



Pulse Research Partners

Monthly Independent Research Snapshot



Cirrus Research
Small and Mid Cap Strategy

Risk Aversion Slams Equities in August

Talk of a double-dip was thick in the August air as equities posted severe declines on light trading volume. Selling pressure pushed Large Caps 4.4% lower, rippling through Mid (-4.8%), Small (-6.0%) and Micro Caps (-8.5%). The selling was broad based as a high quality bias was also adversely affected in the downdraft but, by and large, outperformed. Anti-risk sentiment was also very evident in factor results for the month.

Among sectors, Utilities, Materials and Real Estate exhibited greatest resiliency. Transports, Consumer cyclicals and Financials took the biggest hits. Higher quality and lower risk factors outperformed on a relative basis as investors sought safety.

The sting of high correlations continued to shackle the performance of our active portfolios. High Quality Growth generated the most constructive results; Deep Value saw the greatest decline. The Quality pillar remained quite resilient across the board while the Business Momentum and Value pillars gave up significant ground.

New Research

Small Cap Sector Workbench

Preoccupation with debate over a potential double dip distracts from opportunities presented by valuation disparities in the Small Cap space. This Workbench provides a detailed snapshot of the 14 economic sectors in our Small Cap universe, utilizing 30 years of data that illustrate key measures such as performance, earnings revisions, long-term growth forecasts, margins, short interest and valuations.

Model Behavior: Growth Models fade Retail

The overweight to Consumer Discretionary shares has been cut in half in some of our Growth blends. Small Cap GARP blend is half the level seen three months ago. The falloff was more severe in Micro Cap. This is partly explained by recent price weakness in Retail shares, which can fade price momentum signals of the active blend. A closer look also indicates that sell-side analysts have begun to shave forecasts going out into next year. While valuations should offer some constructive support for this sector, expectations were ratcheted high.

Briefing: Europe/UK (*This new monthly examines market dynamics, factor performance and model behavior for SMID market in Europe and the UK.*)

Economic growth concerns brought forward by soft US macro data had an impact on European equities in August. European/UK SMID declined 1.7% and 0.6%, respectively, significantly less than US Small Cap. European economic data were more encouraging, especially in Germany, where GDP and exports grew above expectations. European Economic Sentiment Indicator improved further in August. Consumer Confidence also showed considerable improvement, raising hopes for an internal demand- (vs. export) driven recovery.

- **In Europe**, leadership came from defensives, with Telecom, Staples, Utilities and Health Care gaining. Tech and Business Services lost most value. Regional Banks outperformed Financials. Factors reflected a pullback in risk taking with low leverage, High ROA and High ROE leading and High Beta lagging on a relative basis. Price Momentum added value.

- **In UK**, sector leadership lacked a uniform theme, as defensive Telecom and Utilities advanced along with Energy and Materials. Discretionary, Tech and Transports declined most. Higher quality factors gained as did Price MO and Earnings MO measures.

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Thompson Research Group
Industrials/Building Materials

Industrials – Midterm Elections – A Pachyderm Possibility – 8/16/10

Having recently celebrated our country's most patriotic holiday, TRG decided to focus on the potential results of our most patriotic duty. With midterm elections a mere two and one-half months away, we examine the impact of a likely strong GOP showing in November. We project the key winners and losers, who will likely head critical committees in both the Senate and House under GOP control, and what impact a Republican led Congress could have on highway spending and broader infrastructure projects.

Building Materials – August Wallboard Distributor Update – 8/17/10

We were reminded over the past several months that sentiment in the wallboard industry can change on a dime, and as such, we are moving to publish these types of surveys on a monthly basis. We recently surveyed domestic wallboard distributors nationwide (covering an estimated 500+ locations) to gauge current pricing and volume trends. This report outlines our survey findings.

Industrials – Q3'10 State DOT Survey – 2010/2011 Budgets Up, Concerns Linger - 8/25/10

Our final 2010/2011 state DOT survey shows a slightly better budget outlook than in the previous year –

up 3.3%. ARRA spending is on track and several states indicate cautious optimism regarding a gradual increase in tax collections. The eventual winding down of ARRA and a lack of clarity on a long-term highway bill resolution, however, are threatening future DOT projects. Alternative funding sources such as tolling, Public-Private Partnerships, and BABs may play larger roll.

