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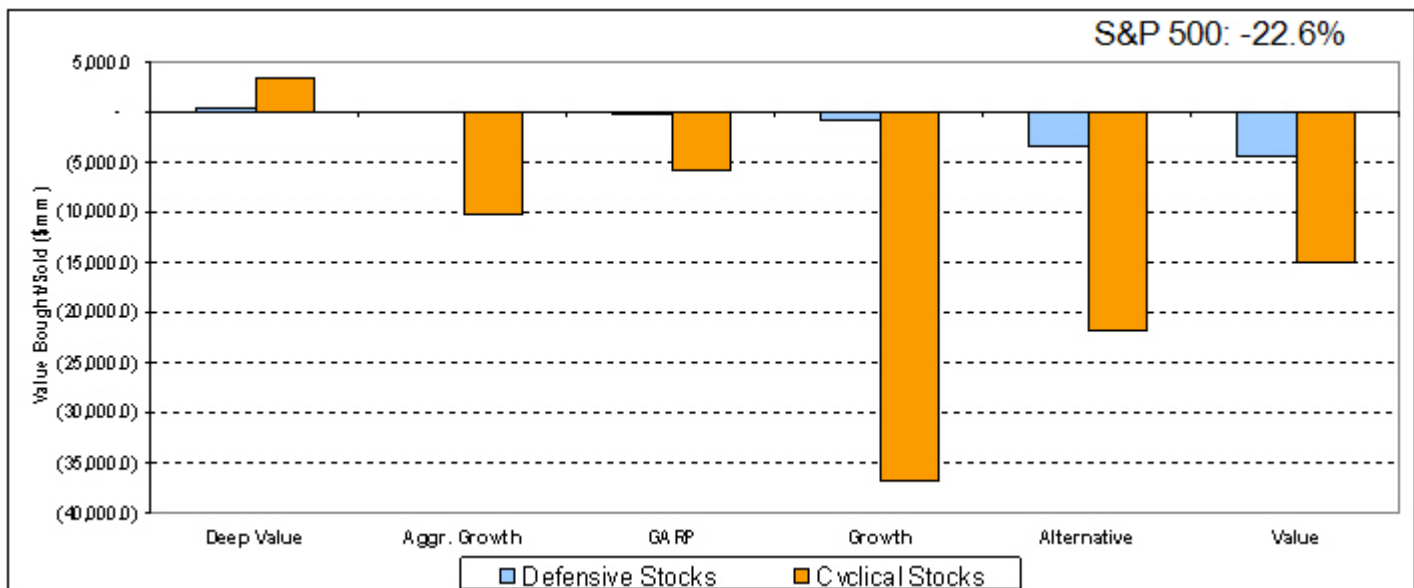


Parked in Reverse: Who's Buying Defensive Stocks During the Summer Rally?

Many investors term themselves contrarian investors; those who enjoy buying beaten down stocks or sectors when the markets have rejected them as out of favor. During a global recession, cyclical stocks are logically expected to underperform and naturally get branded by mainstream investors as “unfavorable”. But as the markets have rallied this summer, many of the companies leading the charge have been those that were most beaten down during last year's market collapse. Those contrarian investors who bought these stocks during the collapse have profited handily. The question then becomes which investors were buying defensive or cyclical stocks during the market fallout and how does that compare with investor trends in defensive and cyclical stocks during the recent summer rally?

The three industries among S&P 500 companies that suffered the largest year-over-year sales decline during Q2 were the most cyclical in nature; Energy, Materials (excluding gold) and Industrials. For this study we will compare those cyclical sectors to a primary subset of defensive sectors: Utilities, Consumer Non-Durables, Gold, Silver & Precious Metals, and Food, Beverage & Tobacco. Beginning with Q4 2008, the chart below illustrates from a macro perspective which types of investors were buying defensive and cyclical stocks.

Figure 1: Q4 2008 Aggregate Ownership Changes by Investment Style



**Excludes passive investors.*

Defensive stocks defined as Utilities, Gold, Silver & Precious Metals, Consumer Non-Durables and Food, Beverage & Tobacco.

Cyclical stocks defined as Energy, Materials (excluding Gold) and Industrials.

As evidenced in Figure 1, deep value investors were snapping up bargains as asset values fell, while the remainder of investors, on average, were selling cyclical stocks on a far greater scale than their defensive positions. Growth investors were heavy sellers of cyclical stocks in part because these positions often make up a relatively large portion of growth portfolios as compared to value or GARP investors. Alternative investors, a proxy for hedge funds, were also large sellers of cyclical stocks. Redemption pressures also likely played a role in the broad based selling of these securities. Below, we drill down into which investors were most active in defensive and cyclical stocks during the fourth quarter.

Figure 2: Q4 2008 Ownership Changes in Defensive Stocks

Largest Institutional Buyers			Largest Institutional Sellers		
	Style	Value Change (\$mm)		Style	Value Change (\$mm)
Fidelity Management & Research Company	Growth	2,438.5	Capital World Investors (U.S.)	Value	(1,824.5)
Calamos Advisors, LLC	Aggr. Growth	764.3	Waddell & Reed Investment Management Company	Aggr. Growth	(1,005.8)
Acadian Asset Management, Inc. (U.S.)	Value	676.3	Deutsche Bank Trust Company Americas	Value	(908.0)
Franklin Mutual Advisers, LLC	Value	630.8	Ashcourt Asset Management, LTD	Growth	(695.8)
RBC Dominion Securities, Inc.	Value	587.5	Davis Selected Advisers, L.P.	Value	(695.0)
Grantham Mayo Van Otterloo & Co., LLC	Value	554.0	Van Kampen Asset Management, Inc.	GARP	(672.4)
Morgan Stanley Investment Management, LTD (U.K.)	Value	546.9	Barrow Hanley Mewhinney & Strauss, Inc.	Deep Value	(594.2)
Harris Associates, L.P.	Value	468.8	Berkshire Hathaway, Inc.	Value	(589.2)
UBS Global Asset Management (U.K.), LTD	Value	422.3	Lord Abbett & Company, LLC	Value	(569.9)
MFC Global Investment Management (Canada)	Value	396.6	Neuberger Berman Management, LLC	Value	(469.7)

