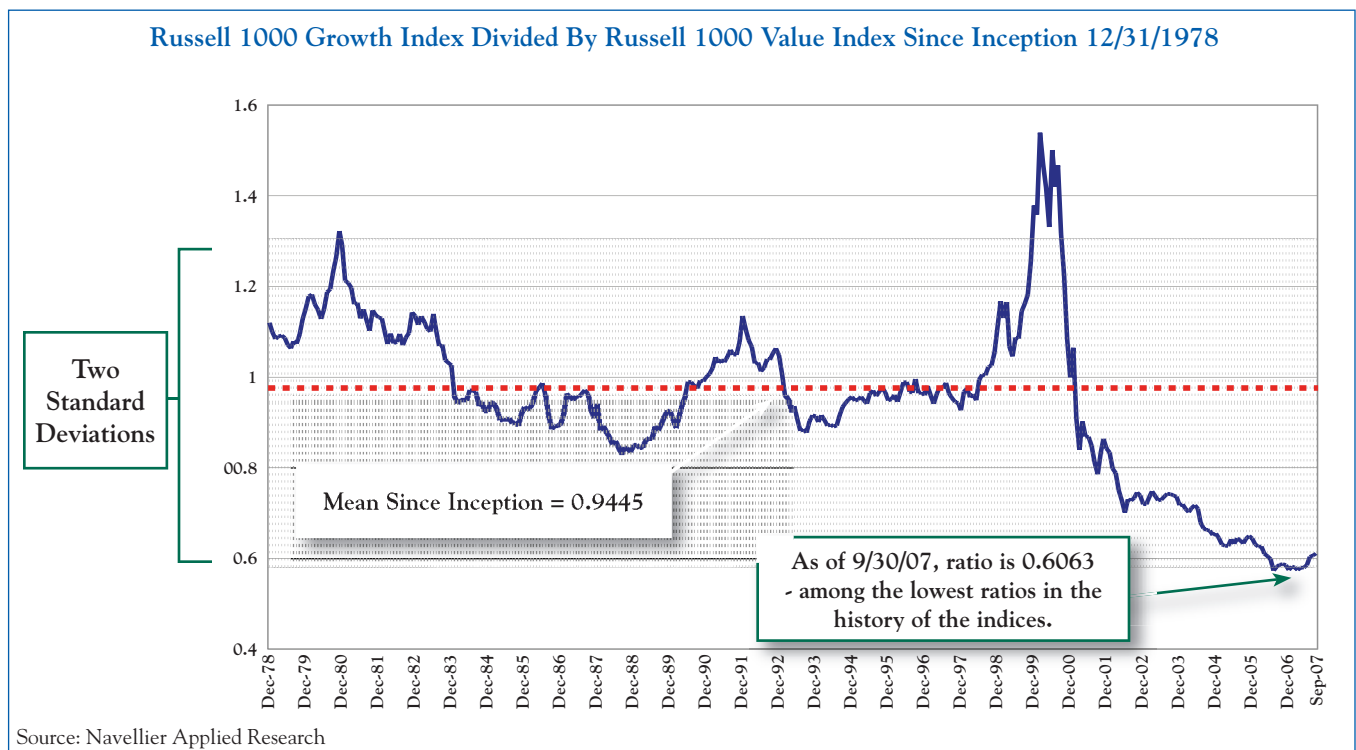


Alpha Observations in Large Cap Growth

Investors seeking excess return often seek out market anomalies for exploitation. Yet interestingly, even when such anomalies are identified, it is often difficult to suppress the impulse for second guessing the observation thus resulting in a missed opportunity. Among professional investors, academics, and pension consultants, it is increasingly acknowledged that the large cap growth style is presenting a potential performance anomaly that can be exploited to the benefit of their portfolios. This paper will illustrate some of the salient points in making the case for the large cap growth asset class.

Ratio of Style Indices and Standard Deviation:

The most visibly striking exhibit of skewed style index behavior can be found by creating a simple ratio. By dividing the Russell 1000 Growth Index by the Russell 1000 Value Index, it is readily apparent that one index is at an advantage that has never been seen before (see chart below), particularly when standard deviation is used to highlight market extremes (in this case the banded lines represent two standard deviations from the average: represented by the red dotted line).

