



EUBEL BRADY & SUTTMAN

ASSET MANAGEMENT

ANNUAL INVESTMENT FORUM

SEPTEMBER 29, 2009

Discipline

Integrity

Consistency

TONIGHT'S TOPICS

**I. GOVERNMENT INTERVENTION AND
THE ECONOMY (ROB)**

II. THE MARKET: STOCKS & BONDS AND
FIXED INCOME STRATEGIES (RON)

III. EQUITY STRATEGIES (MARK)

IV. CLOSING (SCOTT)

AROUND THIS TIME LAST YEAR

- 9/7: Fannie/Freddie placed into conservatorship
- 9/15: Bank of America purchased Merrill Lynch
Lehman Brothers filed for bankruptcy
- 9/19: Treasury Secretary Paulson called for government plan to purchase toxic assets from financial institutions
- 9/25: EBS Annual Meeting
- 10/14: Banks agree to \$250B capital injection from Treasury rather than sell toxic assets
- 10/28: Consumer confidence hits lowest point on record*

*The Conference Board, Consumer Confidence Survey

THOUGHTS SHARED LAST YEAR

- ✓ Government intervention was needed to stabilize the financial system
- ✓ Must address regulatory gaps
- ✓ Enhance economic activity and corporate profitability
- ✓ Volatility peaks and sentiment readings
- ✓ Economy/unemployment would get worse before they got better

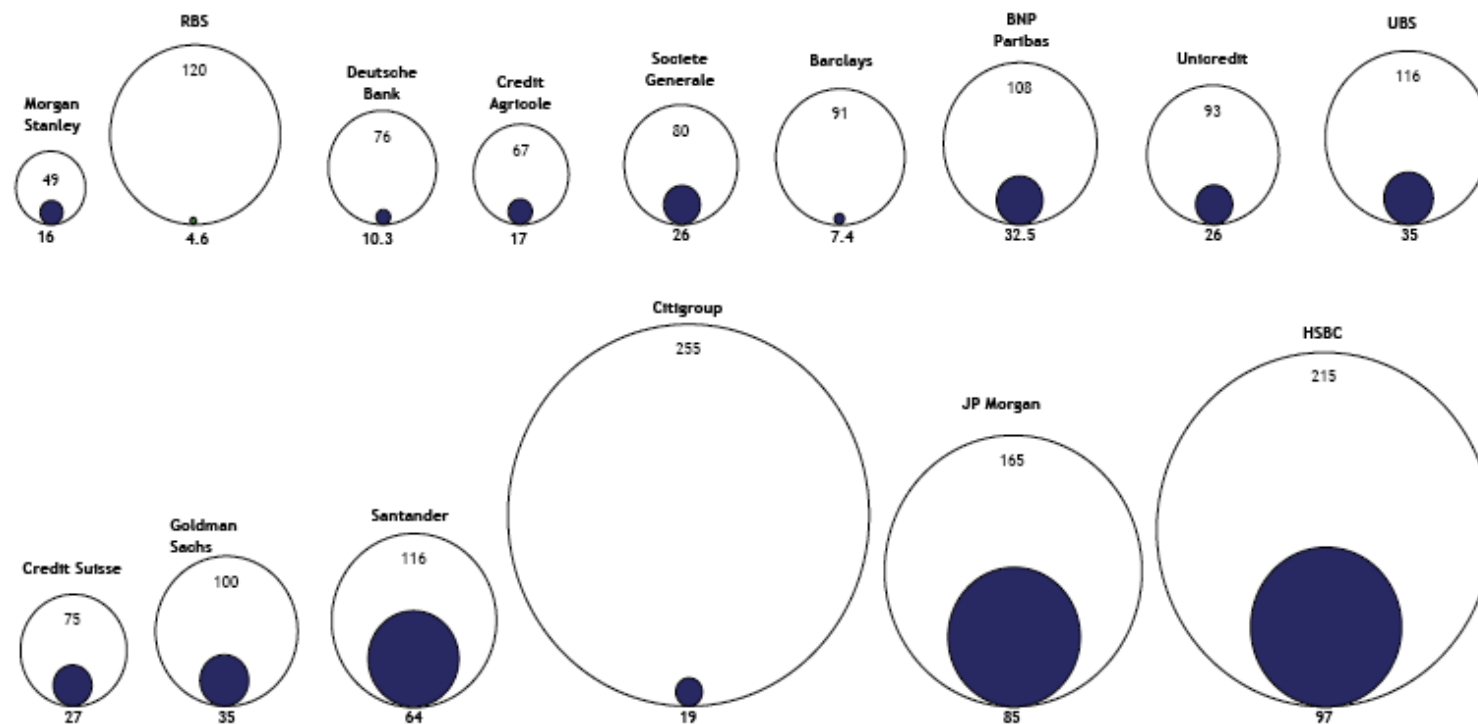
WHO FILLS THE GAP?

Why the need for government intervention?

- ✓ Institutional crisis of confidence
- ✓ Lending had ceased
- ✓ Businesses were starved for capital
- ✓ Credit markets were melting down

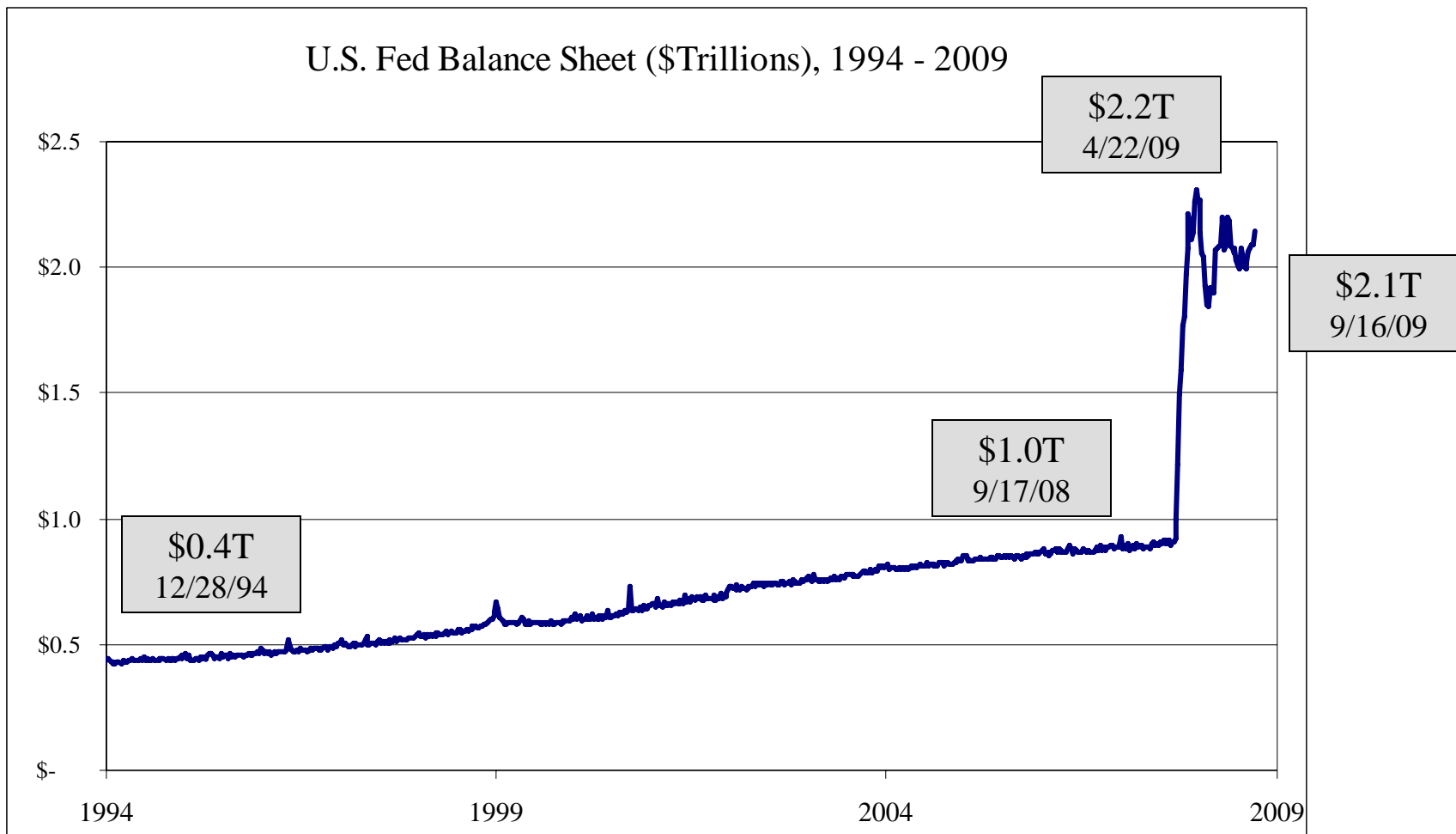
TARP: WHO FILLS THE GAP?

- Market Value as of January 20th 2009, \$Bn
- Market Value as of Q2 2007, \$Bn



Source: Bloomberg, 20 January 2009

Presented by CFA Institute—www.cfawebcasts.org



Source: Federal Reserve; 12/28/94 through 9/16/09

TARP INVESTMENTS IN BANKS

	GOV'T PROFIT/LOSS in millions	RETURN Annualized*
Citigroup	\$14,256	46.8%
Bank of America	\$2,535	10.7%
JPMorgan Chase	\$1,932	13.3%
Goldman Sachs	\$1,418	20.0%
Wells Fargo	\$1,313	7.9%
Morgan Stanley	\$1,268	16.8%
American Express	\$414	23.4%
U.S. Bancorp	\$334	8.8%
Capital One Financial	\$321	11.6%
Bank of New York Mellon	\$231	10.2%
BB&T	\$162	7.8%
Northern Trust	\$134	11.1%
State Street	\$124	9.2%
PNC Financial	-\$76	-1.6%
TOTAL	\$24,366	

* Figures on companies that still owe money are based on dividend payments, the prices paid to redeem warrants held by the government and/or change in stock prices since the government made its investment. Source: New York Times; August 31, 2009

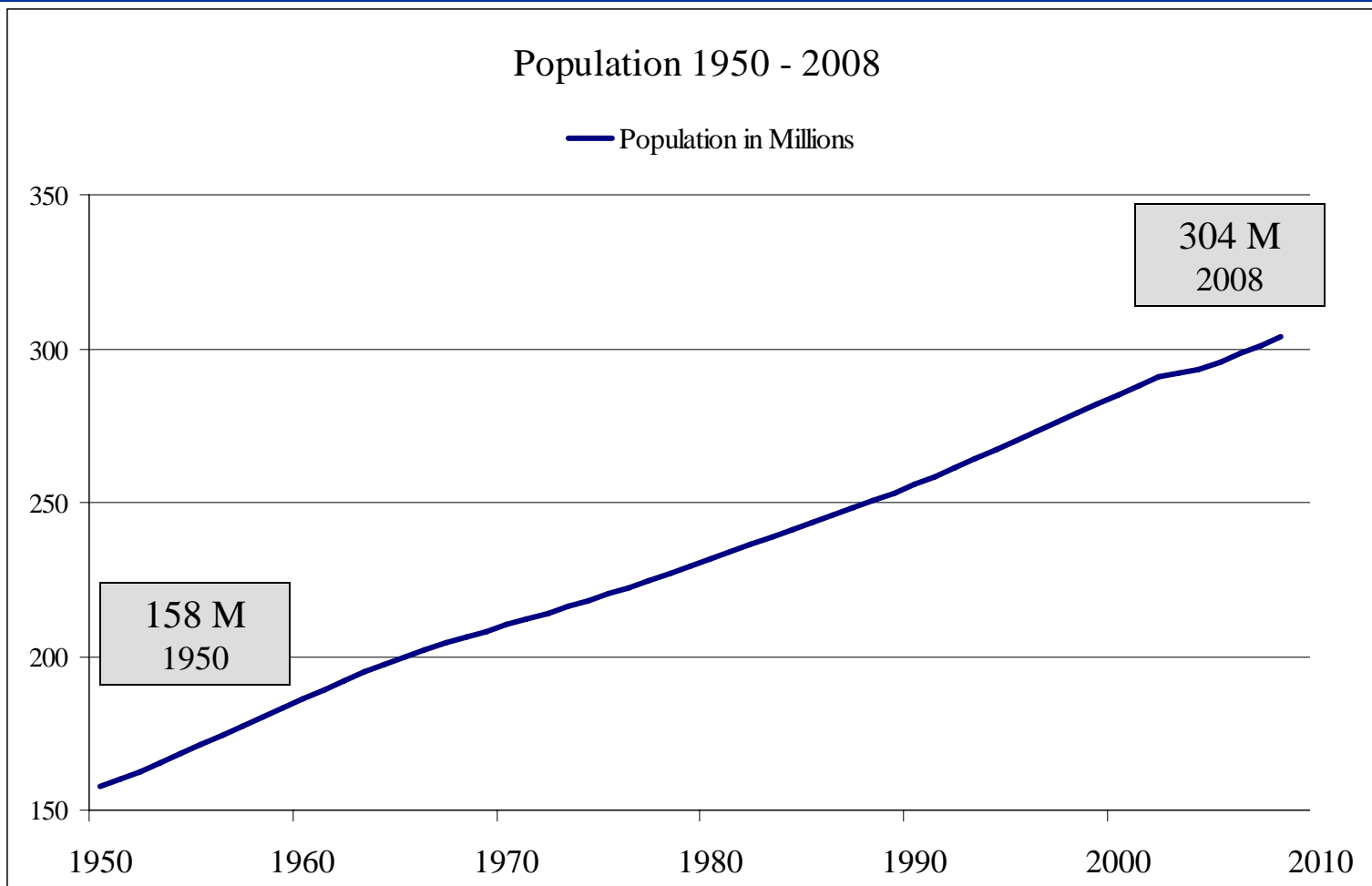
THE ECONOMY (GDP)

Should we have a rising economy over time?

