

*The following is a transcript from "Bloomberg On The Money" on 20-Jan-06 with Scotty George, Chairman of du Pasquier Asset Management. (Reprinted with permission from Bloomberg Inc.)*

Joining us now here in the Bloomberg World Headquarters studio in New York for a look at the trading day we've got du Pasquier Asset Management Chairman, Scotty George. Thanks for being with us Scotty.

Scotty George: Good morning Howard, Hello Charlie.

Howard Lieberman: Now the holiday shortened week began with stocks falling, they recovered yesterday moving a little bit lower again right now, but as we look at what's happened so far this year, we haven't really been able to make headway since the first week of the year. Why are we stalled, is this earnings concerns? What's going on?

SG: Well, it's really kind of micro managing the market, to look at what's happening only in the first couple of trading weeks. In fact, I think that there are some long term trends which are carried over from 2005 that we still see. So if you want to widen the aperture and take a step back, I think that the market looks very strong, irrespective of the last couple of trading days.

Charlie Stein: Where do you see that strength? What are those things that we're carrying over from last year that make you more optimistic?

SG: Well Charlie, some of the trends that look very, very good going into this year and beyond include the globalization of the market and a kind of cessation in uncertainty about monetary policy across the globe. I think it's very good for stocks, it's very good for equity ownership, that industrial spending is beginning to broaden, marginally, but nevertheless broadening; that earnings are deriving from pockets of demand; and that in some cases what we're seeing is a continued strength in those sectors that had been leading the market for the last two or three years, namely energy, basic materials and other tangible assets.

HL: What about energy? Do you continue to invest in the energy groups?

SG: Howard, I think the last time I was here I made a statement to you that I believe that energy in all of its permutations, exploration, delivery, extraction, is probably the dot.com sector of the first decade of the new millennium. The type of expectations that were accorded to technology in the last five years of the 1990's is probably the type of expectation, the type of excitement that we're expecting to see throughout the energy sector. Now, having said that, it may not be the type of names that we're looking at today, it may not be the large integrated, it could be a whole new generation of energy proliferation, including alternative sources, so there is an excitement within that sector and I don't think it's done yet.

CS: Scotty, is your forecast there on energy based on a particular price of oil, or just the expectation that oil will be considerably more expensive than it was in the past?

SG: I think the latter. I don't have a price although I could postulate a global price of \$75 to \$80 even within the next twelve months. But having said that, I think really it's about demand, it's about industrial production and it's about globalization clearly with the Asian basin and the sub-continent, so I think energy is one of the drivers of industrial production. It's a necessity. That's where our optimism comes from.

HL: Scotty, as you look at 2006 and the year ahead, you have a certain methodology, the way you look at the market and decide where money should go. First of all, before we get into the methodology a little bit, is the equity market the place people should be investing right now or are there better investments out there?

SG: Well, both questions can be answered at the same time. We tend to look at things as a series of probabilities; you can quantify, statistically, certain rankings or offer certain weightings to the probability of events occurring. So to answer your first question, I believe that the probability of the stock market outperforming any other alternative is probably at its greatest than it has been since the bear market ended. We've seen a couple of years here of lateral progression in the market, very little performance. I think we've established the base; we've eliminated a lot of the worry in the market about turning backwards and looking at whether the bear is going to reappear. So to that extent we believe that stocks right now represent the highest probability of performance amongst most asset classes. Now, that doesn't necessarily diminish the significance of being balanced, but it does somewhat indicate to us that equity ownership is a stronger measure of performance than any other sector.

CS: Scotty, you mentioned before that energy, basic materials, things like that, prosaic sort of things might be the dot.com's or tech stocks of this decade. What about the tech stocks themselves, which were the tech stocks of the last decade. Are they going to be laggards here?

