

Flexible and Patient

Symons Alpha Value Institutional Fund seeks long-term capital appreciation and invests in stocks that are out of favor and undervalued at the time of purchase. The Fund manager, Colin Symons, has a flexible approach to investing and believes it is important to understand that times change.

What is your investment philosophy?

We usually buy stocks that people have given up on and that have become cheap. We think these stocks represent risk averse opportunities to make money, and they tend to be fairly boring companies. I like to say we buy stocks when they are at sad valuations and sell them when we think they are trading at happy valuations.

Since the start of 2000 I have been practicing this philosophy of identifying stocks that are undervalued.

Why do you like to buy stocks that are out of favor?

That tends to be where it is relatively easy to make excess return on capital. It's easier to make excess returns in an uninhabited space. For instance, it seems to be very popular to try to make money based on very short-term trends. Well, if the whole world is sitting there trying to make money by trying to guess what the next data point is, that makes it difficult to make the money in that space because you have to be the first guy there and you're competing with a thousand other people to capture that price. If you invest in a way that is relatively quiet, then your competition is less.

One of the first stocks that I bought was Sunoco in 2000. At that time, the stock had not been that popular and hadn't gone up for years. However, we decided there hadn't been any refining capacity added for years. It's not exactly simple to add capacity to a refiner and there was real potential there. We picked it up at about \$15 and we sold it in 2006 at about \$78.

What is your investment strategy and how do you seek value?

I've spent a lot of time trying to find a magic bullet for picking stocks to outperform the market and there are a lot of good ideas out there. But it turns out to be a question of what I consider to be diversification, where we don't like to buy all of our companies based on the same metrics.

For instance, we bought Disney in 2001 and, when we bought Disney, it had a P/E of 100 because the price was way up there. It had a P/E of 100 because with the 9/11 attacks nobody went to Disney for a while so it had no earnings. We decided that was going to change and we were willing to invest in Disney with a P/E of 100.

We use a variety of methods to pick companies. With an energy company, we might pick it because it has a low price-to-book value. If you look at their assets on their balance sheets versus the price, it looks good. If we're going to buy Kraft, we're probably going to buy it on the basis of low P/E because it tends to have steady earnings, so we're just going to wait until the price goes down a fair amount compared to those earnings and we will pick it based on that.

What is your research process?

We tend to use an old-fashioned method, which is reading and thinking a lot. There isn't any seven factor model that we have because times keep on changing, so we just sit here and read. For instance we will consider if the government has these stimulus plans for how to resuscitate the worldwide financial space, and



COLIN E. SYMONS, CFA, is Chief Investment Officer and Portfolio Manager of both the Symons Capital Management Value and Capital Appreciation strategies, and co-manager with Mr. Foran of the Small Cap strategy. In conjunction with his portfolio management responsibilities, he oversees and is principally responsible for the company's independent equity research.

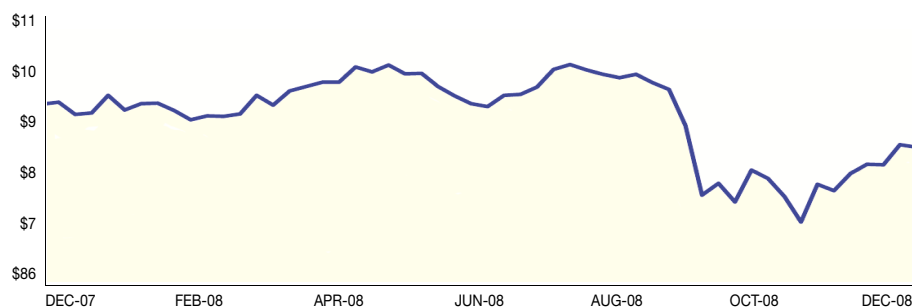
Symons joined Symons Capital Management in 1997 after working as a software developer in Washington D.C. and New York, concentrating on financial services applications for entities such as Chase Manhattan Bank and the Internal Revenue Service. While he was a software developer, Symons earned the prestigious designation of Microsoft Certified Solution Developer.

Symons earned his BA at Williams College in three years, at age 20.

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Performance - Price History N.A.V.

Symons Alpha Value Institutional Fund (SAVIX)



	2006	2007	2008
Russell 3000 Value	N/A	-1.01%	-36.25%
SAVIX	N/A	1.97%	-13.21%

how is that going to affect things? How tight is credit for some of these companies?