Population Growth x Productivity Increase = Growth of Economic Capacity

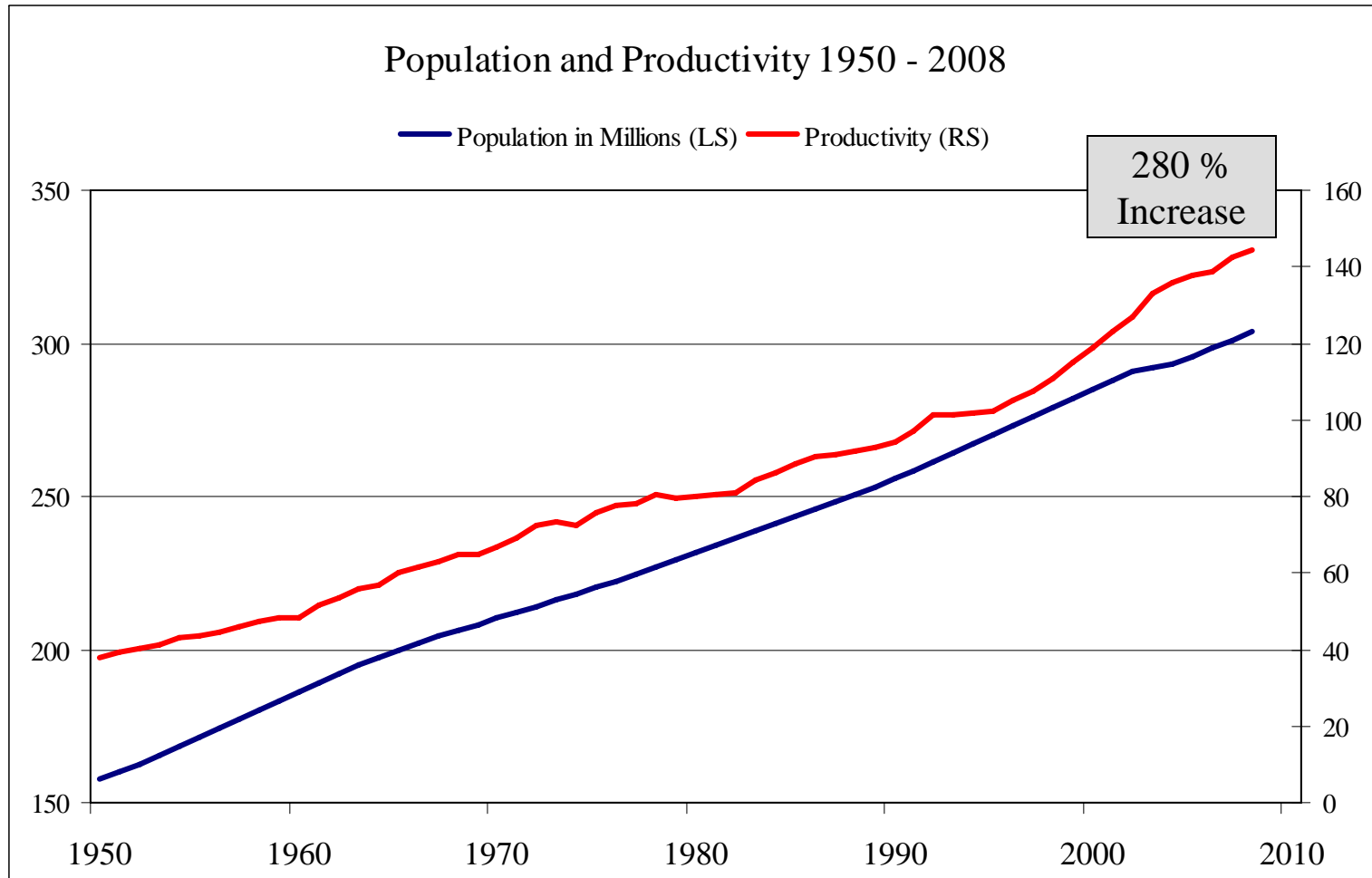
Source: Global Financial Data

POPULATION



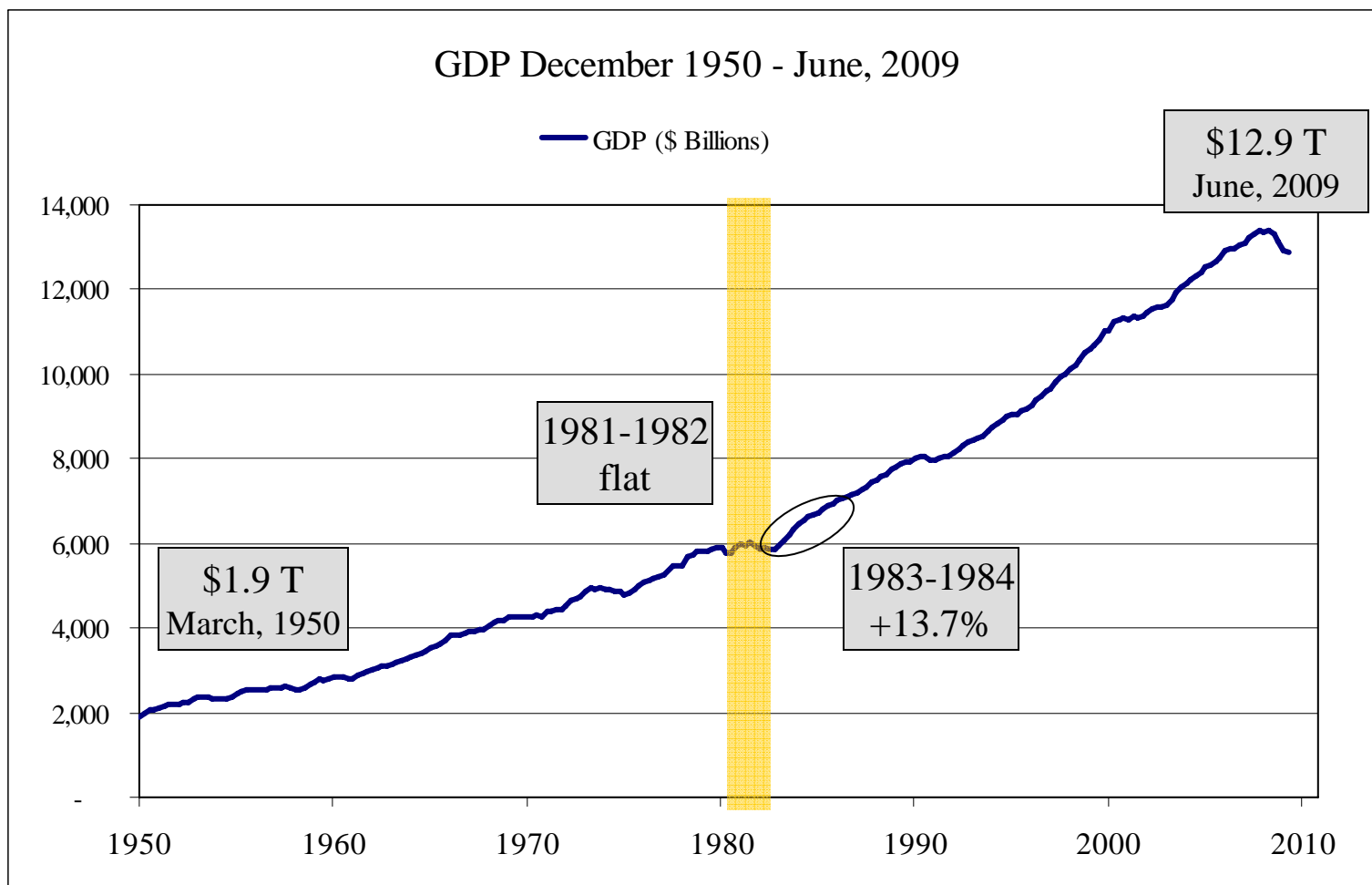
Sources: Bureau of Labor Statistics, 1950 – 2008

POPULATION & PRODUCTIVITY



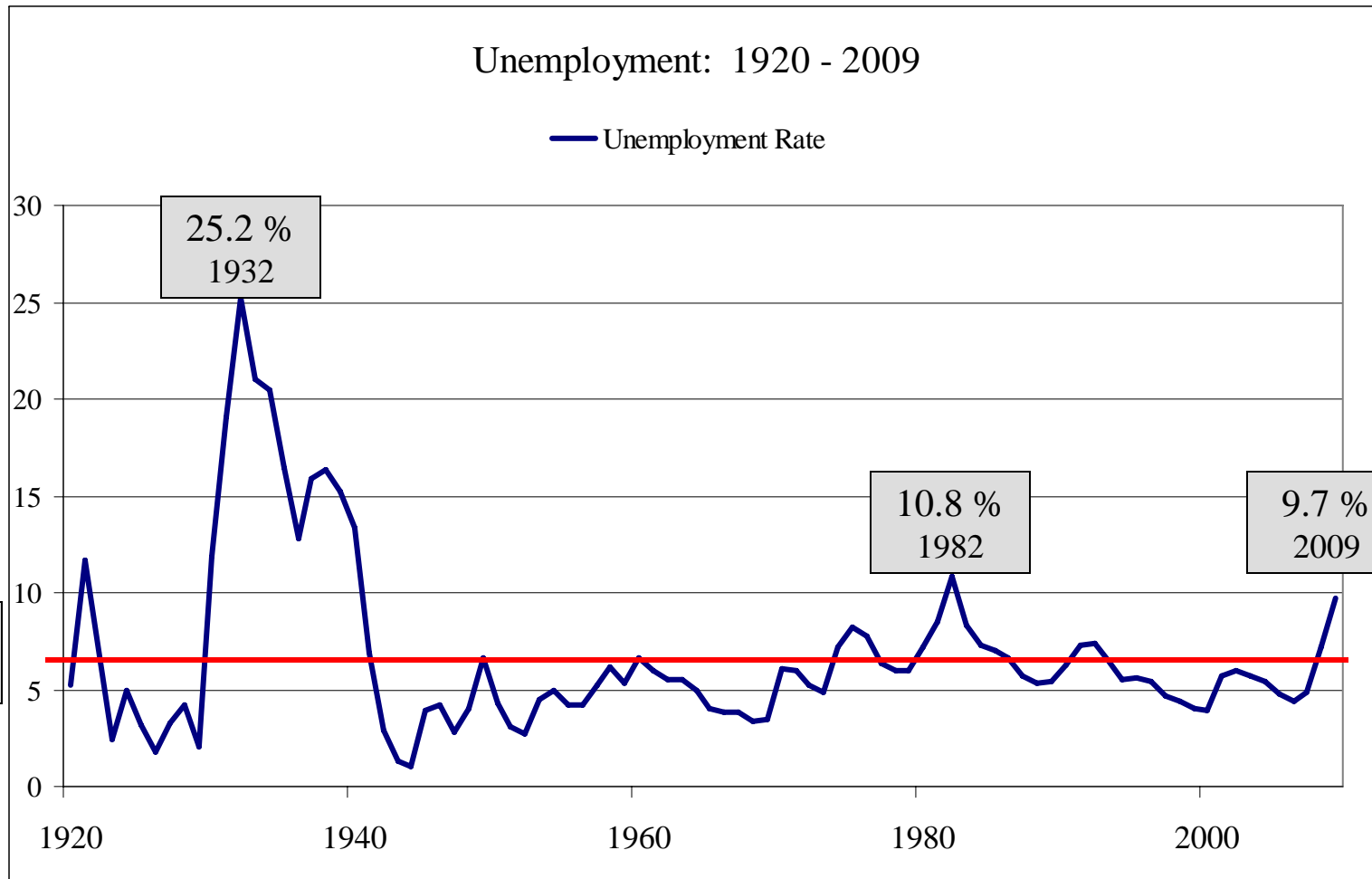
Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, 1950 – 2008; Productivity measures business output