SG: That also leads into the methodological question Charlie, so let me try to answer both of those at the same time, as well. What we're trying to do in our portfolio allocation process is give our clients the highest opportunity of portfolio capital gains. To do that, we need to categorize certain subtexts of events occurring in order to allocate resources into those areas where we think there is a high velocity momentum, a kind-of a neutral probability of events

occurring and then lastly a laggard or diminishing performance characteristic. In the tech sector, clearly, since the bear market, we've seen this laggard constituency while industrial stocks, energy, basic materials, tangible assets and probably six other categories have shown outstanding performance. Right now, I think technology looks to be poised to reverse its laggard performance and in fact catch up to the rest of the market and it's another one of the reasons why I'm strongly optimistic about stocks. I think the lateral performance of the market over the last two years has given some of those laggard sectors an opportunity to catch up from a valuation standpoint and level the playing field so that the potential for gains in those laggard sectors now equals the potential for those in the leadership as well.

HL: Scotty, Ken Pruitt mentioning General Electric and Citigroup, two poster children if you will, as Charlie Stein put it before for big stocks, for where people put their money for the kinds of companies that we traditionally invest in. When you look at both of these companies, shares are lower, the earnings were not quite what people had been hoping for. In the case of GE, slow profit growth, in the case of Citigroup, excluding certain items, missing the analysts estimates. What does that say to you, if anything about the overall market, where we're headed?

SG: Well it says to me about those companies in particular, Howard, that the big integrated companies have less mobility and less flexibility in managing their earnings reports on a quarter by quarter basis. In those type of businesses, you need strong leadership to plan for the future in order to lay out a strategy that can be profitable to the company based upon demand in each of their business sectors. I don't disfavor either one of those companies, although none of them is currently on our recommended list, but I would say to your listeners that we're looking probably across a broader capitalization spectrum, companies that have a little bit more mobility and nimbleness, being able to focus on where core demand exists. I think again that's why there's such a potential in the market across a broad spectrum of market baskets and stocks.

CS: Scotty, the first couple of times there's been this sort of flat lateral movement to the market the last couple of years, even though earnings have grown. Why do you think this year it's going to be different? What's the catalyst to get the market to respond? Is it simply a valuation question?

SG: It's a combination Charlie; first of all, in order to increase prices as earnings are going up, you need to look at this as a kind of PE equation. As earnings multiples begin to contract based upon growing earnings one would expect to see, at least definitionally, a commensurate increase at some point in the price progression as well. So the lateral movement in the market only exacerbated the narrowing of PE margins and gave the potential for these price increases to occur. Whether they occur or not really depends upon companies that build a better mousetrap. Those that create demand in the marketplace for their product and therefore respond both in earnings growth as well as in capital appreciation in their shares, that's really the \$64,000 question as to whether or not efficiency in the market, which has been talked about as productivity gains, can be matched by demand gains and therefore translated to share price growth.

HL: So Scotty, at this point when you look at your recommended list, who's building a better mouse trap? Which companies do you recommend?

SG: Well, as I said at the beginning of our interview, I think that the secular themes that transcend these kinds of annual progressions, that don't look at the calendar as a delineation between whether they endure or not, are going to continue to manifest in 2006 and beyond. To that extent, we're overweighted in energy and basic materials in our portfolios. We don't discount, however, the significance now of those laggard sectors like technology and financial stocks. And what's interesting as well, is that we're starting to see now a broadening in some of those middle or coincidental tier equities, like the consumer brands which had languished for so long. Now all of a sudden some specialty retail stores, some specialty consumer products are beginning to show leadership in terms of price progression and that's another area that I think is broadening our market basket.

CS: On the flip side then Scotty, where are you underweighted, where do you want to avoid?

SG: Well we're underweighted in those sectors that are responsive to low demand and that would include the financial sector, and some utility stocks. We're not yet overweighting in the consumer brands but we're now more coincidentally or neutral weighting in the consumer stocks, so if you look as this as a progression I would say that consumer demand stocks still are a question mark in our overall portfolio, and that the pricing pressure equities still take leadership.

HL: About a minute left here Scotty. Do you see consumers remaining strong? Coming up in a few minutes we'll get the Michigan consumer confidence data, then we'll be talking in fact to Lehman Brothers economist Drew Mathers on that, but are consumers staying strong? That's critical for the economy, right?

