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WHITE PAPER

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COLLABORATIVE INVESTING®

PHILOSOPHY. CONCEPT. PRACTICE.

Perspectives from The Abernathy Group Principals & Research Team

You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning is right.

-Benjamin Graham, *The Intelligent Investor*

Collaborative Investing® is a style of fund management created by The Abernathy Group in 1989.

Essentially, it is uniting the knowledge base of industry experts -- practitioners in specific industries with a working knowledge of products -- together with the financial expertise of the money manager. To solidify this concept, one must also make the industry expert a co-investor in order to align their interests with the money managers.

This concept allows for the development of more in-depth research, which leads to better-informed investment decision and a more thorough product understanding, which in turn reduces risk.

INTRODUCTION

In order to make the best possible decision about a prospective investment, the intelligent investor strives for a solid understanding of that company's products and services, as well as an expert understanding of the company itself.

- Product Knowledge: What are the products, exactly? Who buys them and how are they used? How are they manufactured and developed? Most importantly, what is the product's "value proposition*"?

Ultimately, in order to accurately determine the value of a company, one must determine the "value proposition" of each product. In other words, one must have access to true user information.

- **Financial Analysis:** Is the balance sheet strong enough to build the business model described by management? How are company resources allocated? Is the company's business capital intensive? Does this company have enough liquidity to survive? Can it succeed?

Careful analysis of financial statements and balance sheets are essential to making an intelligent investment decision. The intelligent investor must understand a company's cash flow characteristics in order to determine its true value.

Collaborative Investing® creates an intelligence network that serves as a platform for superior information gathering.

INDUSTRY EXPERTS + **FINANCIAL EXPERTS** = **COLLABORATIVE INVESTING ®**

Value Proposition:*
The benefit(s) delivered by the features and capabilities of the product service.

THE ROLE OF COLLABORATIVE INVESTING®

The most important aspect of intelligent investing is the ability to understand a potential investment. The problem is not a lack of information, but rather, in deciding who has the right information. On one hand, there are industry experts, the practitioners who understand the value of products or services offered by various companies. On the other, there are financial advisors, the financial experts who conduct in-depth, critical analysis of those companies' financial data. Neither can perform the other's job, and without a way to marry both crucial pieces of information, each expert is ill-equipped to make a complete case. In other words, intelligent investment decisions cannot be based solely on financial models, nor can they be based solely on knowledge of a company's products or services. Collaborative Investing® utilizes the best of both worldsin order to invest intelligently and successfully.

When investing, knowledge is the only true advantage. Collaborative Investing® offers a clear understanding of a company from the viewpoint of the industry expert as well as the financial expert. For example, when determining the "value proposition" of a company's product, it is essential to understand that product through the eyes of the people who use it, instead of relying on corporate executives to describe their own products. The individual investor, in this case, an industry expert, benefits from the financial expertise that is necessary to understand the financial environment of a prospective investment.

Additionally, Collaborative Investing® provides an informational advantage that transcends regional industry trends. More than one expert in every industry sector is present in the network, and more than one region is represented. For example, when a cardiologist from California says, "All the cardiologists I know are prescribing Lipitor to lower cholesterol," his or her observation might only reflect therapies embraced by doctors on the West Coast, while bits of only one region can be costly. By nature, Collaborative Investing® invites information

THE ROLE OF COLLABORATIVE INVESTING® (continued)

and analysis from various geographic regions, which should, necessarily, lead to better-informed investment decisions.

Some firms try to plug informational holes by hiring experts in specific fields. Since these consultants are not personally invested in the process (beyond future consulting assignments), information can be less reliable, and perhaps even at odds with the goals of the professional investor. This can lead to misguided investment decisions. By partnering financial professionals with industry experts, Collaborative Investing® ensures that each investment is made with a full understanding of a company's products, as well as a full understanding of the company's financial environment.

Many industry experts also acknowledge the benefits of investing alongside independent financial advisors. However, some of those experts fail to recognize bias, or conflicts of interest, within the construct of the investment partnership. Some "independent financial advisors" can still be influenced by investment banking or market making activities.

Naturally, since Collaborative Investing® requires both parties to invest together, and align their interests, data is more objective, unbiased, and reliable. Most importantly, the expertise of both the individual expert and the financial advisor are effectively leveraged. With assets invested side-by-side, there is a greater chance of each working hard to accurately provide pertinent information in a timely manner. Collaborative Investing® creates an investment partnership between the industry expert and the financial advisor. Of course, this relationship pursues a mutual goal: to maximize investment returns for everyone.

HOW IT WORKS

Collaborative Investing® sets the stage for a high degree of communication between investor partners and the investment advisor. Investor partners and advisors are frequently in touch through regular conference calls, quarterly publications, personal phone calls, and visits. As a result, deeper relationshipsdevelop in the Collaborative Investing® model than is typical between money managers and clients, particularly among performance-based funds. The ideal Collaborative Investing® model limits the number of investor partners to ensurerelationships that foster straightforward, candid communication betweeninvestor partners and the investment advisor.