Figure 3: Q4 2008 Ownership Changes in Cyclical Stocks

Largest Institutional Buyers			Largest Institutional Sellers		
	Style	Value Change (\$mm)		Style	Value Change (\$mm)
River Source Investments, LLC	Value	2,015.0	Fidelity Management & Research Company	Growth	(10,331.7)
NFJ Investment Group	Deep Value	1,042.1	AllianceBernstein, L.P. (U.S.)	Value	(9,333.9)
Soros Fund Management, LLC †	Alternative	1,010.9	Neuberger Berman Management, LLC	Value	(2,674.2)
Dodge & Cox	Deep Value	940.8	Janus Capital Management, LLC	Aggr. Growth	(2,667.4)
Columbia Management Advisors, LLC	Value	909.8	Fidelity International Limited - (U.K.), LTD	Growth	(2,354.9)
Barrow Hanley Mewhinney & Strauss, Inc.	Deep Value	885.6	Deutsche Bank Trust Company Americas	Value	(2,347.6)
Van Kampen Asset Management, Inc.	GARP	820.7	J.P. Morgan Asset Management (U.K.), LTD	Growth	(2,293.4)
Southeastern Asset Management, Inc. (U.S.)	GARP	787.8	Tontine Management, LLC †	Alternative	(2,256.3)
Capital Research Global Investors (U.S.)	GARP	755.8	Friess Associates, LLC	Aggr. Growth	(1,566.6)
Palisade Capital Management, LLC	GARP	730.7	Citadel Investment Group, LLC (U.S.) †	Alternative	(1,452.3)

*Excludes passive investors.

Defensive sector defined as Utilities, Gold, Silver & Precious Metals, Consumer Non-Durables and Food, Beverage & Tobacco

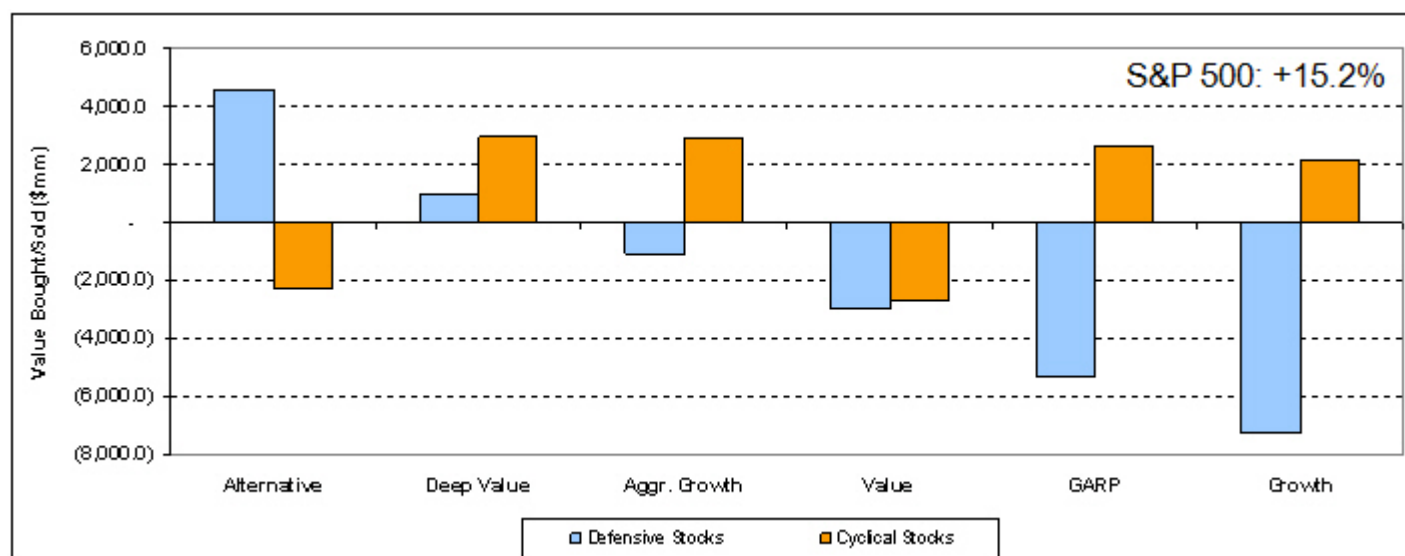
Cyclical sector defined as Energy, Industrials, and Basic Materials (excluding Gold)

† Hedge Fund

Most striking about this comparison is the degree that investors were fleeing cyclical sectors at the end of 2008. The volume of selling is impressive, but it also hints at the opportunity for these sectors as a recovery takes hold. Comparing the table in Figure 2 with those institutions that were making large moves among cyclical stocks provides several institutions of note. Fidelity Management & Research was the largest buyer of defensive stocks and the largest seller of cyclical stocks, a bearish move aimed at preserving capital while markets were in flux. Counter to Fidelity's strategy, some investors, such as Barrow Hanley and Van Kampen, began positioning their portfolios for a recovery as they rotated capital into cyclical sectors and out of defensives.