SG: It is. In one minute, it's a tough question to answer, but I think there's more evidence that wages are beginning to broaden, that hiring is beginning to expand. The big question in the U.S. economy is whether or not the deficit is the big wall that we're going to run into that nobody talks about. As long as consumers feel valuable and valid, they're probably likely to keep spending, and so to that extent there is a broadening of the consumer sector.

HL: Scotty George thanks so much for taking the time to come in and be with us here on Bloomberg on the Money.

*The following is a transcript from "Bloomberg On The Money" on 21-Feb-06 with Scotty George, Chairman of du Pasquier Asset Management. (Reprinted with permission from Bloomberg Inc.)*

I'm Howard Lieberman, and I'm Charlie Stein, and this is Bloomberg on the Money. And joining us now here in the Bloomberg World Headquarters studio we've got Scotty George, Chairman of du Pasquier Asset Management. Scotty, always a pleasure, thanks for being with us.

SG: Thank you Howard, Charlie.

HL: You have often looked at energy, the past few times we've had you on the program. Energy has been one of the focuses. I guess with what we see happening with energy prices right now and the problems in Nigeria, the problems in Iran, is energy still tops on your radar screen?

SG: Well, let's broaden the aperture just a little bit. What we look at is earnings and ever since the last half decade we've been focusing on a transition in earnings from consumer led, demand driven, to commodities driven and commodities sources, so in addition to energy, we favored over the last five years basic materials (including golds), and mining stocks. Energy over the long term still is the story of this decade and we're very high on the sector. Although perhaps in the short run some of those stocks may be a little expensive.

CS: Scotty do you like the commodity stocks as well? Even if they pull back a little, do you still think that's a multi year play?

SG: Absolutely Charlie. We love the basic material stocks, particularly looking right now at gold stocks as an entry point, but a number of other non precious minerals like zinc and aluminum look very strong in the market right now too.

HL: As you look at the gold stocks, Scotty, do you prefer the stocks themselves or do you want to be buying the actual bouillon? Maybe the ETF, that gets the bouillon for you.

SG: Well, as a portfolio manager, we're looking at entry into commercially traded equities, so I do like the commodity. We don't have a place to store it in my office, (laughs) but we like the gold stocks very much.

HL: But if you played the bouillon through the ETF, if somebody's interested in kind of having their hands on the bouillon without all of those costs and storage situations, does the gold's exchange traded fund make sense?

SG: Absolutely, in fact there are Canadian exchange traded funds and South African. We like those markets from which the commodity originates.

CS: Scotty does the strength, if you're right and the commodities are strong, and oil is strong and energy is strong, who loses in that? Which stocks do you want to avoid because those stocks are doing well?

SG: Well that's a great question Charlie, because it really runs consistent with the overall theme of du Pasquier Asset Management's methodology. We're looking not only to overweight those sectors that have leading characteristics, but neutral weight the market and underweight those sectors which we think have laggard performance characteristics. Clearly, I believe, that the laggards of today's market are consumer driven equities. You see what's happening in the automobile stocks, but the retail stores, even though they're seasonal and have their spurts of earnings acceleration, really have a longer term demographic in which they're losing market share, with the exception of some of the specialty retailers and that would be a niche market.

HL: Scotty, in the kind of environment we're in then, the sectors you've been talking about, the groups you're looking at, are these long term? Is this the way it's going to work all through 2006 or is it a first half, second half scenario? A lot of folks we've had on the program seem to see things going pretty well the first half, maybe weakening a little in the second half. What's your take on how the overall market's going to do?

SG: All markets are cyclical Howard, and to that extent there are really longer term demographics, what we call the secular themes. Within the broad secular themes, those which last generations, there can be intermediate price fluctuations. Energy is a great example of what an intermediate trend looks like within a broader, longer term secular configuration. Those prices have spiked up dramatically since the first part of this year. And then, of course, within these intermediate themes, even short cycles take hold where you have spurts of activity in stocks based upon news events or other market driven factors. The themes that we're talking about today in today's interview really do relate to our overall broader secular market approach. Those areas that we want to be invested in that take advantage of longer-term demographics.

