Bellwether CONSULTING

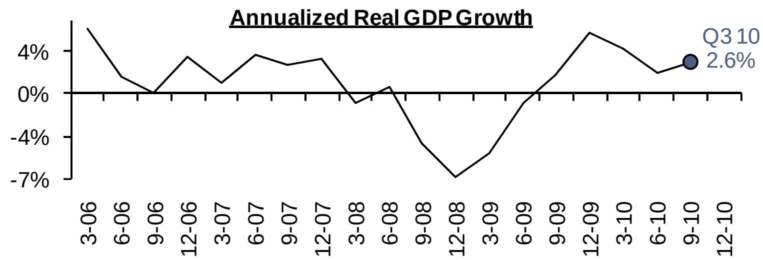
Your Quarterly Update on the Financial Markets
December 31, 2010

4th Quarter

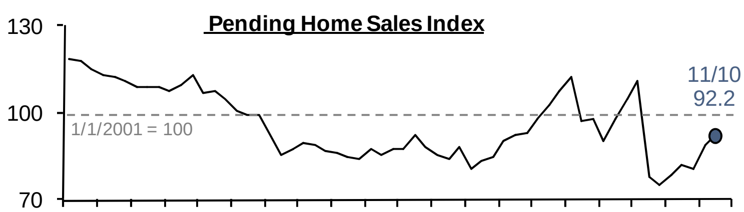
MARKET Recap

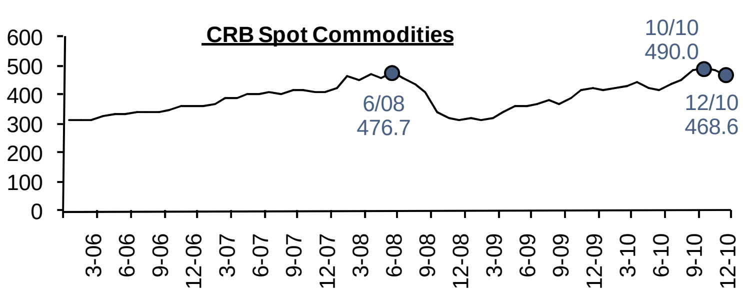
The Economy: *"The Bulls are Back in Town"*

U.S. economic growth reversed its declining trend in the third quarter, rising at a 2.6% annualized pace. While directionally positive, it reflects mixed results; primarily a sharp deceleration in imports and acceleration of private inventory investment. There were also material decreases or decelerations in residential and non-residential fixed investment and exports. The good news is that continued growth in inventories bodes well for the employment picture; the bad news is that housing continued to overhang the economy.



As we know, the Fed announced in August that they would be stepping on the gas through a new quantitative easing program. They executed the first part of that program in November, flooding the market with additional liquidity – but interestingly, most activity-based indicators were already positive. Anticipation of QE2 likely spurred increased activity, but in part the activity was a natural result of the recovery cycle. In any event, bullish sentiment prevailed through the holiday season and into January as we go to press. Unemployment fell sharply in December, to 9.4% from 9.8%, although the payroll data was a bit disappointing because fewer new jobs were added than expected. To quote Bill Gross, "This report had something for everyone." Many times we have pointed out that investors and policymakers overreact to individual data points, which contain a great deal of noise and wide standard error bands.