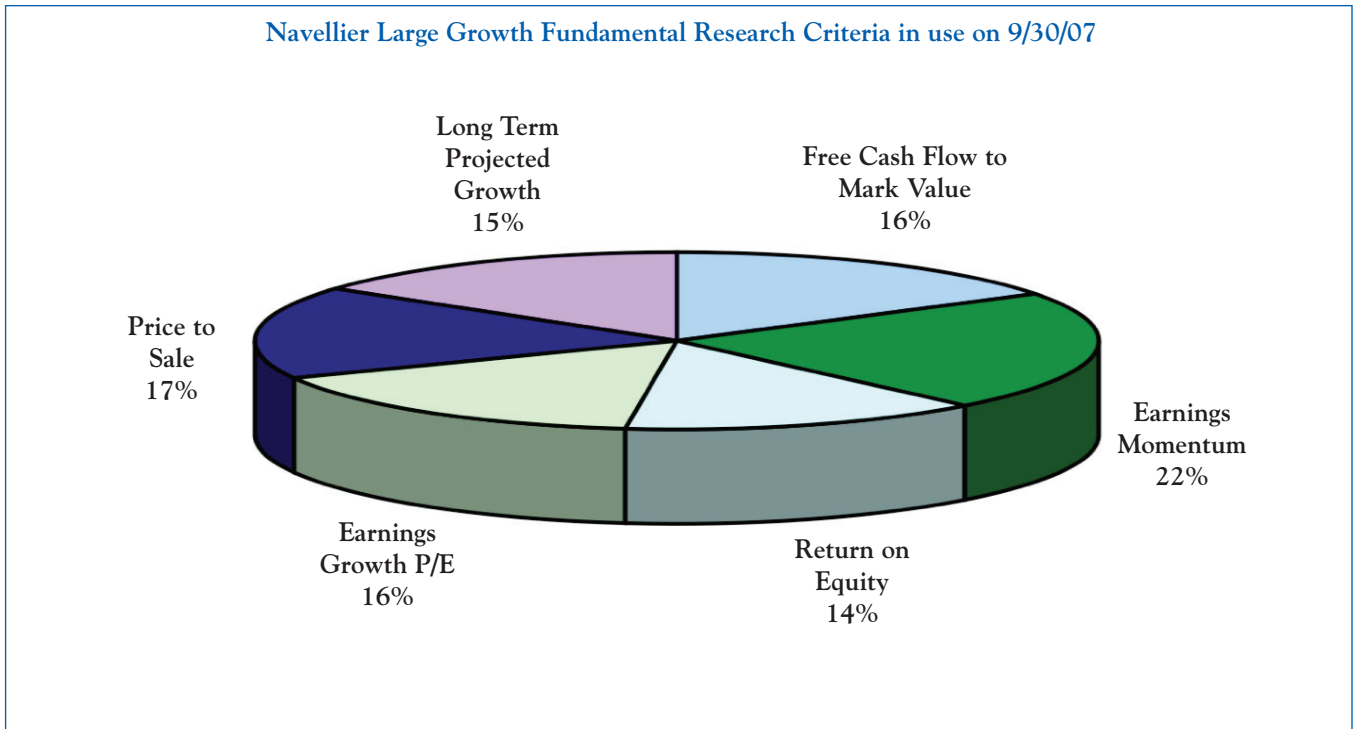


Clearly, the depth and length of time, since December of 2000, in which large value is favored over large growth has never occurred in the history of the two style indices. Should mean reversion occur, the performance advantage of large growth could be significant.

