

# STILL WAITING FOR THE “ALL CLEAR” SIGNAL

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Aberdeen Investment Management, LLC

A Guide Service for Micro-Cap Technology Investment

July 31, 2012

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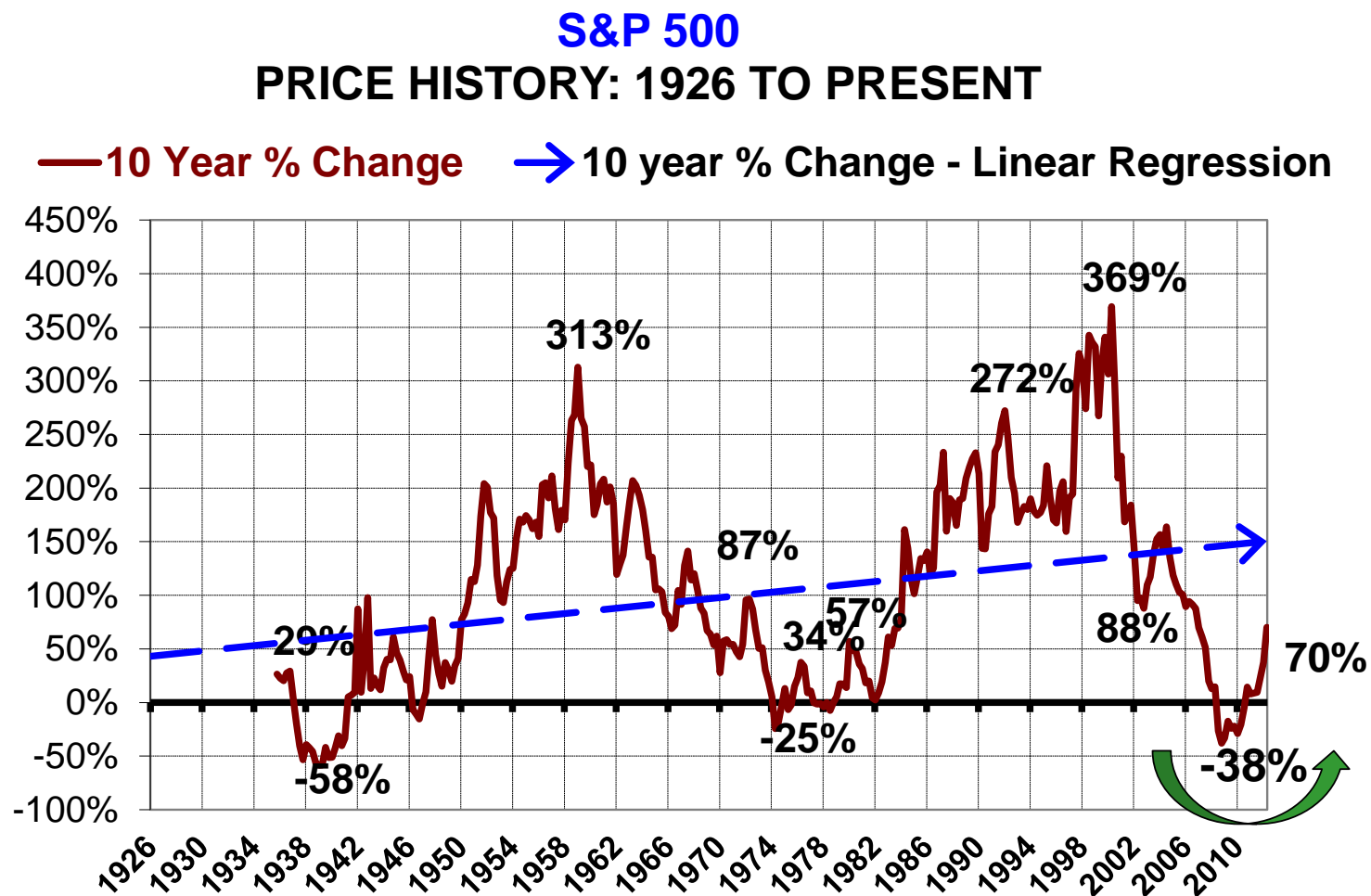
**Caution: It's a risky world we live in. My opinions are based on information believed to be reliable but hey, I could be wrong. When investing, try to use good judgment and don't hesitate to seek professional assistance. Remember to set limits and have a plan. . . Good Luck!**

# ALL CLEAR?

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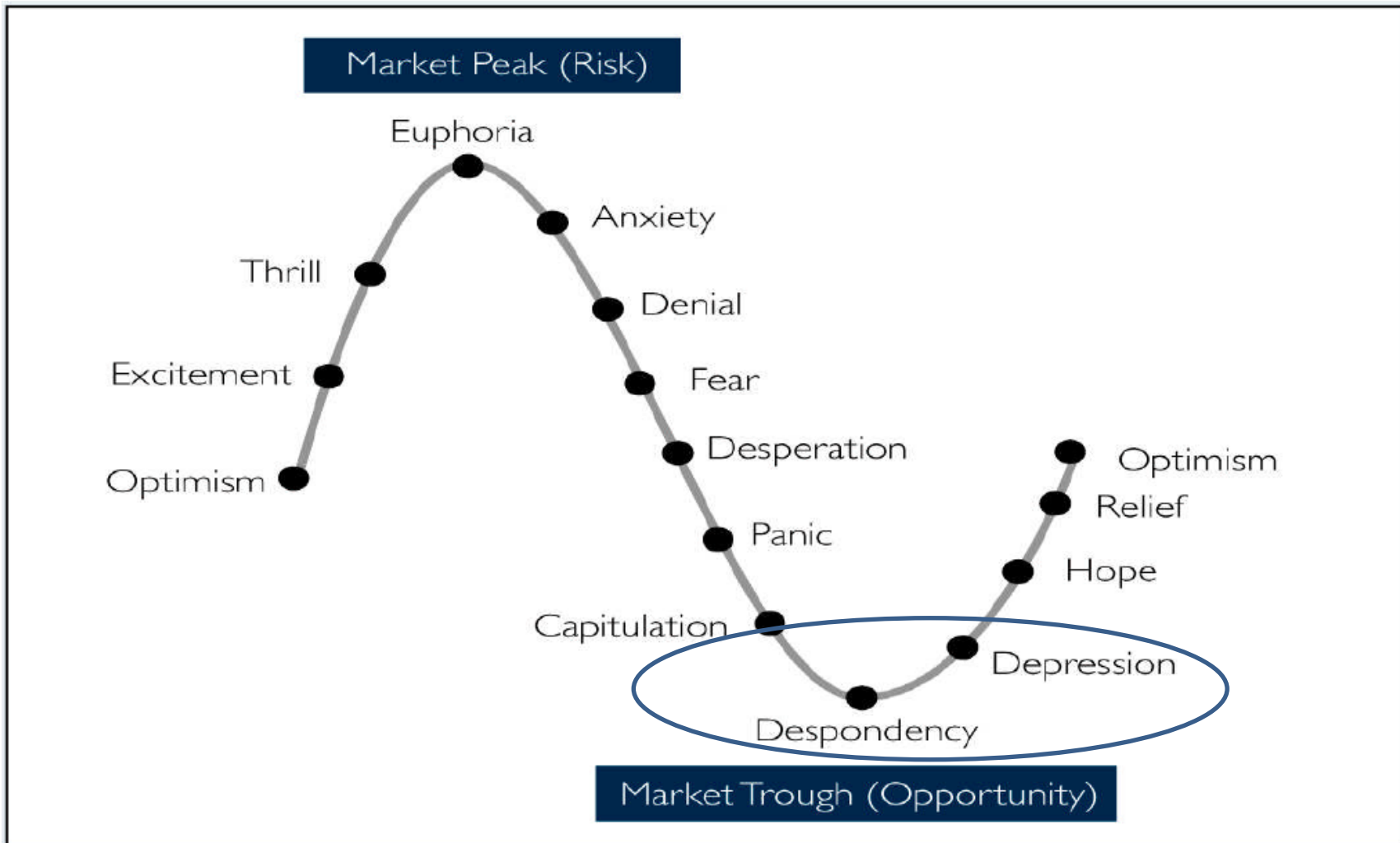
- In the long run . . . it's remarkably good
- People . . . Employment picking up. We remain in a sweet spot
- Productivity . . . Profits are strong and will get even stronger
- Capital . . . We are awash in liquidity, under loaned & under invested
- Consumers have the capacity to spend and invest
- Stocks are cheap
- Interest rates and high frequency data signal sustainable recovery
- Housing will be a wind at our backs
- There is a Mobile Revolution going on
- Big government is the biggest risk

