

# Athena Pure Valuation | Profitability

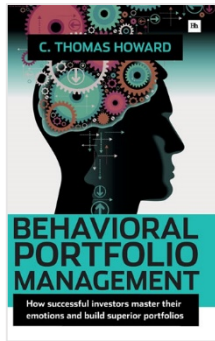
The Investor Guide

---



Athena Pure Valuation | Profitability is a concentrated equity portfolio managed with a unique combination of traditional value and behavioral approaches.

---



**“Once you make the transition to a behavioral perspective, unique investment opportunities become available.”**

- C. Thomas Howard, PhD  
CEO, AthenaInvest

## Innovative Behavioral Approach to Value Investing

Value investing is widely used by investors and portfolio managers. The approach was formulated over 60 years ago by Benjamin Graham with the publication of Graham & Dodd’s “Securities Analysis” in 1934. Graham’s main idea was to identify and invest in securities that were priced below their intrinsic value which could be determined through fundamental analysis of the company. The essence of these ideas remains true and has stood the test of time.

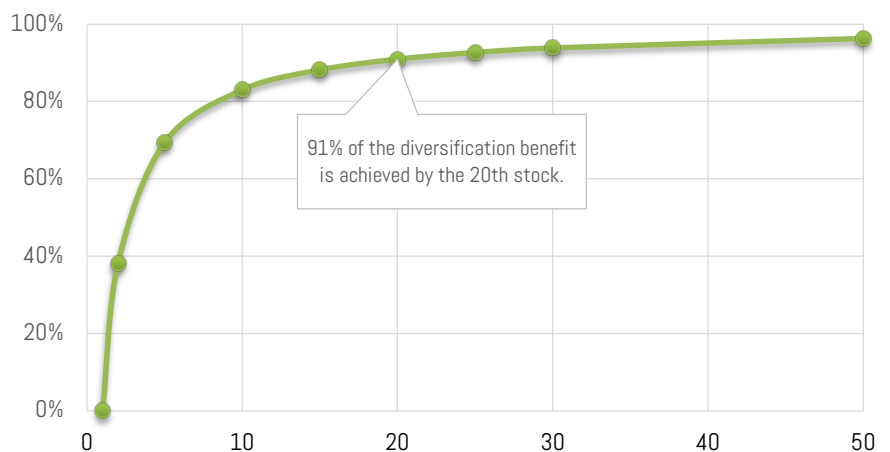
In managing the Athena Pure Valuation | Profitability portfolio, Athena builds on traditional value investing by incorporating behavioral analysis as a new way of determining value.

## Investing with Conviction

The Athena Pure Valuation | Profitability portfolio is concentrated and invests only in its most attractive opportunities with a small number of high-conviction positions in order to increase its chances of outperforming the market over the long-term.

Active equity managers decrease their chances of outperforming the market when they add more stocks into their portfolios. After all, you can’t beat the market when you are the market. Despite this, the average active equity mutual fund holds more than 100 stocks... why do they do this? There is a widespread belief that in order to reduce risk, a portfolio must hold a large number of stocks. In reality, a portfolio holding as few as 20 stocks reduces single-stock risk by 91%.

**DIVERSIFICATION BENEFIT BY NUMBER OF STOCKS IN A PORTFOLIO**



Based on methodology described in a 1968 paper by John Evans and Stephen Archer, *Diversification and the Reduction of Dispersion: an Empirical Analysis*; uses an average individual-stock standard deviation of 45%, an inter-stock correlation of 0.11 and equal weighting.

In addition, there is a growing body of research that finds holding more concentrated portfolios increases the manager’s chances of outperforming. For example, in the landmark Harvard University study “Best Ideas<sup>1</sup>,” managers who displayed the greatest conviction in their top relative holdings outperformed the market by 4% to 10% per year depending on the market index used.

## Behavioral Finance Research and the Nobel Prize

Conventional wisdom in the marketplace holds that investors are rational and markets are efficient. Behavioral Finance Research shows that in reality, there is an overwhelming presence of emotions involved in investment decisions. Daniel Kahneman, renowned psychologist and winner of the Nobel Prize in Economics, shares decades of this research in his book "Thinking Fast and Slow" which uncovers the natural biases in our thinking and how emotions inevitably play into investment decisions. These collective emotional decisions by investors result in persistent and predictable market inefficiencies and price distortions.

## Using Behavior to Identify Opportunity

Using its patented Behavioral Portfolio Management approach, Athena systematically measures predictive and persistent behavioral data for individual stock selection. The Athena Pure Valuation | Profitability investment process uses behavioral factors to measure confidence in a company's future prospects from three independent market groups identified below. We believe these behavioral factors are often overlooked or misinterpreted by the broad market. When combined with fundamental data, these behavioral factors can identify undervalued opportunities which are currently out-of-favor but, offer above-average price appreciation in the future.

### Behavioral Criteria for Portfolio Inclusion

#### Management Confidence

We believe the strongest signal a company's management can send to the market is paying a dividend, showing confidence that it can continue to generate cash flow in the future.

#### Analyst Confidence

We consider sell-side analyst earnings projections to determine the level of analyst confidence in a company.

#### Creditor Confidence

We favor companies in which creditors have shown high confidence through issuance of debt. Creditors don't provide financing without a belief in the strength and stability of the company, and creditors continually evaluate the company's financial strength.



## Performance Compliment to a Core Portfolio

The Athena Pure Valuation | Profitability portfolio seeks to generate superior returns through active management. The portfolio can be used as a return enhancing component in a core and satellite approach, as a value strategy in a traditional allocation, or as a manager in a stable of managers approach.

## About Athena

AthenaInvest's innovative investment research process, *Behavioral Portfolio Management*, uses measurable and persistent behavioral factors to build innovative investment solutions focusing on active equity management for long-term capital growth. With a focus on behavioral factors, Athena has pioneered a unique and systematic way to view asset allocation, investment selection, and tactical management.

For more information on the Athena Pure Valuation | Profitability portfolio, consult your financial professional.



(877) 430-5675

[www.athenainvest.com](http://www.athenainvest.com)

i. Cohen, R. B., C. Polk, and B. Silli, 2009. *Best ideas*. Harvard Working Paper. March.

*Nothing herein is intended to imply that an investment in this portfolio may be considered "safe" or "risk free." This investment portfolio may not be suitable for all types of investors. This information is not intended to constitute legal, tax, accounting or investment advice. Prospective clients should consult their own advisors about such matters. No regulatory authority has passed upon or endorsed this summary or the merits of an investment using our strategy.*

**PAST PERFORMANCE DOES NOT GUARANTEE OR INDICATE FUTURE RESULTS.** Risks of investing in the Athena Pure Valuation | Profitability portfolio include, but are not limited to:

**EQUITY RISK** There are risks associated with equity investing, including the risk of loss of principal. **CONCENTRATED PORTFOLIO RISK** An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. **SMALL COMPANY RISK** There are risks associated with small and mid-cap investing such as increased volatility, less liquidity, limited product lines, and small market share.

**INDEX DEFINITIONS RUSSELL 2000 TOTAL RETURN INDEX** The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small cap opportunity set.