CS: So besides energy which you're taking advantage of, what else? Does healthcare fit that mold or not?

SG: It does, although we wouldn't categorize healthcare as a lump sum. I would look at biotechnology, I would look at pharmaceutical companies. We would certainly be looking as well, Charlie, at the demographics of infrastructure development; harbors, refineries, roads, rails. The industrial sector is one of those leading characteristics in our research and they also would register very strongly not just domestically but globally.

HL: A lot of folks are very carefully reading the minutes that came up earlier this afternoon from the January 31<sup>st</sup> FMOC meeting. When you look at what's going on with the Fed and the interest rate environment, how much of what's happening with interest rates comes into play for you? For example, as far as the financial stocks, and what do you see happening with interest rates? Are you in the camp of the Fed stops at five now or do you see them going higher?

SG: Interest rates do play a significant role in our research. In fact, I believe that as interest rates go higher it's going to create a greater alternative investment landscape, one in which consumers can select from bonds as well as stocks as an alternative for investment. I don't see that high rates right now are necessarily punitive to capital expenditures although, again, if the trend persists you might start to see additional repercussions in the economy. But I think interest rates on an historic basis are relatively low and not yet impeding capital expenditures in the corporate market. To the other part of your question, the financial stocks right now are lagging the performance in the market and with the exception of some of the regional banks and S&L's I wouldn't be a big integrated investor in financial stocks.

CS: So a lot of people we talk to hate the regional banks at this point because the yield curve, the mortgage market, is slowing down, and they tend to favor either the money center banks or the Wall Street firms. Why in financials would you prefer the regional banks?

SG: They have greater flexibility Charlie. It's the difference between moving a battleship in the ocean and moving a dingy. The regional banks can respond more to their consumer base and more to their regional market and environment than can the major intergrateds. I just think there are too many businesses within the integrateds for them to be able to create profitability and bottom line margin.

HL: In the work that you do Scotty, in determining what kinds of stocks you want to put in your portfolios, you're looking at earnings, you're looking at a number of very specific things. What about some of the more technical factors in the marketplace, does that enter into it or do you look at volatility in the market or any of these other things that some investors do rely on?

SG: Absolutely, within our research, not only is earnings the primary driver of our selection process, but we're looking at relative strength of sectors, we're looking at measurements like put/call ratios and block trades, institutional participation. There are probably 45 subsets of data within the earnings market that we look at, and absolutely we're looking at all of those.

CS: You mentioned Scotty that you expect the consumer to pull back so you don't want to be heavily invested on the consumer side. What about on the capital spending side? You mentioned energy, are there other ways to play that? Do you like technology as a result? Or is that not one of your themes?

SG: Yes, I do. I think, interestingly, we're probably more excited about the technology landscape Charlie, than we were five years ago, when the mania was driving prices up without any fundamentals to support them. To that extent, clearly, as we mentioned biotech, but traditional technology companies in the semiconductor area look strong and there are even companies and areas of technology that we can't imagine to be invented yet that are probably going to be on our landscape in the next decade.

HL: But you would not be looking so much at some of the older names perhaps, the Microsoft's, as well as Intel in the semiconductor space. But you're going to look at the computer makers and some of those as quickly?

SG: We're looking at them, but again, demand is not driving top line revenue and top line revenue therefore isn't translating into profitability. In addition, you had asked about technical features of the market. There's so much overhead supply in these stocks. Companies that were once \$19 that went to \$200 and they're back now to \$16 have a long way to go, although the road isn't impossible. But it's clearly an impediment to these stocks moving up with any degree of velocity.

HL: Scotty, unfortunately that's going to be all the time we've got for our discussion this afternoon. Scotty George, Chairman of du Pasquier Asset Management here in the Bloomberg World Headquarters studio with us.

*The following is a transcript from "Bloomberg On The Money" on 30-Mar-06 with Scotty George, Chairman of du Pasquier Asset Management. (Reprinted with permission from Bloomberg Inc.)*

Charlie Stein: Joining us now in the Bloomberg Business World Headquarters we've got du Pasquier Asset Management Chairman, Scotty George. Scotty thanks for being with us this morning.