GDP



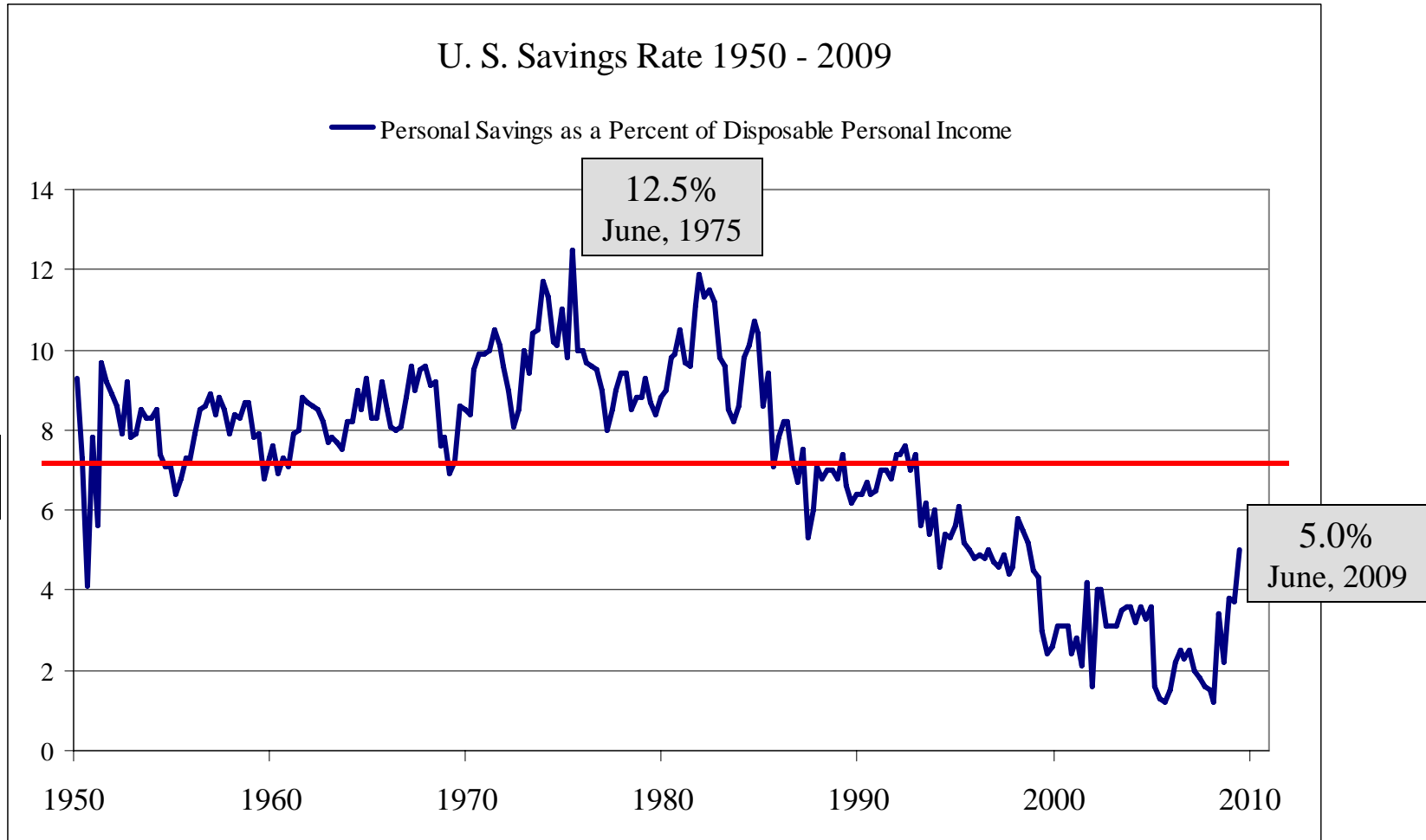
Source: Bureau of Economic Analysis, March, 1950 – June, 2009

THE ECONOMY: UNEMPLOYMENT



Source: Global Financial Data; December 1920 – August, 2009

THE ECONOMY: SAVINGS & DEBT

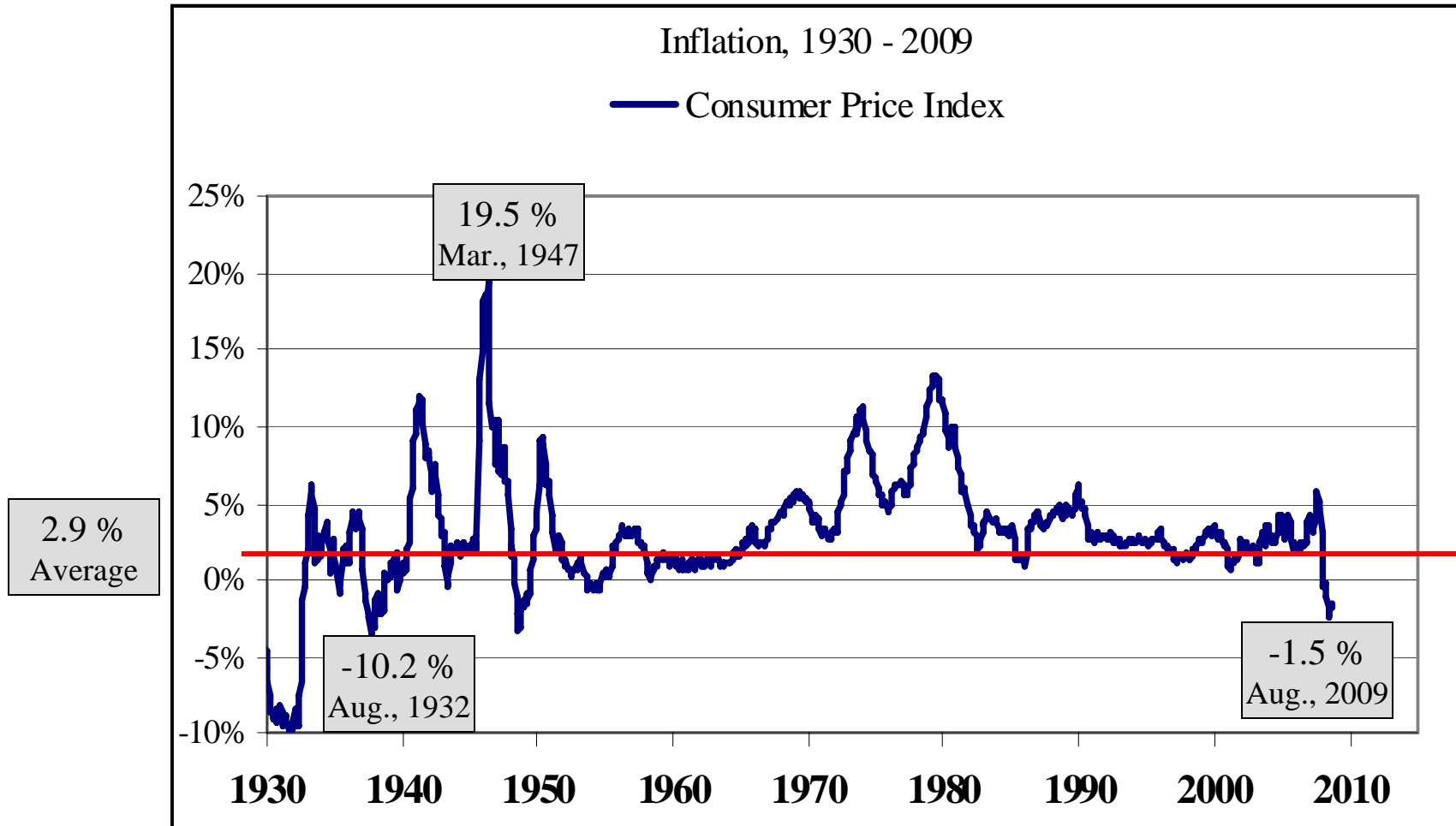


Source: Bureau of Economic Analysis; 1950 – June, 2009

INFLATION

Inflation, 1930 - 2009

— Consumer Price Index

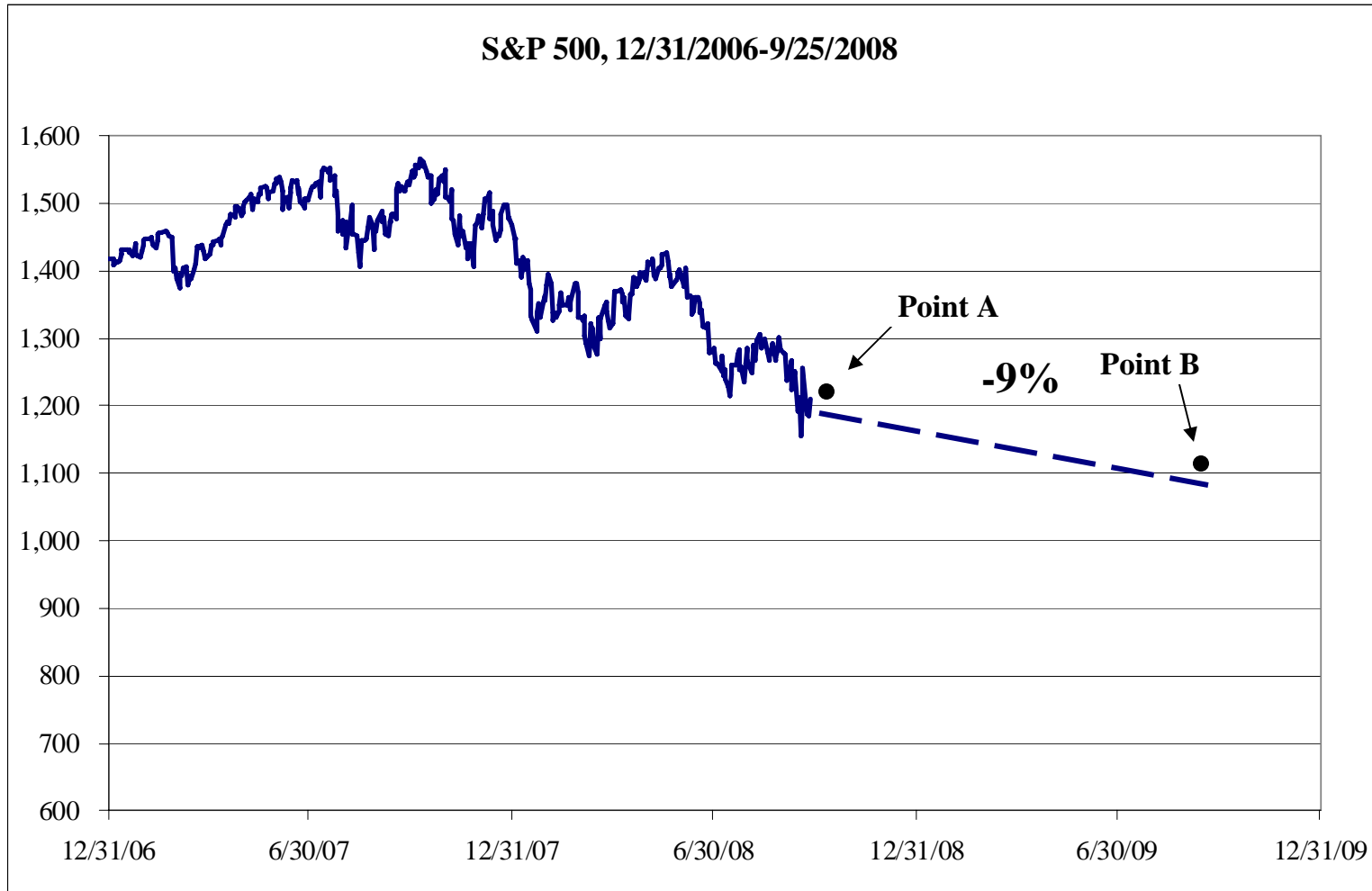


Source: Ibbotson & Associates, rolling 12 month inflation, January, 1927 – January, 2009