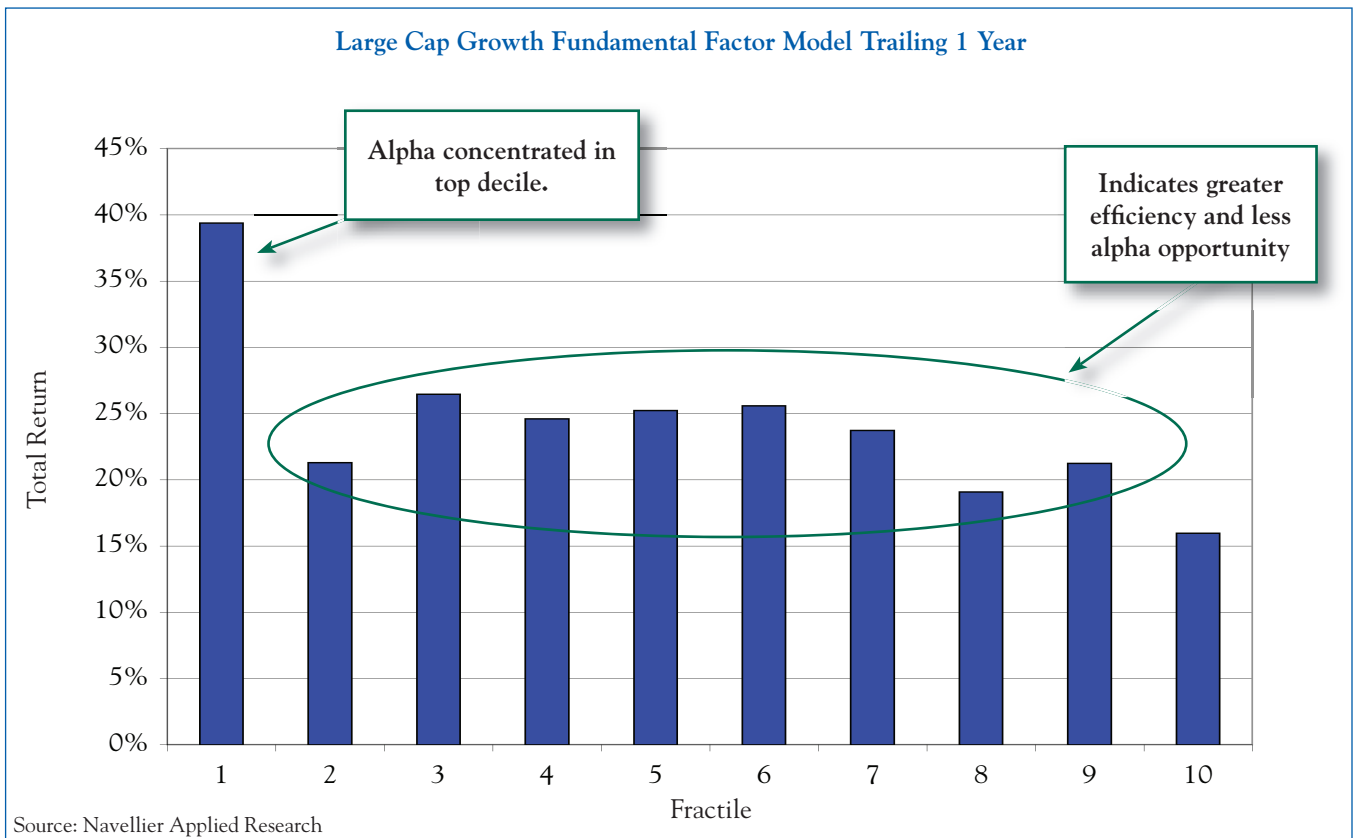
Market Favors Managers With Greater Concentration In Fundamentally Sound Stocks:

While, at times, the market can reward “junk” stocks at the expense of quality stocks, the present market environment is clearly favoring those stocks with high quality underlying fundamentals. Navellier research has shown that the

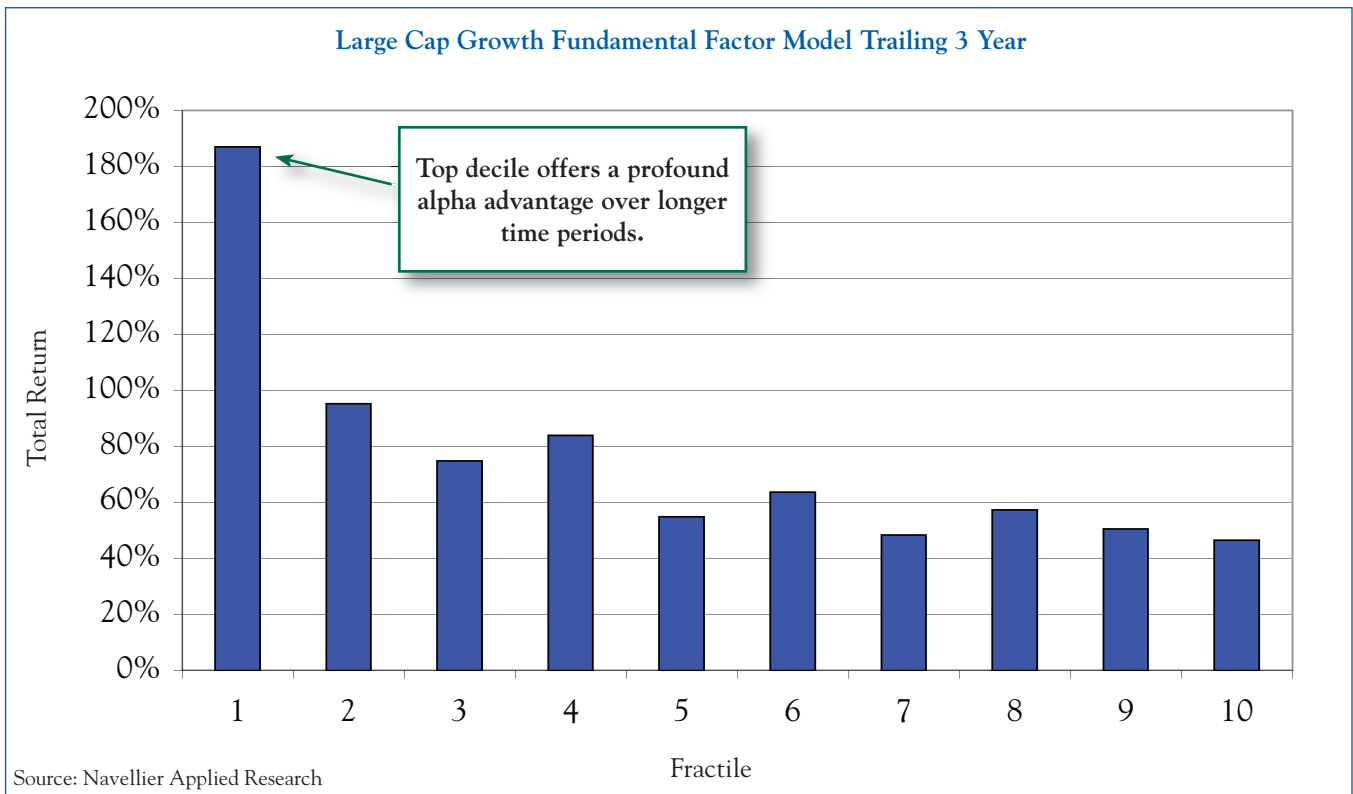
market is rewarding those stocks possessing strong fundamentals in: long-term projected growth, free cash flow, earnings momentum, return on equity, earnings growth to P/E and price to sales. In particular, if one were to weight the importance of such characteristics in the following manner, the top decile stocks in the ranking demonstrate powerful performance:



