

Tracking Global Trends

Many important academic studies have shown that a globally diversified portfolio is safer, less risky and more diversified than just investing in the U.S. In the long-run, it is more important to get the long-term global market and industry trends right rather than individual company fundamentals. SHEPHERD LARGE CAP GROWTH FUND manager Paul Dietrich subscribes to these findings and tracks “Global Super-Cycle” trends by using a specialized relative strength tracking methodology.

Q: What is your financial philosophy?

A: We are active, global managers who focus on investing in long-term global trends or “Global Super-Cycles.” We also have active risk management “defensive investment strategies” that take us out of any global stock market during their bear markets or recessions.

We are guided by many academic studies, which show that a globally diversified portfolio is safer, less risky and more diversified than just investing in the U.S.

Given the problems in financial reporting in many emerging markets, our basic investment philosophy is based on the belief that by tracking and investing in “Global Super-Cycles” the fund stays invested in these long-term global investment trends that are outperforming global markets.

Again, because of questionable financial reporting in all markets, including the US (i.e. US sub-prime banking crisis reporting) our basic investment philosophy is based on the belief that it is more important to get the long-term stock market and industry trends right than individual company fundamentals such as multiples of earnings or sales or book value.

Two University of Chicago studies found that whether a stock goes up or down is about 50% related to the overall direction of the market itself; 30% to the sector or industry market direction; and only 20% was related to fundamentals. One of those studies also indicated that long-term stock market and industry trends

tended to persist and to last between 18 months to 4 years, with real estate and commodity cycles lasting longer.

For example, technology and telecommunications were the two major global trends from 1997 to the beginning of 2000. Sectors like bonds, real estate and commodity hard assets did very well during the 2000 - 2002 bear market and recession. Real estate and hard asset trends also lasted well into the recovery. Since 2003, major trends have been largely in commodities, oil, gold, energy, and Asia and emerging markets. Had you held a diversified portfolio of these “Global Super-Cycle” trend investments while they were in upward trends and sold them when the trends ended, your investments would have made a lot of money.

We may now be going through another super-cycle transition, since it seems we are now entering another bear market and possibly a recession. I think you will again see bonds, utilities, energy, gold and soft commodities like agriculture emerge as the new “Global Super-Cycles.”

In all this, the bottom line is, if the overall market and the industry sector for your investments are going up, chances are your stocks or your funds are going up, too.

Q: Given this investment philosophy, what is your strategy?

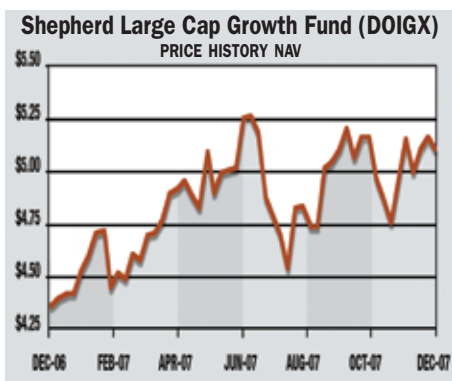
A: We are currently in the process of changing the name of this fund from the SHEPHERD LARGE CAP GROWTH FUND to the FOXHALL SHEPHERD GLOBAL FUND.



PAUL DIETRICH is the CEO of Foxhall Capital Management, located in Alexandria, Virginia. Foxhall currently manages investments for private investors, union pension funds, mutual funds and large private institutions throughout the United States.

Dietrich is an international corporate attorney and has been an advisor on privatization and economic development issues to the Czech government, the World Bank, as well as several governments in Asia and the former Soviet Union.

Dietrich has been a frequent contributor to the editorial pages of the *Wall Street Journal*, the *London Times*, and the *International Herald Tribune*. From 1994 to 1997, he was editor of both the *Reuters Emerging Markets Guide* and the *Reuters Asian Stock Sourcebook*. Dietrich is a member of the Advisory Board of the John Templeton Foundation.



Our strategy is to identify major global regional, sector and industry trends that we call “Global Super-Cycles” and then create a diversified portfolio that overweights these “Global Super-Cycle” investments.