Scotty George: Good morning Charlie, how are you?

CS: I'm OK. Scotty we're finishing up a very strong first quarter here, the NASDAQ is up about 6%, the other two markets up about 4½%. How do you explain that, given what's happened with interest rates and the price of oil?

SG: Well, you explain it off of the valuation lows that occurred back in 2003. This isn't a knee jerk response to fundamental events; this is really a kind of technical, quantitative and fundamental rally that began almost three years ago. It is now consummating near one of these peaks.

Howard Lieberman: One thing that could slow things down a little bit, if you look at individual stock stories Scotty, General Motors. It seems like every day there's different news about General Motors. Now the latest story, as they raise cash after all those losses last year, they were in talks to sell shares of Japan's Isuzu motors. It would be the third time since October that GM's been hearing investments by Japanese automakers, which seems to be not particularly, you know, as you look at it, is it right to get rid of an investment in the part of the auto group that's doing so well? But what about all the trouble in GM? How does it shake out?

SG: Let me, as I usually do on your broadcast, let me broaden the aperture a little bit because the conversation about GM relates to the way in which sectors rotate and the way in which performance can be calibrated. GM is symptomatic of the consumer cyclical market across the board, whether it be retail stores, automobiles or other consumer-driven products. This market rally, going back to 1993 and certainly after 2003 is driven by commodity price increases. It's driven by inflation in the market place and it's driven by the kind of demand for natural resources that's driving earnings in the tangible assets sectors. I think GM, as well as the other consumer stores, are emblematic of the demand slowdown in the consumer market sector.

HL: Scotty, a lot of focus this week was on the Fed and we saw stocks just tank after the Fed announcement. A lot of recovery yesterday, not much change right now really. The Dow is down about a tenth of a percent, S&P 500 is up about a tenth, NASDAQ composite doing better today, in large part on Google, Nokia, some of these other stocks that have been moving higher. What do you see happening in the overall market at this point and how much of it is related to the Fed and when the Fed stops?

SG: Let's take each of those questions separately. I think there's a gradual shift taking place in the domestic markets. One in which, as capital becomes more expensive, earnings become more difficult to create. And as a result there's probably less capital expenditures, although there's more speculation. There's an endeavor to try to cap this market rally with another big sustainable growth spurt. So one of the things that we're seeing in this market as again we begin to broaden the aperture, is that the kind of growth that we saw in the Western markets over the last ten or fifteen years is now starting to transpose into other regions of the globe: the Pan Asian basin and the subcontinent in India. There's a theme afoot and that theme is globalization, the kind of potential for natural resources and even the consumer driven markets like we were just discussing now begins to shift from a more mature scale in the Western markets to a kind of emerging markets opportunity that we see. I would say then that the market looks strong for stocks but you don't have to be necessarily proprietary to one's own country.

CS: Are there markets around the world you prefer to the American one at the moment, Scotty?

SG: To be jingoistic the answer to that is no, but if you look at performance over the last four years, believe it or not, markets like Mexico and South Africa and India have outperformed our NASDAQ and our Dow. So what I think I'm saying is that if you're looking at asset allocation as a means of diversifying against risk, you don't necessarily have to put a square peg into a round hole and demand that U.S. stocks continue their ascent. What you can do is to begin to diversify that risk through ownership of equities where opportunities for earnings growth exists elsewhere.

HL: Now Scotty, what about Karen mentioned a couple of technology names there-ATI Technologies, and Nokia's getting some attention today as they raise their forecast to global handset sales. That moves Motorola higher and you look at Qualcomm and other companies in that space. What about technology, what do you see happening there?

SG: Well, believe it or not, I'm much more enthusiastic about technology than we were five or ten years ago when our younger brethren were talking about dot com and you knew anything dot com across the board had the potential to move twenty and thirty percent in a day, two or three hundred percent over the course of its life. But right now with the fundamentals looking much stronger and the time-line having shaken out some of the weaker performers, technology, both domestic and global, looks to be one of the very strong sectors in our asset allocation.