Navellier research has found that using a trailing 12 month window for evaluation of the weighted factors reflected above, the top decile significantly outperforms the bottom decile of stocks, as the following chart illustrates.



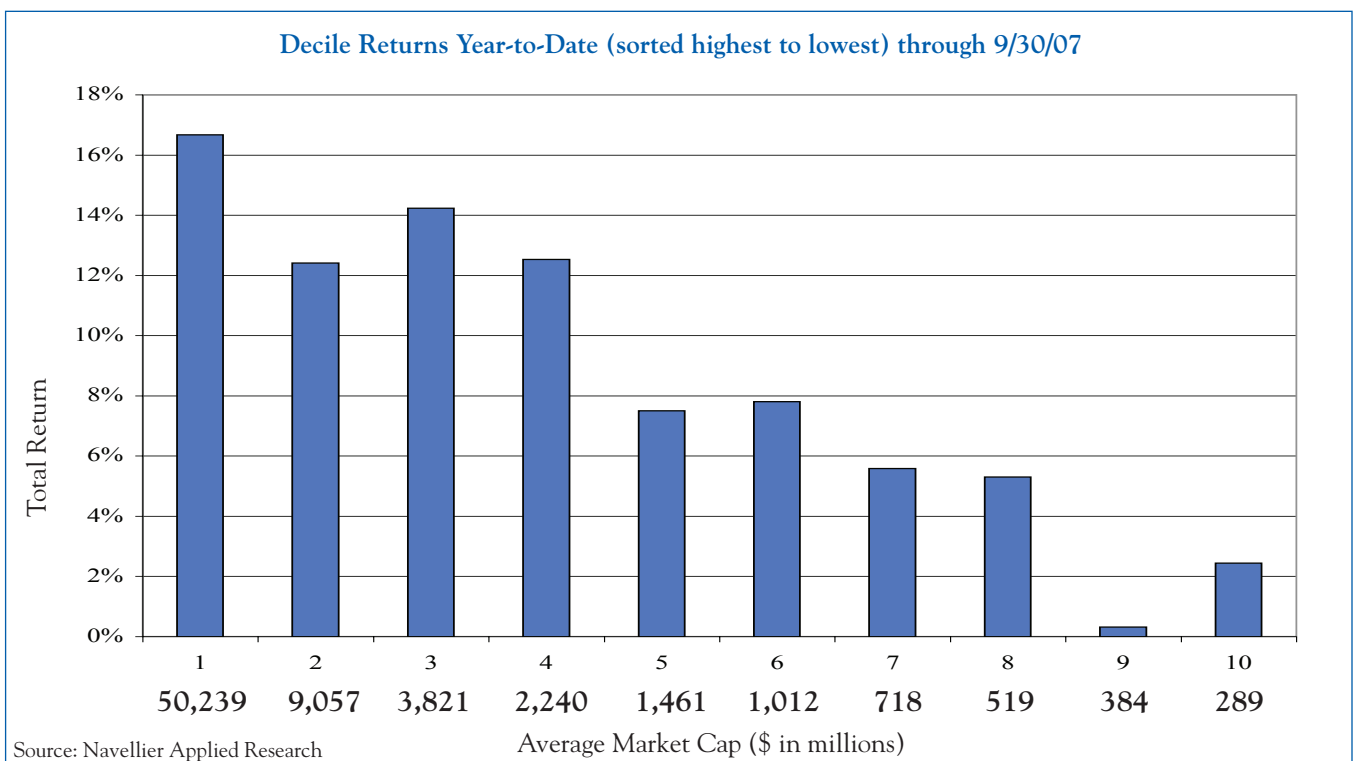
Navellier research has found that using a trailing 36 month window for evaluation the result is even more dramatic.