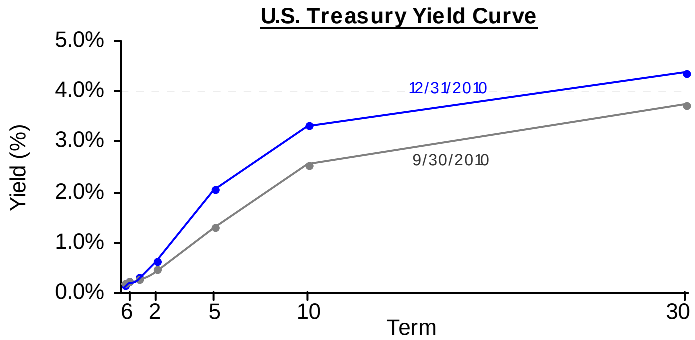


Marginally things do seem to be picking up – even for housing, which has lagged other sectors. Pending home sale activity and prices continued to firm up after bottoming in July, completing a "double dip" pattern. Keep in mind however that housing data flows like cold molasses, taking forever to find its way into price indices. The effect is important because it can lead you to dangerous conclusions about the downstream effects of loose money. If the Consumer Price Index is your gauge, then inflation remains dead; that index continues to click along at a benign 1.0% - 1.5% pace. But housing composes over 40% of the CPI, and an even larger share of the "core" CPI; with rents and owner-equivalent rents stalled, the housing sector can mask a significant amount of inflation. Sectors that are sensitive to commodity inputs such as transportation and food continue to inflate at more rapid rates (an 8.29% annual pace for transportation), and the cost of healthcare and other services continue to increase. The CRB Commodities Index surpassed its pre-crash high in October before moderating in December; oil prices were a contributor approaching $90/bbl, but continued inflation in textiles, base metals, and agricultural commodities were also significant. Inflation is a big concern in China and other emerging markets, which are sensitive to commodities but have not yet experienced a housing downturn similar to ours.

Anecdotally, the number of pundits convinced that the Fed will end the stimulus program early seems to have caught up to the number expecting full completion or a third round. We're sticking to last quarter's prediction that the Fed will continue to ease until the QE2 program is fully deployed, unless the jobless rate falls in a convincingly stable way or the CPI spikes. While many will spin each positive data point, it should take a few consecutive ones to make a real impression.

The US Bond Market

The fourth quarter of 2010 saw the treasury yield curve steepen as longer-duration yields moved up 70 basis points, a sign that gloomy investor sentiment was finally reversing. The short end of the curve remained pinned for yet another quarter. The spread between the 2-year and 10-year notes widened to 270 basis points. The benchmark 10-year yield ended the year at 3.29%, up 78 basis points from the 3Q close but down 55 basis points from December 2009. In October, 10-year yields had fallen to their lowest levels since early 2009, while 2-year yields reached all-time lows in November. While falling in Q4, year-over-year Treasury prices were higher, driven by concerns throughout 2010 over a continued weak economy and the housing and unemployment hangover.



Source: Bloomberg LP

The Fed's activities were some of the most hotly-debated topics in 2010. While holding short-term interest rates near zero since December 2008, the Fed also purchased $1.7 trillion in mortgage-related securities and government bonds from December 2008 through March 2010 in order to push down mortgage and other long-term rates. In November, the Fed announced it would buy $600 billion in long-term Treasuries as well as reinvest $250 - $300 billion of proceeds from earlier investment, prompting widespread criticism that it was monetizing the federal debt, driving down the value of the dollar, and increasing the risk of inflation. In its last meeting of 2010, the Fed confirmed its intent to proceed with the purchases, dubbed "QE2," stating in the meeting minutes that, "While the economic outlook was seen as improving, members generally felt that the change in the outlook was not sufficient to warrant any adjustments to the asset-purchase program, and some noted that more time was needed to accumulate information on the economy before considering any adjustment."

Q4 Index Total Returns	4Q10	2010
BarCap Aggregate	-1.30%	6.54%
BarCap Interm. Gov't	-1.55%	4.98%
BarCap Long Gov't	-7.94%	9.43%
BarCap Interm. Credit	-1.22%	7.76%
BarCap Long Credit	-3.68%	10.69%
BarCap High Yield	3.22%	15.12%

Bond investors willing to take on credit risk were rewarded both during the fourth quarter and the year, as corporate bonds outperformed their like-maturity government peers. According to Dealogic, just over $1 trillion of U.S. investment-grade and high-yield bonds were sold in 2010, down 8% from 2009. Of this total, the majority (i.e., 64%) was issued by non-financial firms. The overall deal count rose 60% on a year-over-year basis. Driven by investor demand for return in the low-yield environment, high-yield bond issuance had another record year in 2010, climbing to $286 billion issued versus the previous single-year record of $164 billion set in 2009. High yield spreads have been declining, from a record 2,180 basis points in December 2008 to 527 basis points in December 2010, as the default rate for U.S. junk bonds fell for a 12th consecutive month in November to 3.35%, according to Standard & Poor's.