CS: Are you looking for technology companies that can play the global markets, a la Nokia?

SG: Well, again Charlie, the question is really looking at opportunity for growth in the long term, not just quarter by quarter. The demographic for growth and opportunity in the technology shares really exists in infrastructure, the creation of both hardware and software, and that does include the global markets. But it's a global demographic which begins to look at where the need is and where the demand needs to be met.

HL: When you look at the treasury market right now and talk about asset allocation Scotty, 4.83% is what the ten year note is yielding, the two year is yielding 4.81% the thirty year bond is yielding 4.88%. When you look at the fact that S&P 500 for example year to date is up 4½% and you can get 4.83% on a treasury note, is money going to go from equities into the bond market?

SG: I don't think it's going to go out dramatically but I do think that little by little as interest rates go up, more money will go into short term time deposits. One has to be particularly sensitive as a portfolio manager to a rising interest rate market and not committing necessarily to long term bonds. You don't want to see a dissipation in the value of the principal as rates go up. So what the short end of the market is telling us as the rates increase is that there is an opportunity to balance portfolio risk with short term time deposits. But I wouldn't be looking necessarily at going long in the bond market.

CS: Scotty, this first quarter that we're wrapping up is yet another one where small and mid cap stocks outperform large. Howard and I have been told by umpteen people that this will be the year of the large cap. Will it be perhaps as growth slows later in the year or are you not in that camp?

SG: Our work, Charlie, really is not discriminating either for or against capitalization scales. What we look at first is rates of earnings acceleration. Given that, I think as we talked the last time I was here, it's much more difficult to turn a battleship around in the ocean than it is to be nimble and quick and identify where pockets of opportunity exist. To that extent, our work is calibrating not just the larger cap and the larger scale equities, nor necessarily only domestic stocks, but it's looking at where earnings acceleration patterns are at their quickest. Obviously I think that is in the smaller cap market right now and it is as we indicated a moment ago. It is slightly more than just U.S. and domestic equities.

HL: So Scotty, as you look at the overall marketplace, first quarter about to wrap up, what's your take on how this quarter has gone and what do you see happening as we move on into the second quarter and then back after the year?

SG: That's a very good question, because I think investors are always biased to try and keep these short and intermediate term rallies going and that may be the wrong question to ask, because there's a gradual dissipation at the top of any market cycle. We're seeing for example right now that the number of stocks moving to the downside versus those that are making new highs is outpaced five to one towards the downside, which is a clear indication of what technical analysts might call a "distribution at the top". So there's a lot of profit taking, there's a little bit of cash raising. I think what we're seeing right now is a gradual dissipation of this market momentum in the first quarter. Overall though, I still feel very positive about stocks for the year.

CS: Scotty we're talking about things that are global and things that are growing and I think commodities probably fit that categorization. As we speak today, gold and silver at twenty-five year highs, copper and zinc are at all time highs. What lies behind the commodities rally and does it continue? And how do you play it as an investment?

SG: The answer is that it does continue, at least as our work is indicating. What lies behind it Charlie is the tremendous demand for fossil fuels, for tangible assets. The technology market uses copper and zinc. The same demographic that drove the growth in the west over the previous bull market from 1982 until the end of 2000 is the demographic that's now growing the emerging markets and global population. The bottom line is you want to be overweighted in those particular demographics because of demand for product. In the short term, some of these sectors may be under a little bit of selling influence because they've risen so quickly and over such a long period of time. But the key is to play the demand cycle, play the earnings cycle and to be in those sectors on an overweighted basis, in which the greatest amount of earnings potential exists.

HL: When you look at the kind of research you're doing and the models you use to decide where you want to be putting your money and you look at the run energy has had and energy stocks have had, what do you do when it comes to investing in energy related companies?

SG: You have to look at the long term. The growth in energy was precipitated by the decline in technology shares towards the end of the 1990's. Energy, in effect, as with industrials and other basic materials and tangible asset stocks, became the surrogate for capital gains as the NASDAQ and tech market were declining. So we're only in the first three years of what is dramatically a very long term secular demographic. You couldn't give energy shares away in 1999. So, I think the first intermediate cycle of these six years of this millennium is only the beginning of the potential for earnings growth in what we now call "back end cyclicals". So we're very strong in these sectors.