**“Future returns in equities . . . are as good as they have been in a generation”** — Goldman Sachs Mar. 21, 2012



Reversion to the mean is in progress . . .

# INVESTOR SENTIMENT DURING MARKET CYCLES



As of: September, 2011

Source: Arrow Investment Advisors, LLC, [www.arrowfunds.com](http://www.arrowfunds.com)

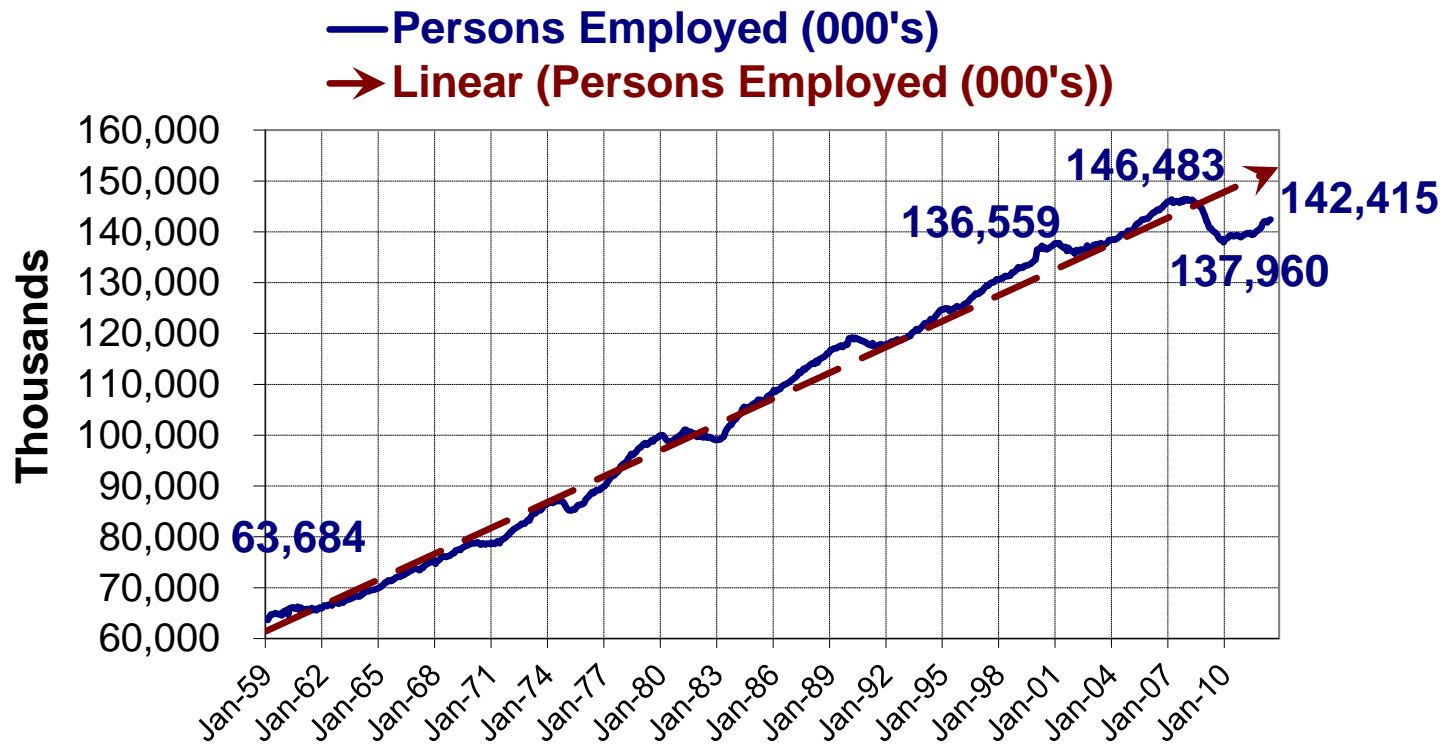
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# PEOPLE, PRODUCTIVITY AND CAPITAL

Employment is rising from trough conditions – best phase of labor cycle to invest.