Buying into stocks that are likely to benefit in the early stages of an economic rebound is a strategy that is starting to become more popular now as investors become more comfortable with the potential for markets to continue their recovery. Both the economic landscape and investor sentiment drastically improved beginning in March 2009 as government stimulus plans and other monetary measures began to take hold and stall the pace of economic contraction. This reversal provided an opportunity for investors to focus on cyclical sectors and potentially capitalize on market momentum, while investors who felt this optimism was unwarranted, likely continued to focus on defensive stocks. The chart below shows the macro view of which types of investors were moving into these asset classes during the second quarter.

Figure 4: Q2 2009 Aggregate Ownership Changes by Investment Style



*Excludes passive investors.

Defensive sector defined as Utilities, Gold, Silver & Precious Metals, Consumer Non-Durables and Food, Beverage & Tobacco.

Cyclical sector defined as Energy, Materials (excluding Gold) and Industrials.

Alternative investors, primarily hedge funds, which are generally more agile and have higher turnover than other types of investors, were the only type of major investor to be moving away from cyclical stocks and into defensive stocks. Value investors, meanwhile, were the only type of investors to sell both defensive and cyclical stocks. A more consistent trend can be seen in the investing habits of growth, GARP and aggressive growth investors, which were generally moving into cyclical stocks and away from defensive sectors. In contrast to the end of last year, this strategy is becoming less contrarian in nature as growth and momentum investors look to benefit from a market recovery. Once again breaking into the firm level, we can see which institutions were the largest buyers and sellers.

Figure 5: Q2 2009 Ownership Changes in Defensive Stocks

Largest Institutional Buyers			Largest Institutional Sellers		
Investor	Style	Value Change (\$mm)	Investor	Style	Value Change (\$mm)
Capital World Investors (U.S.)	Value	5,052.8	BNY Asset Management	Value	(4,135.7)
Black Rock Advisors, LLC	Value	2,577.8	Capital Research Global Investors (U.S.)	GARP	(3,176.4)
Paulson & Company, Inc. †	Alternative	2,041.3	Lord Abbett & Company, LLC	Value	(1,853.4)
T. Rowe Price Associates, Inc.	Growth	1,634.7	Artio Global Management, LLC	Growth	(1,430.1)
Fidelity International Limited (U.K.), LTD	Growth	1,064.4	Barrow Hanley Mewhinney & Strauss, Inc.	Deep Value	(1,312.5)
Lansdowne Partners, LTD †	Alternative	962.5	Columbia Management Advisors, LLC	Value	(1,250.0)
Tradewinds Global Investors, LLC	Deep Value	911.2	Putnam Investment Management, LLC	Value	(1,060.9)
Franklin Mutual Advisers, LLC	Value	797.4	RBC Dominion Securities, Inc.	Value	(1,041.1)
Pictet Asset Management S.A.	GARP	755.1	Franklin Global Advisers	GARP	(959.9)
Deutsche Bank Private Wealth Management (U.K.)	Growth	752.2	Morgan Stanley Investment Management, LTD (U.K.)	Value	(944.9)

Figure 6: Q2 2009 Ownership Changes in Cyclical Stocks

Largest Institutional Buyers			Largest Institutional Sellers		
	Style	Value Change (\$mm)		Style	Value Change (\$mm)
AllianceBernstein, L.P. (U.S.)	Value	5,295.0	Columbia Management Advisors, LLC	Value	(4,466.2)
Fidelity Management & Research Company	Growth	2,502.9	Putnam Investment Management, LLC	Value	(2,278.4)
Paulson & Company, Inc. †	Alternative	1,960.7	OppenheimerFunds, Inc.	Growth	(2,195.5)
Liontrust Investment Services, LTD	GARP	1,504.5	RiverSource Investments, LLC	Value	(1,639.4)
Scottish Widows Investment Partnership, LTD	Value	1,462.4	Dreman Value Management, LLC	Deep Value	(1,618.6)
Waddell & Reed Investment Management Company	Aggr. Growth	1,257.1	Capital Guardian Trust Company (U.S.)	Growth	(1,445.7)
Thornburg Investment Management, Inc.	Growth	1,202.9	Mirae Asset Investment Management Company, LTD	Value	(1,279.2)
Vinik Asset Management, L.P. †	Alternative	1,198.7	Deutsche Investment Management Americas, Inc.	Growth	(1,203.3)
Dodge & Cox	Deep Value	1,144.9	Harbert Fund Advisors, Inc. †	Alternative	(1,120.3)
Barrow Hanley Mewhinney & Strauss, Inc.	Deep Value	1,109.1	Soros Fund Management, LLC †	Alternative	(991.6)

*Excludes passive investors.

Defensive sector defined as Utilities, Consumer Non-Durables and Food, Beverage & Tobacco

Cyclical sector defined as Energy, Industrials, and Basic Materials (excluding Gold)

† Hedge Fund

Perhaps the most notable example from this comparison is hedge fund Paulson & Co., which notoriously, and correctly, bet against the mortgage fallout, reaping billions of dollars in profits. The firm made an exodus from the markets during the collapse last fall, and is now significantly increasing its bets in the equity markets. Within these sectors, Paulson made a notable position change in defensive stocks Anglo Gold Ashanti, Gold Fields and Gabriel Resources, while also making arbitrage plays on companies involved in merger talks, such as PepsiAmericas and Pepsi Bottling Co. Also of note, Barrow Hanley has continued its rotation into cyclical stocks and away from defensives, while AllianceBernstein, Fidelity, Waddell & Reed and Thornburg Investment Management are each looking to capitalize on the positive market momentum associated with cyclical stocks and the belief of a global economic recovery. The trend persists across these top-10 institutions that value investors seem to be moving away from the markets, a sign that asset values may be becoming overpriced in their eyes. Most interesting may be the degree that investors still have left to invest in cyclicals to make up for the mass selloff that occurred during the fourth quarter of last year.

