

Private vs. Public Value

Wall Street and the private market may differ substantially in their valuations of a business, and that's an opportunity for the Boyar Value Fund. The fund aims to buy businesses at a significant discount to their intrinsic value with the idea that, over time, the market will value them appropriately, or they will be acquired. Relying on in-depth fundamental research, the manager Mark Boyar runs a concentrated portfolio with very low turnover

Q: What are the core beliefs behind your way of money management?

A: We are the antithesis of the momentum investor. We certainly don't chase the latest fad or gimmick. Consequently, our performance at times can be quite lumpy. We don't correlate very well to the leading indices. In the simplest of terms, we are businessmen who purchase fractional interests in companies at discounts to their intrinsic or private market value.

We look for a gap between the public company price and the private company value with the idea that, over time, the market will either value these companies in accordance with economic reality, or somebody will acquire the businesses. We're not specifically looking for takeovers, but our methodology selects the type of companies that attract acquisition interest.

Q: How do you turn that philosophy into an investment strategy? What's the process for selecting those companies?

A: Our strategy is based upon good old fashion fundamental research which is generated in-house. We are constantly searching for new ideas. In essence, we take a company's balance sheet, tear it apart, reconstruct it, and place our own value on the company. Ideally, each company will also contain a catalyst or trigger that will, hopefully, speed up the recognition process in the marketplace. Sometimes inexpensive businesses can languish in the marketplace for protracted periods of time. However, a



MARK A. BOYAR President has worked as a securities analyst since 1968, and he began actively managing money in 1975. Mr. Boyar is a member of the Federation of Financial Analysts and the New York Society of Security Analysts. Before coming to Wall Street, he was employed on the audit staff of Price Waterhouse.

Mr. Boyar earned a BS at C.W. Post College of Long Island University, and in 1985 was honored with the School of Business and Public Administrations Alumni reward for distinguished leadership and achievement. He also attended Suffolk University Law School in Boston, Mass.

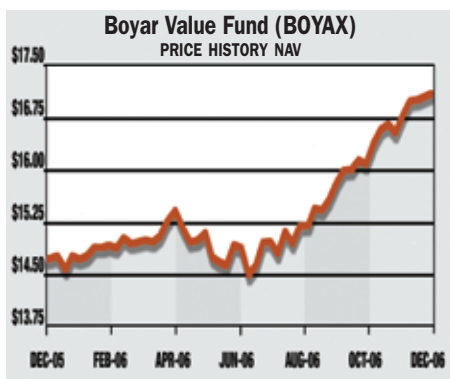


PATRICK BRENNAN CFA, Senior Analyst joined Mark Boyar & Company in early 2004. Mr. Brennan has nearly nine years of securities experience across a variety of industries in asset management, equity research and investment banking.

Previously, he was a retail analyst at William Blair & Company. Prior to that, Mr. Brennan worked five years in CIBC World Market's Consumer and Business Service Group and Deutsche Bank's Private Equity Group and Financial Services Groups.

He received a BA in Economics Summa cum laude from The University of Notre Dame.

“Often when you take contrarian views, it's like getting to a party early and waiting for everybody to arrive. It can take several years before the market perceives what we perceive, but that's the nature of our investment style.”



catalyst, in many instances, will unlock the value sooner rather later.

There are a number of catalysts that we look for. For example, find an 80 year-old man who owns a lot of stock in the company with no apparent successor. In such cases, the company usually gets sold either by him or his heirs. Another example of a catalyst would be the potential spin off of a division of a company that owns multiple businesses. A break-up of the company into numerous pieces might help unlock the value. The pieces when separately traded could be worth more than when traded as a single entity.

Q: What are the most important elements of your research process?

A: Our internally generated research is probably the most important part of our process. I started my investment career as a securities analyst more than 30 years ago, and I began publishing institutionally-oriented research in 1975. Asset Analysis Focus is still being published, and quite frankly, it is the engine that drives the train. By publishing, it makes us constantly look for new ideas. More importantly, by writing in-depth reports each month and distributing it to a sophisticated audience, it keeps us disciplined and focused.

Q: Could you give us some specific historic examples that illustrate your thought and research process?