## PERSPECTIVES ON U.S. EMPLOYMENT METRICS 1959 to Present

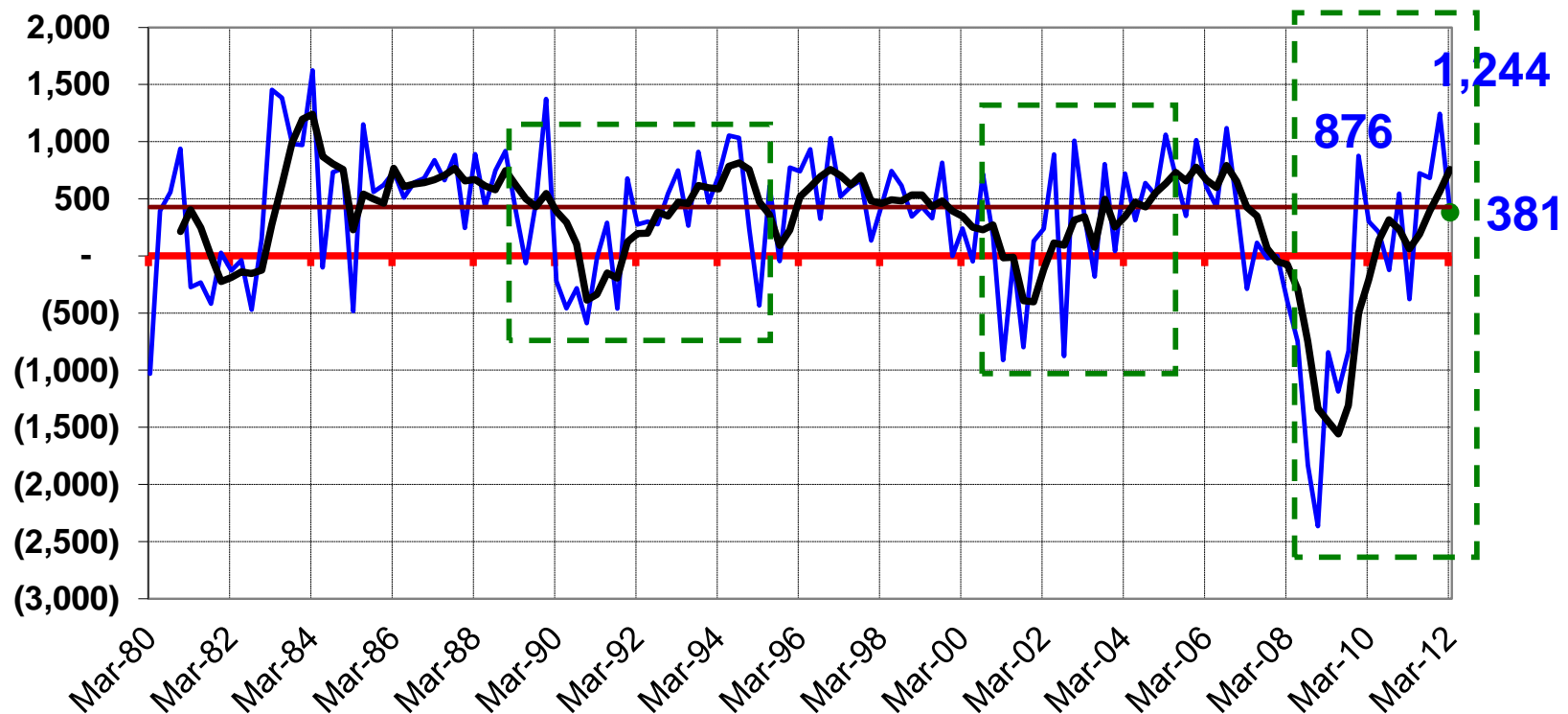


Source: Bureau of Labor Statistics, Household Survey

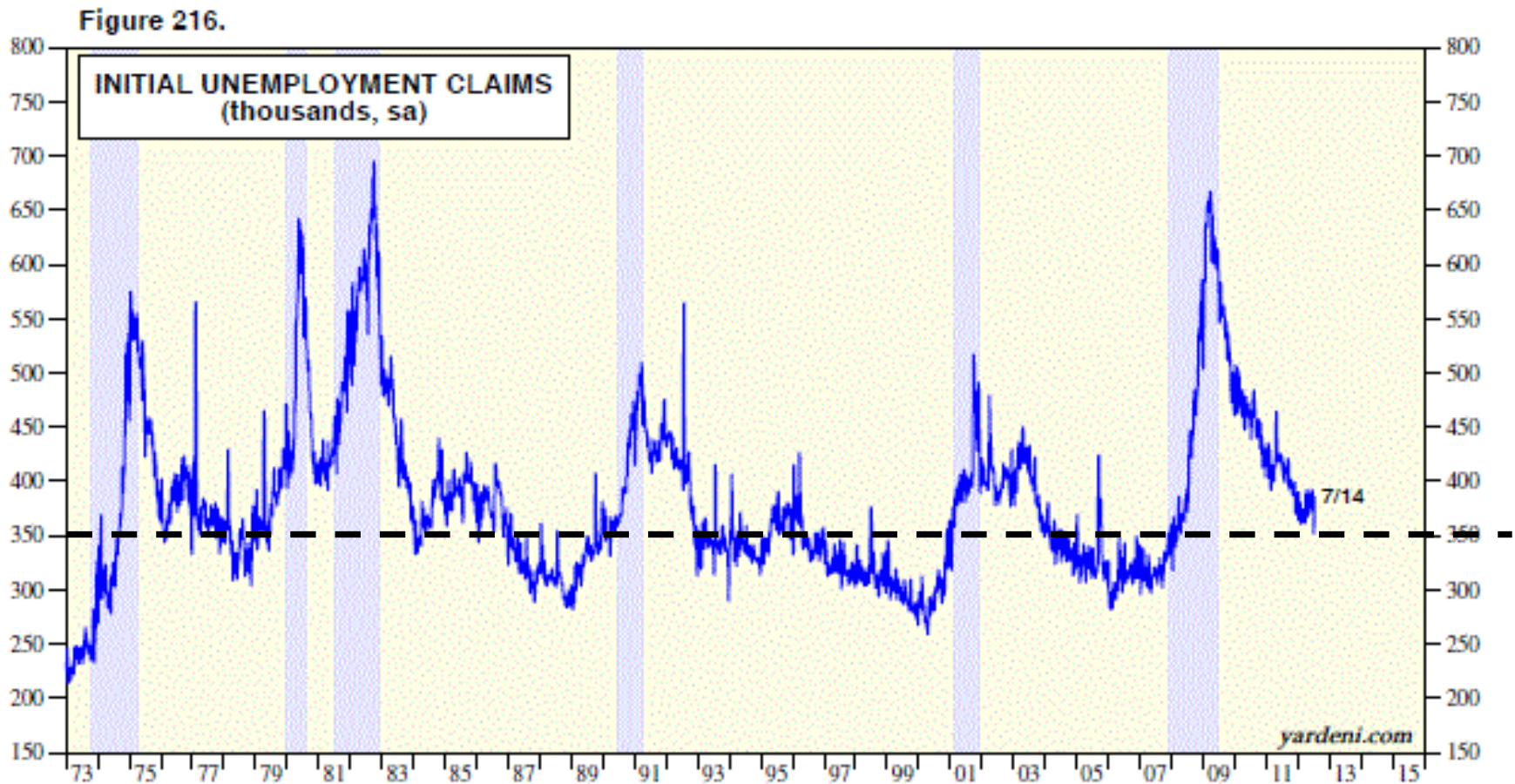
**Don't be misled** by headline employment numbers - **the trend is up.**  
Rate of new jobs tracking with the median rate since 1980.

### Change in Number of New Jobs Since 1980 Quarterly Change in Employed

- Qtrly Change in # Employed
- Median Qtrly Change in # Employed Since 1980
- 4 per. Mov. Avg. (Qtrly Change in # Employed)



**Initial unemployment claims are dropping to levels of 2004 and the 90's.** Dropping unemployment claims are consistent with an expanding economy and a rising stock market.

