

## Fund Facts

Symbol	BMCFX
Website	<a href="http://www.bjurmanbarry.com">www.bjurmanbarry.com</a>
Address	Bjurman, Barry & Associates 10100 S. Monica Blvd., Ste. 1200 Los Angeles, CA 90067-4103
Tel. No.	(800) 227-7264
Inception	03/31/97

## Portfolio

Total Net Assets *	\$879.9
Avg Mkt Cap (\$ Weighted) *	488.5
Average Price/Earnings Ratio	34.56
Average Price/Book Ratio	6.46
Turnover Ratio	54%

## Investment Information

New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$500
Min Initial IRA Investment	\$2,000

## Risk (Against S&amp;P 500 - 3 Years)

Alpha	1.6924
Beta	.9188
R-Squared	.5476
Ann Std Deviation	21.6920
Sharpe Ratio	.9031

## Returns vs. Lipper Small-cap Growth Index

	BMCFX	Index
1 Year (Cum.)	81.80%	60.06%
3 Year (Ann.)	21.14%	1.91%
5 Year (Ann.)	31.61%	8.72%

## Returns vs. S&amp;P 500

	BMCFX	Index
1 Year (Cum.)	81.80%	38.52%
3 Year (Ann.)	21.14%	-1.04%
5 Year (Ann.)	31.61%	-.12%

## Fees and Expenses

Max Sales Charge - Front/Deferred	0%
Max Redemption Fee	0%
Total Expense Ratio	1.59%

## Portfolio Manager

O. Thomas Barry, III	Mar-97
* millions	Data through: 02/29/04
Source: Company Documents; Lipper	

# Bjurman Micro Funds Macro Gains in Micro Stocks

Investors rarely hear from fund managers who invest in stocks and do well consistently over extended period of time. Mr. Thomas Barry is one such fund manager. He follows simple investing approach to an arcane group of stocks. He likes to buy stocks before other investors get a handle on them. He also follows a strict sell discipline that many of us will like to emulate.

**Q: The micro-cap stock universe is not well known to investors. What is your investment philosophy? Why should investors consider funds that invest in these stocks?**

**A:** Our investment philosophy is to focus on fast growing companies that buy them at a price that are cheaper than relative to their growth rates and relative small cap universe. In the long term companies with the superior earnings growth will bring superior returns to investors.

We track 2,000 micro cap stocks. These stocks tend to be under followed or not followed by the investors at all and opportunity for investor, who is willing to learn about these companies on a regular basis, to profit from these stocks is there. It is difficult to have a large position in these stocks because they do not trade as well as large cap stocks. We are also known for our strict sell discipline.

One of the great advantages of investing in the micro cap universe is that very few people follow these stocks and fewer institutions get involved in these stocks until they get big enough for them to buy. So we try to buy stocks before these stocks have

following in the analyst and brokerage community. Less than ten percent of micro and small cap stocks are followed by one or more analysts and as a result the information advantage to fund managers in this group of stocks is real. We like to take advantage of this fact in our investment process.

The micro cap stocks are inherently volatile. This volatility creates both buying opportunity and generates risks of significant losses. We spread the investing risk by having as many as hundred stocks in the portfolio.

**Q: Can you describe your investment process?**

**A:** We are looking for stocks with market cap between \$30 and \$300 m and we screen about 2,000 companies every week using 5 different quantitative models.

We rank companies on growth and valuation measures. We rank companies in the deciles on the reported latest quarterly earnings, latest annual earnings growth and earnings growth momentum. These are our three growth measures and the rest of two are valuations measures. We rank these stocks on the Price to Cash flow and



Price to Earnings to the Growth ratio. The company gets the composite growth. This way select the top 200 companies based on the composite growth.

Then we do the fundamental analysis on these companies and focus on the stocks between 100 and 150 stocks. We also look at the industry outlook and also at the price of the stock. We do not want to buy the stock if the stock is declining despite the strong fundamentals and we do not buy the stock that is acting abnormally, regardless of the stock ranking on our list. Our screens are built on at least one analyst following the company.