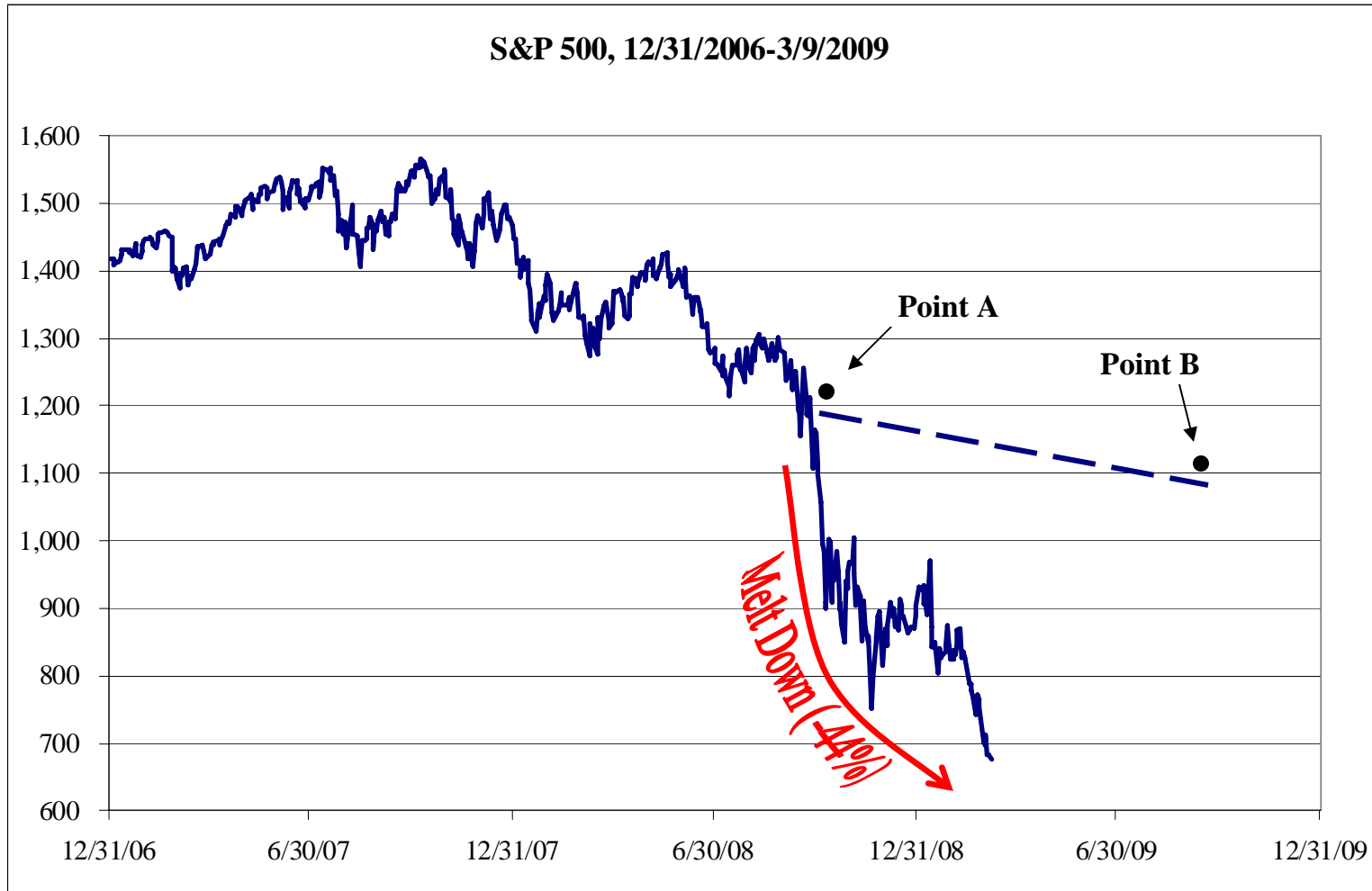
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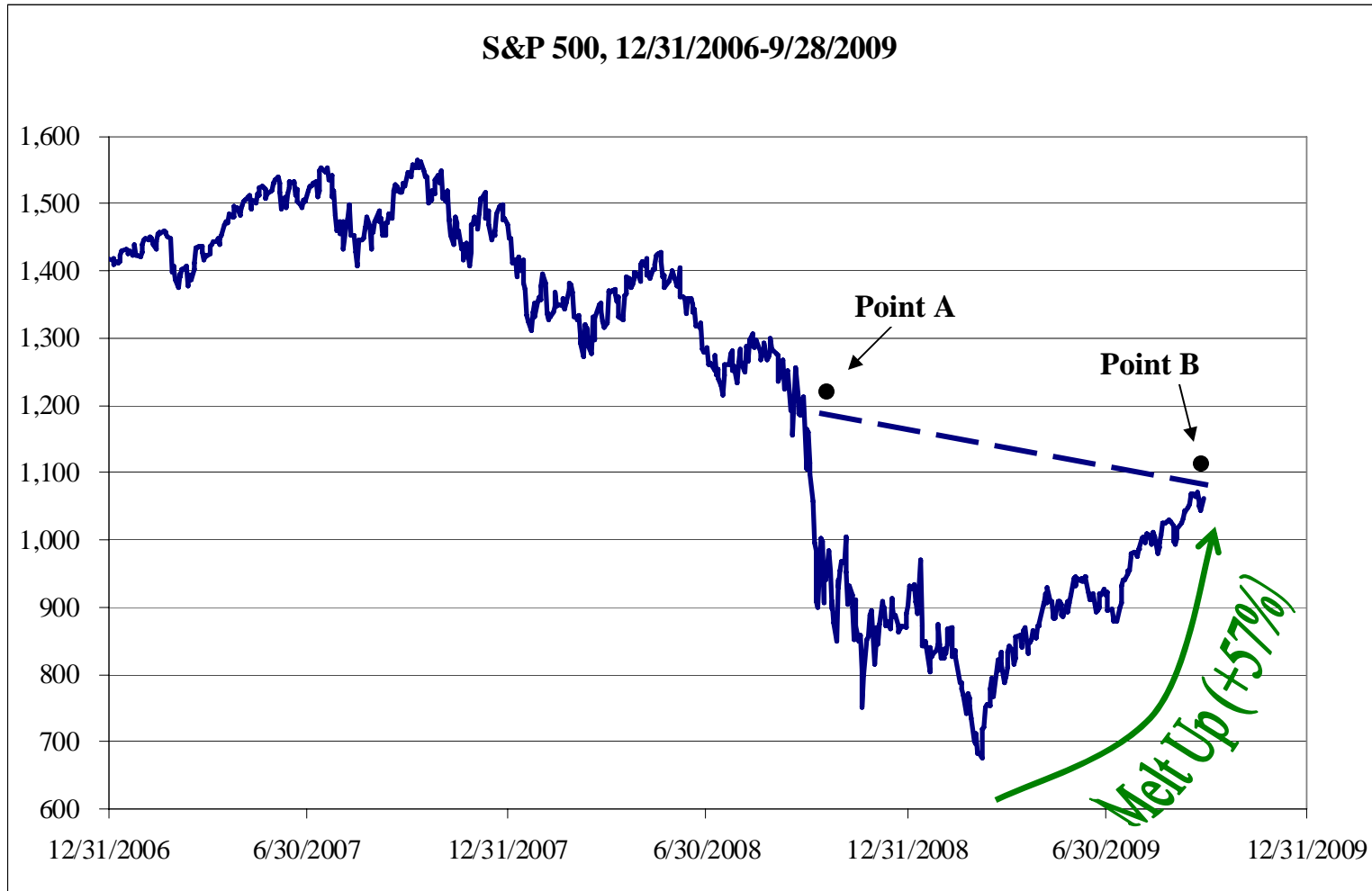
POINT A TO POINT B



