

# CONTRAVISORY Insights

A Quarterly Investment Perspective

## IN THIS ISSUE

### CONTRAVISORY NEWS

CONTRAVISORY  
EQUITY PORTFOLIO  
- PG. 2 -

INTERNATIONAL  
INVESTING MADE EASY  
THROUGH ADRS  
- PG. 3 -

CONTRAVISORY JOINS  
SOUTH SHORE HOSPITAL  
PRESIDENT'S CIRCLE  
- PG. 3 -

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## CONTRAVISORY

RESEARCH & MANAGEMENT CORP.

## LETTER FROM THE CHAIRMAN

### BULLISH RETURNS PERSIST

Following a year when equity returns were robust for sure--the S&P 500 Index advanced 15.8% in 2006, and the average diversified equity manager achieved a 12.6% result--the first quarter of 2007 has continued in a high-energy fashion. Equity managers have reversed their one-year lag, realizing an average return of 2.1%. This exceeds the S&P benchmark which struggled to a 0.6% performance. It wasn't a smooth quarter. You may

Viewing these returns by Morningstar "style box" categories provides a fuller picture of the quarterly investment returns.

Mid-Cap Value	+4.3%
Mid-Cap Growth	4.2
Small Growth	3.4
International	3.4
Small Value	2.8
Large Growth	1.1
Large Value	1.0
<b>S&amp;P 500</b>	<b>+ 0.6%</b>

remember that these positive results were attained following a shaky January and a late-February one-day crunch of -3%. Apparently the combination of ample market liquidity and a bullish consensus outlook on global economic prospects were adequate to lift the equity markets by quarter-end.

It is striking how the *mid-cap* categories continue to generate superior returns, while the *large-cap*, particularly large *growth*, continues to struggle. *International* persists as a high-performing segment, as well. We discuss the international markets within this quarterly newsletter.

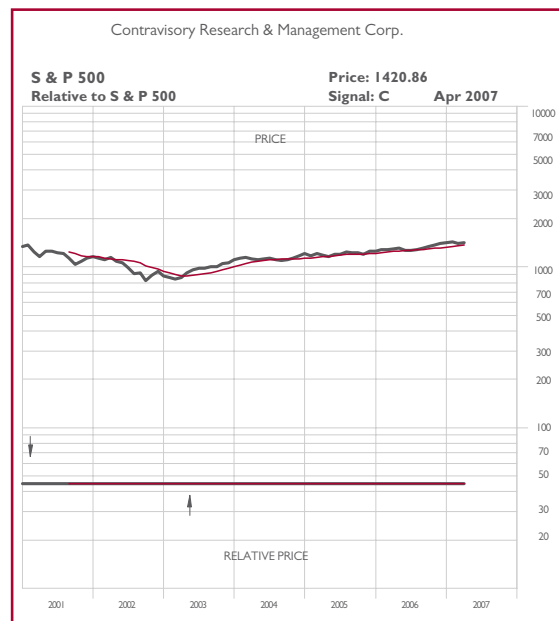


G. Edward Noonan, Chairman

### MARKET TRENDS ARE POSITIVE

You have probably noticed how financial market types behave as though they (we) have all the answers. Yet, we often disagree over both the *outlook* and the *reasons* why trends change and *how* stocks react to news. The facts presented may be fundamental, quantitative, technical, or a combination of all three. A highly complicated and cogent argument may be presented, but ultimately *trends tend to persist*. In April of 2007 the market *trend* (as defined by the S&P 500) is favorable. It reversed from a clear downtrend to an uptrend in the second quarter of 2003. This fact is very apparent from the adjacent chart of the S&P.

Our point is that, whatever arguments may be presented currently on the U.S. equity market outlook, the *current trend is favorable*. This will continue indefinitely and until evidence accumulates that a change has occurred. At this point the most powerful indicator on the market--its *trend*--is constructive. Let's enjoy the ride!



