



PERSPECTIVES

June 2014

Meeting Your Expectations

When asked what we do, the complicated answer is: “We analyze and invest in securities in various asset classes we deem to be priced at a significant discount to calculated fair value derived from a bottom-up process of fundamental analysis.”

Or the overly simplistic answer is: “We take a chunk of money and try to make it bigger.” Neither answer is really satisfactory. In fact, what we do for clients is as varied as the clients themselves.

For **Institutional** clients, we are stock pickers. We analyze companies and construct the small cap or all cap equity sleeve of an overall asset allocation formulated by the client’s consulting firm. While this part of our business is quite specific, we still have flexibility derived from tolerance for cash levels, social screening, and other mandates that may cause portfolio characteristics to differ.

For **Wealth Management** clients, we fill different roles. For most, we try to garner a reasonable rate of return while controlling risk. It is not all about outperforming an index in every market. We realize that clients have entrusted us with their money, and we exercise a fiduciary standard of care to make sure we continue to earn that trust.

For all clients, in addition to our Core Values, we adhere to the following principles: our financial interests are aligned with our clients; substantially all of our liquid personal wealth is invested right here; we have no conflicts of interest with our clients; we are not a broker / dealer and do not charge commissions; we think so-called soft dollars and 12b-1 fees should be illegal and we do not accept them; and when transacting on behalf of our clients our only interest is seeking best price and execution.

Brokers and salespeople working on commission are not bound by the fiduciary standard and are not obligated to place the interests of a client above their own. Unlike the brokerage houses, we do not do any investment banking business and do not push companies that pay us fees.

Our investment decisions are based solely on the merits of the company. All transaction costs are charged by the firm where we bought or sold for our clients. We do not participate in such costs and strive to negotiate them as low as possible. Sales charges and commissions benefit salespeople, not investors.



Our clients are diverse: foundations; endowments; public and private retirement plans, including Taft-Hartley plans; businesses; trusts; and individuals and families.

Although there is only one Buy List for all clients, portfolio construction for **Wealth Management** clients is customized based on expressed needs. Some clients want to be fully invested, others are comfortable with a greater cash allocation. Goals and objectives, time horizon and risk tolerance are key. Tax management can play a part.

We generally disfavor the fixed income asset class presently due to availability of other superior vehicles to generate income, but can and do add bond exposure based on client-specific criteria.

Ultimately, we meet your expectations by building a **Customized Multi-Asset Class** portfolio that is reflective of specific needs and circumstances.

We are able to do this so successfully because of the diverse background of the investment team. Kevin Bernzott has a law degree and focused on real estate development, asset management and acquisition analysis early in his business career. Scott Larson joined us after a decade in private equity, analyzing and valuing businesses. Tom Derse spent eighteen years in public accounting, assisting clients with taxes, business planning and personal finances. Hans Walsh and Ryan Ross bring other strengths and valuable experiences.

Still, all of the combined experiences that produce our well-balanced investment team have something in common: an understanding that focusing on short-term results will hurt long-term success. Short-term focus on the movement in a stock price is a useless exercise.

Fundamental analysis of cash flow, returns on capital, operating margins and other metrics are what is important. TV commercials and stadium naming rights are irrelevant to making you money.

With 20 years in business, we are proud of both our investment performance and client service. We appreciate your trust and confidence and work hard to earn it every day.

If there is something you think we should be doing, please let us know. If you ever find yourself thinking, "Oh, Bernzott doesn't do that," please give us a call. We don't prepare tax returns or estate planning documents, but we work with trusted professionals who do. And we have the experience, education and resources to help you out in a surprising variety of other areas. Just ask us.

If you have friends, family or colleagues that you think could benefit from our services, please introduce us. Not everyone has a sizeable portfolio warranting separate account management. **BSCVX**, our Bernzott US Small Cap Value mutual fund, accepts initial investments as low as \$10,000.

We appreciate referrals and will work hard to make you glad you recommended us.

Security Spotlight - Johnsons & Johnson (JNJ)

Johnson & Johnson is one the largest companies in the healthcare field worldwide. You know them from baby oil to Tylenol to Band-Aids. They are also a leader in pharmaceutical drugs and medical devices. We own JNJ for several reasons:

- The brand name is one of the strongest in the world, contributing to consistent cash flow generation.
- The growth and strength of the high-margin Pharma segment should be long-lived.
- The balance sheet is one of only three AAA-rated in the world and JNJ has no net debt.
- Strong and consistent operating margins.
- JNJ has raised its dividend (current yield is 2.7%) every year for the past 52 years.

When asked why we're underweight bonds, we point to JNJ as an example. Instead, we own a AAA company with a higher dividend yield than the 10-year Treasury. And that dividend will likely continue increasing, unlike the fixed coupon of a bond, as the equity value of the company grows over the coming years.

In April, JNJ's CFO said, "We are very pleased with our strong start to 2014. Overall, as economic conditions continue to recover and given the positive demographic trends, we remain confident about the long-term health of the market." As a result of this positive outlook, the company raised its estimate of earnings per share for 2014.

About the Firm

Bernzott Capital Advisors is an independent institutional money manager serving foundations, endowments, public and private retirement plans including Taft-Hartley plans, and businesses, individuals, trusts and families. Please feel free to call with questions and comments, or visit us at www.bernzott.com.