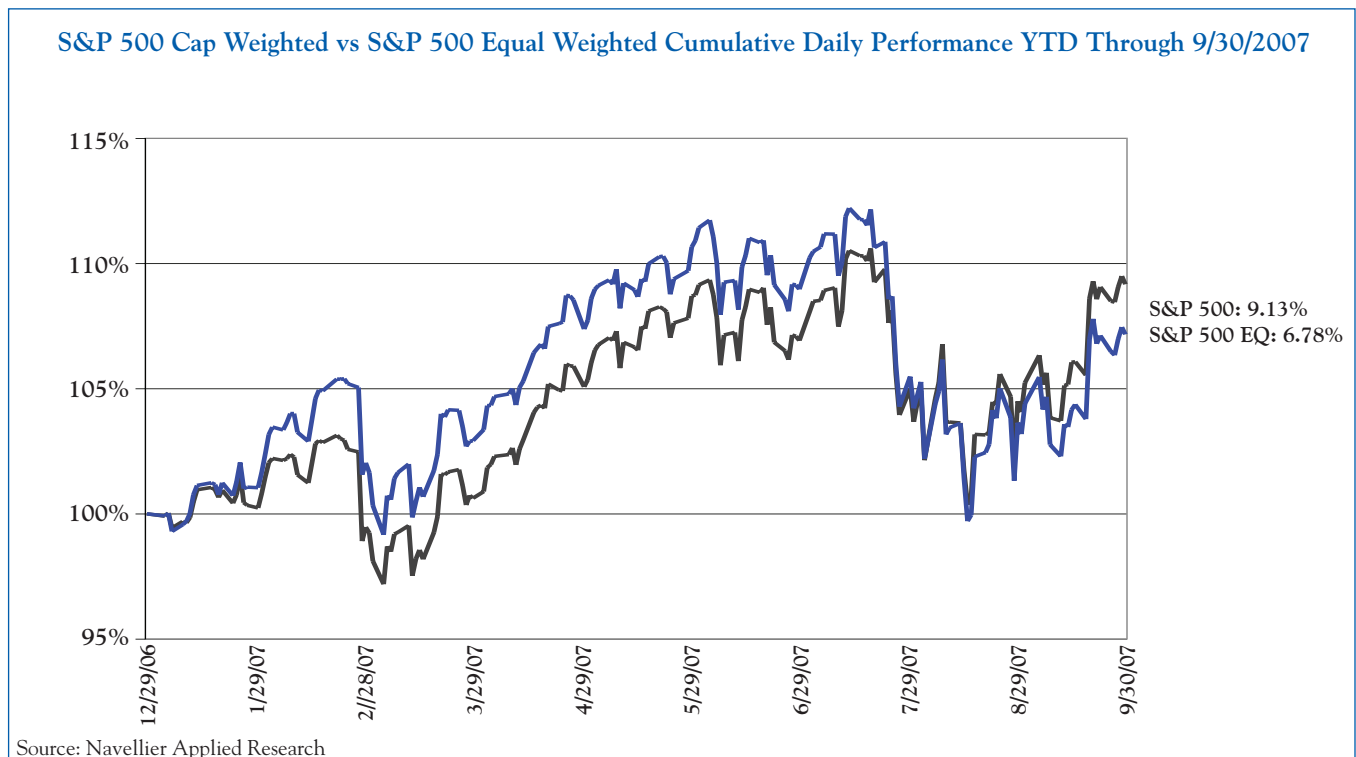
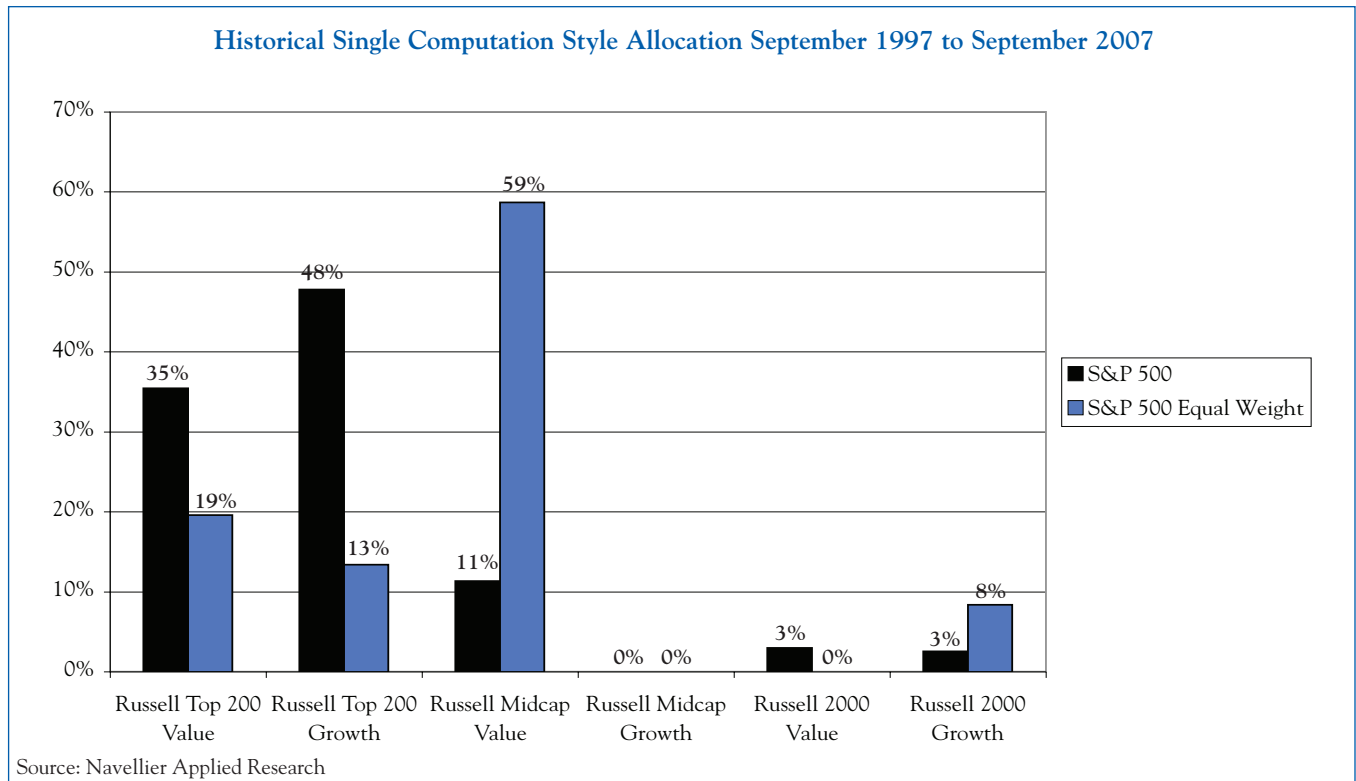
As such performance trends tend to have a degree of persistence over time; it can be argued that a more highly concentrated portfolio of top decile stocks should result in market outperformance.