In the commercial mortgage market, defaults continued to multiply. While less than 1% of loans were delinquent in 2008, this figure increased to 6% in 2009, and hit 9% in 2010. However, despite the rise in defaults, prices on commercial mortgage-backed securities have also continued to rise. While this seems counterintuitive, the price increase is generally attributed to things being "less bad" than predicted. With greater credit protection than residential loans and higher instances of loan resolution (instead of liquidation) as well as higher yields than similarly-rated corporate bonds, CMBS remained attractive to investors despite the increase in default rates.

The US Stock Market

All major U.S. stock indexes posted double-digit gains for both the fourth quarter and the year, results that surprised many in a year where the economy remained firmly in neutral, unemployment stayed stubbornly high, financial crises gripped Europe, and the U.S. stock market experienced its largest intra-day decline ever. The Dow finished the year at 11,578 up 8% (790 points) for the quarter and up 11% (1,150 points) for the year. Almost half of this year's gain came in December, and 2010 marked the second straight annual increase for the Dow. The NASDAQ fell 10 points over the quarter to 2,653 but ended the year up 384 points from its 2009 close. The S&P 500 had its best December since 1991 even though it closed the quarter flat at 1,258.

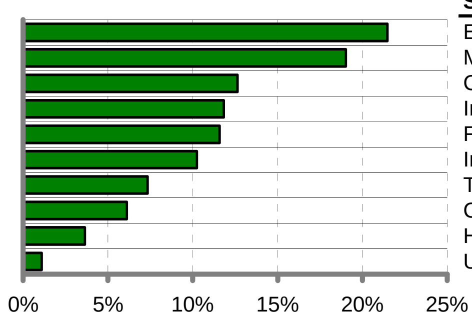
In the capitalization sectors, smallcap stocks outperformed both largecap and midcap offerings for the quarter as investors positioned for growth. Small and midcap issues also outperformed for the year with the Russell 2000 beating the S&P 500 by 11 percentage points. Many market watchers believe a smallcap rally is a sign that a broader market recovery is around the corner, as historically, smaller more nimble firms on average outpace larger firms in the early part of most rallies. Not surprisingly, given this sentiment, growth stocks outpaced value stocks for both the quarter and the year.

Stock Indices - Total Return

	4Q10	2010		4Q2010	2010
Largecap Stocks			**Midcap Stocks**		
S&P 500	10.76%	15.06%	S&P Midcap 400	13.50%	26.64%
Russell 1000	11.19%	16.10%	Russell Midcap	13.07%	25.48%
Growth	11.83%	16.71%	Growth	14.01%	26.38%
Value	10.54%	15.51%	Value	12.24%	24.75%
Broad Markets			**Smallcap Stocks**		
Russell 3000	11.59%	16.93%	S&P Smallcap 600	16.24%	26.31%
Wilshire 5000	11.65%	17.87%	Russell 2000	16.25%	26.85%
			Growth	17.11%	29.09%
			Value	15.36%	24.50%

Positive quarterly and annual returns were spread across all industry sectors of the S&P 500. While energy was the top performing sector in 4Q, the consumer discretionary sector was the place to invest for the year, with the retail and automotive industries flourishing. According to MasterCard Advisors' SpendingPulse report, holiday spending was up 5.5% season-over-season. And, in a year of recovery for the automotive industry, December was its strongest month with sales rising 11%. Continued uncertainty from last year's legislation helped healthcare limp in as 2010's worst-performing sector. For the quarter, energy was the top-performing sector, benefitting from increasing oil prices. A temporary moratorium on deep water drilling in the Gulf of Mexico as well as a 2-week shut down in French oil refineries in October decreased supply. But perhaps more importantly, there was a general consensus that the U.S economy is strengthening and will fuel an increased demand for oil and oil-based products. Utilities saw the weakest returns for the quarter which could be another portent of recovery. As with bond investments, investors favor utility stocks when seeking stability in uncertain economic times but move away when they believe prospects are brightening.