CS: Scotty George, thank you very much for being with us this morning, appreciate it, appreciate the insights.

*The following is a transcript from "Bloomberg On The Money" on 18-May-06 with Scotty George, Chairman of du Pasquier Asset Management. (Reprinted with permission from Bloomberg Inc.)*

Charlie Stein: Joining us now in the New York studio with Howard, to look at the market day ahead, we have du Pasquier Asset Management Chairman, Scotty George. Scotty thanks for being with us this morning.

Scotty George: Good morning Charlie, Howard, how are you both?

CS: We're doing alright, maybe better than the stock market the past few days. Let's talk about that sell-off. Is it all about years of inflation or are there other things that are making investors nervous?

SG: Well in addition to the inflation fears, Charlie, I would contend that the valuations ran up so high in the first quarter that profit taking was on the rise and it probably wasn't inappropriate to do so.

Howard Lieberman: When you look then Scotty at the marketplace right now, how much of a pull back might we expect to see in the kind of market we've been in, because we haven't really seen that kind of drop in prices at all in this bull market.

SG: On a technical basis the market probably could sustain another 3-5% in here before it reaches support levels. But I think the buyers will come back into the market. The bias is still up. Volatility is high and I think some of the concerns about these fundamentals outside of the market were also high, so it's appropriate for the sell-off to occur.

HL: The VIX got up to 16¼ yesterday, highest number in a long time. Is that something you track when you do the work at du Pasquier, to figure where the market's going? Is the VIX important to you?

SG: We run our own proprietary quantitative screens, but all of these outside measurements are important to the market as we read it.

CS: Scotty, you said you weren't surprised by the pull back because the valuations had gotten high in the first quarter. Do you feel most of the market had run up too much or just in particular areas?

SG: Both. (chuckles). The market had gotten extremely expensive in the front end of the market: the energy stocks, basic materials and tangible assets. In the last six weeks we've seen some backing and filling, some buying in stocks that had been lagging performance like the financial stocks and some of the consumer cyclicals. So as a whole the market caught up with itself and was right for a pullback. But, of course, leadership is cyclical and we'll probably see a reemergence of the energy stocks as prices come back down here.

HL: What else would you expect to see as leaders in the marketplace along with energy at this point?

SG: It depends on your point of view. Again, our perspective on the market is extremely long-term. We're looking at generational, or what we call secular themes. So I still believe in overweighting the energy sector and basic materials. We're looking at technology stocks as being a long-term play. In the short run, however, valuations haven't quite risen as fast in the financials and there's probably going to be some play in there as well.

HL: Scotty, as you look at energy and some of these other groups you were just talking about, if you're a very long-term investor what do you do when you've seen one of these groups rise a lot in price and somebody comes in with new money. Do you just put that money to work, even though the stock prices are higher, or do you have to wait until there's a drop in the price to get the right entry point?

SG: That's a great question. The process of portfolio management is not the same as market analysis. Portfolio management involves identifying proper inflection points, valuations, momentum indices and allocating client resources according to each client's risk/reward tolerance balancing amongst stocks, bonds, cash and other financial instruments. To that extent, a new account would not be fully invested perhaps for as much as a year after the first dollar is deposited. Because of the search for these opportunistic inflection points. That's not the same, however, as understanding that before the first dollar is invested there's an overview, there's a market topography, a landscape. And within that landscape our objective is to maximize the probability of return and to minimize the potential for damage. In doing so, then, what we're looking to do is overweight certain sectors, underweight others, and perhaps neutral weight the rest of the market. It's a very involved process between the client and the money manager. It's not quite as difficult to understand and identify as the market topography.

CS: Scotty, you said before you like to play long-term secular themes and one of them is energy. Tell us why you like energy long-term.