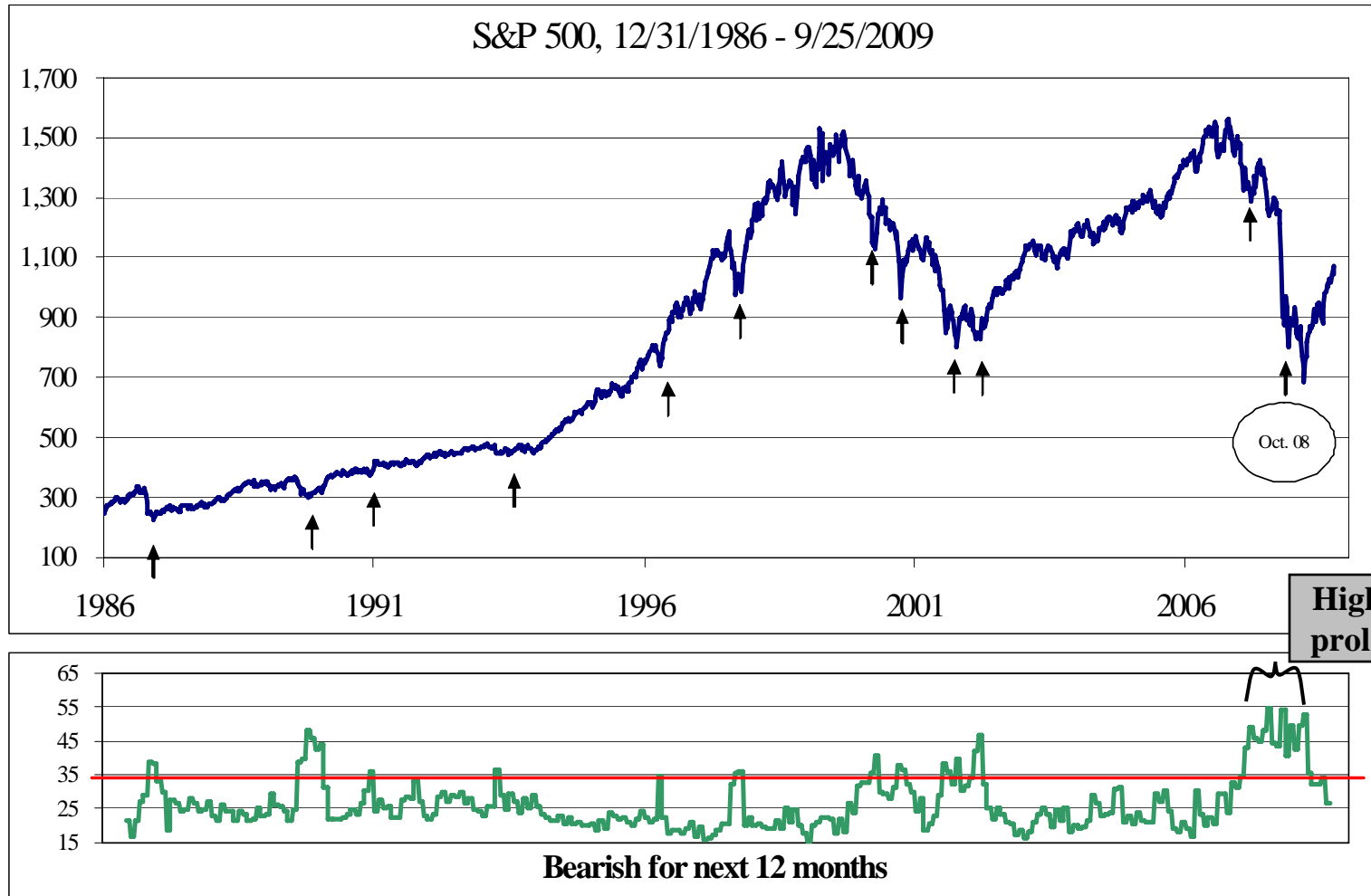
POINT A TO POINT B



POINT A TO POINT B



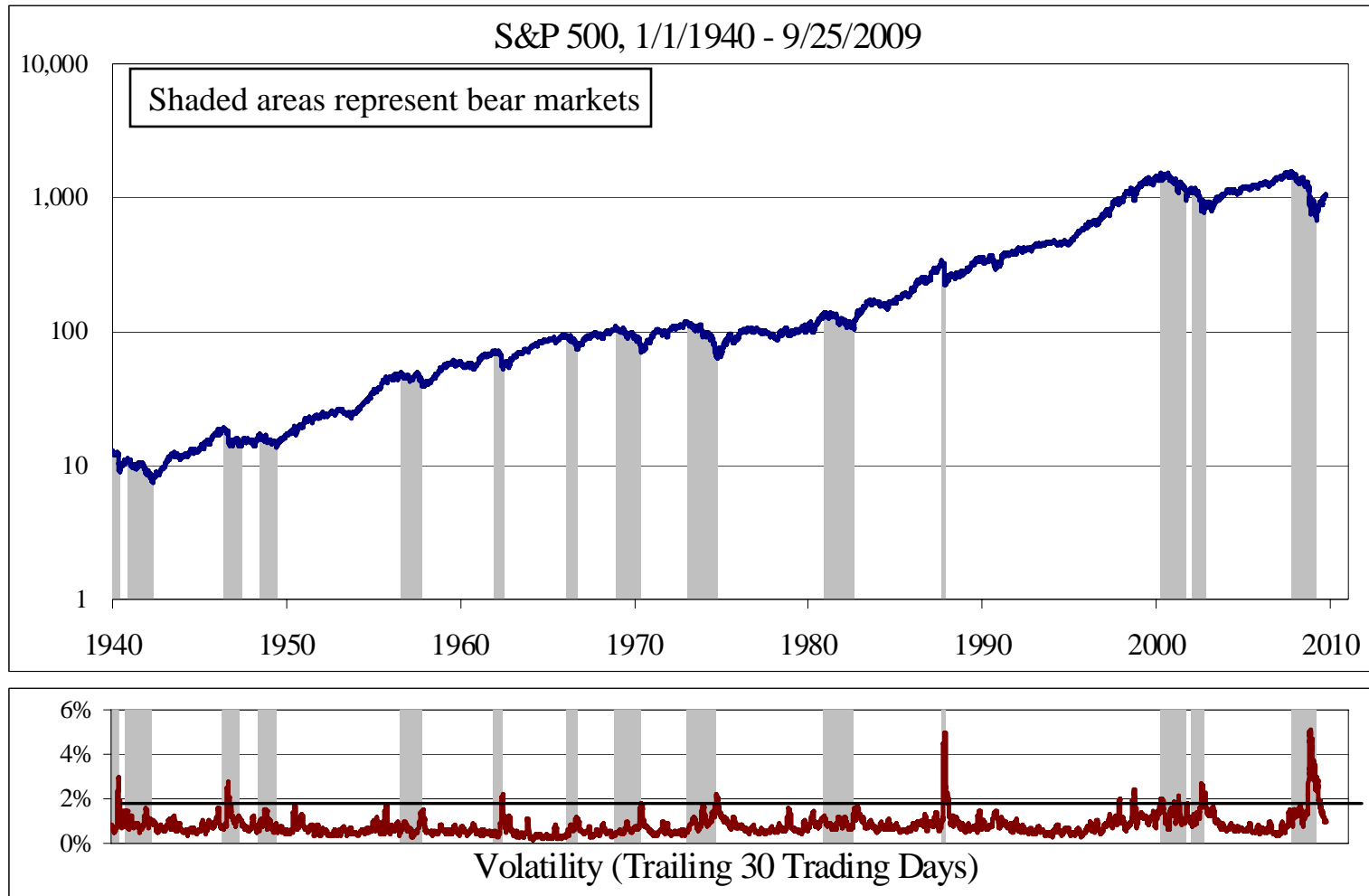
SENTIMENT



Source: Bloomberg; Conference Board

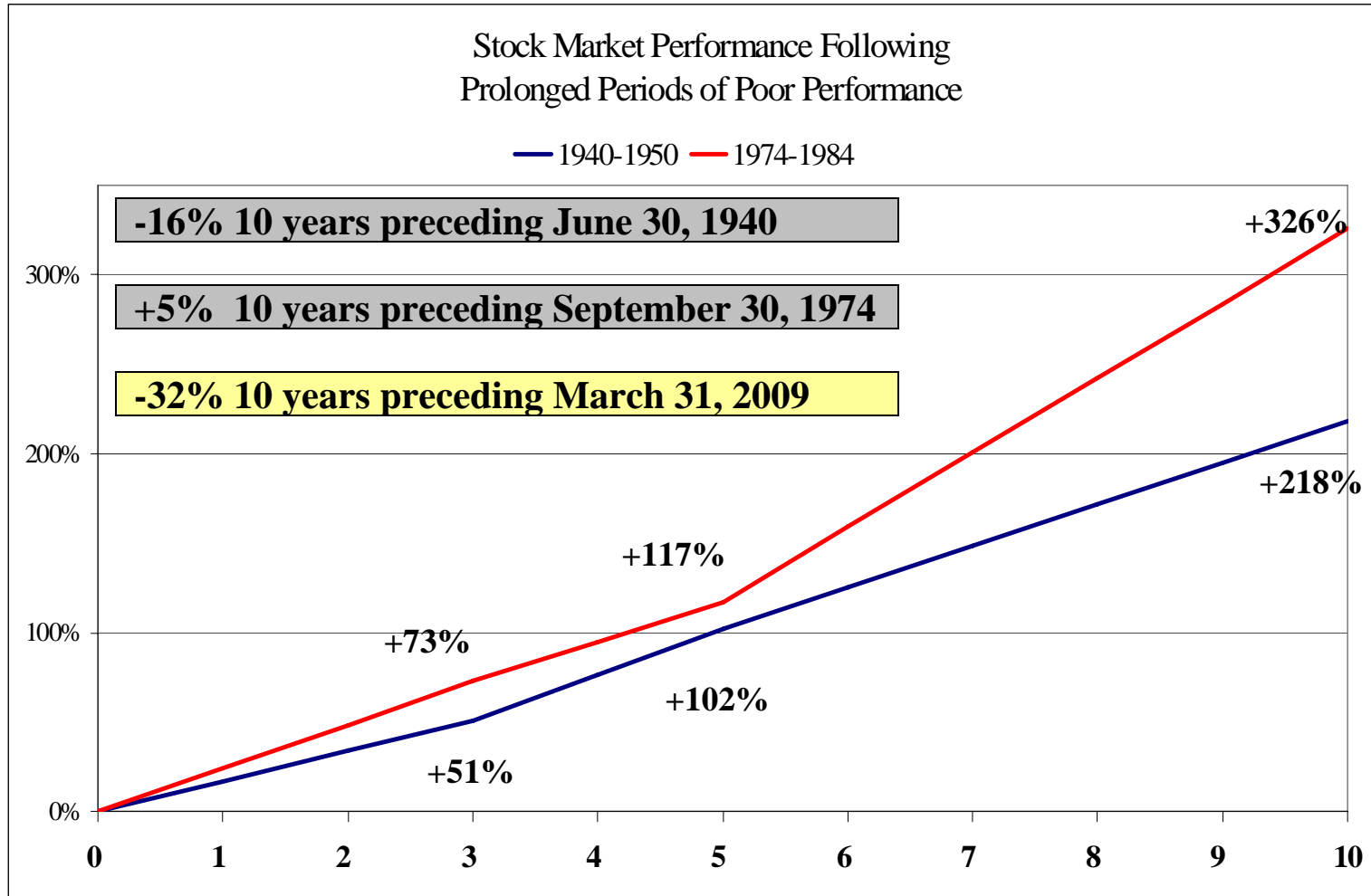
Please see important disclosures in appendix.

VOLATILITY



Source: Bloomberg

STOCK MARKET PERFORMANCE



Source: Ibbotson & Assoc.

Market refers to S&P 500

PRICE-TO-EARNINGS RATIOS

➤ Reported Earnings

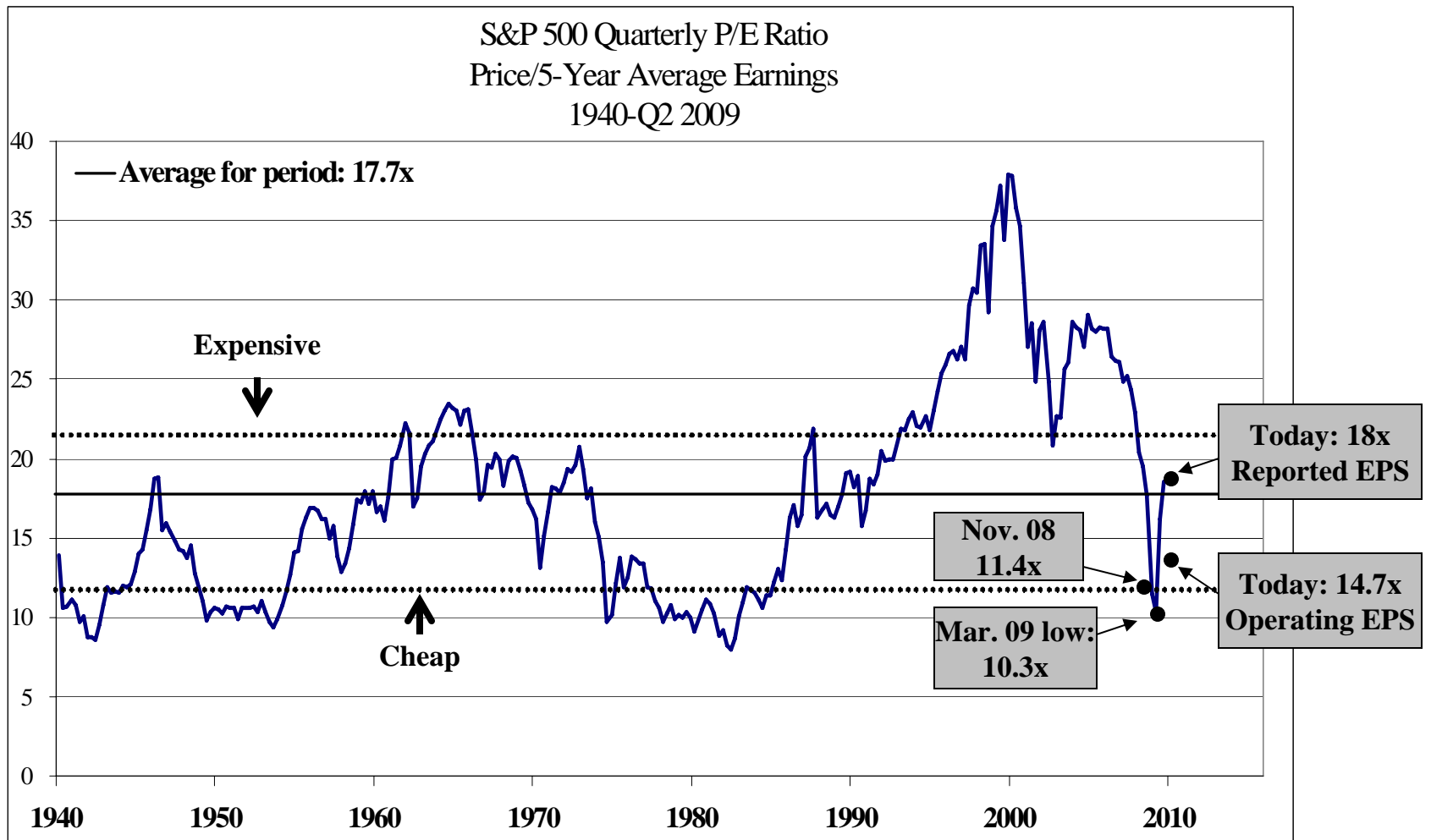
Earnings as reported by the company

VS.

➤ Operating Earnings

Earnings reported by the company before the effects of non-recurring items (gains or losses)

VALUATION: PRICE/EARNINGS



Source: Bloomberg; Standard & Poor's

VALUATION: P/E (REPORTED EPS)

Annualized S&P 500 Total Return:					
	<u>Quintile</u>	<u>P/E Range</u>	<u>1 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>
Cheap	First	8.0 - 11.0	22%	19%	16%
	Second	11.0 - 15.1	16%	13%	15%
Average	Third	15.1 - 18.3	11%	11%	13%
Expensive	Fourth	18.3 - 22.9	7%	9%	10%
	Fifth	22.9 - 37.9	8%	8%	7%

Earnings = Average Reported EPS for the previous five years
Data: 1940-2009

Source: Ibbotson & Assoc., Standard & Poor's

VALUATION: P/E (OPERATING EPS)

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Earnings = Average Operating EPS for the previous five years
Data: 1940-2009

Source: Ibbotson & Assoc., Standard & Poor's

“What do you think about bonds?”

➤ Which bond market?

- U.S. Treasuries
- Government Agencies
- Investment Grade Corporates
- Non-Investment Grade Corporates
- Municipals
- Asset-Backed Bonds
- Etc.

Credit Risk

“What do you think about bonds?”

➤ Which maturities?

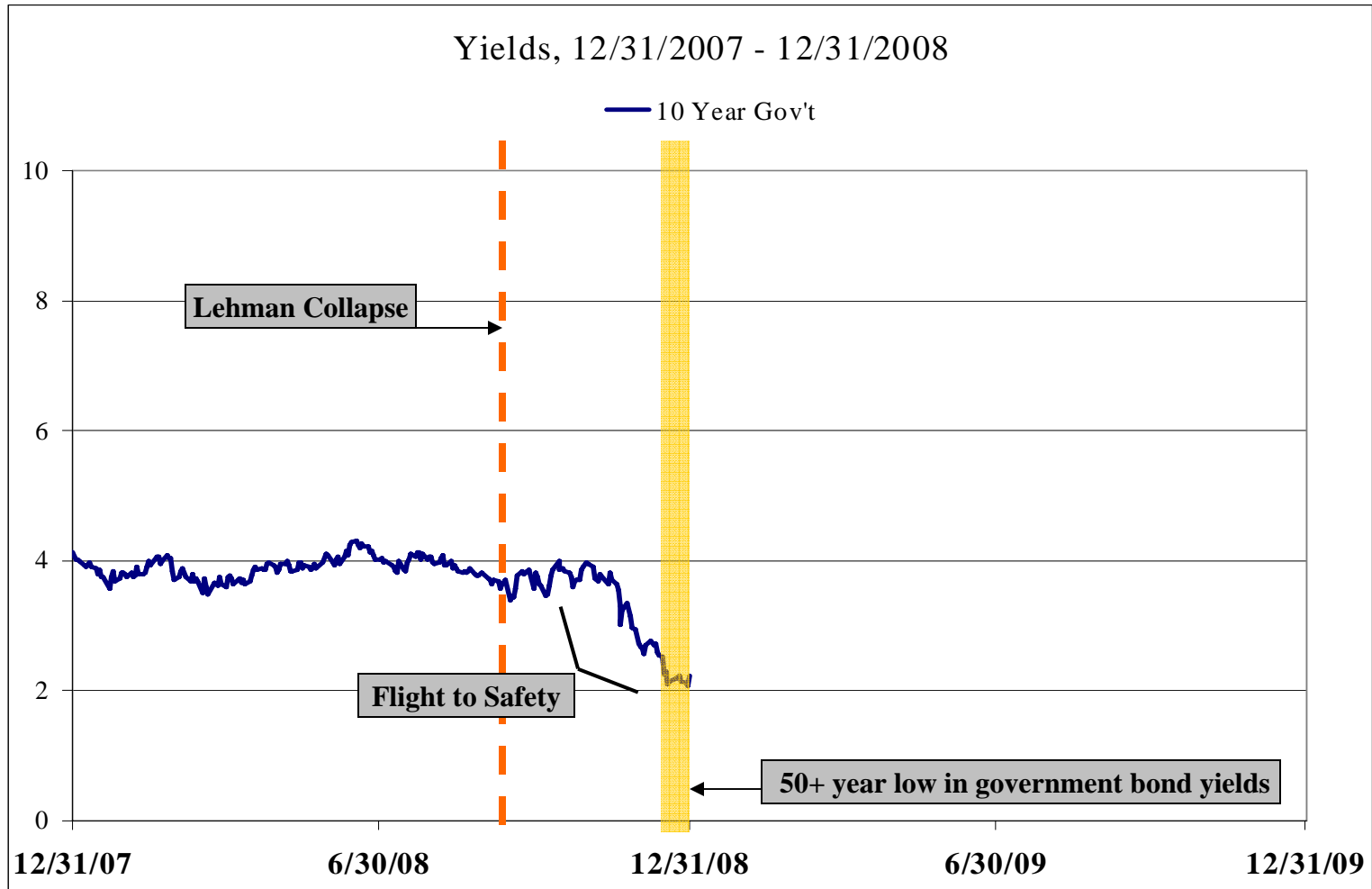
- Short-term (1-3 years)
- Intermediate-term (3-10 years)
- Long-term (over 10 years)