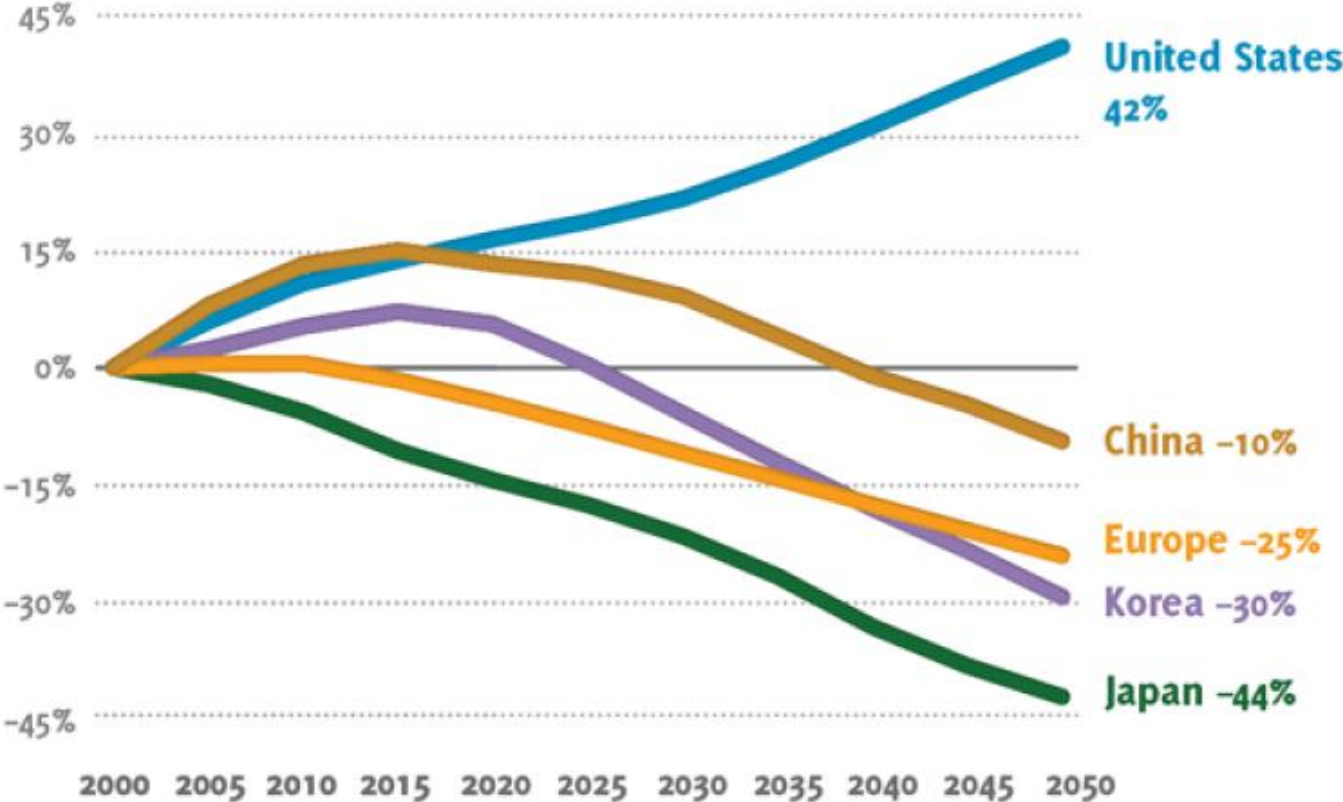


Note: Shaded areas denote recessions according to the National Bureau of Economic Research.  
Source: US Department of Labor.