What we tend to do is fairly flexible. We tend to reject the idea of there being a very set process for how you go about picking stocks. How we generally start off is with stock screens. I don't view that as particularly value added. Stock screening is one of the fundamental things that everybody does. I don't think that we add a whole lot of value with that, but we tend to look at things like price to earnings ratios, enterprise value and EBITDA, and return on equity. We use a slightly different version of return on equity, which is economic margin, but it's the same basic idea. We look at these factors that I think many other people tend to look at as well.

From that start, we're just trying to get an above-average selection of stocks to look at.

Next, we'll start taking a closer look at the stocks. We tend to get a similar selection of stocks from month to month. This is because we screen on fundamental factors. The fundamental factors tend to change only gradually. Price tends to change a lot more rapidly than the fundamentals change. Therefore, oftentimes, when we pull up these screens it will be many stocks that we've seen recently. We can just go off last month's research to determine whether anything has changed. If it hasn't, then we skip it. Then, we will try to find some better stocks or find some good stocks from those screens.

Do you have limits on sector exposure?

Yes, we do. That's a question of risk controls where, step one, you want to understand where you're taking risks. That sounds simple, but I think a lot of this stuff is simple when you come down to it.

Back in 2000 when I started doing this process, we had a relatively simple risk control process, diversification, where we wanted to be within 5% of the S&P 500 weightings of a sector. At the time, telecom was about 15% of the S&P, which implied that we needed to own about 10%. At the time, we put 5% of our capital into one telecom stock, which meant that we had to buy a second company in order to meet our diversification requirements. We first picked Alltel, which is a regional carrier. We thought that they represented a good buy. Then we needed to buy a second one and I had a hard time finding another good stock in telecom at the time.

So we decided to focus on the idea that even though we want to be diversified, we're not always fully diversified. That's what we try to look at now. We try to diversify in a way that is beyond just looking at sectors. We want to buy a mix of stocks that don't depend on the economy so much and some that do depend on the economy. We want to buy stocks that will do well if the dollar goes up and we want to buy some other stocks that do well if the dollar goes down. We want to be relatively diversified within that conceptual spectrum.

You want to be aware of where and whether you're willing to take risks. We don't want to buy too much that depends on the

economy to do well. That's where we try to come up with a relatively steady and risk-averse performance for people.

It seems that you have a flexible approach to investing and you are willing to ride the business cycle?

I'd say that's true. I think that it is important to understand that times change. For instance, in 2003, we had what I would consider to be some heavy-handed government intervention which encouraged lending. And at the time the banks had the balance sheets to do that. It was reasonable to believe anybody who wanted access to capital was going to get it. It made relative sense to be willing to invest in some risky companies because you knew that they were going to get the capital and the capital was probably going to have an effect. Presently, we're at the diametric opposite of that.

Then, in terms of the business cycle, we deal with that where we will pick up a company that has fallen out of fashion simply because the business cycle has gone against them for a bit. We think that they are a sustainable business and we're willing to buy them and wait. We try to have a very long-term outlook on things. We don't invest based on what's going to happen over the next three months. We're trying to buy a stock and hold it for at least a year and, ideally, we're going to hold it for six or seven years.

The past is useful to look at, but you can't completely defer to it. You have to understand that things can change.

Any more examples of your picks that illustrates your buy and sell discipline?

We bought Hasbro in April of 2001. At the time we were coming off of a period where value stocks in general had been kicked down until the end of the first quarter of 2000. Hasbro had tried to join the tech revolution with their Hasbro Interactive Division, which worked out horribly. They lost a lot of money trying to go into the computer game business. These businesses tend to have ups and downs. While Hasbro fundamentally is a steady company, they still have ups and downs and they hit a down. They had their Hasbro Interactive mess, they weren't selling particularly well, and everybody was down on them. We bought them in April of 2001 at

\$11.63 on the idea that they were cheap and they were a sad stock that nobody wanted. The other thing at the time was they'd paid a tremendous amount of money to get the licensing for the Star Wars series. Star Wars was coming out with their three new movies. They gave away something like 20% or 25% of the company to get that license.