**Q: Can you describe your sell discipline?**

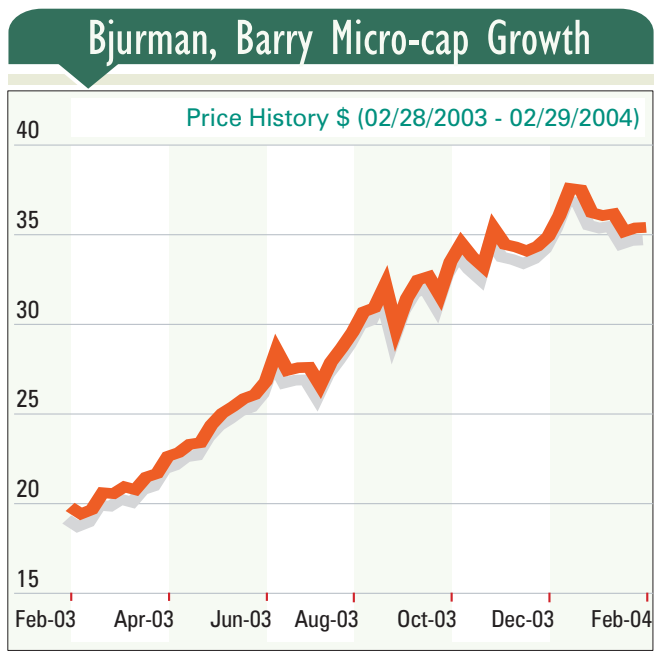
**A:** Our sale discipline is reverse of the purchase decision, if a company reports worst than expected earnings and if it exceeds our valuation expectations when measured on metrics such as price to earnings relative to the earnings growth or price to cash flow ratios, falls 15% below the cost or in market value and loses its relative strength then we sell the stock. We are strict adherent of this process. In the past, few times, it created a situation where we beat the competition, one during the time of tech bubble in 2000, our 40% tech exposure ended up as 70% exposure by the March 2000, so we saw on our screens, not only the stocks were individually over priced, but other stocks in other industries looked attractive, and we lowered the Tech position from 70% to 40% and then by the end of the year to 20%. This gave us the annual performance of 46% in 2002. The purchase discipline in Oct 2002, created opportunity when the markets were hitting the bottoms, several tech stocks on our radar and we increased the position from 19% to 29% in 2002 4Q. We are not trying to make sector bets as we are

trying to select individual stocks; the most and least attractive stocks tend to be in several sectors.

**Q: Does the fund follow or track its holdings and performance against any benchmark?**

**A:** Historically, the fund's performance is compared with the Russell 2000 growth index performance. We do not build our portfolio on the background of any index. Our stock pick-

universe of 2,000 stocks and invest in 70 stocks. We do not invest more than 2% in any stock and in general we hold 1% position in a stock. We are fully invested all the time. Average stock holding will be 0.5%. We do equal weighting among all the stocks we have in the portfolio. We are picking stocks and not making bets on sectors. We believe that our system works very well in finding the companies that have earnings growth but we do not know which stocks will perform well in the market. One of the important steps in the selection process is that we hold on to our winners and sell our losers. We create realized losses in our portfolio however; this year it will be tough to create realized losses because we have several winners. We are trimming some of the winners at this time. There is no real design to over or underweight sectors; it is simply stock selection that determines the industry and sector weighting. We are likely to have stocks in the technology and health care sectors because that is where the stocks generally fall in our list.



ing process is the only guideline that we follow. While we do not have an opinion on the number of sectors we have in the portfolio when any sector holding exceeds 15% of the portfolio and stock holdings exceed 5% of the portfolio, we are very cautious. Because we have 2,000 stocks to screen we generally have a diversified portfolio.