S&P 500 Economic Group Components - Total Return



Sector	4Q2010	2010
Energy	21.48%	20.46%
Materials	19.03%	22.20%
Consumer Disc.	12.63%	27.66%
Industrials	11.81%	26.73%
Financials	11.57%	12.13%
Info Tech	10.24%	10.19%
Telecom	7.34%	18.97%
Consumer Staples	6.11%	14.11%
Health Care	3.64%	2.90%
Utilities	1.09%	5.46%

Source: Standard & Poor's

Corporate earnings growth saw an unexpected surge in 2010, largely driven by cost-cutting. During the fourth quarter, Thomson Reuters reported that the blended earnings growth rate for companies in the S&P 500 for 3Q 2010 was 31%. They put the estimate for 4Q 2010 earnings growth at 31% as well.

IPO activity increased in 2010 as the U.S. saw 110 new stocks go public, doubling 2009 levels according to Dealogic. General Motors dominated the U.S. IPO market with its 4Q $18.1 billion common stock offering accounting for slightly more than half of the total annual dollar volume of American-based deals. The remaining issues were dominated by offerings of less than $250 million.

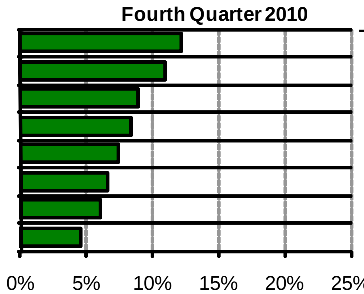
Overseas Markets

To say that the fourth quarter closed out an interesting year in global markets would be an understatement. Despite a year that was marked by continued, significant volatility, Eurozone sovereign debt crises, inflation worries, deflation worries, overheated growth in far east emerging economies, and tensions on the Korean peninsula, global markets proved to be rather resilient.

The Eurozone closed the year with renewed worries surrounding the PIIGS (Portugal, Ireland, Italy, Greece, and Spain). Only six months after the first sovereign debt crisis threatened to derail growth in the entire sector, concerns again arose around the relative health of the peripheral countries and spurred conversations around member countries exiting the eurozone. In November investors began dumping Irish and Greek bonds as budget reforms were the hot potato that no government wanted to deal with. However, unlike earlier this year, the euro remained relatively stable due to the strength of some of the larger EU economies such as Germany and indications from the ECB that they would move quickly to rein in loose monetary policy. In mid-November it became clear that Ireland was in deep trouble as credit costs surged to a record high and bond prices tumbled. Credit-default spreads for Irish sovereign debt jumped 22 basis points to 5.20%, and hit a record of 5.30%. In late November, after denying the need for a bailout, Ireland grudgingly accepted that it needed a handout. After running up huge deficits backstopping its heavily levered banks and having its sovereign debt ratings cut by the ratings agencies, the EU and IMF stepped in to provide Ireland with $113 billion in loans. Credit fears were mirrored in the other peripherals. Greek CDS widened 15 basis points to 8.45%, while Portuguese CDS gained 8 basis points to 4.02%. Yields on 10-year Spanish government bonds jumped to around 5.63%, sending the yield premium demanded by investors to hold 10-year Spanish debt over comparable German bunds to more than three full percentage points. Overall performance in the Eurozone has been disparate, rather than all bad. The larger economies of

Germany and France appear to have side-stepped the worst of the troubles. Germany's export economy has supported a surge in growth. German industrial production increased during the quarter and unemployment fell to an 18-year low. The MSCI Germany Index was up 9.5% for the quarter and 8.4% for the year. In France, import and export data have also shown improvement. However, recently implemented austerity measures may crimp improving domestic consumption. The MSCI France Index was up 1.7% for the quarter, but down -4% for the year.

Net Total Return of Selected MSCI Regional Indices

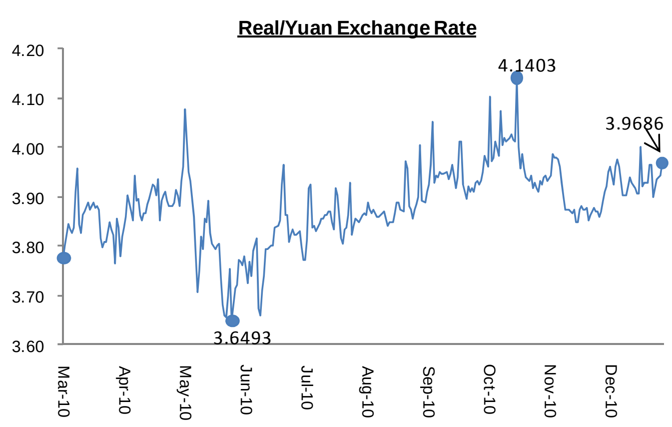


Region	4Q10	2010
Japan	12.12%	15.44%
North America	10.97%	15.30%
World Index	8.95%	11.76%
Pacific ex Japan	8.29%	16.91%
Emerging Markets	7.34%	18.88%
EAFE	6.61%	7.75%
Latin America	5.98%	14.66%
Europe	4.50%	3.88%