With Hasbro, to me, the Star Wars deal was neutral because it looked like they were going to make about enough money in the first several years to meet their obligations. On the flipside, the rest of their business was too cheap, so we decided to invest at the time because the Star Wars deal was revenue neutral and the rest of it is too cheap. We ended up selling in April of this year at \$34.45.

One of the real problems of investing in sad stocks is it takes a fair amount of emotional toughness where you have to be willing to deal with the slings and arrows. Things can change.

How do you build the portfolio and what are views on diversification?

In terms of the portfolio construction, we do a couple of things. First, we invest in at least 25 to 35 stocks. We think that there are a larger number of attractive companies out there, which allows us to invest in more companies. In addition, it helps us to steady our performance more so we're not invested too heavily in any one company. Many mutual funds think that even investing in something like 35 stocks is a small number, but there is a balance between diversification and investing in companies that you truly believe are good companies.

Step one with that is we just want to have a good idea of where we're taking risks. At our peak we had around 25% of our assets in energy stocks. That was risky, but we thought that it was a reasonable risk. That was in 2005 or 2006 where we thought that it was a reasonable risk given our investment opportunities. Currently, we have about 19% of our portfolio in food products. That is a risk. It's a risk that has generally worked out well, but it is a risk that you want to identify. So, number one is just understanding where you're taking risks.


Then going a little further into that is the idea of diversification where you want to, to the extent possible, spread out where you are taking risks. In the past we have generally not had a great relationship with financials. We just haven't been comfortable owning financials for most of my career.

One way to cope with that is we have invested in retail instead. Retail and financials tend to go together. They are both affected by what amounts to consumer credit or consumer activity. We decided that we could avoid investing in banks by investing in retail instead. That is the question of diversification. So if things go well and the banks do well, we might not perform as well as if we held banks, but we're still going to be participating in that rally through our ownership of retail.

What kinds of risks do you see and how do you manage them?

Number one, you want to try to identify where it is that you're taking your risks. Things can change with that. A good example of that is energy. It used to be that energy stocks would tend to trade inversely with a lot of the market, but these days, energy stocks and oil, for that matter, trade with the market and you just want to be aware of what the nature of your risks are. That's how, in my mind, you can watch a lot of these financial companies go out of business. It's because they didn't realize the extent to which they were doing things that were very leveraged. So I think step one is to just try to be very aware of where it is that you are taking risks because, if you don't know where you're taking the risks, then your exposure to getting hit by that is a lot higher.

I'm aware of the fact that we are invested fairly heavily in anti-economic strength stocks and that's a risk. It's a risk that we're willing to take, but you have to know that you're taking that risk and if people decide that the economic is going to be rounding a corner here, then we're going to under-perform. You just need to know that.

The second thing is just to know how your different stocks move together. If your stocks are all going to be affected by the same thing, then you have to be aware of that and you have to decide if you're comfortable with that or not. 

Symons Alpha Value Institutional Fund

Symbol	SAVIX
Website	www.scm-funds.com
Address	Symons Capital Management 650 Washington Road Suite 800 Pittsburgh, PA 15228-2702
Telephone	610-648-3851
Inception	12/22/2006

PORTFOLIO	
Total Net Assets*	\$8.5
Avg Mkt Cap (\$ Weighted) *	\$17,200
Average Price/Earnings Ratio	14.91x
Average Price/Book Ratio	3.92x
Turnover Ratio	N/A

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$250
Min Initial IRA Investment	\$2,500

RISK (AGAINST S&P 500 DAILY REINV IX - 3 YEARS)	
Alpha	N/A
Beta	N/A
R-Squared	N/A
Ann Std Deviation	N/A
Sharpe Ratio	N/A

RETURNS VS. S&P 500 DAILY REINV INDEX		
	SAVIX	Index
1 Year (Cum.)	-13.21%	-37.00%
3 Year (Ann.)	N/A	-8.36%
5 Year (Ann.)	N/A	-2.19%

RETURNS VS. RUSSELL 3000 VALUE INDEX		
	SAVIX	Index
1 Year (Cum.)	-13.21%	-36.25%
3 Year (Ann.)	N/A	-8.26%
5 Year (Ann.)	N/A	-0.72%

FEES AND EXPENSES	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	1.49%

PORTFOLIO MANAGER	
Colin Symons	2006

*millions ** within 2 months of purchase
12/31/2008; Source: Company Documents; Lipper

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