Conclusion:

Several major trends can be drawn from the investments that were made during Q4 2008 as compared with Q2 2009. Primarily, the amount of funds that were withdrawn during Q4 2008 and Q1 2009 was significantly greater than the amount of new money invested back into the market during Q2. Mutual funds received estimated inflows of \$33.3B over the second quarter, compared with combined mutual fund outflows of \$66.2B during the fourth quarter of 2008 and first quarter of 2009. Given that the markets finished lower during Q1 2009, we can surmise that a large amount of cash likely “remains on the sidelines”; as investors remain uncertain about the current health of the economy and remain unwilling to pour large amounts of capital into new investments. The bright side is that investors are starting to come around as evidenced by significant inflows to both defensive and cyclical sectors, signaling a broad recovery. This would be especially true for cyclical industries given that the recent investment in those sectors has not made up for the massive selling that occurred during the fourth quarter of last year. One thing is for sure, as capital begins to flow back into cyclicals, investors do not want to miss the opportunity of being invested in the market and riding a broad recovery.

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High Frequency Trading: Gauging the Impact on Your Stock

It would be difficult to name a market issue that is garnering more attention than what is now commonly referred to as “high frequency trading” (HFT). The financial media, politicians, regulators and market participants are debating the pros and cons of this complex and not fully-understood practice. Proponents of HFT point to investments in technology, liquidity enhancement and transparent price discovery. HFT critics, on the other hand, see the practice as nothing more than market manipulation by unregulated traders that creates volatility and increases systemic risk with no benefit to investors. Terms such as “flash orders,” “co-location,” “internalization” and “predatory algos” have entered into the investor relations lexicon seemingly overnight. The attention that high frequency trading has received through the large number of articles and white papers addressing the issue have given us a better understanding of its mechanics, the players involved, and the market structure that allowed it to flourish. However, all of the written and verbal pontifications on this topic don’t address the questions that most investor relations professionals have in regards to high frequency trading: 1) Is it prevalent in the trading of my stock?; and 2) If so, how is it impacting the ownership of my stock?

The answers to these two questions can be found in the well established process of trade settlement and a relatively new measurement of quarterly activity by long-term institutional investors that we at Ipreo call “Institutional Capture Rate”.

Institutional Capture Rate (ICR)

Ipreo has developed the “Institutional Capture Rate” (ICR) metric to approximate the total amount of trading in a security that is driven by institutional activity. ICR attempts to measure the percentage of trading volume in a security that includes a long-term institutional investor on either side of the trade. ICR is calculated by dividing the sum of the total quarterly institutional share increases and the absolute value of total quarterly institutional share decreases by total quarterly trading volume of the security. Thus, the ICR “captures” the percentage of trading volume that is the result of long-term institutional movements with the balance being attributable to HFT and other fast money investors. ***In essence, the ICR is also an inverse indicator of high frequency trading.*** A lower ICR percentage indicates less trading volume coming from long-term institutional investors and more trading volume emanating from short-term traders, including high frequency outfits. For example, an ICR of 10% indicates that roughly 90% of that stock’s trading volume is bought and sold within a three month period. The ICR, however, is not meant to be an exact measure; but when viewed over time and in context with your peer group, it is worthwhile indicator of trends and will help you understand the dynamics of trading in your stock.