A: In the late 1970s we wrote an extensive report on a great consumer franchise, Tiffany. Everybody knows the name today, but believe it or not in 1975 Tiffany was a very small company with a market capitalization of about \$24 million. The stock was selling for \$8 a share. Tiffany was not only a great franchise, but was also valuable because of the real estate it owned in New York, that

was worth more than the entire market capitalization of the company. In effect, you were paying zero for the name, the inventory, and the business prospects. In less than a couple of years Tiffany was acquired for almost \$40 a share.

One of the things that sets us apart from a lot of other money managers is the fact that we are less dependent on computer screens to uncover the companies that ultimately find their way into our portfolios. No computer screen would have uncovered the valuable real estate that Tiffany owned.

A more recent example would be CBS, which was spun off by Viacom. Spin-off situations usually represent a fruitful area for stock picking, so this one caught our interest. We felt that each of the CBS's various businesses were worth more than the combined price of the company. Also, the old media companies were out of favor with many investors at the time. Furthermore, the company generated a lot of cash and was underleveraged relative to other media companies. It seemed that there was a lot of room for the company to buy back stock and increase its dividend.

A number of years ago we did an extensive report on the disparity that existed between the stock market values that were accorded old media companies and the acquisition prices that they commanded when acquired by a third party. A great many pundits were predicting old media was going the way of the dinosaur...It took a while but we were vindicated.

Q: What are the major challenges when holding contrarian views?

A: Often when you take contrarian views, or when you invest in areas neglected by the marketplace, you feel like an outcast. It's like getting to a party early and waiting for everybody to arrive. It can take several years before the market perceives what we perceive, but that's the nature of our investment style.

Of course, there have been numerous times when our portfolios underperformed the market. In the late 1990s we kept saying that technology stocks were blatantly overvalued and investors were going to get badly

bruised. We significantly underperformed the market for a couple of years, but were ultimately vindicated when technology stocks collapsed. During the next few years, the fund significantly outdistanced the market and more than made up for its underperformance. Again, while performance can be uneven, it compares favorably over longer time periods. Since the inception of our fund in May 1998, it has returned 8.14% annually versus 4.44% for the S&P 500.

So we tend to miss the fads when the market goes up for extended periods of time. But we understand that and we're willing to stand our ground. A year and a half ago we were feeling very uncomfortable with the real estate market and we talked about its inevitable collapse. Again, investors were saying that this time the demographics were different. Now, two years later, people are saying that it's going to be a short contraction, but we think differently because of the oversupply and the overvaluation.

Q: In terms of the media market and CBS, do you find similar value in New York Times and Dow Jones?

A: These are two companies that we happen to know fairly well and we like. In the case of Dow Jones, two years ago we estimated its value as significantly higher than the market value, and we felt that the business should be sold. I think that Dow Jones should be viewed not as a newspaper company, but as an information gathering business. What needs to be done is to expand the ways it sells information and generates income. Dow Jones has always been run by a journalist. But last year, a businessman began running the company - certainly a step in the right direction.

The differentiator in this case is the uniqueness of the assets with value beyond just the newspaper company. Being a standalone newspaper is tough because of the pressure on the margins. But there's value beyond just the actual press, which can enhance the value of the other brands. The Wall Street Journal, the newswire service of Dow Jones, can provide content for the programming to begin with. It can build awareness for the other media properties, and there's always going to be a place for outstanding original content.

One of the other catalysts here is the involvement of the Bancroft family, which has controlled the business for more than 50 years. The younger generation receives a lower dividend than the older generation and hasn't seen the stock going anywhere for more than a decade. That's why I believe that it is more willing to pull the trigger if the business is not turned around and now there's a greater likelihood for a transaction to occur.

Q: But Dow Jones keeps missing great opportunities, such as giving away the WSJ channel to CNBC or not buying Yahoo! when they could in the 1995 or 1996, etc.

A: Yes, they're awful with handling opportunities in cable, radio, and Internet, but it's still the newspaper with the highest circulation, and it is a trophy property. Thinking out of the box, this could be a completely different business four years down the road with the right management. There will be individuals and corporations that would pay much more for those assets, thinking they can generate better returns on investment.

Q: How would you describe your portfolio construction process?