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# CONTRAVISORY Insights

## CONTRAVISORY EQUITY PORTFOLIO (Long-Only Equity)

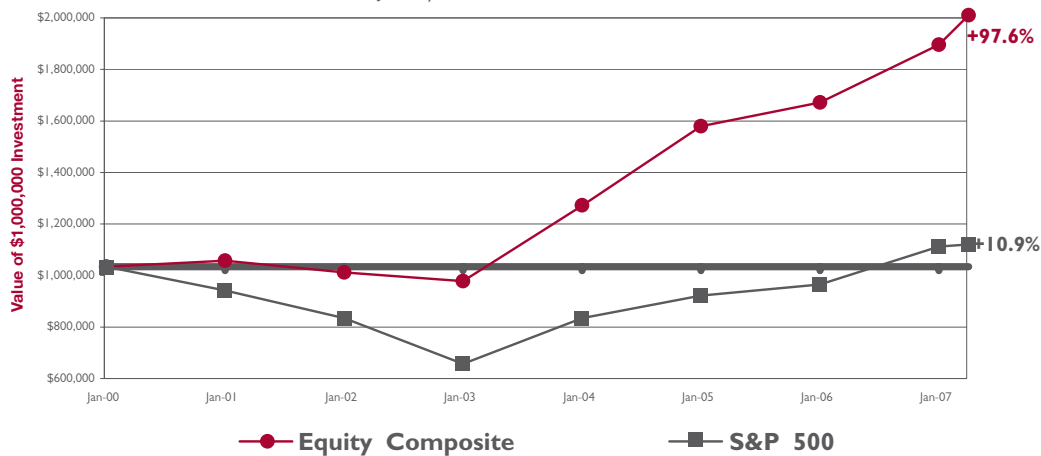
Gross Composite Returns Through March 31, 2007

### Annual Returns

	2000	2001	2002	2003	2004	2005	2006	2007
Equity Composite	2.37	-4.44	-3.48	31.10	24.84	6.00	13.70	6.13
S&P 500	-9.15	-11.91	-22.15	28.62	10.92	4.84	15.80	0.70
+/-	11.52	7.47	18.67	2.48	13.92	1.16	-2.10	5.43

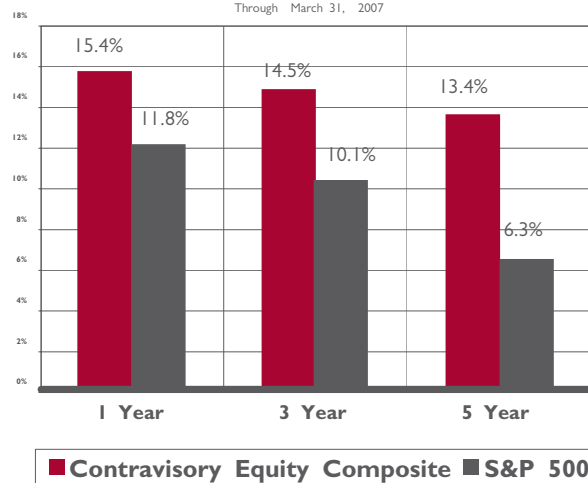
### Cumulative Returns

January 1, 2000 - March 31, 2007



### Average Annualized Returns

Through March 31, 2007



### Down Market Analysis

Year	S&P 500	Equity Portfolio
2000	-9.2%	2.4%
2001	-11.9%	-4.4%
2002	-22.2%	-3.5%

Number of Negative Market Years = 3  
 Contravisory Outperformed = 3  
 Success Rate = 100%

**Disclosure:** The Equity Composite contains fully discretionary equity accounts and for comparison purposes is measured against the S&P 500 Index. Contravisory Research & Management Corp. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS). Contravisory is a registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request. Past performance is not indicative of future results and an investor could lose money by investing in a portfolio of securities based on the Contravisory Equity Portfolio (Long-Only Equity).

## A Quarterly Investment Perspective

### INTERNATIONAL INVESTING MADE EASY THROUGH ADRS

During the past few years, Contravisory clients may have noticed that their portfolios have taken on some *international exposure*. It is likely that these clients have been pleased with the results. International markets have been a source of impressive investment returns during the past four years. The EAFE (Europe, Australia, and Far East) Index is an unmanaged, market-value weighted index designed to measure the overall trend of overseas markets. The bar chart on the right demonstrates the powerful returns of the EAFE Index since 2003 and how those results compare to the S&P 500 results.