**Maturity
Risk**

➤ Key relationships for maturity risk

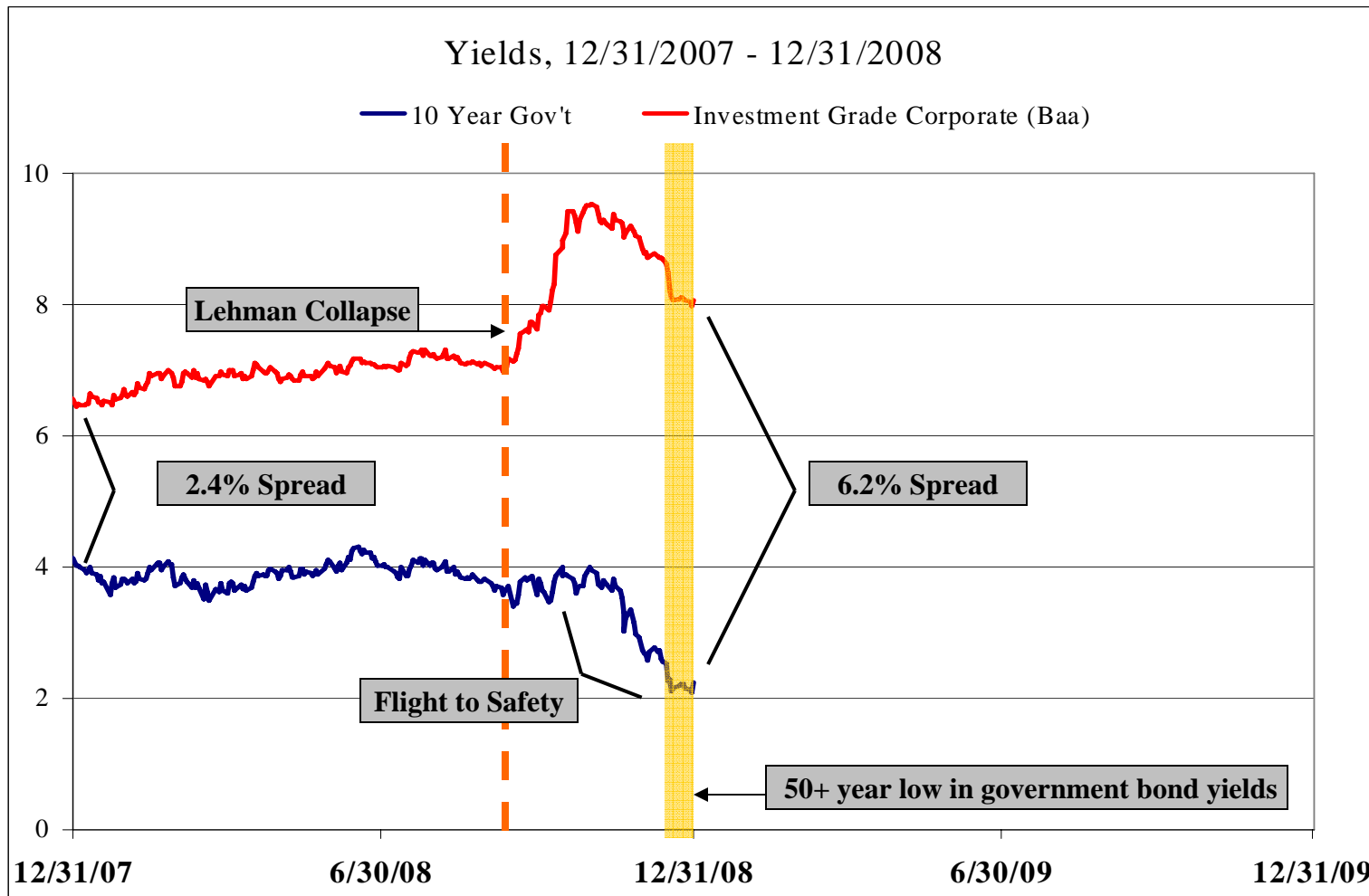
- Bond prices move in the **opposite** direction of interest rates
- Bond prices move more the longer the maturity

YIELDS: 10 YEAR TREASURIES



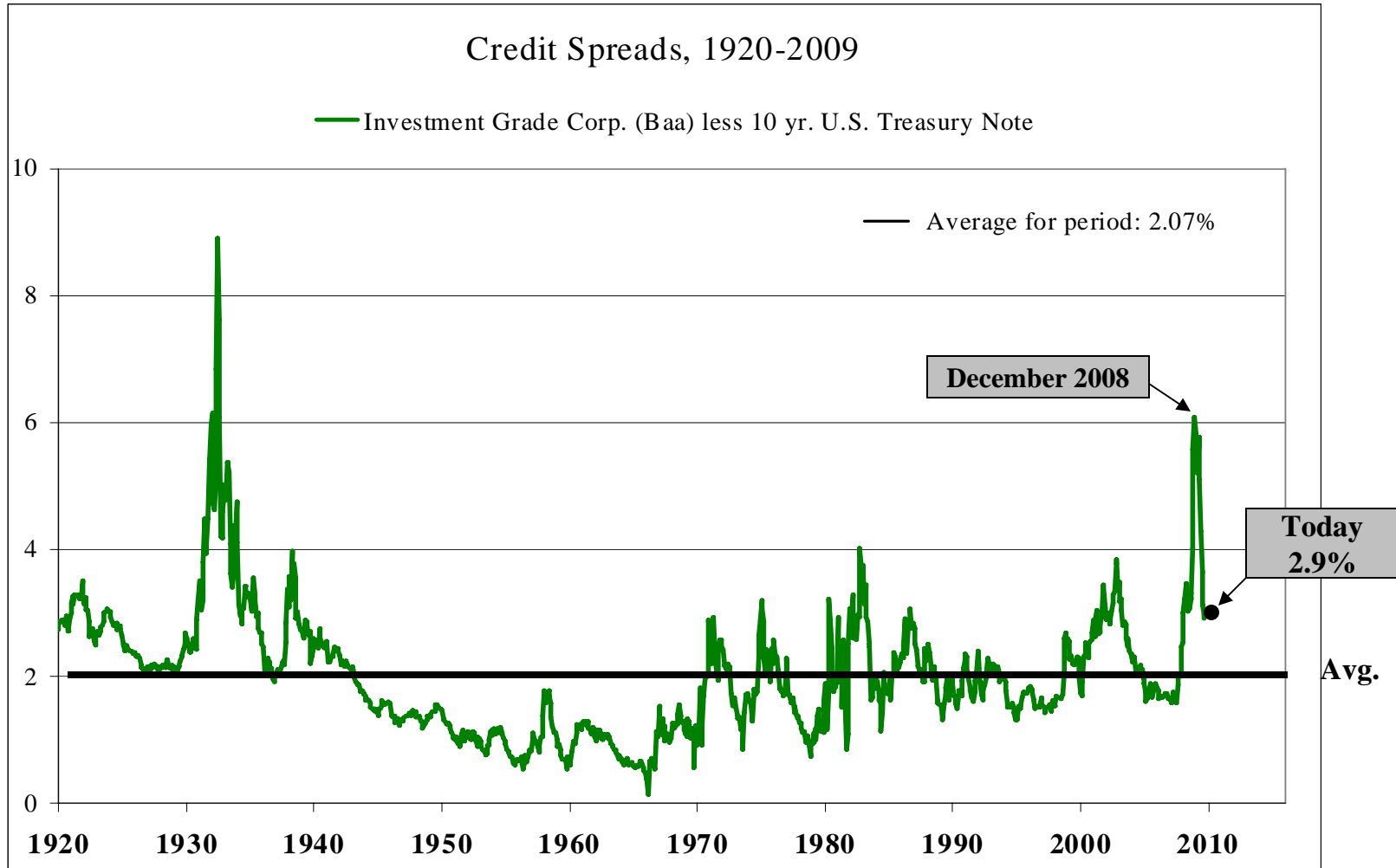
Source: Bloomberg

YIELDS: TREASURIES & CORPORATES



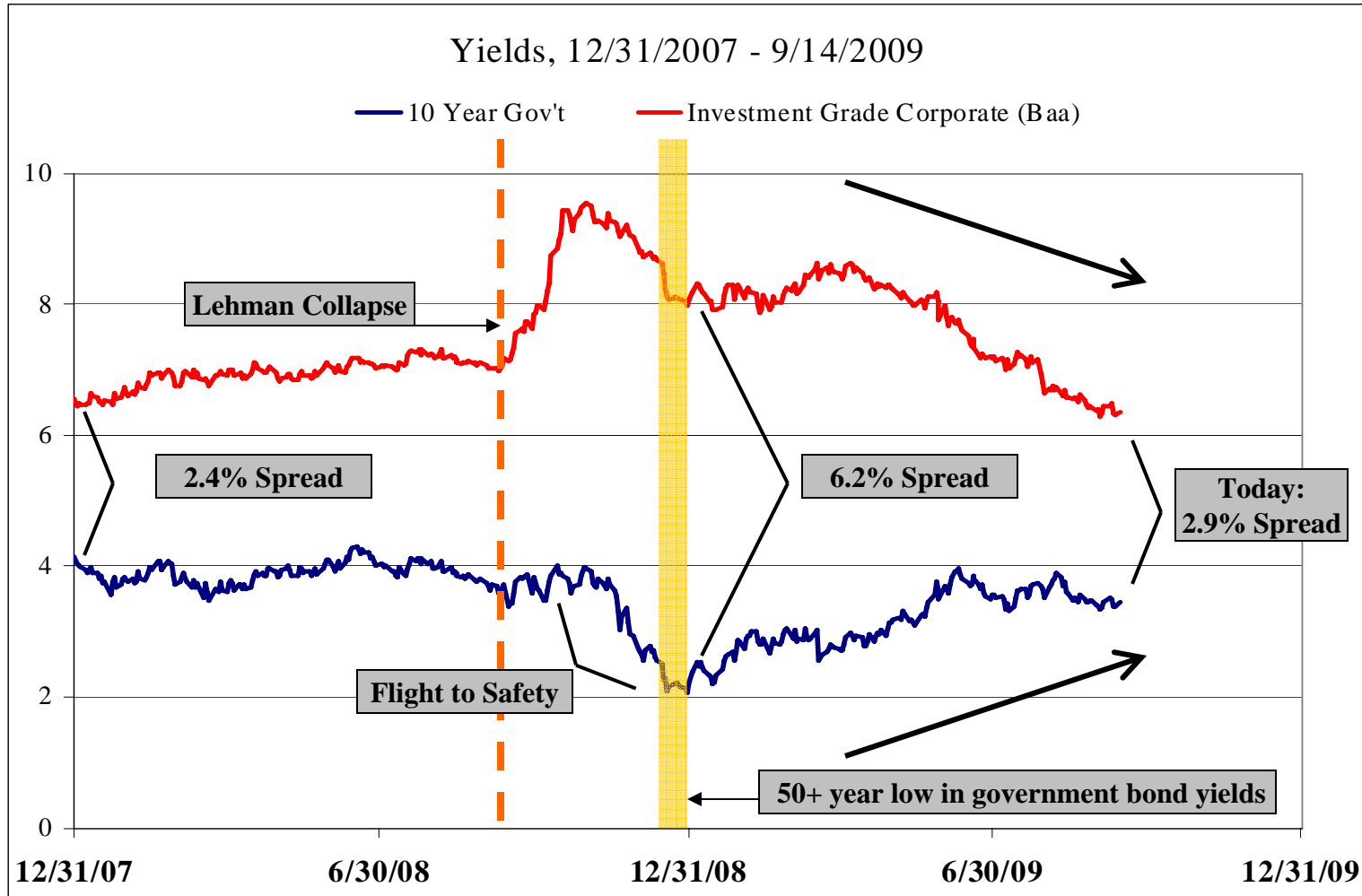
Source: Bloomberg; Moody's

CREDIT SPREADS: Baa – TREASURY



Source: Bloomberg; Moody's

YIELDS: TREASURIES & CORPORATES



Source: Bloomberg; Moody's

BOND PRICE SENSITIVITY

Treasuries				Bond Price Change for Interest Rate Movement		
	12/31/08	9/25/09				
Maturity	Yield	Yield	YTD Chg.	1%	2%	3%
1	0.4%	0.4%	0%	-1%	-2%	-3%
3	0.9%	1.5%	-2%	-3%	-6%	-8%
5	1.5%	2.4%	-4%	-5%	-9%	-13%
10	2.1%	3.5%	-12%	-8%	-16%	-23%
20	2.5%	4.2%	-23%	-13%	-25%	-34%
30	2.6%	4.2%	-27%	-17%	-29%	-40%

