



Adams Hall

Asset Management

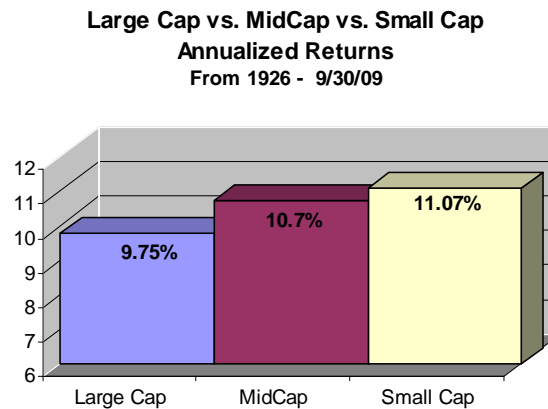
Lunch & Learn Summary: Prescott Group Capital Management

On October 13th, Phil Frohlich and Jeff Watkins, of Prescott Group Capital Management, discussed investing in small and midcap stocks. Below is a summary of the discussion.

Small cap stocks are defined as companies with a market cap between \$200 million and \$1.5 billion. There are 1,930 domestic companies that are considered small caps. They make up 8% of the total value of the US market.

Midcap stocks are defined as companies with market caps between \$1.5 billion and \$10 billion. There are approximately 944 domestic companies that fall into this category, which is about 7% of the total value of the US market.

From 1926 through September 30th of this year, small and midcap stocks have outperformed their larger counterparts. Over time, this outperformance could add significantly to your portfolio.



They listed several reasons for small and midcap stocks outperformance including:

- Small and to a lesser extent, midcap stocks are under-followed by Wall Street which creates an opportunity for those willing to do their own research.
- It is much easier for small and midcap stocks to grow their revenues and earnings.
- Small and midcap stocks give investors a larger universe of potential investments as compared to large cap.

- Macro-economic influences tend to be less important than company-specific fundamentals in small and midcap stocks.
- As a result of the Enron and WorldCom scandals in 2002, financial disclosures and corporate governance (Sarbanes-Oxley) has improved dramatically for the smaller capitalization stocks. Furthermore, investors have recognized and rewarded smaller companies because they tend to be easier to understand and model.
- For large companies looking to grow their revenues, small and midcap companies make very attractive acquisition candidates.
- Many institutions have restrictions on the minimum market cap for companies they can buy, so when such companies reach those levels, there is a whole new group of buyers. Conversely some institutions have to sell positions that drop below a certain market cap which creates potential opportunities in distressed situations.

The Prescott Group has taken advantage of these opportunities and has significantly outperformed their benchmark over the life of their funds.