

A photograph of a marina with several white yachts docked in a row. The water is calm, reflecting the boats and the sky. A white dock post is visible in the foreground on the left. The overall scene is bright and clear, suggesting a sunny day.

Is It Your Money or Theirs?

As an affluent individual,
you should understand
what people are saying
about the market.

A \$1000 mutual fund investment made in 1950 with returns mirroring the S&P 500 would be worth over **half a million dollars** today. But, before you start shopping for the yacht there's still a little math to do. After you figure in the compounding costs of mutual funds, conservatively a little under 2 percent, that figure is reduced to just \$230,000... Without paying attention to costs, an investor stands a better chance of earning a million dollars as a contestant on "Survivor."

—Arthur Levitt, former SEC Chairman
January 16, 2001

Brokers receive much of their compensation from the commissions they earn when investors buy and sell securities. It's a lousy arrangement, because brokers have an incentive to encourage trading, even if it isn't in the client's best interest.

—Wall Street Journal, 1996

Pssst... want to make money in the market? Get a job on Wall Street. Because while the 1990's bull market has been kind to investors, it's been very, very kind to those making money off investors. In 1997, the brokerage industry logged a 20 percent increase in revenues to \$145 billion. Today's financial marketplace is a bizarre bazaar: the law of supply and demand sometimes works backward, and heightened competition can mean higher prices... Those charges can really add up. **Today the average stock fund drains 1.52 percent from your account every year.**

—Newsweek, March 23, 1998

Once in the dear dead days beyond recall, an out-of-town visitor was being shown the wonders of the New York financial district. When the party arrived at the Battery, one of his guides indicated some handsome ships riding at anchor. He said, "Look, those are the bankers' and brokers' yachts."

"Where are the customers' yachts?" asked the naïve visitor.

—Ancient story from
**Where Are the Customers' Yachts? or
A Good Hard Look at Wall Street**
by Fred Schwed, Jr. Copyright 1940

The more things change, the more they remain the same. As an affluent individual, in surveying the landscape of financial alternatives, it's very possible that you have selected either a broker or a mutual fund—or a combination of the two—as your investment vehicle of choice. And now, **inertia** has taken over.

The inherent problem in dealing with brokers, as cited by the *Wall Street Journal*, has always been the **transactional orientation** of the relationship. How does that translate in dollars and cents? Well, let's say you've invested \$750,000 with your friendly broker, that he trades your account moderately (turning over 25% of the account annually, both on the sell side and buy side), at the not-unheard-of average retail price of 80 cents a share... your annualized investment cost: approximately \$9,375.

As for stock mutual funds, according to *Kiplinger*, the average **expense ratio** is currently 1.55%. Taking that same \$750,000 investment, your annualized expenses would be \$10,725... and that's for a "one size fits all" approach.

And if you're combining the services of a broker and mutual fund—often referred to as a **wrap account**—you can expect even more onerous expenses, normally in the range of 2.00% to 3.00%, because each party is extracting its pound of flesh.

**AT HARDESTY CAPITAL MANAGEMENT,
WE BELIEVE THERE'S A BETTER APPROACH..**

Every Client Is Unique

No two individuals or institutions are the same. Some seek *performance*, others focus on *price*, and still others want *service* second to none... some want a combination of all three. Hardesty Capital Management prides itself on **responsiveness** and strives to meet these expectations.

The integrity of our operation is built on one very simple premise: ***we aren't satisfied until our clients are satisfied.***

Who We Are

Founded in 1995, Hardesty Capital Management is a boutique investment advisory firm catering to the financial needs of individuals, institutions and retirement plans. Staffed by professionals combining over 100 years of experience and with over a half billion dollars in assets under management, the firm adheres to a disciplined approach to equity investing.

We are currently offering equity and balanced portfolio management services to clients with a minimum account value of \$500,000. Unlike brokers who typically charge commissions for stocks *bought and sold*, we actively manage our clients' accounts for an **annual fee**. Unlike the "off-the-rack" approach of mutual funds, every client's portfolio is **custom-designed** to their specifications.

What Makes Us Different

It is vitally important to know what your **total investment return** is over time... something more than anecdotal information along the lines that "my broker put me in this really *hot* stock recently." Is there a reason why retail brokerage firms rarely provide performance numbers beyond

the latest, rolling twelve-month period?... you'll have to be the judge. Mutual funds are a little better from the standpoint that they'll supply historical performance for 1yr., 3yr. and lifetime of the fund... but then, again, we're talking "one size fits all," as they will not provide performance since your purchase of the fund—we will.

At Hardesty Capital Management, the first thing we do is put your **investment goals in writing**. And we begin measuring your performance from Day One—**quantified investment performance is compiled on a cumulative, total-return basis** and shared with you at every investment review meeting. You will have a bona fide record with which to measure us... the ability to see what your money is doing.

The Key to Superior Results: Communication

Achieving a successful outcome in your investments rests on free-flowing and ongoing communication. An integral part of effective communication is the ability to **listen**. In assembling the Hardesty team, emphasis was placed not only on investment expertise, but communication skills.

Securing first-rate investment returns in today's volatile market requires a certain *nimbleness*... open lines of communication must exist not only between the firm and its clients, but so, too, among the investment staff. Every portfolio manager at Hardesty Capital Management brings years of experience to the practice, with particular areas of proficiency in various compartments of the market. Having no interest in being part of a large, slow-moving bureaucracy, the investment professionals of the firm enjoy a collegial environment, assisting

one another as needed and arriving at cooperative decisions in timely fashion.