Market Favoring Large Cap Stocks:

The market cap phenomenon has been very dramatic through the first eight months of this year. The chart below illustrates the market cap bias. Navellier research ranked all companies by market cap on a monthly basis and examined the one month forward return. It was found that the largest market cap companies have significantly out-performed small and micro cap companies on a year to date basis. It is likely that the weak U.S. dollar along with a strong institutional bias toward mega-caps and multinational companies (such as McDonalds for example) is accelerating this trend.

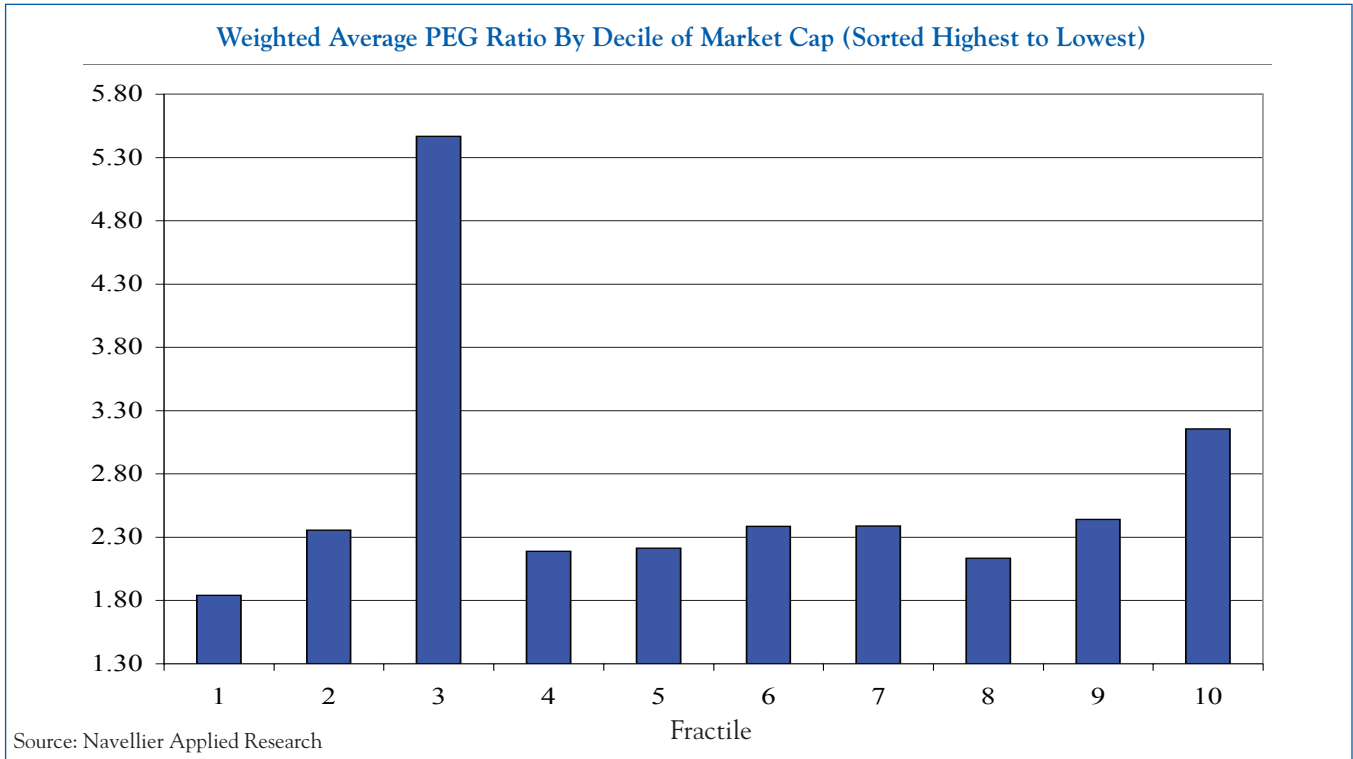


Additional evidence of the movement toward larger stocks can be found in the recent performance of the S&P 500 Equal Weighted Index versus the S&P 500 Cap Weighted Index. As shown below, the influence of the mid-cap stocks which have historically been a major contributor of performance within the S&P 500 Equal Weight Index is beginning to break down to the benefit of the S&P 500 Cap Weighted.