# U.S. has best labor force demographics on the planet

## LABOR FORCE GROWTH

Growth In Ages 15-64

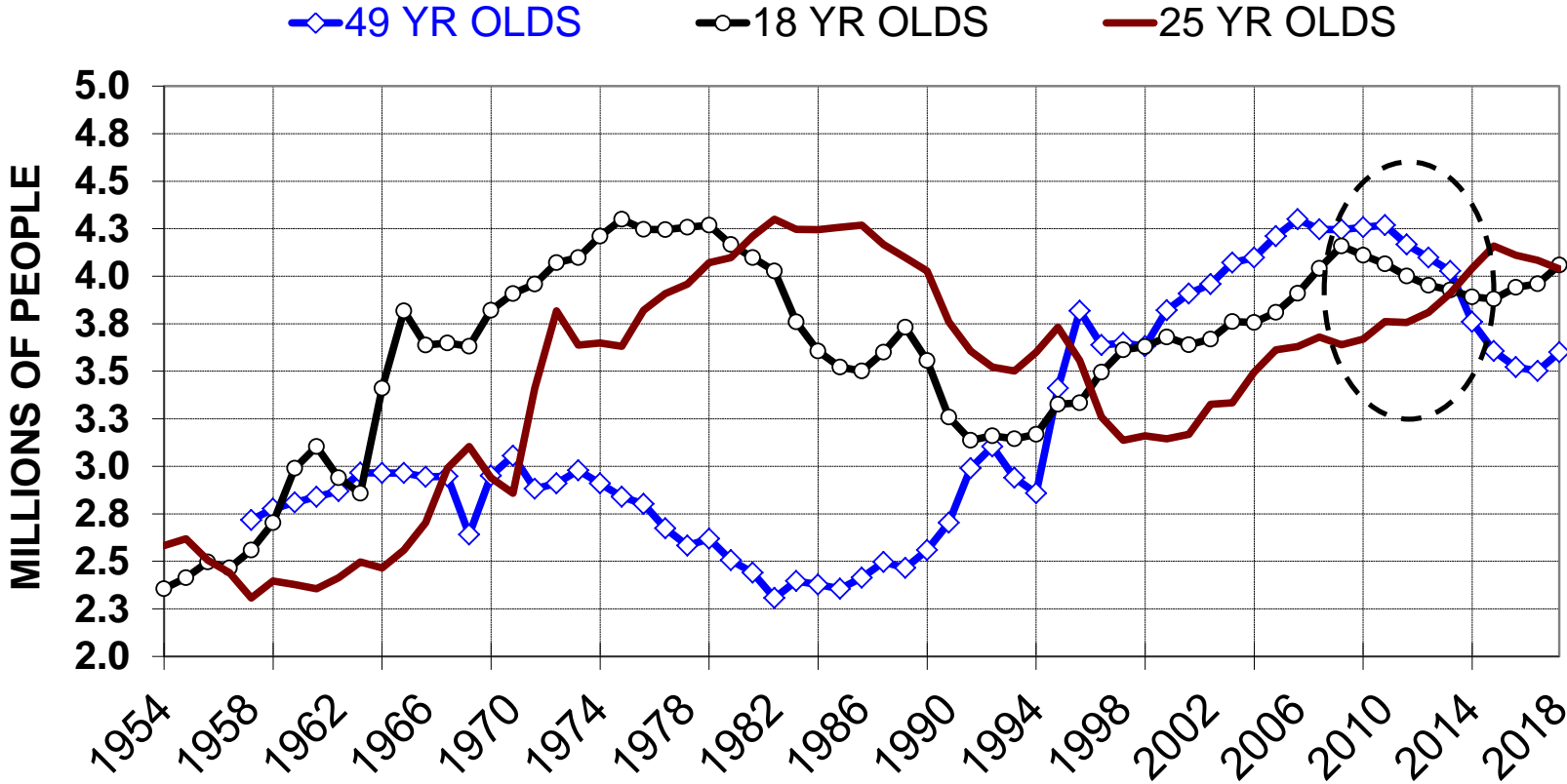


Source: U.S. Census Bureau, International Database



**Still in a sweet spot** of rising workers, plenty of spenders and declining dependents.

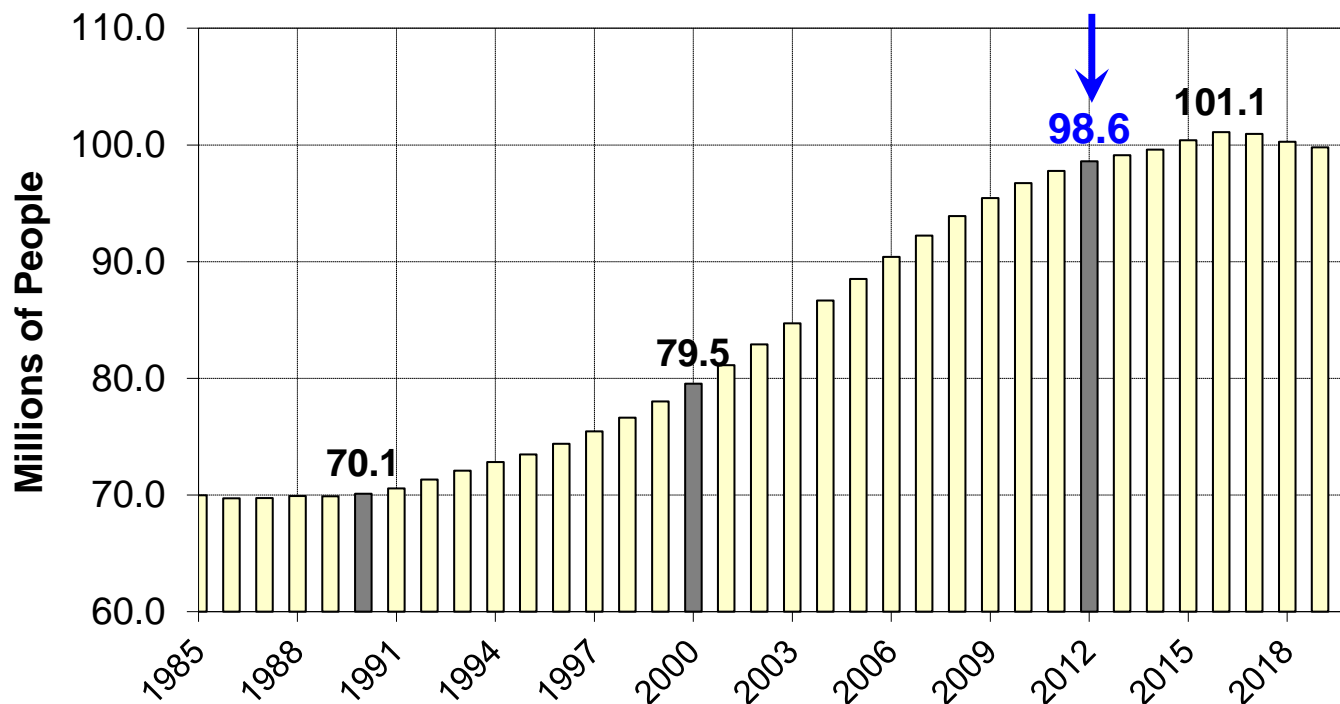
### NUMBER OF PEOPLE REACHING AGE 49 VERSUS AGE 18 AND 25 1954 TO 2018



Source: Cenus Bureau

**The most productive and economically engaged people in recorded economic history.** We are the best educated, best informed and most investment literate population in history.

**GROWTH IN THE INVESTING PUBLIC  
U.S. POPULATION AGE 45 TO 70**



Source: US Census and Aberdeen Investment estimates

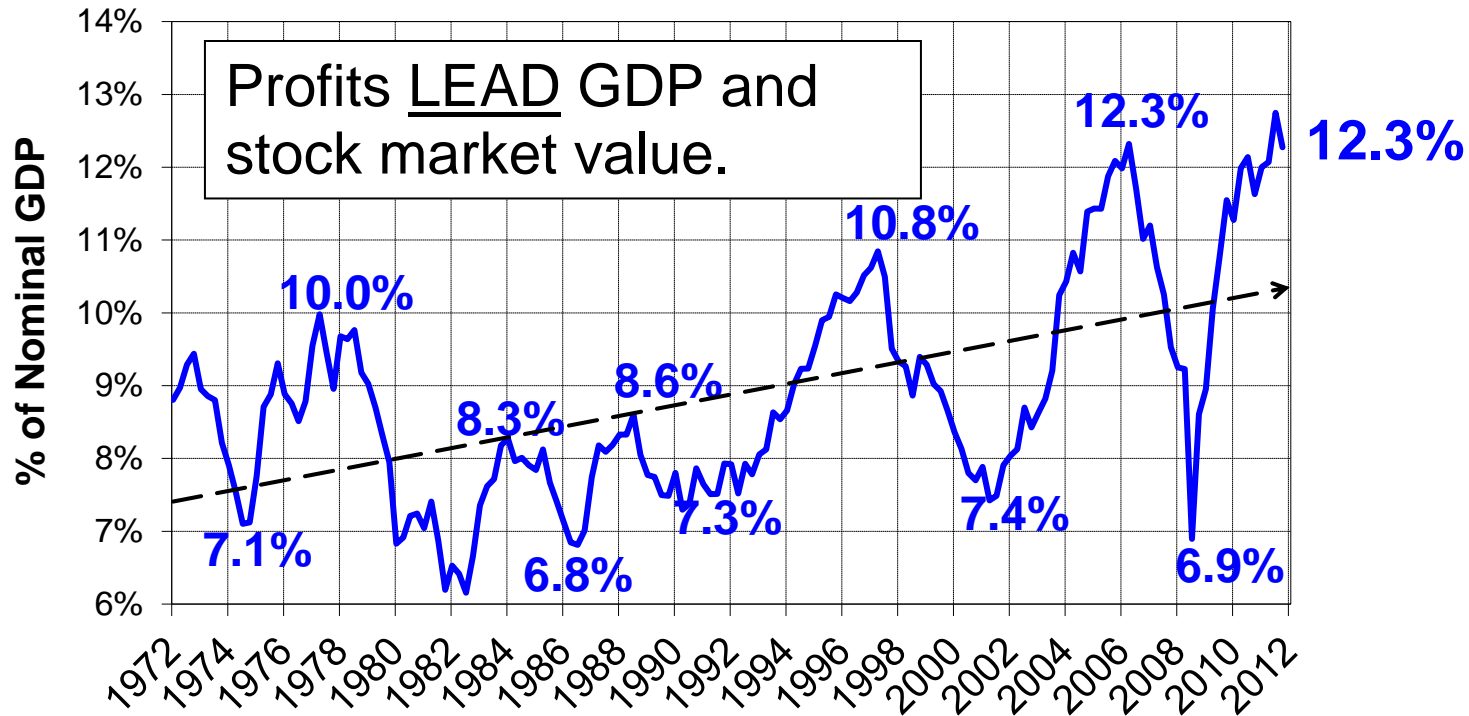
There is a growing urgency for the population to earn a better return on investment.

