

Contravisory Launches Small Cap Product

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Over the past few years many of our investors have been asking for additional investment strategies to compliment the Contravisory Equity Portfolio which invests primarily in mid to large-cap stocks. After researching the possibilities, we decided to launch an all equity small cap product during the 2nd quarter of 2005.

Small cap stocks are typically new or relatively young companies that have a market capitalization between \$300 million to \$2 billion. Although their track records usually aren't as lengthy as compared to mid to large caps, small caps do present the possibility of greater capital appreciation over time – but at the cost of greater risk.

Weighing the Risk vs. Reward

The risk is based on the greater likelihood of smaller companies going out of business, the higher volatility in the stocks market performance of small caps, and the fact that mid to larger cap stocks have greater liquidity, which makes it easier for investors to exit these stocks.

Small caps also may be reliant on one or two product lines, which can make them more vulnerable to changes in market demand. Furthermore, larger companies tend to pay higher dividends. This reduces losses for investors when the stock market falls in value. Small caps tend not to have this cushion.

Dazzling Returns

Despite the greater risks involved, small cap stocks offer potentially greater returns than large companies (see accompanying chart). There is greater choice for investors among small caps and, as they tend to be less researched than large caps, there can be better

opportunities to gain out-performance. It is difficult, for example, for a company like Microsoft or Pfizer to double its earnings without a substantial acquisition.

Similar to the Contravisory Equity Portfolio, the small cap product is managed using the same methodology which is predicated on long term relative price trend analysis. It too invests in approximately 40 individual holdings at any given time. The small cap also has similar sector and industry group weightings with greater concentrations in those areas showing evidence of powerful up trends.

Small cap investing is not for everyone; however, for those with a reasonable time horizon and proper asset allocation, the rewards can be very fruitful.

For more information about the Contravisory Small Cap Equity Product or to request performance results, please contact Philip Noonan, Vice President of Contravisory at 781-740-1786 or send an email to pnoonan@contravisory.com.