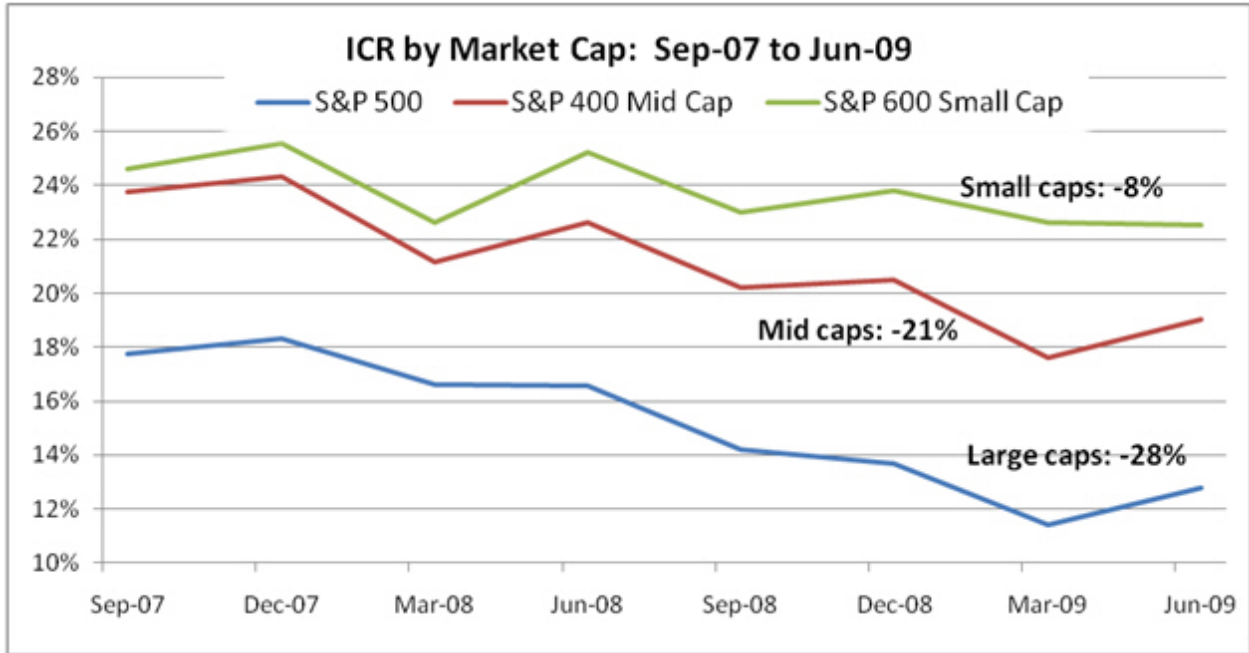
A Broad Market View of ICR

Ipreo ran ICR percentages on a quarterly basis for all U.S. securities, grouped by their membership in the S&P 500 Index, S&P 400 Mid Cap Index, and S&P 600 Small Cap Index in an effort to gauge the impact of HFT on various market capitalization classifications.

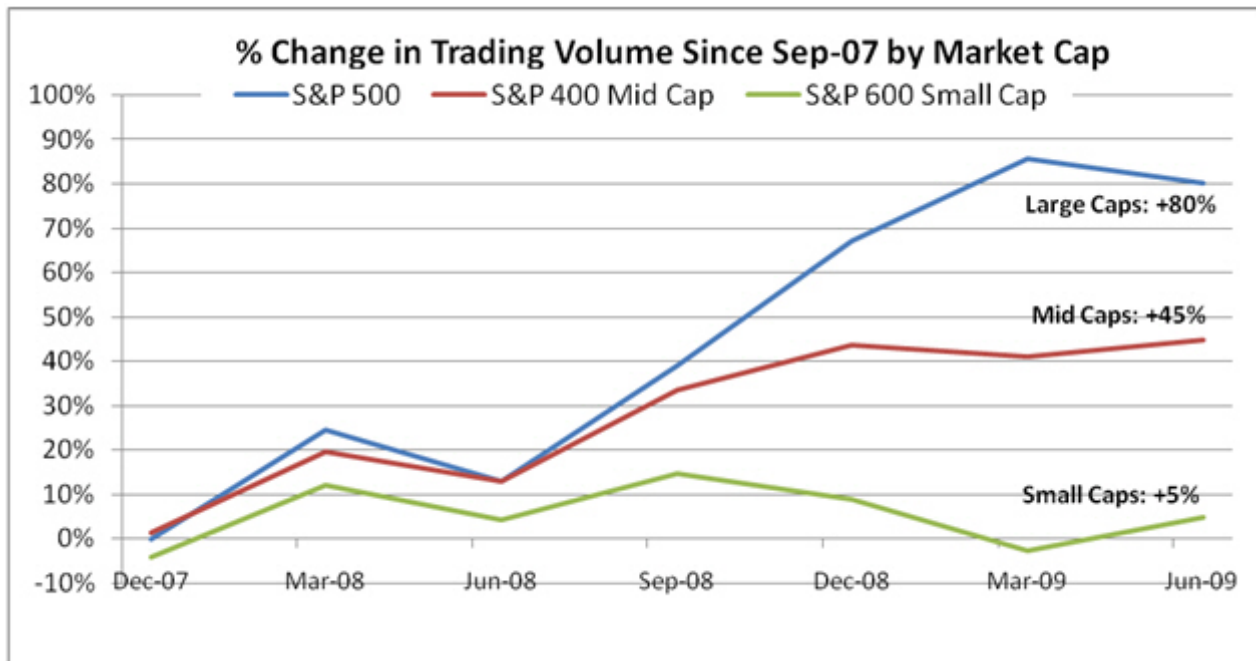
ICR by Market Cap

As the table below illustrates, ICR has been on a noteworthy decline across all market caps since September 2007, particularly with large-cap stocks. Since September 2007, the ICR for the S&P 500 has fallen from 18% to 13% as of June 2009, a 28% decline. The low point for the S&P 500 came in the first quarter of 2009, when volatility and short-term trading amidst the depths of the global financial crisis came together as powerful market forces bringing the ICR down to just 11%. Over the same period, the ICR for mid caps has declined 21% and 8% for small caps. Small-cap stocks are the least impacted by high frequency trading as the overall ICR stands at 23%.

(Continued on next page...)



The lower ICRs across all market caps can be attributed to the growing presence of HFT activity. Since September 2007, quarterly trading volume in large caps has increased 80%, while mid caps and small caps have seen trading volume increases of 45% and 5%, respectively.



The case that HFT is impacting large-cap stocks to a greater degree than mid- and small-cap stocks is clear. Large caps have the lowest ICR score, have experienced the steepest decline in ICR percentage and have seen the largest increase in trading volume since September 2007. Increased liquidity is often touted as the primary benefit of the presence of high frequency traders in the marketplace. While that is true for mid- and large-cap stocks, the segment that needs increased liquidity the most, small caps, do not seem to be benefitting from today's market structure.