A: We have a concentrated portfolio with very low turnover. We keep the number of securities in our portfolio relatively low, at about 40 stocks, and the top 15 stocks can represent about 50% of the portfolio. We believe in concentration because, if we understand the business and the value of a company, we'd rather make one big bet than buy 150 names and dilute the ownership.

Coming up with new ideas is extraordinarily difficult. If you get one or two really good ideas in a year, you're doing great. So our average turnover is probably 15% or 20%, and our after-tax return since inception almost mirrors our pre-tax return. We believe that what you keep makes the difference, not what you make.

Of all the companies we've ever analyzed in our publication, approximately 44% have been acquired at a premium to our analyzed price. The average company stays on the list for five to six years. So it takes time for the public market value to catch up with our view of intrinsic value, but the longer time periods minimize the transaction and the tax costs.

We have found that the biggest gains in our portfolio in terms of market appreciation are not in the first or second year but in year four, five, six, and seven. Many portfolio managers would end up selling a position if they make 30% or 40%, because they would consider it a good return. We think just the opposite and we tend to hold these stocks until they get really expensive.

Q: What type of businesses do you typically avoid?

A: We hate to invest in capital-intensive businesses and we very rarely invest in cyclical businesses, although there are periods when we can be penalized for avoiding cyclical companies. In our opinion commodity based businesses such as copper or steel are not good businesses. As soon as you get some pricing power, it is amazing how quickly new capacity comes on stream. On the other hand, if I own Walt Disney, I know it would be virtually impossible to replicate Mickey Mouse, who generates a predictable revenue stream each year.

Q: What's your view on risk management?

A: I believe that the risk is in the eyes of the beholder. When you buy out-of-favor undervalued businesses, you take out a lot of the inherent risk. If we can buy a company at a discount of 30% to 50% to our perception of intrinsic value, then a substantial part of the risk in the portfolio is removed.

We have no problem holding cash if we can't find something that we want to buy. If the market doesn't offer good opportunities, I won't buy something just for the sake of buying. I would rather sit and wait for the market to accommodate us.

Another way to manage risk is to go where the biggest disconnect between values is. If that means having a significant overweight in consumer discretionary, that's fine. We wouldn't invest in a sector just because of its allocation in a benchmark. We don't consider the overweight an additional risk if we are confident and accurate in our valuation. **T**

Boyar Value Fund

Symbol	BOYAX
Website	www.boyarvalue.com
Address	Boyar Asset Management 35 East 21st Street New York, NY 10010
Tel. No.	(800) 234-8581
Inception	5/5/1998

PORTFOLIO

Total Net Assets*	\$34.6
Avg Mkt Cap (\$ Weighted)*	\$61,300
Average Price/Earnings Ratio	18.57
Average Price/Book Ratio	2.83
Turnover Ratio	8.85%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$0.00
Min Initial IRA Investment	\$3,000

RISK (AGAINST S&P 500 - 3-YR)

Alpha	0.02
Beta	0.77
R-Squared	0.76
Ann. Std Deviation	6.04
Sharpe Ratio	0.85

RETURNS VS. S&P 500 INDEX

	BOYAX **(NAV)	BOYAX **(After tax)	Index
1 Year (Cum.)	19.27%	19.05%	15.80%
3 Year (Ann.)	8.26%	7.90%	10.44%
5 Year (Ann.)	7.43%	6.89%	6.19%
Since Inception	8.14%	7.68%	4.44%

RETURNS VS. RUSSELL 2000 INDEX

	BOYAX (NAV)	BOYAX (After tax)	Index
1 Year (Cum.)	19.27%	19.05%	18.37%
3 Year (Ann.)	8.26%	7.90%	13.56%
5 Year (Ann.)	7.43%	6.89%	11.39%
Since Inception	8.14%	7.68%	7.18%

FEES AND EXPENSES

Max Sales Charge - Front	5.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee***	2.00%
Total Expense Ratio	1.75%

PORTFOLIO MANAGER

Mark Boyar	1998
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* millions **Results exclude front-end sales charges

***within 2 months of purchase

Data through: 12/31/06

Source: Company Documents; Lipper

Ticker staff searches for mutual funds for their consistency in performance and durability of investment style.

Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

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