SG: Well, the world economy thrives on energy, the world economy requires energy. As I've written in many missives in the past we don't know the source from which additional or alternative energy might come. To that extent, we're not looking at energy as fossil fuels or as being one stock or another. We're looking at energy as a concept. And whether that energy be wind related, or hydropower, traditional fossil fuels, or identifications yet to be defined, energy is an important component to economic and global growth.

HL: Scotty we've been talking about some of the groups you like. As you look at the market environment-and again for listeners who might have just tuned in-you're someone who's a very long-term investor, you're not an in and out of the market very quickly kind of trader. So with that in mind, do you move from one group to another as quickly as some others on Wall Street might be doing, or are you more comfortable if you decide, fundamentally, energy or technology, whatever the group, is sound, you stick through it even though you might see money rotating in and out from other money managers?

SG: I don't want to be confused with being a long-term buy and hold investor and not being aware of these particular demographics or valuation changes. (HK: O.K.) We change our asset allocation as a fluid part of our business. To that extent, as energy stocks rose quickly in the beginning of this year, we were selling and taking profits with an awareness that we want ultimately to be overweighted in those sectors. But there are a number of other themes that we're playing in addition to energy and our focus this morning on energy is really just one of the components of our overall asset allocation model. There are other long-term demographics at work here. There's the aging of the globe, not only of the population of the globe but of the infrastructure. So we look at industrial stocks as being extremely important, irrespective of global location or capitalization, we're looking at infrastructure. We're looking at pharmaceutical and health care stocks. The market place is becoming increasingly more borderless and more seamless in its execution, and as a result we're looking always for the earnings trail, not just in energy, but in all sectors which might typify rising stock prices and the ability to generate profits.

CS: In this borderless world, then, do you not have a particular allocation to international stocks. Do you just take the stocks where they take you and does the percentage you have of international stocks change a lot over time?

SG: It can and it has been increasingly growing. Interesting, Charlie, our allocation to the global markets has been expanding over the last three to five years, but we do so as a result of those phenomena we discussed. That is, we don't go in with a bottom-up approach to how much we want overseas. We're trying to follow the earnings trail and through our quantification process we rank the performance of stocks on a current basis, and the probability of earnings acceleration going forward. More and more of the companies within that ranking measurement are now coming from offshore and overseas.

HL: So when you look offshore and overseas are you talking generally developed nations or are you playing the emerging markets as well?

SG: Again, we're looking for earnings, so it depends on where we're going. In the Latin American region, which is a more mature market, you're starting to see industrial development and telecommunications, computer periphery. In the emerging markets one might look at the Far East and the lesser developed countries, Thailand, Indonesia. But, of course, everyone is talking about China and that's another market basket that we see has been performing quite well recently.

CS: Scotty, you mentioned technology as another longer-term play but certainly within technology we've seen a lot of the big names that have been leaders for ten, fifteen, twenty years. Microsoft, Intel, Dell-and we'll be talking about Dell later-stumbled and have been overtaken to some degree by rivals. How do you play technology then?

SG: We define technology differently Charlie. We define technology as I guess a lot of "old fogies" might define it: anything that is on the cutting edge of new development, new industrialization, new technology, new methodologies. To that extent, within our technology basket there are a lot of pharmaceutical companies and biotech. We also are not looking at the traditional hardware and software manufacturers, but we're looking at some of the more unique areas of technology, like the peripherals, perhaps some of the basic material companies that provide to the technology sector. So it's not a traditional Intel/IBM type technology basket.

HL: Scotty, whenever you come in you're always working on something, some report that's recent. What are you working on right now? What's on your radar screen?

SG: For a few clients and prospects we've recently developed a Pan Asian market basket. We're looking very actively at that market only because, in response to Charlie's question earlier, it's giving us information that we previously had not anticipated. That would be the rate of earnings acceleration, the rate of price performance within the market itself, currently, and expected in the future, and the potential for ranking within a global basket of stocks at a very high velocity return. We've been developing some models in that area which I think have been performing quite well.

CS: Scotty George thank you very much for being with us this morning. Scotty is at du Pasquier Asset Management and has been in the studio with Howard Lieberman.