Always Settle

The second question that IR professionals need to get answered is how high frequency trading is impacting the ownership of their stocks. Fundamentally, the primary mission of a stock surveillance firm—to identify changes to your shareholder base on an ongoing basis—remains firmly in place. One of the biggest changes in the equity marketplace brought on by Regulation NMS and the growth in high frequency trading is the decline in the average trade size and lower incidence of block trades. Institutions that formerly showed their hand with 1 million-share block trades can now easily and anonymously execute the same move with 10,000 100-share trades. Gone are the days of using block volume as a proxy for institutional activity. Watching the tape will no longer give you a strong signal as to what type of investor—institution, algo trader, hedge fund or retail investor—is driving volume. What hasn't changed, however, is the way shares settle three days after a trade (T+3). Analysis of the settlement records provided by the Depository Trust Company (DTC) remains the bedrock of effective surveillance. Here's a straightforward example of how settlement records capture the trading in the market and aggregates all of those small transactions into something bigger.

Mutual Fund A is set on building a 1 million-share position in your stock, which has ample liquidity. Mutual Fund A's buying takes place in the market over a period of two days. The transactions are handled in a variety of venues and the largest share amount of any one single transaction is 500 shares. Monday morning arrives. Your surveillance analyst settles down at her desk with a cup of coffee and begins the DTC settlement analysis process. There it is. On Thursday, 600,000 shares moved into The Bank of New York Mellon's DTC position followed by another 400,000 shares on Friday. It is now on the analyst to identify the buyer!

In T+3, those small transactions of 100 or 200 shares, almost invisible on the tape, are now showing themselves as a significant purchase by an institutional investor. Settlement tells us the story.

Of course, the same volume patterns that point us toward identifying our new Mutual Fund buyer will not be very different than the volume patterns left by the HFT firms establishing and divesting positions within the same trading day. The key to understanding the difference in volume is once again through the settlement process. If high frequency trading is prevalent within a certain day, the number of shares that we see settle amongst DTC participants will represent a smaller percentage of the trading day's volume than we would see if longer term investors were involved.

Conclusion

There is not much that any of us can do to impact the direction of today's market structure. While "flash orders" may soon be a thing of the past, "dark pools" and other private platforms will be competing and collaborating with the major exchanges in a pitched competition to gain trading volume market share. In this environment, technology-driven HFT shops will continue to grow their presence in this mix. The buy-side has quickly adjusted to this new paradigm by taking advantage of every channel available to them when building and divesting positions. For investor relations professionals, it is important to understand your own stock and how it fits into the high frequency trading world. ICR is one measure that you can utilize to gain this understanding, while stock surveillance remains the most effective route to continually track your most important constituency—long-term institutional investors.

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A Shorts Story: Global Short-selling Regulatory Review

In recent times short sellers have come under fire for exacerbating the financial crisis. The voices backing short-selling, who have pointed to the positives of the practice, i.e., leads to efficient price discovery and more liquidity, have been drowned out by voices ranging from politicians, the popular press, and affected companies.

The response from regulators following the collapse of Lehman Brothers was swift and focused on banning various forms of short-selling. However, over time, moves to control short-selling and increase transparency have stepped to the forefront. We examine here the current regimes around the world.

In the last 12 months short-selling has been regulated mainly by the following methods:

- **Ban on short-selling:** These include bans on covered short sales, bans on naked short sales, bans on net short positions, bans on short sales of financial stocks, and bans on short sales of all listed stocks. Additionally, in some countries, short sale restrictions have been placed on stocks of companies in the midst of raising equity capital.
- **Disclosure requirements:** These have also taken on different forms including disclosure of gross or net short positions.
- **Penalty for fails:** Several countries impose fines for failed trades through the relevant stock exchange.
- **Uptick rule:** Some jurisdictions, especially in Asia, impose rules where short sales must be made at the same or at a higher price than the immediately preceding sale.

As the table below shows the current regimes on short-selling are varied, though a standard of ban on naked short sales and a disclosure level of 0.25% is seen most often.

Current Short-Selling Regimes

Country	Short Sale Ban	Disclosure Requirement
1 Australia	Ban on naked short sales	Daily reporting of gross short sales
2 Austria	Ban on naked (physical) short sales (specific stocks)	No
3 Belgium	Ban on naked (physical) short sales (specified stocks)	0.25% net short position
4 Brazil	Only covered short sales are permitted	Register of stock loans is kept
5 Canada	Prohibited short selling (naked or covered) of certain financial issues *	Short sales to be disclosed
6 Denmark	Ban on naked and covered (economic) short sales (specified stocks)	No
7 Finland	No	No
8 France	Ban on naked (economic) short sales (specified stocks)	0.25% net short position
9 Germany	Ban on naked (physical) short sales (specified stocks)	No
10 Hong Kong	Ban on naked short sales (all listed) and covered short sales (specified stocks)	No
11 Ireland	Ban on net short position (specified stocks)	0.25% net short position
12 Italy	Ban on naked (physical) short sales (all listed stocks)	No
13 Japan	Ban on naked short sales (all listed stocks)	0.25% net short position
14 Mexico	Ban on naked short sales (all listed stocks)	Short sales to be disclosed
15 Netherlands	Ban on naked short sales followed by restrictions reflecting UK rules. *	0.25% net short position
16 Norway	Ban on naked and covered (physical) short sales (specified stocks)	No
17 Russia	Ban on naked and covered short sales (all listed stocks) *	No
18 South Africa	Ban on naked short sales (all listed stocks)	No
19 Spain	Ban on naked (physical) short sales (all listed stocks)	0.25% net short position
20 Sweden	No	Stock loans to be reported
21 Switzerland	Ban on naked (physical) short sales (all stocks listed on SIX Swiss Exchange)	No
22 UAE	Ban on naked short sales (all listed stocks)	All gross short positions to be reported
23 UK	Ban on the creation or increase of a net short positions in specified financial issues *	0.25% net short position
24 USA	Banned short-selling of about 1,000 financial issues *	Short positions to be reported twice a month

* Rules adopted in September 2008 has since lapsed

The regulations are still in flux. In the US, new measures are being considered. These include: (1) allowing short sales only at prices exceeding the best bid, (2) circuit breakers which will impose restrictions on bets against individual stocks that have fallen by a certain percentage, and (3) barring short sellers from initiating a trade, the short sellers could only sell their borrowed shares when another investor places a buy order.

