



VIEWPOINT

BIONDO INVESTMENT ADVISORS Q1-08 NEWSLETTER

The first quarter of 2008 was the worst quarter for the S&P 500, the Dow and the Nasdaq since the third quarter of 2002. March ended the longest monthly losing streak for the S&P 500 since 1990. For the quarter, the S&P 500 declined by 9.45%, the Russell 3000 Growth Index declined by 10.39% and the Biondo All-Cap Growth Composite was down 8.75%.

Coming into the year, we believed that it was possible to avoid recession in the U.S. While we have thus far been “technically” correct, the economy appears to be headed for recession, if it is not in one already. The equity markets have certainly braced themselves for this possibility and the question to be asked now is how much has been discounted. In our opinion, many companies in many sectors appear to be priced for a longer and deeper recession than we anticipate.

The last recession in the U.S. was in 2000-2002. Coupled with that recession were some widespread corporate scandals, which rightfully shook confidence and led to a sluggish recovery. In response, nearly 35% of S&P 500 companies replaced their CEOs in 2002-2003. Many of these new hires were not necessarily the

dynamic, visionary types that plagued those scandal-ridden companies, but rather managers with strong accounting backgrounds. Boards of Directors were nervous and diligent in most cases about their new selections. During the following years of economic expansion, managers remained steadfast and followed a fiscally conservative path, which is atypical for a time of prosperity. They rarely over-hired or over-spent – actions often associated with good times. In more recent years, corporate America has been diligent about the bottom line, which is why profits and cash levels are at all-time highs. This is why we think that we will not witness the massive layoffs and budget cuts that are associated with downturns.

We have headed into this recession in better shape than at any time in history. This, coupled with the tremendous stimulus provided by the Fed and Congress, should keep any economic weakness to the short and shallow variety. It is our belief that we will be out of any recession before we meet the technical definition, and there are extraordinary gains to be had by patient and diligent investors.

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TO THE POINT

During the first quarter, The Federal Reserve took some extraordinary actions. In addition to unprecedented interest rate reductions and pumping massive amounts of liquidity into the credit markets, the Fed opened the discount window to investment banks – an action taken in response to the crisis at Bear Stearns. A takeover deal was orchestrated between JP Morgan Chase and Bear Stearns overseen by the Fed and the Treasury Department. These actions were all taken to restore confidence in the financial markets and in financial institutions. With this, a sudden shift took place on Wall Street – we finally started to believe that the Fed saw and would address the problems facing the markets.

The mess in the financial system is not over. While the Fed has taken steps to cure the ills that plague the system, the heart of the problem remains to be the instability of home prices. This needs to be addressed quickly in order to restore confidence in one of the most important sectors of our economy.

We understand that it can be difficult to focus on the long-term when temporary and short-term factors are creating a volatile environment. Consumer confidence is at the lowest since 1982, and bearish sentiment is at levels not seen in quite some time. In recent months, the debt markets have experienced a liquidity crisis. The mortgage crisis has spurred a large drop in demand and an increase in foreclosures. The media coverage strongly asserts that the fallout is unclear, that conditions may get worse and the total impact may not be known for a long time. While we respect that view, as equity investors it is quite common to have to make investment decisions in the face of uncertainty. Our experience, and the strategies that we employ to conduct our analysis, provide us with the framework with which to make these decisions. During difficult times, stock prices often exaggerate the prevailing doom and gloom. However, when individual stock prices fall below what the business may actually be worth, we see this as an opportunity.

Companies face a variety of challenges and some companies have become cheaper for good reason. Poorly run companies will continue to be poor investments. But others have dropped in price without reason and that is where the opportunity lies. Valuations appear reasonable for many companies. Of course, it is always our belief that earnings growth is the ultimate determinant of higher stock prices, and we will have to see how well companies are faring as earnings season gets underway.

In his most recent annual report, Warren Buffett states, “you only learn who has been swimming naked when the tide goes out.” We are pleased to report that the tide has gone out and that most of our companies still have swimsuits on. We cannot tell you when that tide is coming back in, but we are comfortable knowing that these businesses are in fine shape, and the fact that our companies have stood the test of the “tide” is a tribute to the assessments we made prior to all of this happening.

Market jitters appear to be based on old news – credit markets, housing woes, high oil prices, the weak dollar and the slowing consumer. These headlines are not new and while little progress has been made on these fronts, these are why stock prices have adjusted in recent months. But these should not serve as reasons for weak prices to persist. Our view is that stocks may be properly set up for upside surprise, particularly if the global growth story remains intact and we believe it does.

The ability to think critically and act independently are requirements of great investing. Understanding the difference between temporary and permanent problems is crucial in recognizing opportunity. We continue to look for attractive growth companies at reasonable prices and will continue to prune out weaker holdings when our outlook changes and add new companies as opportunities present themselves.