We use a proprietary relative strength methodology to determine which global regions, sectors and industries are outperforming the S & P 500 Index. The basis for this methodology was developed some years ago at the University of Chicago. Over time, my Co-Chief Investment Officer, David Morton and I have refined the methodology and incorporated several other long-term relative strength studies. Without going into all the details, we basically calculate a weighted average over a one-year period of time and measure the relative strength of various global regions and sectors and we then try to overweight those sectors and industries that are both outperforming the S&P 500 Index and a money market fund. If it is not outperforming cash, I don’t want to own the investment.

An important part of our risk management strategy is that we always include money market funds (cash) and bonds in our investment universe. So if global markets or a regional market is going into

“First, we are active, global managers who focus on investing in long-term global trends or “Global Super-Cycles.” Secondly, we also have active risk management “defensive investment strategies” that take us out of any global stock market during their bear markets or recessions.”

a bear market or recession, our Foxhall Capital methodology would identify cash, bonds and possibly gold as the investments that are primarily outperforming the S&P 500 Index and our money market fund indicator. This means, that at some times, we can move our entire portfolio into bonds, cash, gold or other defensive investments. This is how our defensive investment strategy is implemented in our portfolios.

I view my role similar to that of a football coach. To win a football game a coach must have both a great offensive team and a great defensive team. Since the stock market is volatile, when the stock market is broadly going up I need to have an offensive investment strategy, which means I need to be in the market, fully invested. During a bear market or recession, however, the strategy should be to move into defensive asset classes and investments. Therefore, in a nutshell, our strategy is that we’re global investors who follow long-term “Global Super-Cycle” trends by using relative strength as our methodology and we don’t hesitate to move into defensive investments when any global market is going into a bear market or recession.

Q: How is your research process organized, given that Global investing involves looking at different countries and investment cycles?

A: As mentioned above, we invest in and track long term “Global Super-Cycles” trends that are outperforming global markets. We are really looking for and focusing on BIG and SUSTAINABLE global trends. We invest in large global companies and broad exchange traded funds (ETFs) that are liquid enough to trade and provide us with broad diversification.

I travel widely around the world and as a former international attorney who has represented the World Bank and major companies and governments throughout the former Soviet Union and in many Asian and emerging markets. Over the decades I have developed a large network of global industry analysts and contacts that I leverage to further my understanding of these global and industry trends.

Besides using our proprietary Foxhall Capital quantitative relative strength methodology explained above, I also gather global

trend information from newspapers and the research departments of major brokerage firms worldwide. I have internet subscriptions to almost every major business newspaper or publication published in Asia and other emerging markets. I also read (or at least skim through) hundreds of pages of research material sent to me daily by global research and government analysts through out the world.

I also believe that US companies that have a strong global emphasis will actually be the major beneficiaries of the global economic expansion currently going on in China, India and the rest of Asia and emerging markets. These global US companies are coming to dominate many of their industry sectors in these growing emerging markets. These US companies are very important players in these growing markets and will make a lot of money for their shareholders in the future.

Q: How do you find new sustainable emerging trends?

A: When you are analyzing thousands of stocks and ETFs and ranking them from highest to lowest based on our long-term relative strength methodology, you can clearly see the major global trends. Over the past year, those companies and ETFs that were in oil, oil exploration, global energy, gold, other precious metals, basic materials, agriculture, hard asset commodities, and some technology firms were the sectors and industries that were in the sustainable long-term global trends. Other “Global Super-Cycle” trends were plays on the falling U.S. dollar and Asian and emerging market growth, especially China, India and Brazil.

Besides our own internal research analysis, I constantly work with outside analysts who specialize in global markets and I avidly read government research statistics on every major Asian and emerging markets country. After years of studying global market trends you realize how perceptions of countries vary, for instance, although Hong Kong and Singapore are viewed as developed markets, most of their investments are directly or indirectly tied to China, which is still an emerging market.

Q: Can you illustrate your investment process with some historical examples?

A: Studying global market trends is a lot like the game of chess. It is all about “pattern recognition.” I try to identify these global patterns and see them in a larger context than just one country. For example, I look at manufacturing wage data from China. Wages in China are going up at a higher rate than some of their Asian competitors. Chinese manufacturers are now starting to open up new factories in Vietnam in a search for lower-cost manufacturing options. Vietnam is one of the next big investing opportunities and Vietnam is emerging as a major beneficiary of this new trend just like when Japan started to move many of its manufacturing plants to Thailand a decade ago.