As for our commitment, it is worth noting that the portfolios of the firm's principals are fully invested in the same stocks as our clients.

Highly Personalized Service

Everybody talks about service... at Hardesty Capital Management, ***you have direct access to the person who is managing your money.***

By way of contrast, try contacting the manager of your mutual fund directly... better yet, put in the request that the fund be managed for ***tax efficiencies*** with you in mind, rather than the fund manager. Good luck.

At Hardesty Capital Management, our portfolio managers are *limited* to between 60 and 70 relationships. Ask your broker how that compares with a retail account load... further, the portfolio managers at HCM spend most of their time focusing on your investments, rather than selling.

Reflective of the emphasis we place on service, as a client of the firm, you determine the frequency of scheduled, face-to-face meetings... in addition to which, we are always a phone call away.

Independent Research

According to a 1996 report in *The Daily Record* concerning a study conducted by the Columbia Business School, brokerage firms "routinely pressure their securities analysts to give overly optimistic assessments of securities sold by client companies of the brokerage." This finding further resonates when one considers that during the *Enron*

meltdown of 2001, few analysts on Wall Street were recommending its sale.

At Hardesty Capital Management, we perform our own research and jealously guard our independence. When it comes to equities, we evaluate and analyze a universe of over 10,000 companies in identifying stocks that we find attractive. Employing a variety of sophisticated screening techniques against independent, fundamental research, we construct a diversified portfolio of 35 – 55 stocks that meet our ownership criteria.

A Prudent Approach

With the collapse of *dot.coms* and steep declines in the *technology sector* at the beginning of this decade, people have been reminded that they can **lose money** in stocks... that stocks are a risky investment.

At Hardesty Capital Management, we never lose sight of the fact that it's **your money**. With this in mind, we look for well-established companies that are temporarily out-of-favor, due to some solvable problem, external factors or other misunderstanding. Our objective is to purchase shares at a large discount, relative to our appraisal of a company's net worth. Typically, these companies represent a long-term buying opportunity. While an underlying ***value philosophy*** guides our investment decisions, as defined by the professional investment community, our portfolios contain a tangible ***growth*** component.

We believe this **blended approach** offers our clients the following advantages:

- 1.) diminished volatility;
- 2.) lower turnover; and
- 3.) reduced investment costs.

Price

Remember, nothing is certain in investing except costs.

As Benjamin Graham, the “Father of Value Investing” said: *What is paid to what is being offered is an invaluable investment trait.* In that vein, we tried to focus on the importance of **investment costs** at the beginning of this brochure.

Our clients know exactly what they are paying for professional services. As compared with brokerage commissions and/or mutual fund no loads, low loads, back-end loads, expense ratios, etc., we work on a **fee basis**. The real advantage of this arrangement is that it **aligns the interests of both parties**... if we accomplish the goal of increasing the value of our client’s assets, our fee goes up.

Our fees are based on assets under management and start at 0.90% for accounts under \$1,000,000. Taking the earlier mentioned example of a \$750,000 account, that translates into an annual fee of \$6,750, which is a good deal less than comparable brokerage and mutual fund fees.

For larger accounts, the fee progressively declines. Additionally, **all family-related accounts are combined for fee purposes**, which may further drive down our clients’ investment costs. Finally, the bulk of these fees may be tax-deductible.

As for trading expenses, our clients benefit from the heavily discounted brokerage rate we’ve negotiated of 6 cents per share. Given our low annual asset turnover of approximately 25% on average, these brokerage costs amount to less than 10 basis points.

Trust

We recognize that choosing a professional in any field—be it law, medicine, or in this case investments—is a critically important decision to you. In weighing your judgment, as concerned as you must be with *price, performance and service*, there is something of even greater concern... **trust**. The *American Heritage Dictionary* has this to say on the subject: “Trust implies depth and assurance of feeling that is often based on inconclusive evidence.”

In a competitive service industry where companies live and die on their reputations, there is nothing we place a higher value on at Hardesty Capital Management than our own integrity... **our word is our bond**.

In closing, while we can’t promise you a yacht, be assured that we never lose sight of the fact that our success is secondary to achieving a successful outcome for our clients.

And Now...

It has been said that most Americans spend more time planning their vacation than their investments...

Does that statement apply to you? If you’re unhappy with your current investment arrangements—but have been dominated by **inertia**, a not uncommon phenomenon—please allow us an opportunity to meet with you and explain why we think we can make a difference.



2 East Read Street · Baltimore, Maryland 21202
Phone 410-783-9633 · Fax 410-783-9637
www.hardestycap.com



James D. Hardesty, CFA
PRESIDENT



V. Randolph McMenamain, CFA
MANAGING DIRECTOR



J. Scott Murphy
PORTFOLIO MANAGER



David A. Stepherson, CFA
PORTFOLIO MANAGER



Eric P. Schopf
PORTFOLIO MANAGER



Scott L. Schluederberg
PORTFOLIO MANAGER



Geordie French
DIRECTOR OF MARKETING



John Warmath
MARKETING COORDINATOR

Print this page and send to us at

Hardesty Capital Management
2 East Read Street
Baltimore, Maryland 21202
Attn: Geordie French

call Geordie French directly at 410.783.9633

or contact us via email.

- I/We would like to learn more—Please contact.
- The timing is not right—however, please send me/us your investment letter.