Construction Equipment – When in Doubt, Rent it Out – 8/31/10

Coming into the end of a long hot summer, we wanted to take a step back and look at our equipment coverage and assess the state of the market currently. We outline our current thinking regarding the construction market. The current environment is creating a ripe opportunity for the equipment rental industry in our view.

The logo for Conatix LLC, featuring the company name in white, bold, sans-serif font inside a black rounded rectangle.

Consulting. Mindfully.

Together with its research partners, Conatix applies multiple methodologies to its coverage of the environmental and sustainability sector. This month we would like once again to highlight recommendations we have adopted in cooperation with Intelligent Recommendations (<http://www.IntelligentRecommendations.de>) in Hamburg. We have culled user recommendations of companies active in various environmental segments from IR's self-regulating online investment recommendation system. Intelligent Recommendations harnesses the power of collective intelligence to aggregate stock recommendations from hundreds of users. These crowdsourced recommendations perform better than those of the majority of fund managers. Each month since its inception, the IR collective model stock portfolio has outperformed benchmark indices for equities and equity funds.

IR summarizes user recommendations in a model stock portfolio that recommends stocks under different time horizons and risk classes. Users declare their preference for one of five risk classes:

- 1) **risk-loving** (100 percent "risky" investments, 0 percent "safe" investments)
- 2) **risk-tending** (75 percent "risky" investments, 25 percent "safe" investments)
- 3) **risk-balanced** (50 percent "risky" investments, 50 percent "safe" investments)
- 4) **risk-averse** (25 percent "risky" investments, 75 percent "safe" investments)
- 5) **risk-shunning** (0 percent "risky" investments, 100 percent "safe" investments).

Users make recommendations independently of each other, so that they cannot see the recommendations of other users. Each user only sees the collective recommendations after making his or her own individual recommendations, which are then added to the collective. This helps the system to avoid enabling speculation.

Recommendations in the collective model stock portfolio for all risk classes and for all stock indices (including mutual funds) regularly outperform comparable indices. Stocks comprising the IR collective model stock portfolio as of August 2010 outperformed comparable indices over the previous eighteen-month period by 20.1 percent.

We have selected companies from each risk class of the IR model stock portfolio that are active in one or more environmental/sustainability segments to highlight this month.

In the **risk-loving** risk class, Nordex <http://www.nordex-online.com/en/> was recommended by IR users for the time horizon of 0 to 2 years. This stock was adopted by IR users and included in the collective stock portfolio beginning in August 2010.

In the **risk-tending** risk class, Warburg-Zukunft-Strategiefonds, DE0006780265, http://www.umweltinvestmentfonds.de/home/warburg_zukunft_strategiefonds.php and listed at the link <http://www.warburg-fonds.com/?id=122> was recommended for the time horizon of 3 to 6 years. This stock was adopted by IR users and included in the collective stock portfolio beginning in August 2010 in the investment area "fund of funds."

In the **risk-balanced** risk class, BayWa <http://www.baywa.com/> including BayWa green energy was recommended for the time horizon: no time horizon. Since BayWa was adopted into the model stock portfolio in December 2009, it has made gains of 12.8 percent, vs. 8.6 percent gains by the MDAX index during the same period.

In the **risk-averse** risk class, SMA Solar <http://www.sma.de/en.html> was adopted by the IR collective model stock portfolio for the time horizon: no time horizon. This stock was adopted by IR users and included in the collective stock portfolio beginning in August 2010.

Also in the **risk-averse** risk class, Conergy <http://www.conergy.com> was adopted by the IR collective model stock portfolio for the time horizon 3 to 6 years, beginning in July 2009. Since its adoption, this stock has demonstrated performance of -13 percent, worse than the 10.2 percent performance of the TecDAX during the same period.

In the **risk-shunning** risk class, there was no environment-related stock in the IR collective stock portfolio.

Users of the IR collective intelligence platform can also choose their own asset allocation, which then becomes part of the aggregate asset allocation in the IR collective model stock portfolio. More information (in German only at present) about the collective asset allocation is available on <http://www.intelligentrecommendations.com/index.php?path=presse> .

For more information and English language summaries of the present collective asset allocation, or to subscribe to the collective model stock portfolio (and to join the crowd and participate in the formation of collective wisdom about the performance of environment-related and other securities), please contact David Lehrer, Conatix david.lehrer@conatix.com or Corvin Schmoller, Intelligent Recommendations cs@intelligentrecommendations.de .

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About Our Organization...

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