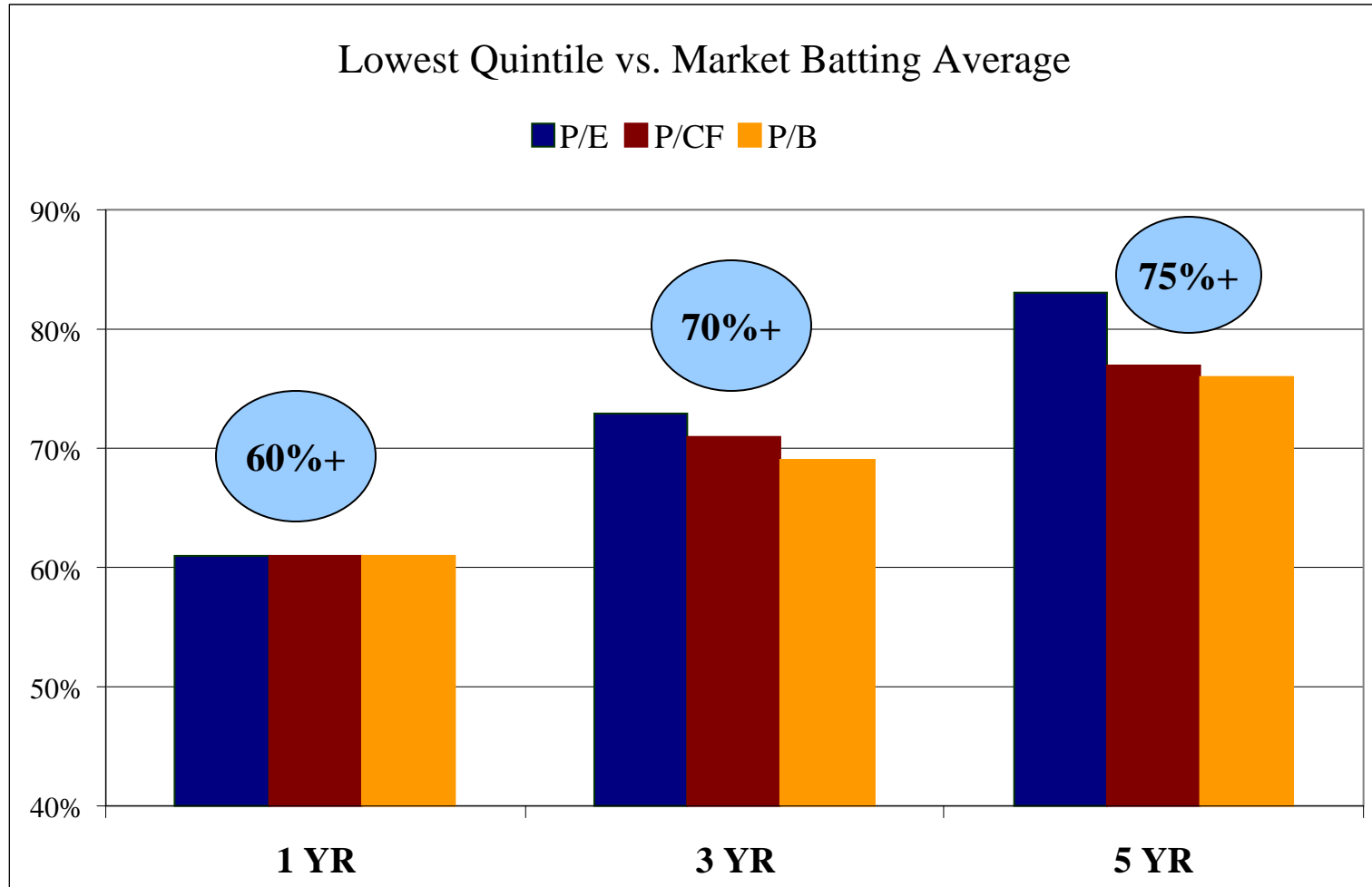
Assuming an instantaneous shift in interest rates

Source: Bloomberg

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LOW PRICE-TO: IT WORKS



Source: Kenneth E. French Data Library, CRSP, Ibbotson

Rolling Periods: 1952-2008

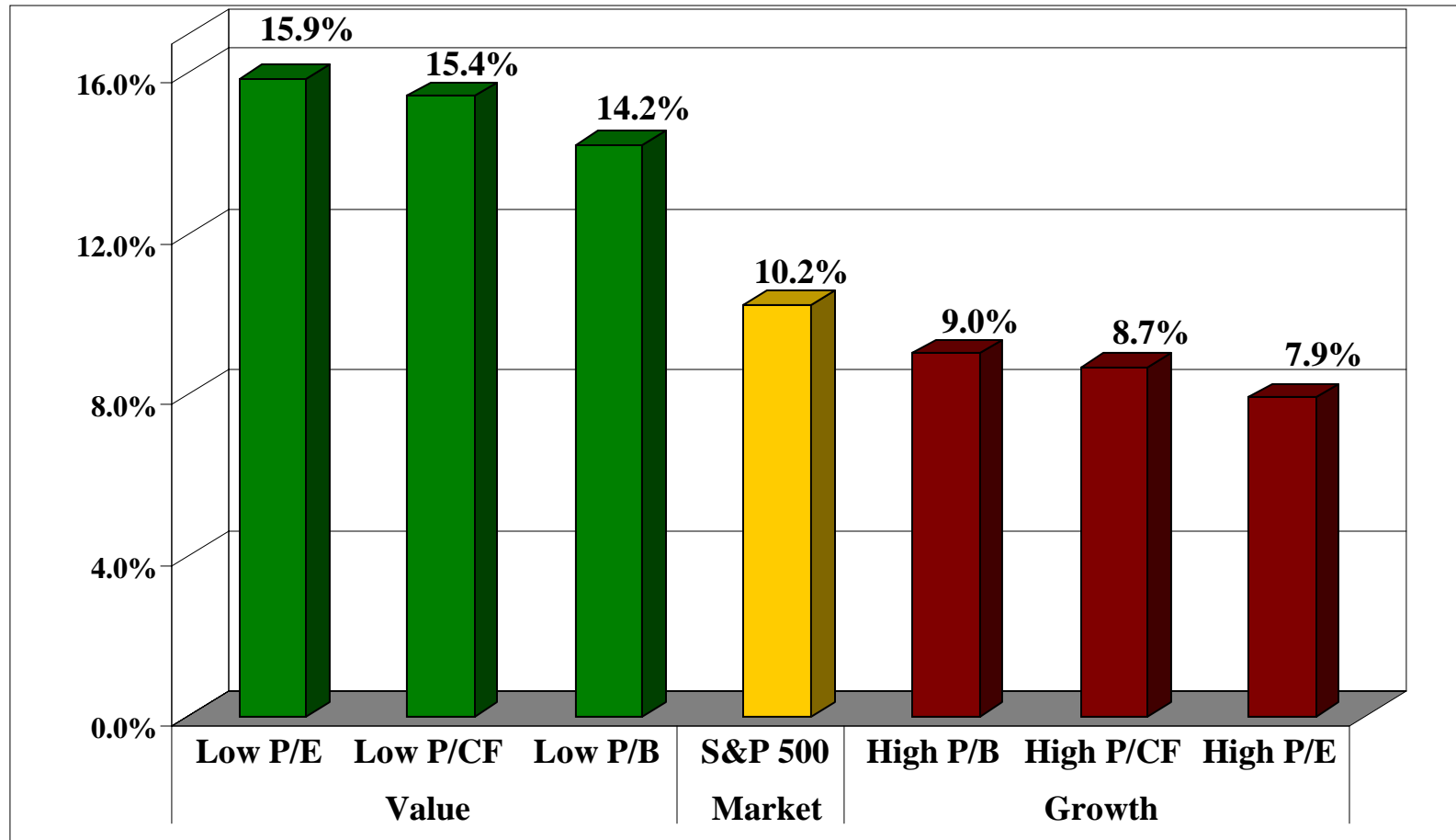
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LOW PRICE-TO: IT WORKS

Annualized Total Returns
1952-2008



Source: Kenneth E. French Data Library, CRSP, Ibbotson

➤ Academic studies supporting low “price-to” investing:

- Graham and Dodd 1934
- Basu 1977
- Debondt, Thaler 1985
- Chan 1988
- Jaffe, Keim, Westerfield 1989
- Ball, Kothari 1989
- Chan, Hamao, Lakonishok 1991
- Fama, French 1992
- Lakonishok, Vishny, Shleifer 1993

LOW PRICE-TO: ACADEMIA

- Academic studies refuting low “price-to” investing:

NONE*

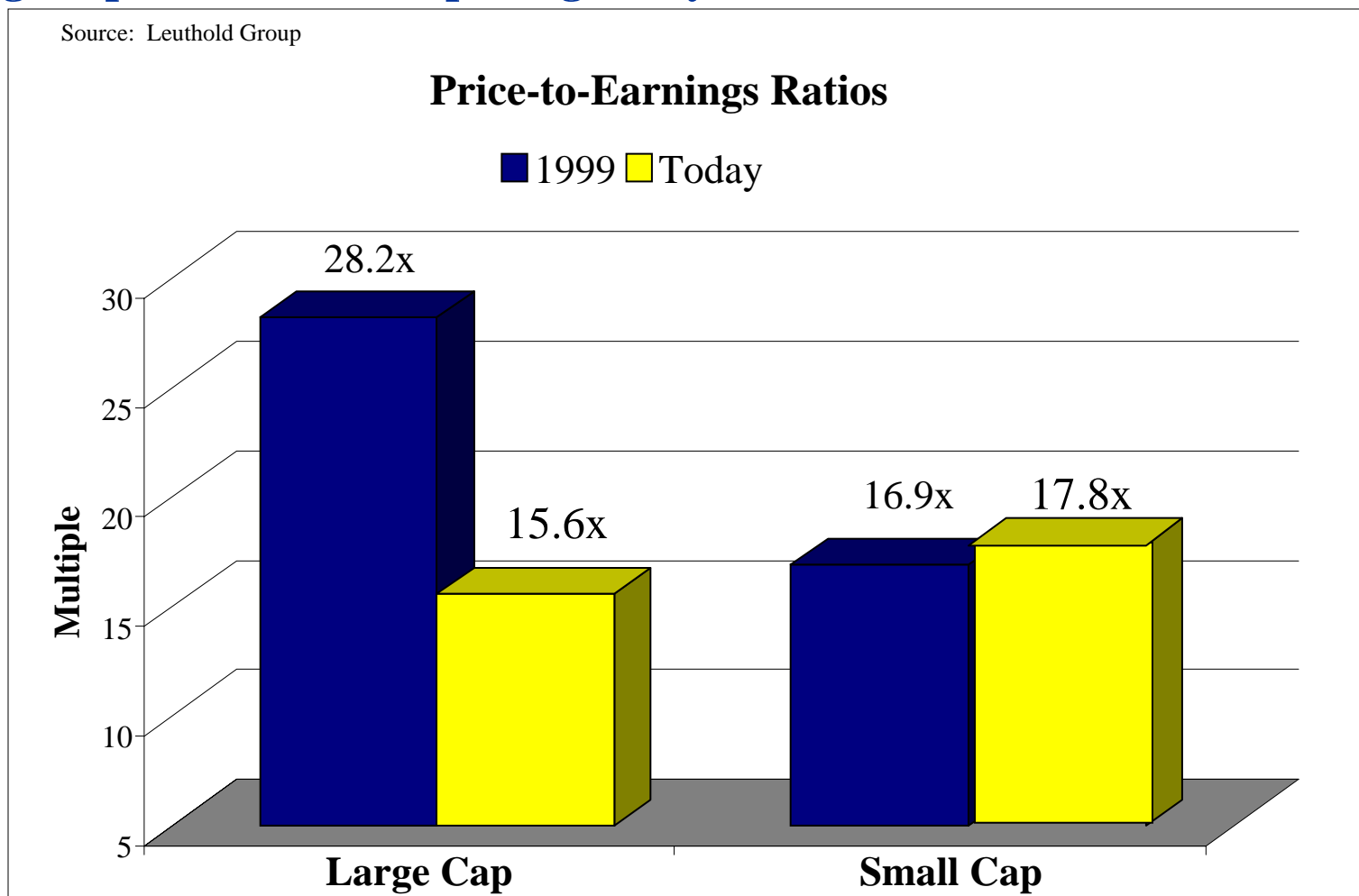
* We have found none.

