

"America's Dairyland" Produces Top Money Managers

People in the investment world are starting to figure out that Wisconsin should be known for more than its cheese, bratwurst and beer. Some of the country's most successful portfolio managers and securities analysts, including Bill Nygren (we own his Oakmark and Oakmark Select funds), are graduates of the University of Wisconsin.

Recently, *Fortune* writer Andy Serwer featured Wisconsin's Applied Security Analysis Program (ASAP) in his article "Cheese Whizzes – How Has a Tiny Wisconsin Grad Program Spawned So Many Big-Name Money Managers?" In examining the reasons for the school's success, Serwer described the program as "...a sort of money management boot camp in which students run real, live stock and bond portfolios." Additionally, he pointed to the great continuity in the school's leadership and its dedicated alumni network. Serwer went further and concluded that "something Midwestern" was at work.

ASAP co-founder and professor emeritus Stephen Hawk (whom Nygren credits for his decision to attend) said, "We are old school. We try not to be sloppy or jump on the next hot stock." At Medley & Brown, we like old school, and we are impressed by Serwer's assessment of the Wisconsin crowd: "Almost equidistant between the razzle-dazzle of Silicon Valley's Sand Hill Road and the power lunches at Manhattan's Four Seasons, folks in Madison just don't seem to get quite as high or quite as low as their coastal brethren."

Coincidentally, on the same day that Serwer's article appeared, Julius Ridgway and Kevin Anthony from our offices were in Madison, a few blocks from the university, in search of some of those even-keeled money managers. Following is a re-cap of their meeting with two managers at Madison Investment Advisors (MIA).

A Quiet, Wooded Setting on a Cold, Snowy Afternoon

Three hours and countless tollbooths after landing at Chicago O'Hare, our scenic drive took us far from the hustle of the big city to the calmness of University Research Park, headquarters of MIA, managers of \$7 billion and advisor to the Mosaic Funds. There we met with portfolio managers **Jay Sekelsky** and **Rich Eisinger** for two hours, discussing their firm, their investment philosophy and their mutual funds.

The University of Wisconsin is well represented at MIA. Twenty-percent (Sekelsky included) of the 35-member firm attended. Founded in 1973, the firm describes itself as an independent, employee-owned, investment management organization with portfolio management as its only business. Although the majority of assets under management are in fixed income investments, it is the firm's equity management that has caught our attention and brought us to town.

Our conversation centered on the **Mosaic Mid-Cap Fund**, a small, no-load fund which Sekelsky and Eisinger have co-managed since mid-1998. The \$26 million fund invests in mid-sized, reasonably valued growth stocks. The portfolio is typically comprised of 25 to 35 stocks that represent the firm's top ideas. Besides growth, one of the fund's key objectives is to reduce volatility, especially in down markets. As they say, "participate and protect" – that is, participate in up markets while protecting capital in down markets. One of the fund's primary means for limiting volatility is its focus on value, a common thread among all of the equity fund managers with whom we invest. By "focus on value" we mean an attempt to buy a stock at a discount to the company's economic worth ("intrinsic value"), thus providing a margin of safety.

The Buffett Touchstone

In the last few years, quoting Warren Buffett's views on the virtues of buying stocks at discounts to intrinsic value has come back into vogue. Although Eisinger did so several times in our conversation, we don't think he is any Johnny-come-lately. As it turns out, he has been a "Buffettologist" for nearly 20 years now. The more we talked, the more we realized that he, Sekelsky and the other three members of the equity team have a very keen understanding of what types of stocks they are looking for. Among the key characteristics they are seeking in a company: **sustainable competitive advantage, high quality management, predictable sustainable cash flow, solid balance sheet and reasonable valuation.**

To find companies that possess these characteristics, analysts at MIA screen a universe of over 1,200 companies with market capitalizations between \$1 billion and \$10 billion. When an analyst has an investment idea, he pitches the stock in the equity team's weekly investment meeting where they discuss the company in detail. The other analysts play devil's advocate taking a more skeptical approach and questioning the company's investment merits. If the initial reception from the group is positive, the analyst will look deeper and present more analysis. Ultimately, Sekelsky and Eisinger make the call on adding the stock, typically after several more meetings and a discussion with the company's management.

We were impressed by MIA's rational philosophy and thorough process. Their approach obviously has served Mosaic Mid-Cap well during this brutal bear market. Over the 3-year period ending January 31, 2003, the fund has produced a *positive* average annual return of 7.4% compared with a decline of 13.83% per year for the S&P 500, landing it in the top 7% of its peer group as defined by Morningstar, the respected mutual fund rating agency. Although the fund is *very* small and somewhat undiscovered, its performance has not gone entirely unnoticed. Since our trip to Madison, Jay Sekelsky has been featured

in *The New York Times* and Rich Eisinger was profiled on the popular website, **TheStreet.com**. In addition to that recognition, MIA has also started to earn some of our clients' assets. Our sense is that they won't continue to be a hidden little gem for long.

