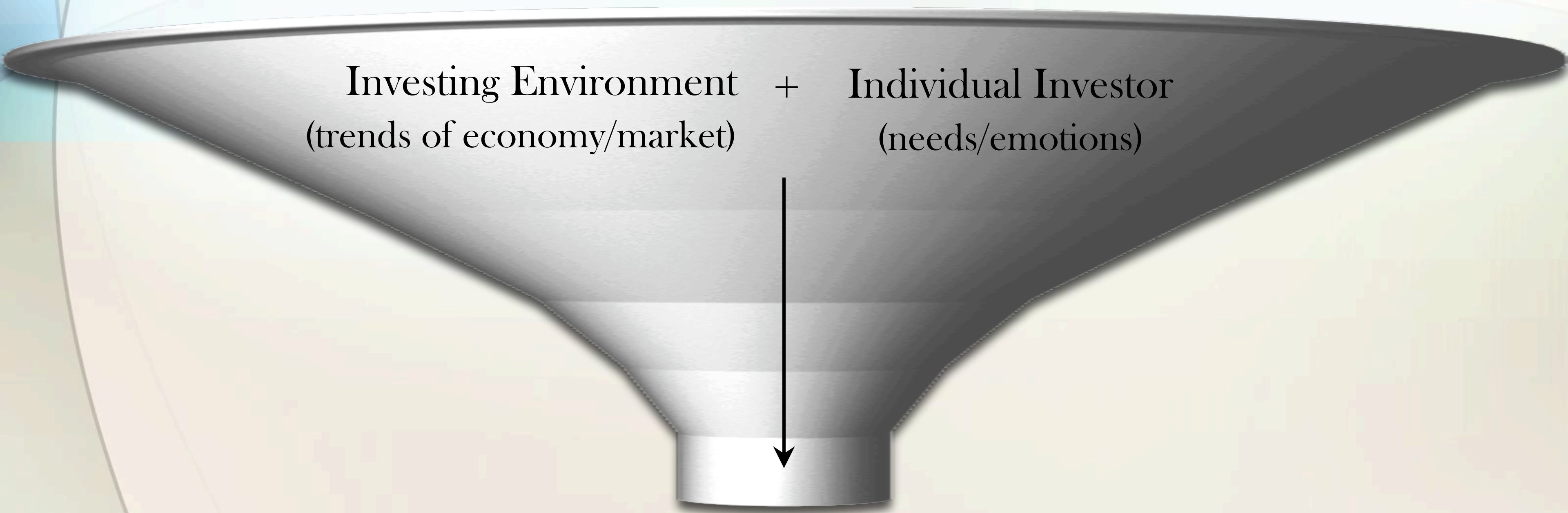
- The investment process objective is to compound dollars or number of shares and to control and manage investment risks
- The investment process assumes the major reason to hold stocks long-term is to build a future income stream
- The investment process prefers a stock that is consistently growing earnings, sales, and dividends (which is optional for selected companies)
- The process considers dividends, interest, and capital gains as income

The Market Seasons Investment Process

- The process is both top-down and bottom-up
  - Top-down: Know when to buy/sell a stock
  - Bottom-up: Know what stock to buy/sell
- The process selects stocks based on the specific investment needs and preferences of the investor
- The process uses a default quality risk allocation of portfolio: 60% conservative, 30% moderate, and 10% other
- The process adapts to the different types of investment profit opportunities within the market and economic cycle

The Market Seasons Investment Process

The process combines the investor needs and the investing environment trends to achieve appropriate investments and investment strategies that will profit in a variety of market and economic conditions



Investments

Appropriate for a specific investor based on personal situation & market conditions.

The Investor

The individual invests money depending on personal tolerances, temperament, and needs

<u>Influences on the Individual Investor</u>

Purpose of invested money

Time to invest

Objective restrictions and requirements

<u>Lifecycle of Investor</u>	<u>Appropriate Strategy</u>
Age for Accumulation	Growth
Age for Preservation	Growth and Income
Age for Distribution	Income and Growth

The Investing Environment

<u>Subject to changing economic governors</u>

1. Interest rates and their direction trends
2. Income tax and other tax rates and trends
3. Amounts of new regulations and trends
4. Geo-political trends
5. Product evolution trends (new products and fads)
6. Investor Psychology

The Investing Environment

Follow the economic cycle and control risks

Down Market
Risks of loss can be large enough that changes need to be made

Up Market
Risks of loss are minimal and allow for capital appreciation

Be strategic

Down Market
Defensive- Preservation
Priority is to minimize losses
Strategy sequence:
1. Income
2. Capital gains
3. Capital appreciation

Up Market
Offensive- Growth
Priority is to go for gains
Strategy sequence:
1. Capital appreciation
2. Capital gains
3. Income

This is the default that can change with investor needs and preferences

Investments

Individual Stock Considerations

Fundamental	Technical	V – Factor (proprietary)
Earnings growth	P-E	% Rank
Dividend growth	Moving averages	Relative strength rank
Return on equity/ Return on capital	Trend lines	
% Long-term debt	Relative Strength	
Sales growth	% Off 52 week high	

The exact values for these will change with different strategies and markets.

Other Stock Considerations

- Prices are eventually earnings driven
- The stock should have a return on equity of at least 12%, and debt less than 40% of the total assets (utilities 60%)