# PEOPLE, PRODUCTIVITY AND CAPITAL

## Corporate Profits as % of Nominal GDP 1972 to Present

(Seasonally Adj. Annual rates per NIPA)

—> Linear (Corp Profit/Nominal GDP)



Source: Bureau of Eco Analysis. National Income and Product Accounts.

Profits will compress as a % as more is spent on labor and capacity expansion. **Markets won't peak for another 1 to 2 years from the top.**

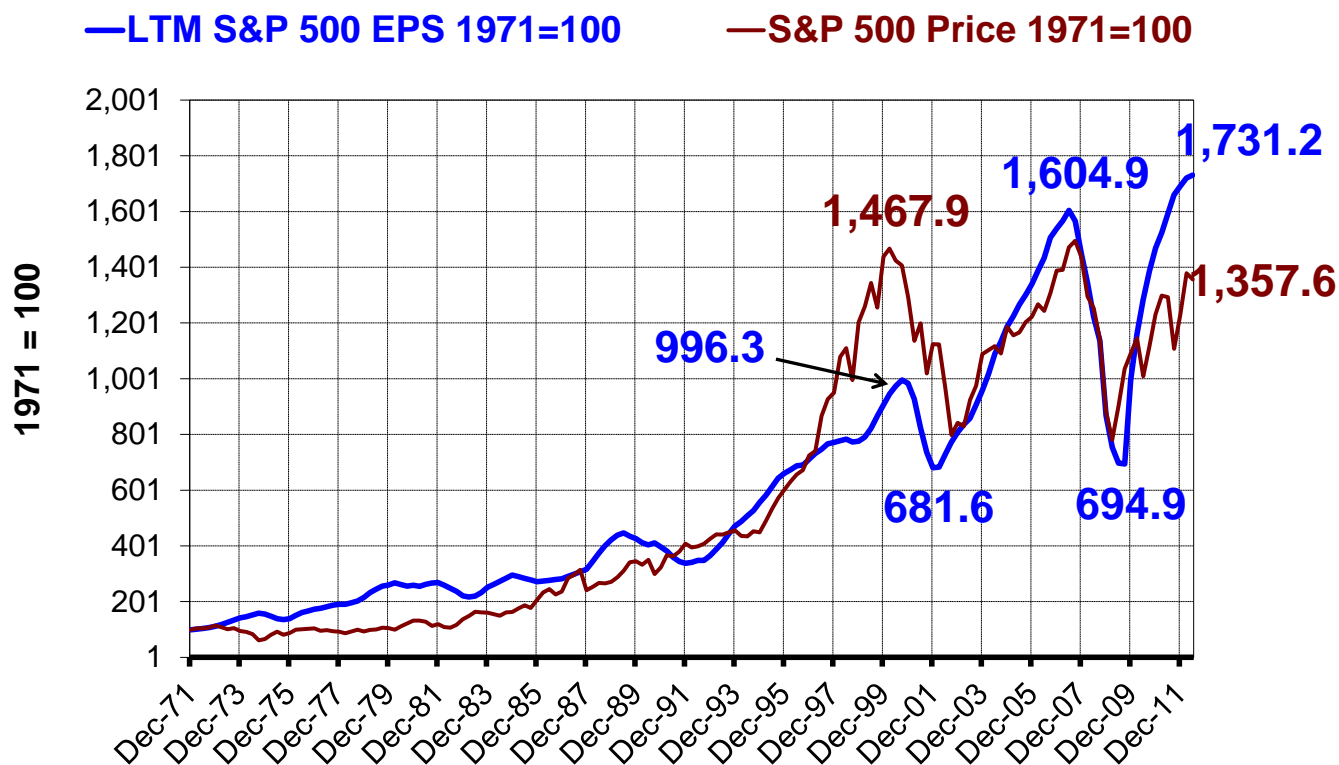
## “Digits vs. Widgets”

Why profits are trending higher . . . **Apple vs. Exxon**

	<b>APPLE</b>	<b>EXXON</b>
(\$millions)		
<b>Market Cap</b>	\$ 548,535	\$ 408,931
<b>2012 Revenue</b>	\$ 156,280	\$ 468,580
<b>2012 Revenue Growth</b>	44%	-4%
<b>EBITDA Margin</b>	38%	12%
<b>Fixed Asset Turn</b>	14.90	2.18
<b>Cash, Net of LT Debt</b>	\$ 117,221	\$ 9,916
<b>2012 EPS Growth Rate</b>	60%	-10%
<b>2012 P/E Multiple</b>	13.22	11.55

**Public company earnings have been rising strongly from productivity gains, the shift in mix to technology and globalization.** Earnings are up 76% since the 2000 high while the SPX is down 8%.