In Japan, the BOJ left its overnight rate unchanged early in the quarter. At the end of October the bank outlined its additional quantitative easing and asset-buying plan. It said it will purchase ¥1.5 trillion ($18.36 billion) in long-term government bonds, and another ¥2 trillion in short-term government debt, under the previously announced ¥5 trillion scheme. The bank plans to make purchases throughout 2011 until it reaches its total buying target. The BOJ also has announced that it will buy other assets including ETFs and REITs. Japan continues to suffer from systemic problems including issues with slow growth, deflation, government finances and an aging population. However, the economy did get a positive surprise as third quarter GDP was revised upward, beating forecasts. GDP grew at an annualized 4.5% versus the initial 3.9% report. The increase was attributed to higher capital spending, up 1.3%, and an increase in private consumption. Investors are hopeful that a decline in the yen's strength as well as planned tax cuts will spur the consistent growth that has been so elusive.

With excess liquidity sloshing around its economy, China moved to raise bank reserve rates both early in the quarter for the 5th time, and just as the year was ending for the 6th time in 2010. The mandate applied to the country's six largest commercial banks, increasing reserve ratios to 18% in an effort to drain cash from the economy. China appears to be coming to the realization that its meteoric growth over the last few years can lead to overheating and could ultimately prove counterproductive. China must also deal with some potentially negative demographics – an aging population and a shortage of unskilled labor. The shortage of unskilled labor is forcing wages up and is spurring manufacturers to move from the coastal regions to less-developed areas in western and central China. Near the end of October, the People's Bank of China unexpectedly lifted deposit and lending rates by a quarter-point in the first policy tightening since December 2007. The surprise move brought the one-year lending rate to 5.56% and the one-year deposit rate to 2.5%. The move had a direct effect on the yuan/dollar exchange with the dollar jumping 1.4% versus the yuan on the day of the announcement. In a move that signaled that the Chinese government has been unable to satisfactorily slow the rapid credit growth that continues to fuel housing and food inflation, the government hiked interest on December 25th. The rate move is believed to be the first in a number of expected rate hikes throughout 2011 and appears to be a concession that alternative efforts to slow credit expansion through higher reserve requirements, bank lending targets, lending restrictions and other methods have been ineffective. The MSCI China Index was basically flat for the quarter, returning 0.70%, and up 4.6% for the year.

Elsewhere in the Far East all eyes were focused on the rising tensions between North and South Korea. The shelling of a South Korean island by North Korea resulted in some short-term, regional market volatility with the MSCI South Korea, Singapore, and China Indexes down -1.7%, -3.2% and -2.5%, respectively, on the day of the shelling. South Korea's central bank pledged to keep the country's markets stable by all means necessary. In Singapore, the country's gross domestic product expanded at an annualized rate of 6.9% for the 4th quarter after having fallen nearly 19% in the previous quarter. The uptick was attributed to strong performance in the financial services and tourism sectors and followed the prior quarter's slowdown driven by the pharmaceutical and construction industries. Overall, most emerging market sectors performed well for the quarter and the year.



Latin American emerging markets continued to perform well. In Brazil a new president is set to take office in 2011 with a focus on curbing the run-up in value of the real. The real has appreciated nearly 40% versus the U.S. dollar since 2009 and has weighed on Brazil's current account. China's demand for raw materials from Brazil had been helpful; however, recent strength in the real versus the renminbi has made Chinese imports cheaper to the point where Brazil has implemented tariffs on Chinese manufactured toys in an attempt to protect domestic competitors. The MSCI Brazil Index was up 3.4% for the quarter and 6.5% for the year. Argentina appears to be the beneficiary of continued low interest rates in the developed markets as investors search for yield. Argentine dollar bond prices soared nearly 36% in 2010 as president de Kirchner tapped central bank reserves to make bond service payments. Significant spread compression helped bond performance as the government's demonstration of making debt payments lowered investors' demand for risk premium. It is a positive development as estimates indicate that Argentina will need to tap global markets for financing in 2011. The MSCI Argentina Index was up 26% for the quarter and over 77% for the year.