An attempt at a pan-European disclosure standard has come from the Committee of European Securities Regulators (CESR), an independent body charged with, among other things, advising the EU in securities regulation. CESR has proposed short positions of 0.1% of shares outstanding would have to be disclosed to the regulatory agency of the most liquid market in which the stock trades while a short position of 0.5% or greater would have to be publicly disclosed more widely. Triggers for additional disclosures will be set at 0.1%. But as in past CESR proposals, while there have been some similarities in the way the issue is treated, each country has responded differently.

Of all the regulations, transparency is one that the IRO can potentially benefit from. But the reach and extent of disclosure in most countries is still insufficient to conduct any meaningful analysis.

Recently the NYSE and NASDAQ began releasing more data on short-selling. The SEC hopes greater transparency will lead to better forensic analysis of short-selling's impact on a particular security. Unlike short-interest data, which is distributed twice a month and reveal the percentage of shares that have been sold short and not bought back, the new short volume data simply tracks the number of shares that are sold short over the course of a day. The data does not reveal if the short positions are new or the reasons for the seller's moves. So it is not possible to judge how much of the volume represents bets against the stock versus a myriad of other reasons such as actions by market makers or even money managers who may sell stocks to hedge positions they take in other stocks or to play an arbitrage.

For now the consolidation of bi-monthly disclosure of short-interest in the US can provide some useful insights. For example the data in the table shows the change in the short-interest ratio (outstanding short-interest divided by the average daily traded volume) from September 2008, when Lehman collapsed, and August 2009. The sharp decline in the ratio in all but two industries tells the tale.

	Aug-09	Sep-08	Change
Consumer Discretionary	6.64	9.98	-33.5%
Consumer Staples	4.99	4.89	2.0%
Energy	4.16	3.23	28.8%
Financials	5.91	8.21	-28.0%
Health Care	5.47	6.40	-14.5%
Industrials	5.97	7.07	-15.6%
Information Technology	4.72	5.77	-18.2%
Materials	4.39	5.05	-13.1%
Telecommunication Services	4.04	5.10	-20.8%
Utilities	5.40	6.10	-11.5%

data from Bloomberg LP

Changes in Short-Interest Ratio

Short-selling, while a part of a stock's life, does have some consequences beyond the tendency to push the price lower. A key effect is on shareholder participation in meetings. The major lenders to short sellers are banks that hold shares in custody on behalf of traditional long-term investors and from investors themselves. As the shares go on loan invariably so does the ability to vote. This may leave companies scrambling to get quorum at meetings as the borrowers, whose investment horizon is shorter and goals different from the lenders, may not be inclined to exercise their rights.

Depending on where your stock is traded, your market intelligence analyst may be able to supply you with information on the level of short-selling in your stock, sector, and potentially where the shares have been borrowed from. The first two might indicate the level of bearishness in the stock while the last may assist in proxy-related efforts.

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BetterIR - Firm Snapshot

Targeted Firm: Dodge & Cox (\$87,983.45 M)

Targeting Profile:

San Francisco based Dodge & Cox manages a family of five mutual funds with an investment horizon of approximately three to five years. The firm primarily manages US equities but also invests in international and emerging markets opportunities via the Dodge & Cox International Stock Fund and Dodge & Cox Global Stock Fund. As such, over 45% of the firm's total equity holdings fall outside of the United States. Dodge & Cox is considered a deep value investor, seeking companies that are temporarily undervalued by the market but maintain a favorable outlook for recovery and sustainable long-term growth. The firm often views such lower-valued investments as providing an opportunity to generate income through attractive yields. Historically, Dodge & Cox has held only a limited number of large positions; however, in response to the recent credit crisis, the firm has sought to greatly diversify its portfolio across many new holdings. Such diversification can easily be seen as the firm's average position size has decreased from \$444 mm in June 2008 to \$243 mm in June 2009.

Dodge & Cox traditionally maintains a slight healthcare bias, and recent purchasing activity seems to confirm such an approach. In Q2, significant buys in the sector included heavyweights such as Merck (+\$1,194.8mm), Pfizer (+\$423.3mm), and Covidien (+\$252.9mm). As capacity utilization and industrial production finally began to rebound from all-time lows earlier in the year, Dodge & Cox ratcheted up exposure to the industrials sector with increases in Tyco (+\$273.9mm), Caterpillar (+\$252.4mm), and Eaton Corp. (+\$181.3mm). On the other hand, Dodge & Cox sought to reduce risk in the consumer services sector by selling the likes of Comcast (-\$522.7mm) and Wal-Mart (-\$317.6mm).

How to Approach:

Companies with strong fundamentals that are experiencing temporarily depressed valuations could find a place at Dodge & Cox. The firm has recently been purchasing a number of companies at a significant discount to the market, and this trend is likely to continue as long as valuations remain cheap. When meeting with Dodge & Cox, your firm should emphasize a demonstrated plan for quick turnaround following any sustained negative price performance. Furthermore, Dodge & Cox

holds a significant bias toward large cap stocks in excess of \$1 billion, as the firm invests 81% of its total portfolio in such equities. Also of note, Dodge & Cox has a great deal of international exposure through its two global funds, and, therefore, companies with overseas operations and significant foreign market share would fit nicely into one of the firm's portfolios.

