



1933 – 2006

LOUIS RUKEYSER'S MUTUAL FUNDS

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SOMETHING SPECIAL?

Solid Profits from Sound Investments By Peter Staas

This fund's commitment to bottom-up, fundamental research and value investing has paid off through multiple market cycles, offering investors a sound shore amid volatility.

You won't find the adviser of **Sound Shore** (SSHF) touting the fund's solid track record in the media—they're too busy reading earnings reports and meeting with management teams. The results speak for themselves. The fund's performance over the past 3 and 5 years places it in the top third of its peer group, while its 15-year returns rank it in the top decile.

Portfolio managers Harry Burn III, T. Gibbs Kane, Jr and John DeGulis aren't shy about the secret to their success: a longstanding commitment to bottom-up, fundamental analysis and value investing.

And as the trio point out in the fund's most recent annual report, "The markets of 2009 and 2008 reinforced our view on the futility of market timing and top-down theme investing and also re-proved to us that times of heightened uncertainty, properly used, can produce above-average returns."

Although markets have stabilized since the height of the financial crisis, the recent "Flash Crash," Europe's sov-

ereign debt crisis and China's efforts to cool its red-hot economy serve as a reminder that fear and uncertainty abounds. This environment is a value investor's dream; the volatility and negative news flow provides ample opportunity to pick up high-quality names at a discount. And purchasing undervalued names also affords a degree of downside protection.

A disciplined investment approach is the key to exploiting unsettled markets and building wealth over the long term.

The Sound Shore team starts with an investable universe of the 1,250 largest US equities, identifying the least-expensive names based on absolute and relative price-to-earnings ratios. This filter winnows the investable universe to roughly 250 stocks, each of which is closely scrutinized to identify the 80 or so that offer the most compelling valuations.

Management subjects each name on this list to rigorous fundamental analysis, a process that usually includes conversations with each company's management as well as their competitors

SOUND SHORE

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Sales Fee: none Assets: \$2.0 billion

Early Withdraw: none

No. of Holdings: 43

Turnover Rate: 97.0% Expense Ratio: 0.94%

Assets in the Top 10 Holdings: 27.9%

Min. Initial Investment: \$10,000, \$2,000 for IRA

Largest Quarterly Loss: -24.8%; 4th Qtr. 2008

Largest Quarterly Gain: 15.5%; 2nd Qtr 2009

Top Five Positions: Exelon Corp (EXC), Microsoft Corp (MSFT), EQT Corp (EQT), Valero Energy (VLO), Pfizer (PFE)

*Past three years. Source: Morningstar, Sound Shore

and customers. The team also generates earnings, cash flow, balance sheet and valuation models for these names.

Portfolio holdings are sold when they reach their price target or fail to meet financial performance objectives.

This strategy usually leads the fund to invest in companies that have underperformed, face lowered expectations or have fallen out of favor but haven't lost their earnings power.

Top holding Exelon Corp (NYSE: EXC) has lagged the broader market along with most utilities, but its large stable of low-cost nuclear power plants distinguishes it from the pack and bodes well for future growth.

Shares of discount retailer Wal-Mart Stores (NYSE: WMT) have also underperformed as investors allocate assets toward the hard-hit consumer-discretionary sector in anticipation of further economic improvement. But management's decision to up its stake

in the company appears sound; cost-conscious consumers will continue to frequent the chain, while overseas operations provide plenty of growth potential.

And management hasn't focused exclusively on stocks that have lagged the recent rally. An opportunistic investment in oil refiner Valero Energy Corp (NYSE: VLO) has paid off handsomely. Although fundamentals remain challenging in the refining industry, the stock has benefited from improved margins and the divestment of less-profitable facilities.

Microsoft Corp (NSDQ: MSFT), another top holding, also offers exposure to cyclical upside catalysts. The release of the Windows 7 operating system has dovetailed well with the latest computer upgrade cycle at a wide range of businesses.

Going forward, the fund appears well-positioned for future success. Exposure to the energy (19.4 percent of assets), technology (18.3 percent) and financial services sectors (17 percent) offer plenty of leverage to the ongoing economic recovery, while a 10.9 percent allocation to

pharmaceuticals names and an 8.5 percent position in utilities provides a bit of ballast if the economy turns for the worst. And low bond yields make equities more attractive.

Over the long run, the adviser's disciplined approach to value investing should deliver steady growth regardless of the market environment. As management puts it: "We resist being either bullish or bearish, but rather remain alert to the opportunities that each market can provide. This discipline is a critical factor to our success over time." ▲