Focus On: *Finding Growth – and Growth Managers*

Earnings growth (at a reasonable price or any price) is the stealthy quarry of many active equity managers. In its simplest form, the proposition is that the market will reward companies that can increase future earnings with higher stock prices. There is an intoxicating allure to growth investing; people want to believe their investment dollars are not only generating wealth for themselves, but are genuinely funding innovation that will move society forward. Therefore growth investing remains very popular, even after the collapse of the internet bubble in 2001-2002. The key question for institutional investors is whether or not we can identify managers that can add value in rapidly-changing sectors like technology.

Indeed many would argue that the task is impossible in the long run; that earnings growth is a phenomenon that is fully incorporated into market prices, so we can do no better by selecting skillful growth managers than we can do by efficiently holding the entire market through indexing. For today, we ask index aficionados to suspend their disbelief. In the real world, most pension and endowment fiduciaries hedge their bets on the grand issue, investing in an indexed core while trying to play the manager selection game with a limited allocation of capital. Most 401(k) fiduciaries punt the question to plan participants, leaving the index/active choice to them. Like it or not, committees find themselves faced with the manager selection problem. So assuming the problem is solvable, what characteristics should we look for to have a reasonable hope for superior risk-adjusted returns?

Earnings Growth and Stock Prices

The stock market is a forward pricing mechanism, a machine that produces a fair current price for a stream of uncertain future financial results. Every equity analyst has at the center of their arsenal a model that seeks to explain and predict the pricing function of the market. While these models vary greatly in detail, the underlying notion is simple – the fair value of a stock today is equal to the present value of future earnings. A simple discounted earnings model takes today's earnings for a company and projects them forward into future years with an assumed growth rate; these future earnings are then discounted back to present value using an interest rate.

Sum of Discounted Future Earnings

$$P_0 = \underbrace{\underset{\text{Year 1}}{\frac{E(1+g)}{(1+i)}} + \underset{\text{Year 2}}{\frac{E(1+g)^2}{(1+i)^2}} + \underset{\text{Year 3}}{\frac{E(1+g)^3}{(1+i)^3}} + \underset{\text{Etc.}}{\cdots}} = \sum_{t=1}^{\infty} \frac{E(1+g)^t}{(1+i)^t}$$

In this formula, P_0 is the fair stock price today, E is the company's earnings, g is projected growth rate, and i is the rate used to discount future earnings. From this model we can make a few observations; first, all other things being equal, the market should award a higher price to the stock of companies with higher growth rates. Second, the price to earnings (P/E) ratio of companies with higher growth rates will be higher. Both things make intuitive sense – when you buy a stock, you assume ownership of all the future earnings of the company. For growth companies, the company's current earnings (E) understate future earnings, and so we should expect a higher price multiple.

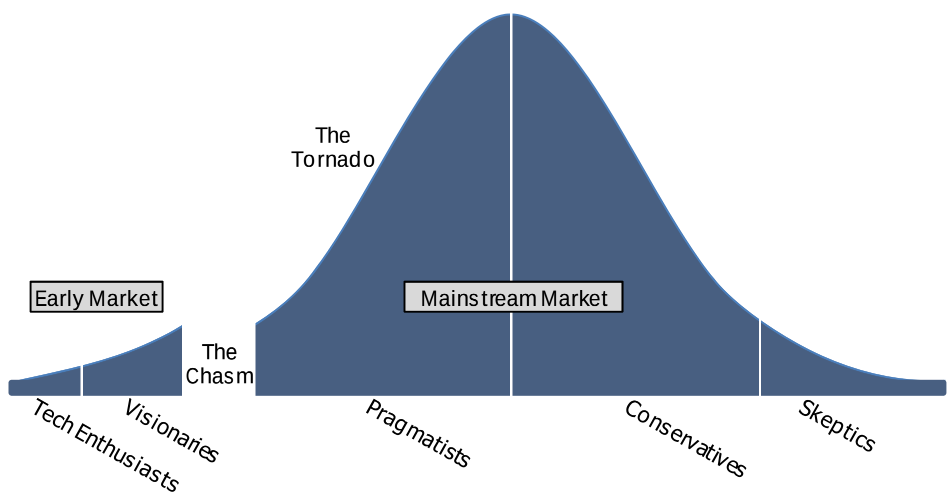
The key observation however, is that the price premium for higher expected growth rates is already reflected in today's stock price. In order to earn a premium, an investor must purchase the stock prior to an *unexpected positive change* in the market's growth projection. Some research indicates that growth stock prices are particularly sensitive to news, more so than value stocks (for a discussion of the topic, consider "Behavioral Bias, Valuation, and Active Management"; Scott, Stumpp, and Xu; *Financial Analysts Journal*; July/August 1999 and subsequent related works).