LOW PRICE-TO: ACADEMIA

- Studies show that low “price to” investing creates less volatility and works within...
 - Industries
 - Sectors
 - Countries
 - Different holding periods
 - Market caps (large, mid, and small companies)

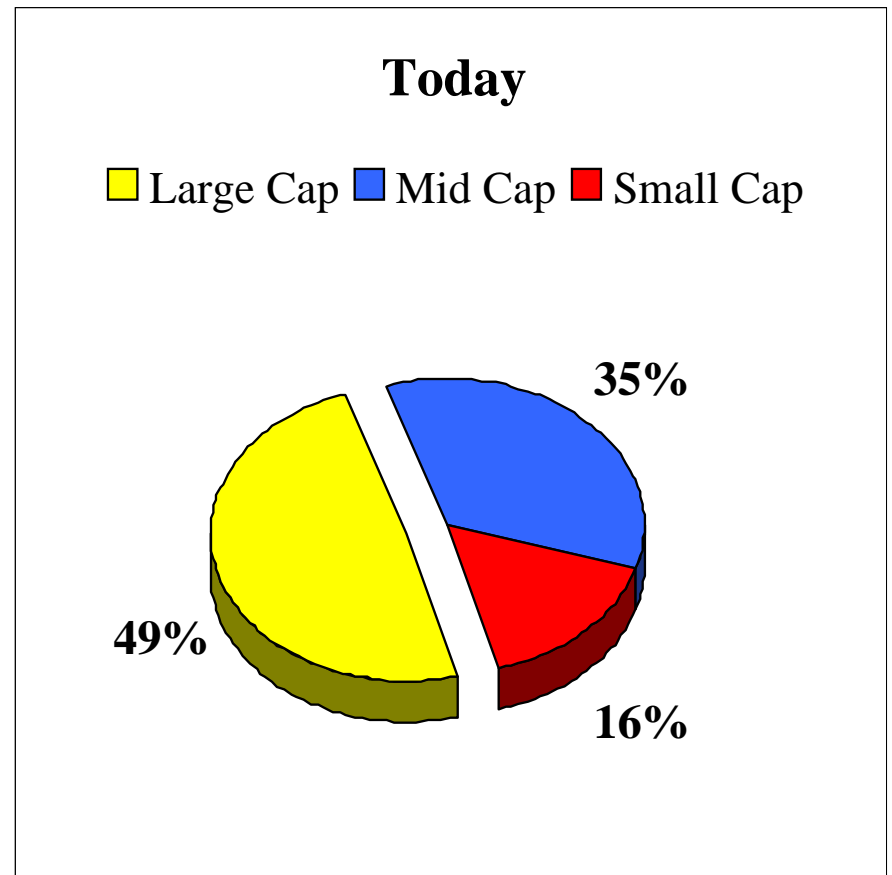
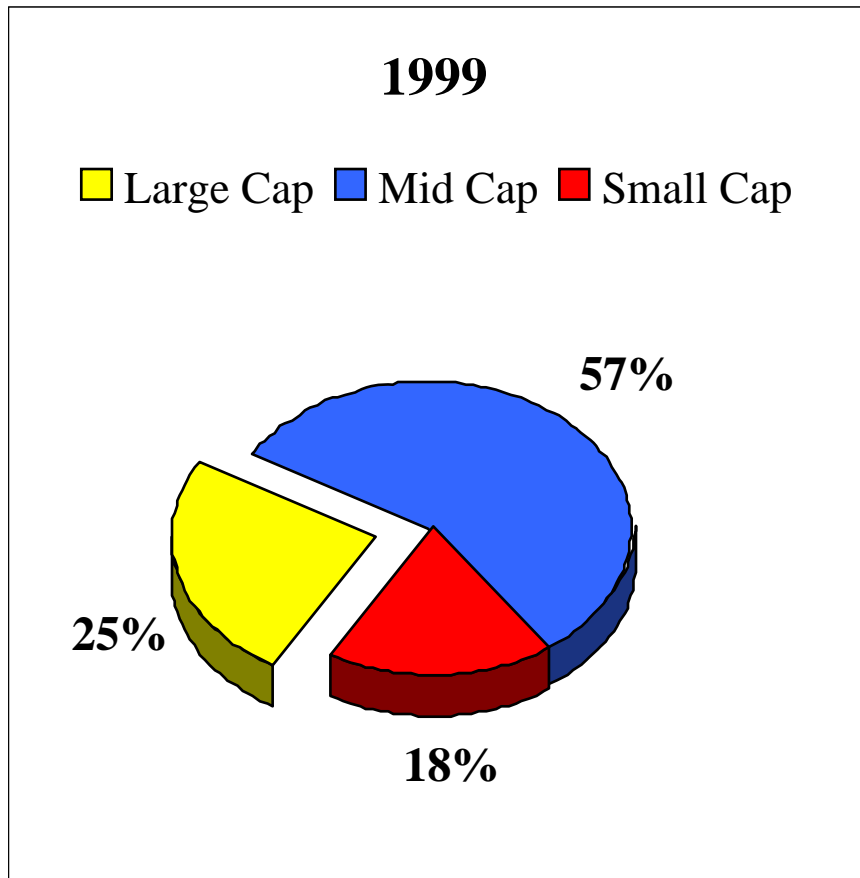
VALUATIONS: PRICE/EARNINGS

Large caps are more compelling today...



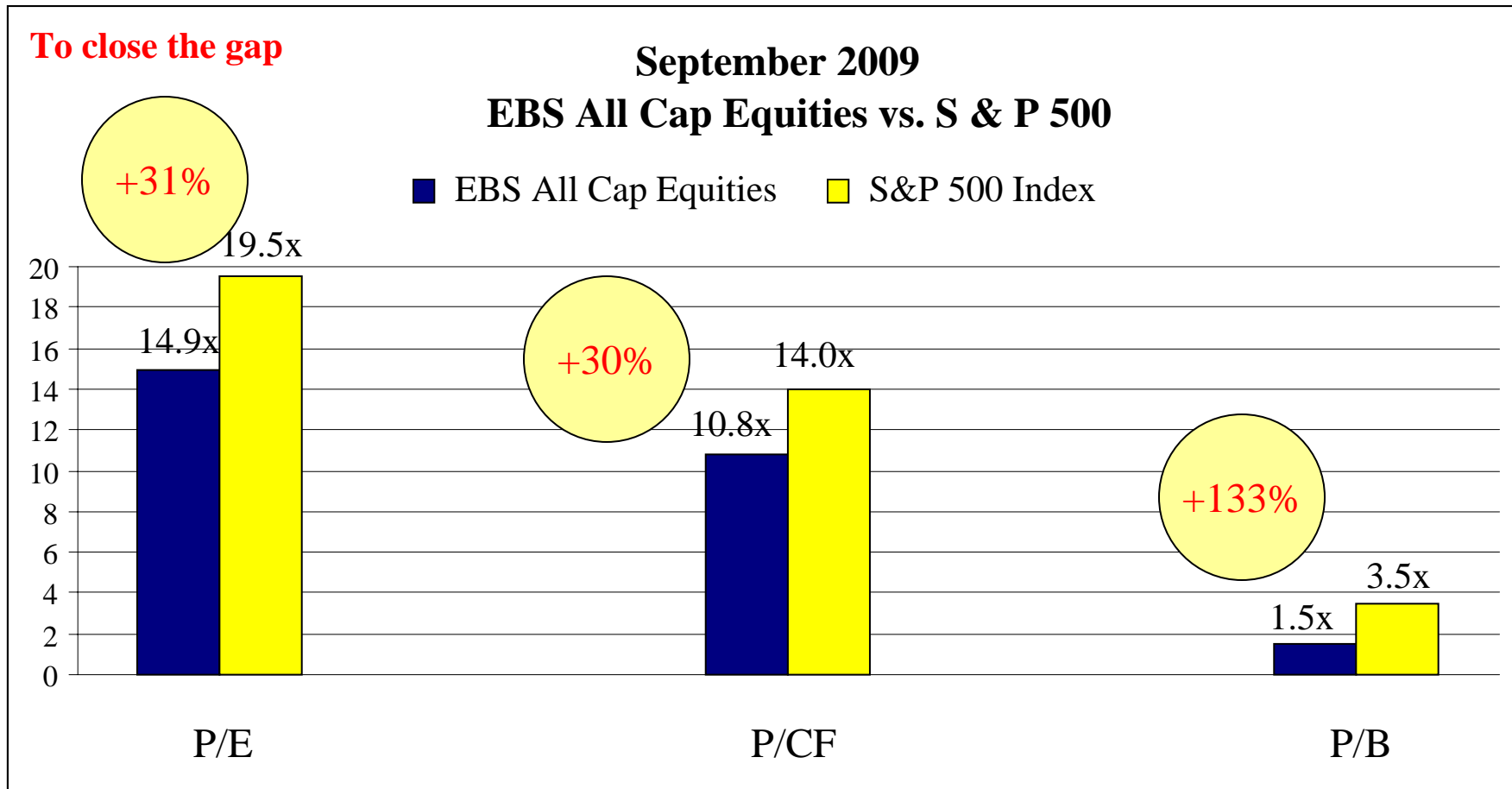
MARKET CAP: ALLOCATION

... and EBS All Cap equities reflect the large cap attractiveness.



Please see important disclosures in appendix.

VALUATION COMPARISON



Please see important disclosures in appendix.

OUR PERSPECTIVE

Sector Exposure

8 Sectors, 27 Industries

Deflation



Inflation

~~Long Term Treasuries~~

~~Gold~~

Staples

Healthcare

14 Industries

Consumer

Financials

Producer Durables

Technology

Energy

Materials &
Processing

Referring to: EBS All Cap equities

Please see important disclosures in appendix.

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OUR PERSPECTIVE: COMMON THEME

Besides value...

- Viable and durable
- Well capitalized
- Providing valuable products and services
- Capable of enduring a slumbering economy and passing on costs

OUR PERSPECTIVE: SUMMARY

- Economic underpinnings are improving
- Market is reasonably priced
- All Cap equities are priced below market
- Our fixed-income investments are of good quality and modest maturity

Please see important disclosures in appendix.

PLEDGE OF STEWARDSHIP

Whether in good markets or bad, we will neither be satisfied with results nor complacent about our process. We will continually study the methods employed by successful long term investors and devour offerings of academicians and practitioners to uncover ways of improving and refining our methodologies.

We will study our past decisions, both good and bad, hoping to exploit the good and to learn from others.

This is our duty and our pledge to you.

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- Independently-owned by eight active employees
- We invest alongside clients in EBS strategies
- In our 16th year of business
- Founding partners have worked together for nearly a quarter-century
- Shareholders and employees take seriously their obligation to:
 - Provide unequalled personalized service
 - Pursue superior risk-adjusted performance

Please see important disclosures in appendix.



EUBEL BRADY & SUTTMAN

ASSET MANAGEMENT

**FINDING VALUE TODAY,
CREATING WEALTH FOR TOMORROW**

Appendix

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DISCLOSURES

Past performance is not indicative of future results.

Market and economic data has been provided by third party sources. This data, while believed to be reliable, has not been independently verified by EBS.

The Conference Board is the world's preeminent business membership and research organization. Best known for the Consumer Confidence Index and the Leading Economic Indicators, The Conference Board has, for over 90 years, equipped the world's leading corporations with practical knowledge through issues-oriented research and senior executive peer-to-peer meetings. The Conference Board is a not-for-profit organization and holds 501 (c) (3) tax-exempt status in the United States.

The All Cap Value Portfolio seeks growth of capital by investing in equity securities of companies of all sizes which management believes to be undervalued. "EBS All Cap Equities" is intended to represent the equity securities owned in the EBS Balanced portfolios as well as the equity securities owned in the EBS All Cap Value Portfolio.

Information about current EBS holdings is based on our current Buy List. The holdings in your own portfolio may differ. Allocation and sector exposure may change over time.

Valuation information for EBS holdings is based on the most recent prices and data available from independent third party pricing and data services.

Index Definition:

S&P 500 Index is one of the most commonly used benchmarks for the overall U.S. stock market. It includes 500 companies chosen for market size, liquidity and industry grouping, among other factors. It is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return of the large cap universe.