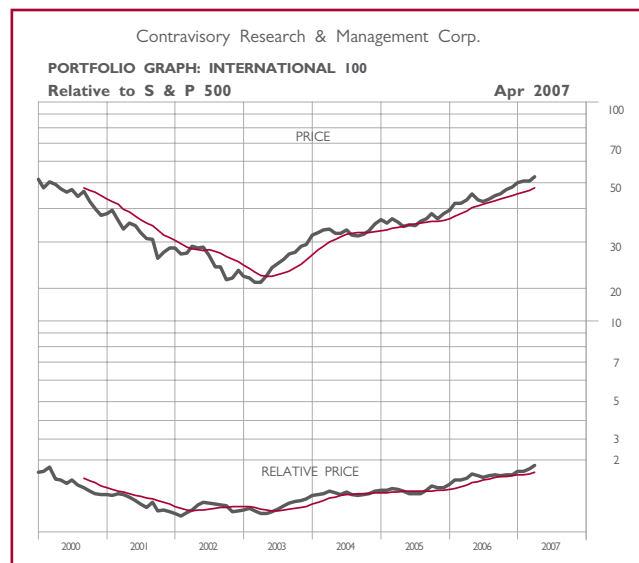
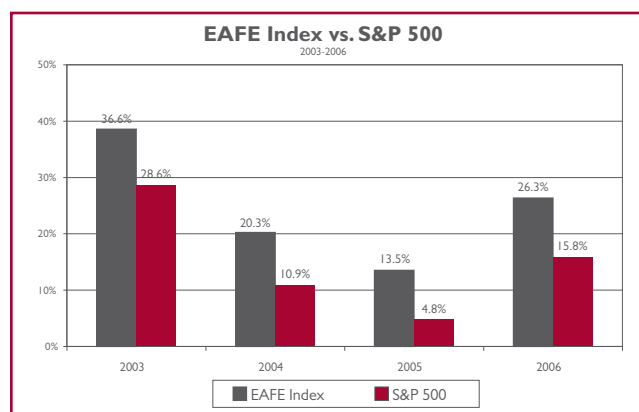
The accompanying linear chart further illustrates the powerful advance of international stocks. This chart was constructed using the equal-weighted price history of the approximately 100 international stocks Contravisory covers in our research universe. As you can see, the average international stock in our universe has increased by over 140% since 2003.

Contravisory has made note of the tremendous opportunity in the overseas markets and has capitalized on this trend through the purchase of several ADRs for client portfolios. An ADR (American Depository Receipt) serves as a way to facilitate the trading of foreign stocks in US markets in a simple and efficient manner. ADRs are created when a domestic investment bank purchases a large amount of a particular stock in a foreign market. The shares are then registered with the SEC, issued, and subsequently traded in the domestic market in the form of an ADR. Investors buying ADRs are thus purchasing shares of a foreign security in the US marketplace using US dollars, avoiding the hassle of foreign currency conversion.

Contravisory currently owns four ADRs in our *Equity Portfolio*, comprising approximately 12% of the portfolio. Below is a summary of our four ADR positions and their performance since their respective initial purchase date:

Security	Country	Initial Purchase	Purchase Price	3/31/07 Price	Gain/Loss
Volvo	Sweden	3/04	32.16	84.07	<b>+161%</b>
Ryanair Hldgs	Ireland	4/06	27.32	44.79	<b>+100%</b>
Bayer AG	Germany	12/06	51.85	63.97	<b>+24%</b>
Ahold	Netherlands	1/07	10.66	11.74	<b>+10%</b>

While the past four years have been particularly impressive for international markets, Contravisory remains optimistic that this powerful trend will continue. As a result, we will continue to seek additional buy opportunities through ADRs for client portfolios.



#### CONTRAVISORY NEWS

#### CONTRAVISORY JOINS SOUTH SHORE HOSPITAL PRESIDENT'S CIRCLE

South Shore Hospital, a not-for-profit hospital for the 600,000 residents of Southeastern Massachusetts, has recognized Contravisory's philanthropy efforts by inviting the firm into the esteemed President's Circle. Membership in the President's Circle is limited to President's, CEO's, and Principals. These individuals represent business owners and managers of various industries including investment, legal, insurance, and service companies. These firms are helping to raise more than \$16 million in order to expand the South Shore Hospital facilities (specifically, the emergency, maternity, and surgery wards).

## WHO IS CONTRAVISORY?

Contravisory Research & Management Corp., founded in 1972 by G. Edward Noonan, Jr., has been providing its proprietary equity research service to leading financial institutions for more than 34 years. Recognizing the success of both the buy and sell recommendations formulated by its equity research, Contravisory has been managing equity portfolios for high-net-worth individuals, families, family businesses, and profit sharing plans since 1992.

Please contact us at **781-749-3380** or visit **WWW.CONTRAVISORY.COM** for a *complimentary investment consultation* and to find out how Contravisory Research & Management can work for you.

**CONTRAVISORY**

RESEARCH & MANAGEMENT CORP.

## WHAT MAKES CONTRAVISORY UNIQUE?

- ❖ Our investment decisions are based upon more than 34 years of successful research experience and application.
- ❖ Our research methodology is independent, disciplined, and proven. The investment results have been superior for both buy and sell decisions.
- ❖ Our research input is internally-generated. Its application to portfolio management is comprehensive and highly disciplined. We do not rely on any input from “Wall Street” or corporate sources.
- ❖ Our investment approach is non-correlated to most other managers, making our products attractive for those seeking style diversification.
- ❖ Contravisory is a family business, ensuring continuity in our relationships.
- ❖ We succeed only when our clients succeed. As a fee based investment advisor, the success of our management team is tied directly to the success of our clients.

## Equity Research Investment Management

A Quarterly Investment Perspective

**Q2**

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