A successful growth manager must identify expected growth surges that are not generally known to the market, or are excessively and incorrectly discounted by the market. Further, the bets they make must be significant in magnitude, to overcome drag associated with expenses and inevitable mistakes, including some traps unique to high-growth industries.

Hyper-Growth and Growth Traps

The technology sector is replete with examples of revolutionary product development driving phenomenal growth. Consider the personal computer, the cellular phone, the local area network, and ecommerce sites like eBay or Amazon. Today it's easy to forget that the entire industry is only about 35 years old; many of us can remember a time when virtually no one used a computer. According to market research firm etForecasts, the worldwide installed base was about 1.2 million units in 1980; in five years the base was about 25 times larger at 33 million. Today, there are over 1.4 *billion* personal computers installed worldwide. Ownership of multiple computing devices is now commonplace. The pioneer of the PC revolution was IBM, whose product grabbed ownership of the space away from pioneers like TI, Tandy, and Apple. Today it is a re-engineered Apple that has experienced breakout growth through the Macintosh and iPod, and perhaps soon through the iPad mobile device. The traditional PC space has deteriorated into a low-margin business, and it has been a long time since IBM was the central player. To understand the explosiveness of technology product development, we turn to two venerable books on the subject by Geoffrey A. Moore -- Crossing the Chasm (HarperCollins, 1991) and Inside the Tornado (HarperCollins, 1995). Both books provide insight into the Technology Adoption Lifecycle, focusing on two key turning points where hypergrowth begins and ends.

Modified Technology Adoption Lifecycle Model



From Crossing the Chasm and Inside the Tornado by Geoffrey A. Moore

Moore's insight into the lifecycle is that, while there are many examples of revolutionary technological developments, there are many fewer examples of explosive successes like the PC. Within the lifecycle, most products fail in the early market because they are adopted by technology enthusiasts and visionaries (generating significant development expenses) but never cross "the chasm" into the mainstream market. The difference is that visionaries are willing to "bet on the come" that a new technology will eventually meet their needs, and will accept an imperfect 80% solution today. A pragmatist however will not commit until they are certain the product is a 100% solution to their problem. For example, the IBM PC was not particularly innovative compared to its predecessors like the T-1000 or Apple II; the difference is that IBM's device worked every single time you turned it on. The AT model of the IBM PC was so much more reliable than other models that businesses became willing to commit capital and staff resources to buying and supporting the product. It leaped the Chasm, software developers followed, and 25x growth occurred in a scant 5 years.

The adoption lifecycle implies information asymmetry – by definition, the early market is characterized by lack of information about the potential new technology, followed by awareness with skepticism. Clearly the successful investor must invest in the early market, prior to mainstream adoption, to take advantage of information scarcity. However, an important insight here is that the growth investor must avoid just looking for interesting technology; the investor must be able to foresee the catalyst that will transform the product into a reliable, mainstream solution that will erase the skepticism.

Remember the OS/2 operating system, the MessagePad/Newton PDA, the PCjr computer, the Digital Audio Tape (DAT), or the DreamCast game console? Of course not, nobody does! These much-anticipated products failed to achieve traction despite commitment of significant marketing resources by credible tech companies (IBM, Apple, IBM, Sony, and Sega respectively). Investors that bought into the *technology* story, or bought into the company's' *past history* of innovation, lost plenty of money on these growth traps. Growth stock prices are also sensitive to bad news such as launch failures or disappointingly slow uptake.