Another area is agricultural statistics. Only about 25% to 30% of China and India’s land can profitably grow food for their almost 2.3 billion people. With a huge new emerging middle class in both of those countries, people no longer just want to eat rice and vegetables. They want protein-rich diets of meat and that takes a lot of imported grain.

It is not surprising to learn that 25% of all restaurant receipts in China last year went to US franchised food establishments. On every other corner in major Chinese cities there is a Starbucks, Kentucky Fried Chicken, 7-Eleven, Dunkin Donuts or McDonalds. For good or bad they are changing the eating patterns of all Asia. On the dark side, there are now emerging reports of obesity in more affluent Chinese children that just didn’t exist a decade ago. The South Korean government just announced it was banning soda sales in schools in order to combat the growing childhood obesity problem there.

However, this need for more feed grains for meat almost everywhere in Asia has created a tremendous rise in grain exports from countries like Canada, the United States, Europe, Brazil and Argentina. American farmers are now seeing a 65-year high in farm profits largely because of huge increased agricultural exports to Asia. Given the commitment here in the US and Europe to use more grains for Biofuels, this is a “Global Super-Cycle” that will not end for a long time.

This long-term agricultural global trend is really beginning to boost many Latin American economies, especially Brazil. I am therefore monitoring that area because it is often easier to invest in Latin American and especially Brazilian agricultural investments than US agricultural stocks.


I also think infrastructure spending in Asia is a sustainable investment theme. According to a recent Merrill Lynch report, Asian countries have allocated almost US\$3 trillion in infrastructure spending over the next 3 years. Since Asian countries have huge trade surpluses with the US, they have the dollars and if there is a recession in the US, infrastructure spending is always a good way to create new jobs as the US slows its buying of Asian goods. This will also support hard asset commodity prices.

Q: Since you operate in various currency zones, do you hedge your positions?

A: No, we let the companies we invest in do it for themselves; they know their markets and how to hedge much better than us. However, we do use some of the various foreign currency ETFs as a way to hedge against the long-term global trend of a declining US dollar. We consider these ETFs as part of our hard asset strategy.

Q: How do you protect your fund from risks?

A: Risk management is an integral part of our entire investment methodology. First, in global markets we try to always use a certain percentage of broad ETFs because they provide very broad diversification.

Secondly, we always try to maintain at least 10% of all our client accounts in hard asset commodities like oil, gold, and until early 2007, real estate. It is not just the inherent risk of investing in Asia and emerging markets—and now US banks and brokerage firms—but one has to realize it is a dangerous world out there. No investment manager can plan for some geo-political risk like 9/11. So, we try to be very conservative with our client’s money and we use oil, gold, other precious metals and other hard asset commodities as a hedge—a sort of insurance policy—against geopolitical risk. 

Shepherd Large Cap Growth Fund

Symbol	DOIGX
Website	www.shepherdinvestments.com
Address	Shepherd Funds 1613 Duke Street Alexandria, VA 22314
Tel. No.	800-416-2053
Inception	10/27/1992

PORTFOLIO	
Total Net Assets*	\$10.1
Avg Mkt Cap (\$ Weighted)*	\$11.5
Average Price/Earnings Ratio	20.85x
Average Price/Book Ratio	4.33x
Turnover Ratio	382%

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	N/A

RISK (S&P 500 DAILY REINV INDEX - 3 YEARS)	
Alpha	0.10
Beta	1.23
R-Squared	0.47
Ann. Std Deviation	13.93
Sharpe Ratio	0.60

RETURNS VS. S&P 500 DAILY REINV INDEX		
	DOIGX	Index
1 Year (Cum.)	16.48%	5.49%
3 Year (Ann.)	12.13%	8.62%
5 Year (Ann.)	11.60%	12.83%

RETURNS VS. RUSSELL MID CP TR IX INDEX		
	DOIGX	Index
1 Year (Cum.)	16.48%	11.43%
3 Year (Ann.)	12.13%	11.39%
5 Year (Ann.)	11.60%	17.90%

FEES AND EXPENSES	
Max Sales Charge - Front	4.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	2.25%

PORTFOLIO MANAGER	
Paul Dietrich	1999

*millions

Data through: 12/31/2007

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.

You can read more on this and other funds at Ticker.com