### S&P 500 Earnings vs Price Relative Change Since 1971

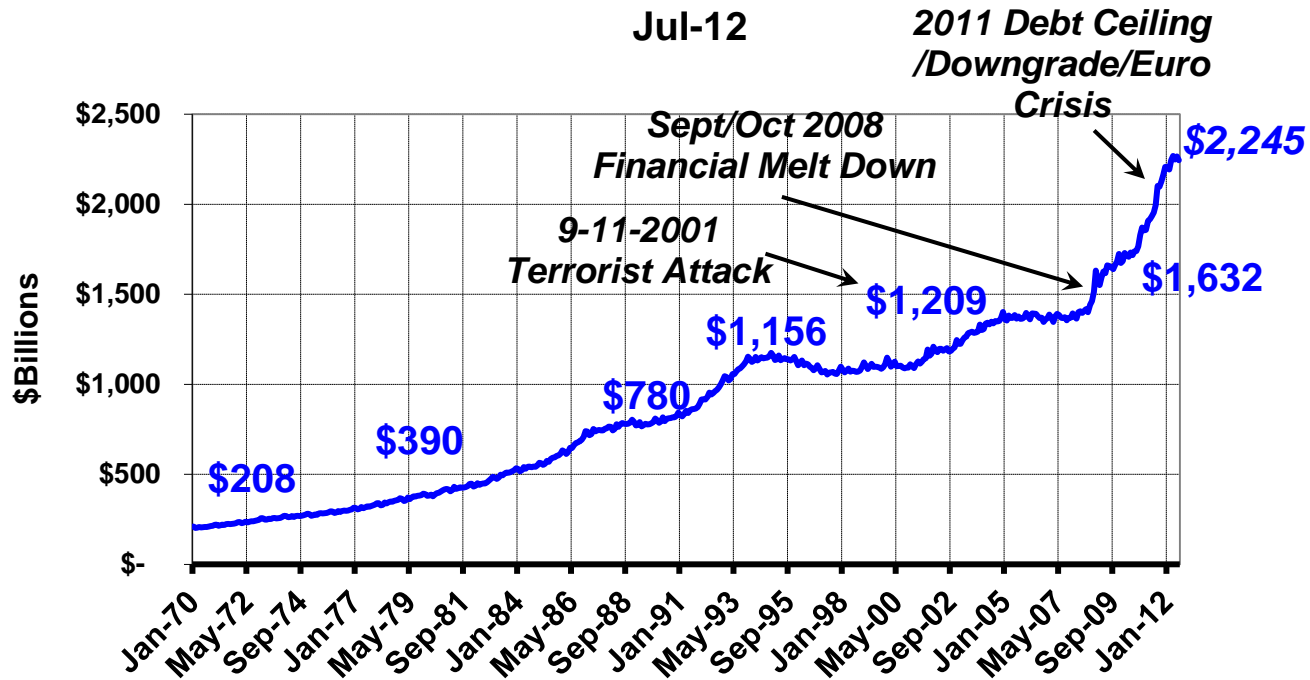


Source: Standard and Poors

# PEOPLE, PRODUCTIVITY AND CAPITAL

## Lots of Capital, Too Little Confidence

### STILL HOARDING CASH M1 SINCE 1970



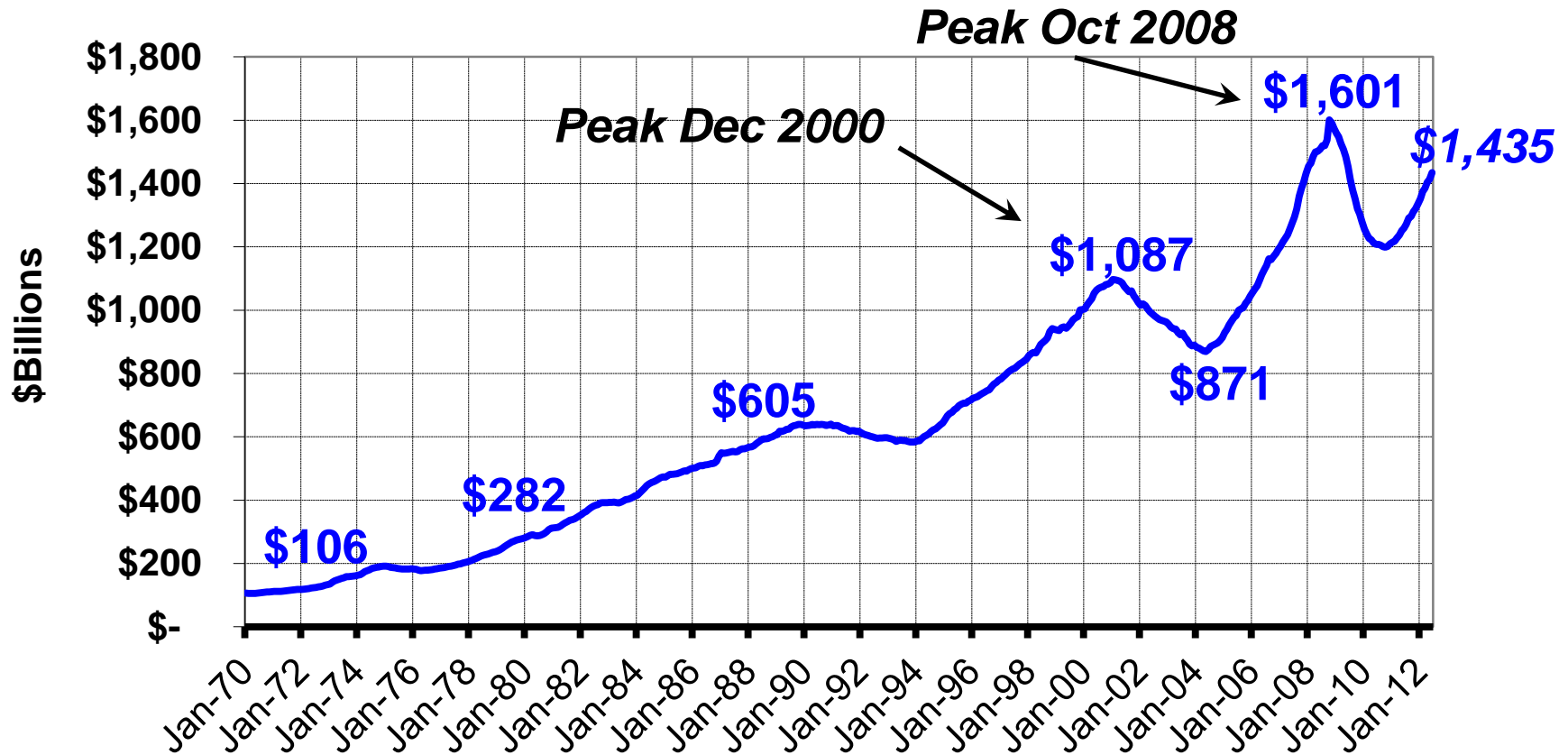
Source: Federal Reserve, Not seasonally adjusted

**Awash in liquidity.** Over \$200 billion went into cash in 2 weeks following the July 25, 2011 speech by Obama. This compares to \$160 billion following the Lehman bankruptcy in Sept 2008. That flight to cash contributed to the present sluggish economy.

Banks are starting to make loans.