Valuing such communication is the cornerstone of Collaborative Investing® and reflects a commitment to deep fundamental research. Input from investor partners is always welcome, and can come at any level. For example, one investor partner's input may be a high level discussion about reimbursement trends in the medical industry as a whole, while another discussion might focus on the reimbursement issue of a specific therapy. Investor partners often provide privileged insight into emerging trends and products, fortifying research efforts with their hands-on perspective and expertise. Sometimes investor partners provide information that re-directs entire research efforts.

In the Collaborative Investing® model, most contact between the financial advisor and the individual expert is actively solicited by the financial advisor, while about 25% is initiated when an investor partner has information that appears to represent an opportunity. Information can focus on manufacturing issues, sales and marketing efforts, or even competitive responses. Of course, these exchanges do not necessarily result in an immediate investment opportunity. Information about a product manufactured by a large company, for example, can sometimes be insignificant, as one product is unlikely to impact the price of the stock. However, during such an exchange, an industry expertwill probably provide insight into the external factors related to that product, which might lead to an investment opportunity elsewhere. In any event, these exchanges are often rich with information that is inaccessible to the larger Wall Street community.

HOW IT WORKS (continued)

A natural extension of the Collaborative Investing® concept is the creation of specialty Advisory Boards, a refinement to the Collaborative Investing® Network. These advisory boards gather some of the nation's industry leaders of selected specialties, in order to create a forum to explore the trends and issues faced in practices and research. Forums are organized by the financial advisor, and are segmented according to specialty, usually with particular "high opportunities" in mind. These meetings tend to generate intense discussion of issues that would probably go unexplored, or overlooked, in a typical Wall Street company research effort.

One of the most apparent benefits to Collaborative Investing® is the creation of a deep network of industry experts and financial experts. As simply a databank, it is the heart of the ongoing fundamental investment research effort. As a unique and growing intelligence network, it gathers the nation's leading thinkers, researchers, and specialist practitioners across a broad spectrum of disciplines, all who have expert knowledge in relatively uncharted territory. Investor partners have access to the network, and, naturally, are able to receive exponentially more than they alone could possibly contribute. As each expert contributes, the entire network becomes fundamentally more useful. Everyone benefits from the specialized expertise of everyone else.

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SUMMARY

Collaborative Investing® is a concept that aligns the knowledge of industry experts with the knowledge of financial experts in order to create a superior information and investment research platform. This network of experts creates more information about a possible investment, and consequently more (and better) information reduces investment risk. Industry experts provide the hands-on knowledge of products, services, trends and industry issues, while financial experts provide in-depth financial analysis in order to ensure that a company is a sound investment. The most effective way to reduce risk is to have good information. Improving the information used in investment decisions will increase the likelihood of a profitable investments.

The components that make this type of investment philosophy work are:

1) Find the experts;
2) Invite them to invest alongside the investment advisor;
3) Encourage their confidence in the model, and enable them to participate regularly;
4) Conduct regular meetings, and most important of all;
5) Create a relationship based on two-way communication between the investment advisor and the investment partners.

Building a network of experts as co-investors and uniting them with financial experts takes time. However, when applied appropriately, the benefits can be rewarding. The relationship between the firm and the investor truly becomes a partnership where the interests of all investment partners are aligned. At the end of the day, not only does the individual expert benefit from the expertise of the financial expert, but the individual expert becomes a part of the investment process, and is enabled by the investment process itself. Additionally, individual experts are assured that other experts, like themselves, are contributing when they are not. Because of this relationship, returns are enhanced while risk is reduced.

"We can say with certainty that knowledge works to increase our investment return and reduces overall risk. I believe we can also make the case that kknowledge is what defines the difference between investment and speculation."

- Robert G. Hagstrom, *The Warren Buffett Portfolio*

ABOUT THE ABERNATHY GROUP

The Abernathy Group is the world's premier Registered Investment Advisor (RIA) for medical and information technology industry professionals. Established in 1990 by Principal, Steven Abernathy, The Abernathy Group is an incentive-based investment management firm specializing in the medical and information technology sectors. The Firm's investment philosophy is based-upon the following principles:

- ***Collaborative Investing®*** – Leveraging the knowledge of industry experts and combining it with financial expertise resulting in superior, comprehensive company research

- ***Focused portfolio management*** – Investing in fewer companies that the Firm understands deeply rather than having a multitude of companies in its portfolio

- ***Concentration on high-growth industries*** – Focusing on companies in the high-growth sectors of healthcare & information technology

- ***Growth & income strategies for individual investors***

- ***Long-term growth strategies for individual investors***

The cornerstone of The Abernathy Group's research methodology is a proprietary Collaborative Investing® concept, which combines professional industry expertise with the Firm's financial expertise. The Abernathy Group's Collaborative Investing® Network of health care and information technology professionals pools its expertise to identify U.S. companies with superior products, technologies, cash flow, and management teams. The Firm's in-house research analysts focus on specific industry segments and conduct deep fundamental research to guide investment strategies and decisions.

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