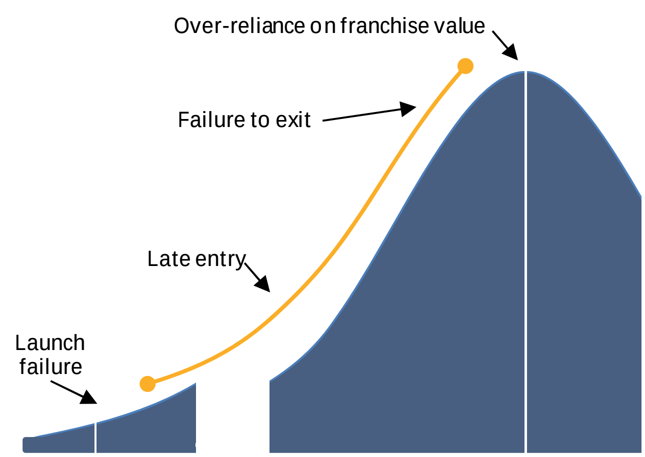
Repeatability – the Growth Franchise

Once an idea is in the mainstream, there is no more information asymmetry. Customers pile in, investors pile in, and early-market investors reap handsome profits. This is the hypergrowth portion of the adoption cycle, which Moore refers to as "the Tornado." Unfortunately for investors, products in this phase attract competitors. By the time conservatives and skeptics adopt the technology, standardization and product duplication drives down margins and ends the earnings growth cycle. Another potential trap for growth investors is lingering in the stock once hypergrowth has run its course. Successful growth investors tend to be skeptical concerning a company's ability to rekindle explosive growth through marginal product enhancements and new versions.

There are exceptions however, firms that seem to be able to string successful product launches together. As we go to press, the darling of the growth managers is Apple Computer. Apple stock experienced a tremendous run-up on the explosive success of its portable music players (catalysts = reliability, coolness, and integration with an online music store) and the Macbook line of laptops (catalysts = corporate adoption). By most measures, Apple has met with success in the early market for its tablet computer, the iPad – but a growth investor is interested in the product not because of the technology involved, but because of the possibility of widespread corporate adoption. This device offers managers and executives a package not offered by the laptop – portability, continuous connectivity, and integration of their work and personal lifestyles. The pragmatists (let's say, the typical IT support department) are now under pressure from their users to adopt the technology, and Apple's reputation for quality and experience in producing supportable devices on a mass scale make them more inclined to adopt. The conditions are right for the Tornado – and within a few years, we could see the iPad as the predominant device for business managers.

Or not. Who knows? Well, successful investment managers in the technology field must know. When we interview technology analysts we are curious why they like Apple. Analysts that discuss the future of the iPad have the right basic idea; those that drone on about Apple's past successes don't. It's dangerous to continue investing in a growth franchise simply because of past success. Remember the markets are littered with mature companies who once delivered serial innovation but now are slow-growth, mass-market suppliers or relics. Serial innovation is not automatic; it requires investors to continuously re-test the growth thesis for their holdings.

Growth Traps in the Hypergrowth Investment Zone



Characteristics of Successful Growth Managers

When we evaluate candidates for growth investment management mandates, we look for evidence that the portfolio managers and industry analysts understand the nuances of the product lifecycle. In addition to educational backgrounds and work experience, we like to ask for specific examples of investments they've considered and either recommended or rejected at the points of the lifecycle where growth traps emerge. Key characteristics include:

- *Willingness to invest in the early market.*
  Does the manager tend to buy ahead of mainstream adoption, when information asymmetry may lead to superior active returns?
- *Ability to identify catalysts to bridge early and mainstream market adoption.*
  Does the manager look beyond the technology itself for evidence that the mainstream market will accept the product as a full solution? Can they cite examples of early market opportunities they've bought into and opportunities they've rejected? Is the manager technically qualified in their industry field, rather than having a purely financial background?
- *Willingness to exit before standardization and competition drive out profits.*
  Can the manager cite examples of their exit timing decisions?
- *Ability to critically re-evaluate successful growth franchises.*
  Has the analyst demonstrated they can walk away from companies the moment their innovative activity ceases?