How not to Approach:

Consumer services companies have recently appeared to have fallen out of Dodge & Cox's favor, as overall consumer credit has dropped at such a fast rate not seen in decades. As such, Dodge & Cox reduced exposure to the sector by 10.43% in the previous quarter. Though consumer confidence and spending have recently shown signs of recovery, Dodge & Cox has yet to indicate any reversal of position. In addition, utilities will find only a small place within Dodge & Cox's portfolios, as the firm nearly liquidated its entire sector position during Q2. Lastly, small and micro cap companies should focus on other investment managers, as Dodge and Cox maintains only 1.59% of its total portfolio holdings within this market cap range.

Largest Funds Managed:

- Dodge & Cox Stock Fund (\$32,963.51M); Wendell Birkhofer, Bryan Cameron, John Gunn, David Hoeft, Kenneth Olivier, Charles Pohl, Gregory Serrurier, Diana Strandberg, Steven Voorhis
- Dodge & Cox International Stock Fund (\$24,014.96M); Diana Strandberg, Roger Kuo, Yasha Gofman, Gregory Serrurier, Mario Diprisco, Keiko Horkan, Charles Pohl, Bryan Cameron, John Gunn
- Dodge & Cox Balanced Fund (\$9,952.18M); Charles Pohl, John Gunn

Investment Potential:

- Mega - \$605 mm
- Large - \$276 mm
- Mid - \$138 mm
- Small - \$21 mm
- Micro - \$0 mm

Average Equity Holding Period: 4.17 years

BetterIR - Fund Snapshot

Targeted Fund: Harbor Capital Appreciation Fund (\$6,690.97 M)

Portfolio Managers:

Spiros Segalas (Sig); 212-421-1000; ssegalas@jennison.com

Targeting Profile:

The Harbor Capital Appreciation Fund is advised by New York-based growth investor Jennison Associates. In keeping with the parent company's traditional growth bias, the fund tends to hold higher-valued issues experiencing strong earnings expansion and positive momentum. Veteran fund manager, Spiros Segalas, keys on revenue growth, improving returns on equity and assets, as well as strong or improving balance sheets.

The Capital Appreciation Fund is relatively concentrated, with a total of sixty-two positions averaging over \$100mm each as of 6/30 filings. While the majority of holdings draw from the large and mega cap ranges, mid cap plays grew in prominence during the second quarter with select pick-ups in the retail sector. Other sectors of historic and ongoing interest to the fund include Technology (36%) and Healthcare (22%), as well as Consumer Services (12%) where some of the fund's more conservative positions are held.

In the midst of a continuing second quarter market rally, the Capital Appreciation Fund was bullish on historically cheaper tech, less-loved retail, select oil and gas, and healthcare. In tech, Segalas added to lower-priced (at the time) Microsoft (+\$48.8M) and Intel (+\$40.3M), but elected to sell across the much of its other tech sector holdings. Paring in tech hit Cisco Systems (-\$84.7M), Research In Motion (-\$40.7M), Infosys Technologies (liquidated, -\$28.4M), and Google (-\$18.0)—likely on strong YTD performance, rising valuations, and opportunity elsewhere. Despite continuing negative sentiment across the consumer space, the Capital Appreciation Fund initiated new positions in high-end retailers Coach (+\$29.4M) and Tiffany & Co. (+\$15.7M), and added to an existing position in Kohls (+\$28.1M).

How to Approach:

While the Capital Appreciation Fund tends to hold higher-valued issues, it will not pay excessively for growth. If your company is richly valued, be sure to come prepared with a convincing

story of how your company plans to execute and grow alongside high expectations. In the second quarter, the cloudier healthcare & pharmaceuticals sector was a good place to find the mix of growth and relative value that the Capital Appreciation Fund targets. Pickups in Roche Holdings (+\$31.0M), Medco Health Solutions (+\$19.1), Baxter International (+\$17.2M), and fast-growing biotech, Celgene (+\$16.8M) illustrate this strategy. As market participants watched the continued second quarter rally with suspicion, the Capital Appreciation Fund added to more conservative positions in PepsiCo (+\$50.7M) and CVS/Caremark (+\$24.1M). If your firm qualifies as more of a defensive play, the Capital Appreciation fund could still make a strong target if market conditions are right.

How not to Approach:

Defense industry players were less attractive to the Capital Appreciation Fund during the recent period. Segalas liquidated a position in Raytheon (-\$79.3M) and reduced in Lockheed Martin (-\$12.8M). In general, capital goods and cyclicals have little place in the fund (Industrials occupy 1.6% of the current portfolio). Again, the Capital Appreciation Fund will seek demonstrable earnings growth or its likely near-term recovery (think oversold issues or sell-offs following a quarterly miss). Given the fund's 1.6 year turnover, longer-cycle recovery plays and sector turnarounds are less attractive. While the fund added retail exposure in Tiffany's, Coach, and Kohl's over the period, we view these plays as less "retail sector turnaround," and more motivated by company-specific valuation, financial strength, and niche growth prospects. A macro-oriented pitch will likely fall on deaf ears at the Capital Appreciation Fund; IRO's and management should avoid high-level talk and stick to fundamentals and clear catalysts.

Investment Potential:

- Mega: \$147.5 M
- Large: \$121.1 M
- Mid: \$43.6 M
- Small: NA
- Micro: NA

Average Equity Holding Period: 1.6 years