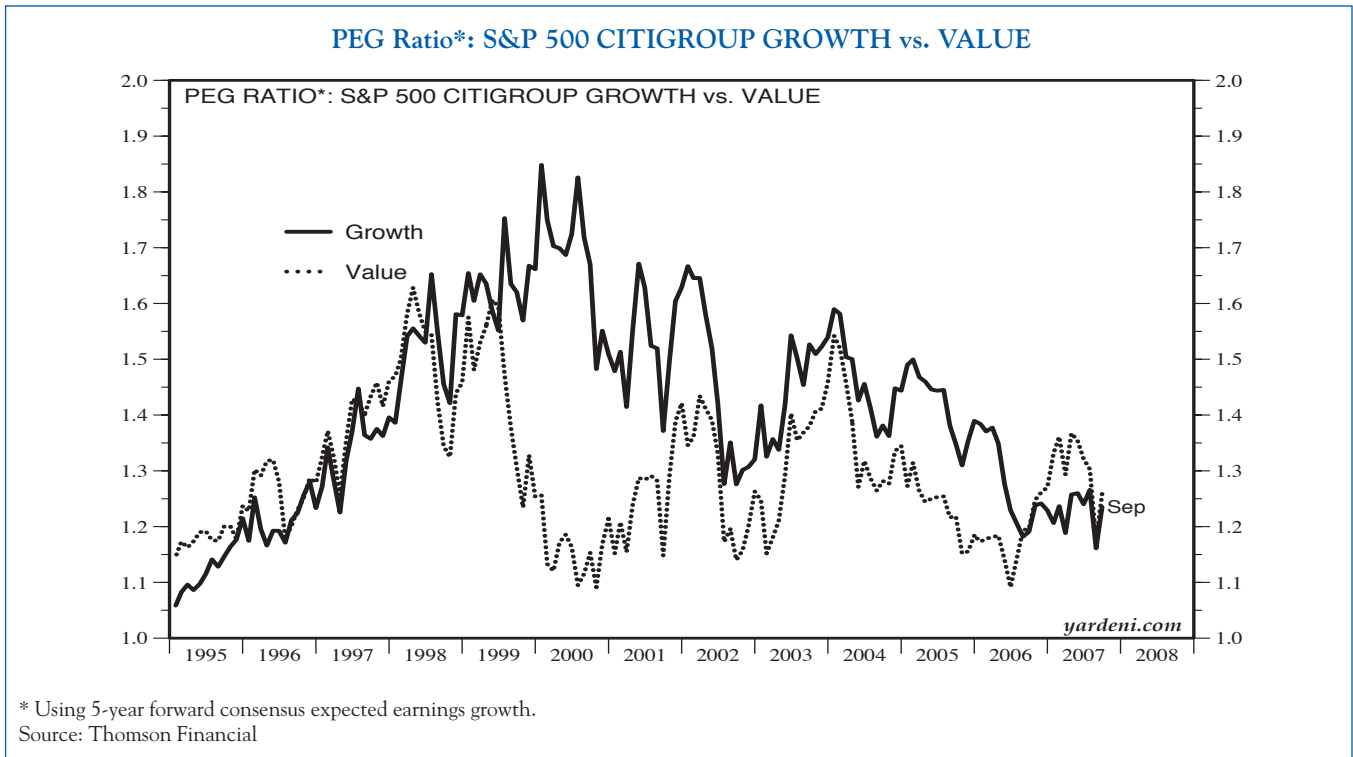


PEG Ratio Illustrates Further Room For Performance:

Navellier research looked at the Price/ Earnings to Projected Next 12 Month Growth ratios (PEG) for their entire universe of stocks from the highest market cap to the lowest which is illustrated below. The largest cap stocks in the first decile have significantly lower PEG ratios than their mid cap and small cap counterparts. In other words even though large cap stocks have had a good run, they still appear cheap relative to all other market cap ranges.

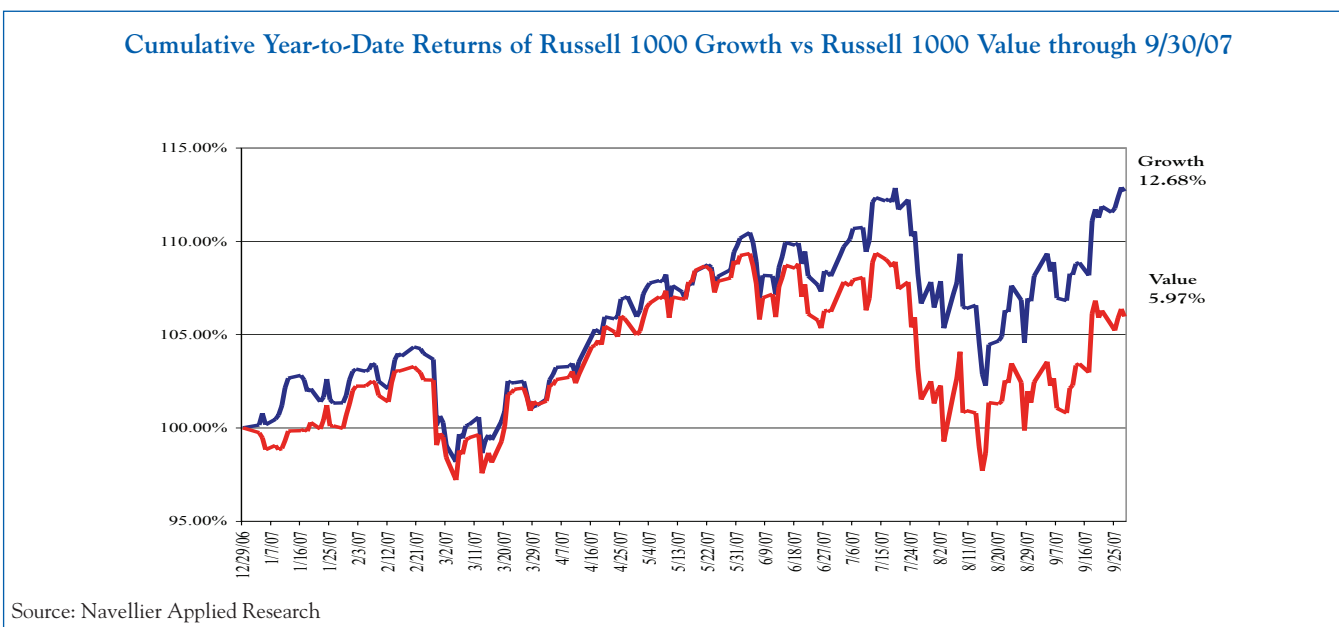


From a longer term perspective the PEG ratios are even more impressive for large cap growth as the PEG ratios for the asset class are significantly below historical averages:



“Seismic Shift” to Growth in 2007:

So far this year, 2007 has demonstrated that the large cap growth style is beginning to reassert itself relative to value (as shown below). As a result, it is possible that the market is undergoing a “seismic shift” in which the large growth style is coming back into favor over the large value style. If history is any guide, such a style bias may persist for a significant period of time.



In summary large cap growth should be one of the best performing styles for the next 12 to 18 months based on the above factors. We have seen a significant market cap bias, with the most fundamentally superior stocks doing very well. Should present trends continue, the potential for increased relative performance in the large cap growth area is significant.

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