**Q: How do you construct and monitor the portfolio? Do you like to have sector and industry weights according to a specific index?**

**A:** We do not follow any sector guidelines or do not hold any macro economic view. The portfolio is by-product of our stock selection process. We select 100 to 150 stocks from the

**Q: What is your research process? Does your research process involve company management visits and Wall Street analysts?**

**A:** The research process starts with the quantitative analysis of earnings; we are earnings focused. Our quantitative process answers questions that we are most interested in, such as reported earnings growth, earnings momentum, quality of earnings and others. We used to visit management and companies, and over the years we have learned that the process is unproductive. The company management will not tell us anything more than they have told to the public and others and what we learned from the visits was already a common knowledge and many a times factored in the stock price. We also believe that the meetings may bias us in the favor

or against the company. It may affect our decision process, the way we manage money it is counter productive. We pay attention to what the financial analysts have to say about the company but not to their advice on what we should do. We focus attention to the quantitative aspect of analysts' discussions. The research process is quantitative and looks for the revenue and earnings analyses of the company's business and its competitors. This process has worked well for us in the past and we have no plans to change it.

We look at the most recent quarterly earnings gain and compare it

billion. The fund has assets of \$150 million.

**Q: Can you share some of the recent successes you had in the market?**

**A:** Every body knows Taser International Inc, we bought the stock seven months before the stock started its current ascent, and we had full position of 2% in Taser at \$14 per share. The stock responded to the company's success in getting the orders from police and army, and at \$118 after seven months, we sold it.

various cosmetics need such as hair and vein removal, pigment legion and scar removal. No one wants to look old and that is a demand driver for the cosmetic and plastic surgery procedures. This company had earnings growth of 320% for the last three years and the current price to earnings ratio is 30. Analyst community is not interested in the stock. For more than a year we own the stock in the portfolio.

FARO Technologies Inc makes 3D software and measuring devices. The company's stock is trading with the forward price to earnings ratio of 38 while the company enjoyed the earnings

## About Thomas Barry

O. THOMAS BARRY, III is Chief Investment Officer and Senior Executive Vice President of BB&A. He serves as a Senior Portfolio Manager, member of the Board of Directors and a Principal Member of the Investment Policy Committee with over 31 years investment experience. Mr. Barry served as a Lieutenant, Pilot, and Engineering Officer for the United States Navy. Prior to joining the firm in 1978, he was the Senior Investment Officer and Portfolio Manager, as well as a Member of the Stock Selection Committee, at Security National Pacific Bank. Mr. Barry earned a Bachelor of Business Administration with a Major in Economics at the University of Iowa. He later earned his M.B.A. in Corporate Finance and Accounting at California State University, Long Beach. He is a Chartered Financial Analyst charterholder, a Chartered Investment Counselor, and a member of the Los Angeles Society of Financial Analysts and the Association for Investment Management Research.

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with the latest annual earnings gain. We extrapolate these quarterly earnings to the annual earnings with some adjustments. The fund's median earnings growth for all the companies in the fund last 12 months is 135% and the median price to earnings for all the companies is 31%. Russell Growth Index is trading at 31 times earnings with 21% of earnings growth over the last 12 months. Since May 2003, the micro cap fund has been closed with the asset of \$450 million. The fund's asset has grown in the last ten months to \$950 million. We have opened a similar fund with small cal focus and we use similar investment philosophy and process except that the investment focus is on companies with market capitalization of \$100 million to \$1

Eresearch Technology, Inc develops software applications and technology consulting for the biotech and pharmaceutical industry. The net earnings have grown 124% over the last 12 months and company earnings are on track to grow at 120% in the next 12 months and the stock is trading at price to earnings ratio of 35. Stock price has gone up a bit and as a result market cap exceeded our upper limit of \$1 billion and as a result we have started trimming the holding even though we believe that stock is acting the way we like it.

CANDELA Corp manufactures and markets laser for aesthetic medical procedures. The demographics are in the company's favor. Baby boomers like to engage in the cosmetic procedure for

growth of 382% in the last three years and is looking to grow at 500% in the next three years.

Over the years we have changed model to make sure that we capture the companies with rising earnings and cash flow and not just cheap stocks based on PE ratio.

**Q: What are the risks of investing in the micro cap universe?**

**A:** few investors and fewer analysts follow the companies in this sector. The information advantage is real, those investors who have the ability and patience to collect and analyze the information. The stocks also are not as frequently traded as all other market cap sectors. ■