In the first quarter we had five buys, of which three were in the industrial sector, and one sell. We made a conscious effort to increase our industrial exposure, as we were underweight in the sector, and have increased confidence in the sector's earnings visibility. We are particularly excited about the long-term secular growth trends in these companies and their high ex-U.S. sales exposure.

There were five companies added to the All Cap Growth strategy portfolio during the first quarter of 2008:

BE Aerospace (BEAV)

BE Aerospace is the world's largest manufacturer of cabin interior products for commercial aircraft and business jets. BE benefits from the aging global fleet, as attested by the recent failed commercial inspections, and high demand for newer, more fuel-efficient planes. Demand for their products is strong because airlines have found it a competitive advantage to remodel older planes, and starting in 2009 delivery of wide-body airplanes should more than double. Wide-body airplanes have more than five times the business opportunity as narrow-body planes. As of 3/31/08 when the stock price closed at \$34.95, our initial price target for BEAV was \$48.

Bucyrus International (BUCY)

Bucyrus is one of two leading suppliers of coal and metals mining equipment in the world, composed of drag lines, longwalls and shovels. Exploration for coal and metals remains high, especially outside the U.S., which necessitates high usage of their products. New equipment demand is high, and existing customers' equipment is aging quickly. For example, Bucyrus has more than 85 percent share in drag lines, of which 75 percent of these machines are more than 25 years old. The industry it competes in is also favorable as it is primarily a duopoly with Joy Global and has high barriers to entry. As of 3/31/08 when the stock price was \$101.65, our initial price target for BUCY was \$130.

Foster Wheeler (FWLT)

Foster Wheeler is an engineering, construction and project management contractor for the oil, natural gas, chemicals, power generation and pharmaceuticals industries. More than 90 percent of its backlog is for energy and power projects outside the U.S. Unlike the U.S., other countries, particularly in Asia, Eastern Europe and South America, lack the energy infrastructure to effectively produce and deliver electricity, gasoline, natural gas and other energy-related products to their citizens. As the standard of living and westernization increases in these countries, demand for energy and power is higher than ever. Foster Wheeler is one of few companies capable of taking on such large-scale global projects, and we foresee demand for their services to remain strong for the next few years. As of 3/31/08 when the stock price closed at \$56.62, our initial price target for FWLT was \$78.

Google (GOOG)

Google is the global leader in online search with more than 50 percent market share in the U.S. They derive most of their sales from advertising and have been the main beneficiary of the shift of advertising dollars from traditional media, like newspaper, television and radio, to the Internet. Advertisers pay Google when Internet users type in words that pull up search results that enable users to click on the advertisers' web links. Google gets paid per click. We believe that Internet advertising is in its infancy and that mobile and video represent new market opportunities for this. As of 3/31/08 when the stock price closed at \$440.47, our initial price target for GOOG was \$615.

InterContinental Exchange (ICE)

InterContinental Exchange is a leader in energy and soft commodities futures and over-the-counter electronic exchange. ICE's exchange serves as a platform in which buyers and sellers can meet to trade contracts based on crude oil and refined products, natural gas, power and emissions, as well as agricultural commodities including cocoa, coffee, cotton, ethanol, orange juice, wood pulp and sugar, in addition to foreign currency and equity index futures and options. In recent years, global interest in commodities has increased and financial markets have become more integrated. ICE's exchange volumes should continue to grow at a robust pace with increasing global market participation. As of 3/31/08 when the stock price closed at \$130.50, our initial price target for ICE was \$180.

There was one company removed from the All Cap Growth strategy portfolio during the first quarter of 2008:

Under Armour (UA)

Under Armour is an "up-and-comer" athletic apparel and footwear company. Its products are highly supported by pro athletes and are often priced at a premium. Although we believe that the company has superior products and is gaining share, the stock is priced expensively for a slowing economic environment should an execution mishap occur. Inventory levels are high, an expensive marketing campaign for its footwear carries new product launch risk, and the fact that more than 75 percent of its earnings come in the second half of 2008 give us cause for concern. At this point in time, we believe it is more prudent to exit. Should visibility improve and execution risk diminish, we may reenter at a later date.



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Biondo Investment Advisors claims compliance with the Global Investment Performance Standards (GIPS®). Biondo Investment Advisors, LLC's compliance with the GIPS standards has been verified for the period January 1, 2006 through September 30, 2007 by Ashland Partners & Company LLP and for the period February 1, 1991 through December 31, 2005 by a previous verifier. In addition, a performance examination was conducted on the All Cap Growth Composite for the period January 1, 2006 through September 30, 2007 by Ashland Partners & Company LLP and for the period February 1, 1991 through December 31, 2005 by a previous verifier. Copies of the verification reports are available upon request by calling 877-BIONDOS (246-6367).

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