Back to the Windy City

On the second day of our due-diligence trip, we were in Chicago to meet with three more money managers who also have earned some national attention lately. Although we are not currently investing with any of them, we thought it was important to get to know them.

Our first stop was with another product of ... you guessed it ... the University of Wisconsin: **Michael Fasciano**, managing director and portfolio manager of the Neuberger Berman Fasciano Fund. Fasciano garnered a lot of attention late in 1998 when *The Wall Street Journal* published the results of a study on long-term risk-adjusted returns of small capitalization stock mutual funds. His fund achieved the highest ranking in the study (the second highest was Skyline Special Equities, a long-time holding of our firm). Within a few months of the study, Fasciano's \$70 million in assets ballooned to \$420 million, and in 2001 the fund was acquired by Neuberger Berman, a firm we admire. In our meeting, Fasciano revealed that he makes over 100 company visits a year. It helps that he pilots his own plane when traveling.

From the heart of Chicago, we headed west to Oakbrook Terrace where we met with **Chris Faber**, portfolio manager at IronBridge Capital Management. IronBridge is the advisor to the Frontegra Horizon Fund, an even smaller and lesser-known fund than Mosaic Mid-Cap. Like Fasciano, Faber invests in small companies. In October 2002, *Forbes* published an article highlighting Faber and the complex model he relies on for picking stocks. The strength of the model is that it eliminates the distortions of conventional accounting by focusing on cash flow. Faber looks for companies that utilize their "cash flow return on investment" in a manner that creates shareholder value. He invests in companies whose stock prices reflect lower expectations than his model suggests. If this sounds complicated, that's because it is. The process combines quantitative and qualitative analysis to calculate target prices for stocks under consideration. From a universe of 3,000 small companies, the fund typically owns 60 to 70 stocks that exhibit attractive risk/reward characteristics. Faber's approach has produced handsome returns relative to its benchmark since the firm's inception in 1999.

Our final meeting took us north to Buffalo Grove where we dined with **Don Yacktman**, manager of the Yacktman Fund. The fund, which invests in large company stocks, has enjoyed stellar performance during the bear market, up an average of 19% per year for the three years ended February 28, 2003. Yacktman is a price-conscious, long-term investor with a goal of "achieving the highest possible returns with relatively minimal risk of a permanent loss of capital." When searching for a prospective stock, he focuses on the three P's: profitability, predictability and price. That is, he looks for a good business run by shareholder-oriented management whose stock can be purchased for a low price. His portfolio is somewhat concentrated, and he is not afraid to load up on a position: "We take big positions where we feel the risk-reward is extremely slanted in our favor." We admire managers who have that sort of conviction.

We wrapped up (literally) and headed for the airport. On the flight home, we reflected on our productive visit. It was educational, enjoyable and definitely "something Midwestern"!

Call us today for more information: Kevin Anthony, Cecil Brown, CPA / PFS, Tim Medley, CFP, or Julius M. Ridgway, Jr.
601-982-4123 • 1-800-844-4123 • Visit our web site at www.medleybrown.com

MEDLEY & BROWN FINANCIAL ADVISORS 795 Woodlands Parkway, Suite 104, Ridgeland, MS 39157 • P.O. Box 16725, Jackson, MS 39236-6725
601/982-4123 • 1/800/844-4123 • Fax 601/366-0013 • mb@medleybrown.com • www.medleybrown.com



MEDLEY & BROWN
FINANCIAL ADVISORS

795 Woodlands Parkway, Suite 104
Ridgeland, MS 39157
P.O. Box 16725
Jackson, MS 39236-6725

Prsrt Std
US Postage
PAID
Jackson MS
Permit #670

Medley & Brown
Composite Performance
Average Annual Time-Weighted Returns (%)
Period Ending December 31, 2002

	Balanced Accounts	Growth Accounts
1 Year	-7.57%	-11.75%
5 Years	4.03%	2.55%
10 Years	8.09%	8.42%

Balanced accounts contain 18% or more in cash and bonds. All other accounts are growth. Performance reflects the average time-weighted return for all portfolios included in our growth or balanced composites. The performances of individual portfolios in the composite may vary widely with some being higher and some being lower than the average. Past performance is not indicative of future results. Performance data are net of fees and include reinvestment of dividends and capital gains distributions and changes in principal value. The investment return and value of client accounts will fluctuate so that at any time investors' accounts may be worth more or less than their total payments into the accounts. Because accounts contain both US and international mutual funds, results will depend on both management performance and underlying market and economic conditions throughout the world.