## LOAN BALANCES GROWING FASTEST SINCE 2008 BANK C&I LOANS SINCE 1970

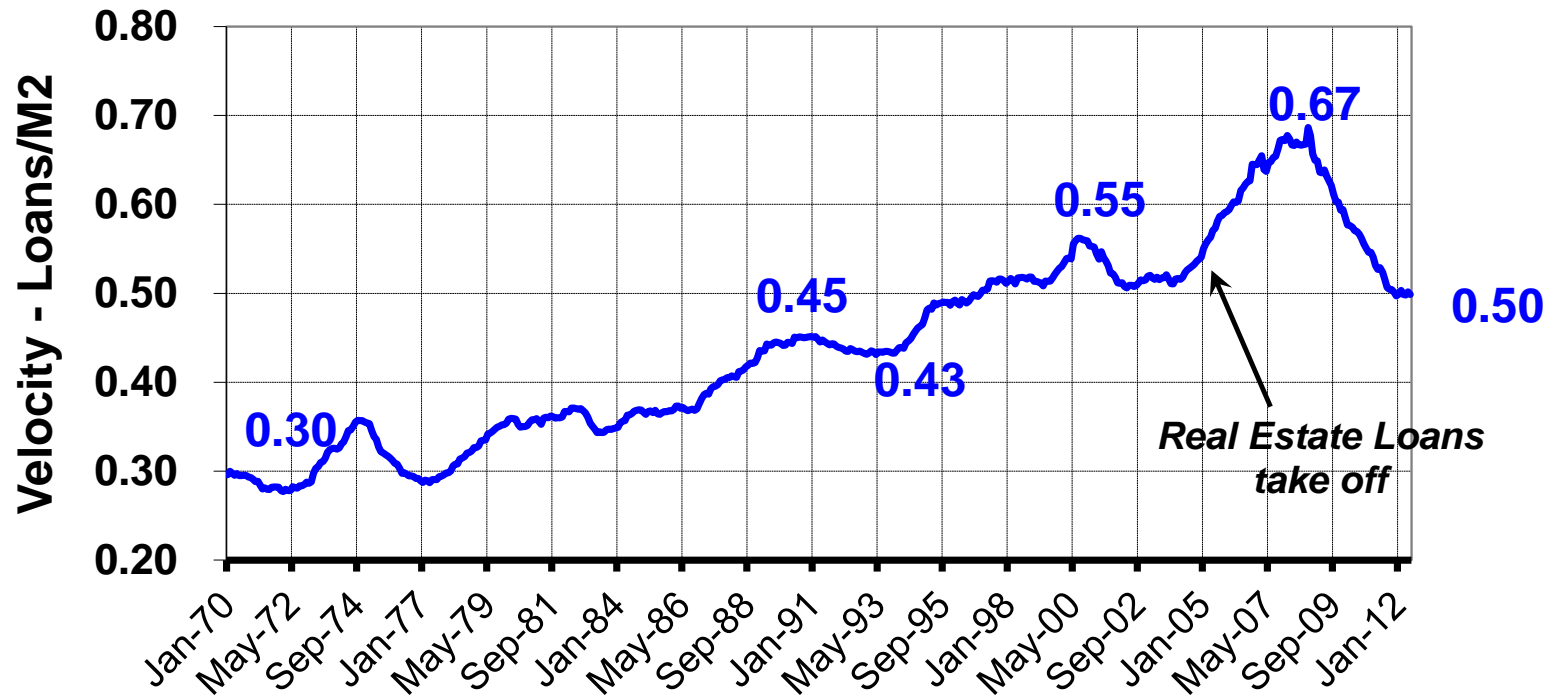
Jun-12



Source: Federal Reserve, seasonally adjusted

But velocity remains at recession low levels.

### BANK C&I and REAL ESTATE LOANS vs. M2 VELOCITY SINCE 1970



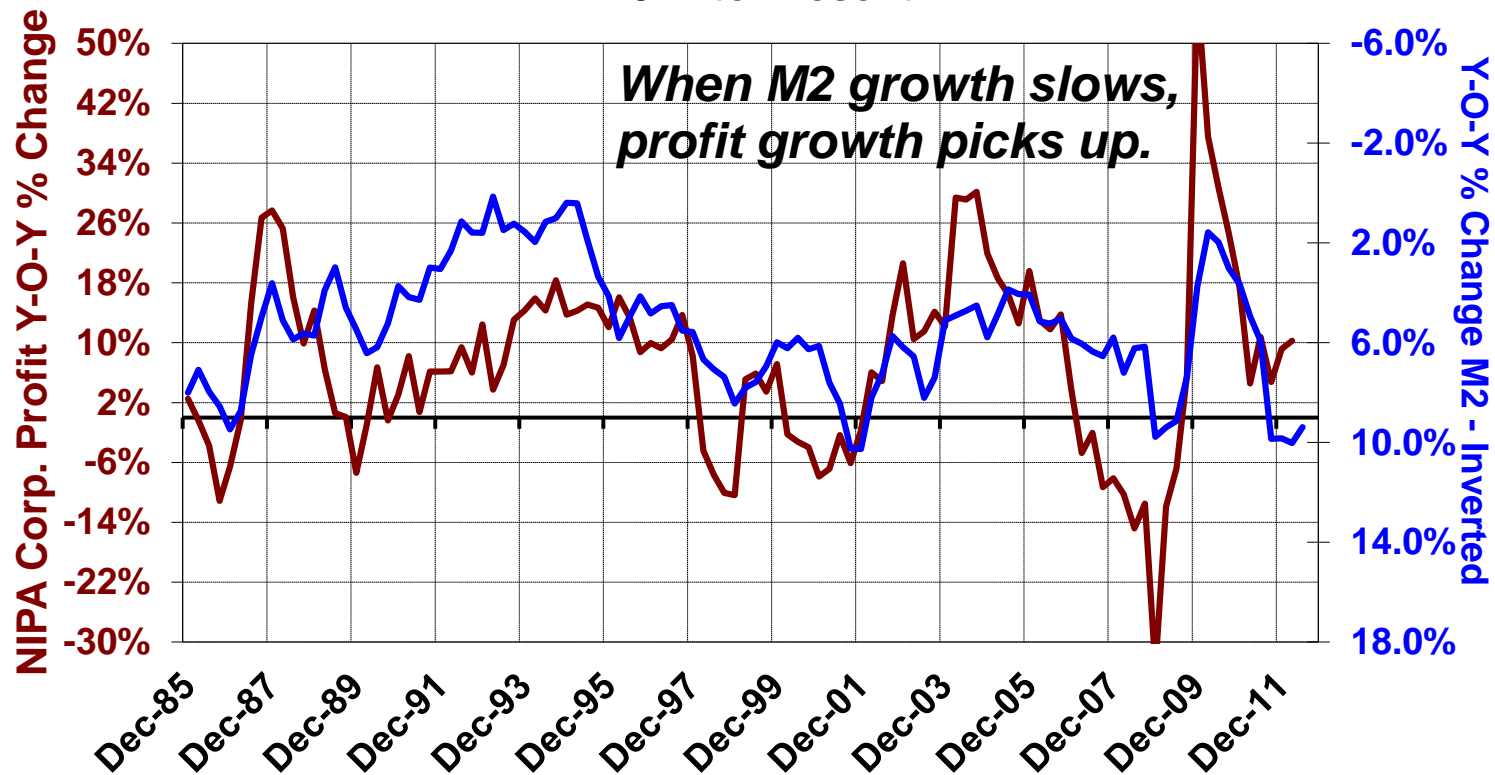
Source: Federal Reserve, seasonally adjusted

Over \$500 billion in unutilized lending capacity. Plenty of capacity to fund growth in the economy.



**The hoarding of cash has temporarily stunted profit growth.** We are at a turning point. Look for profit acceleration once M2 growth starts to slow and people convert cash into goods.

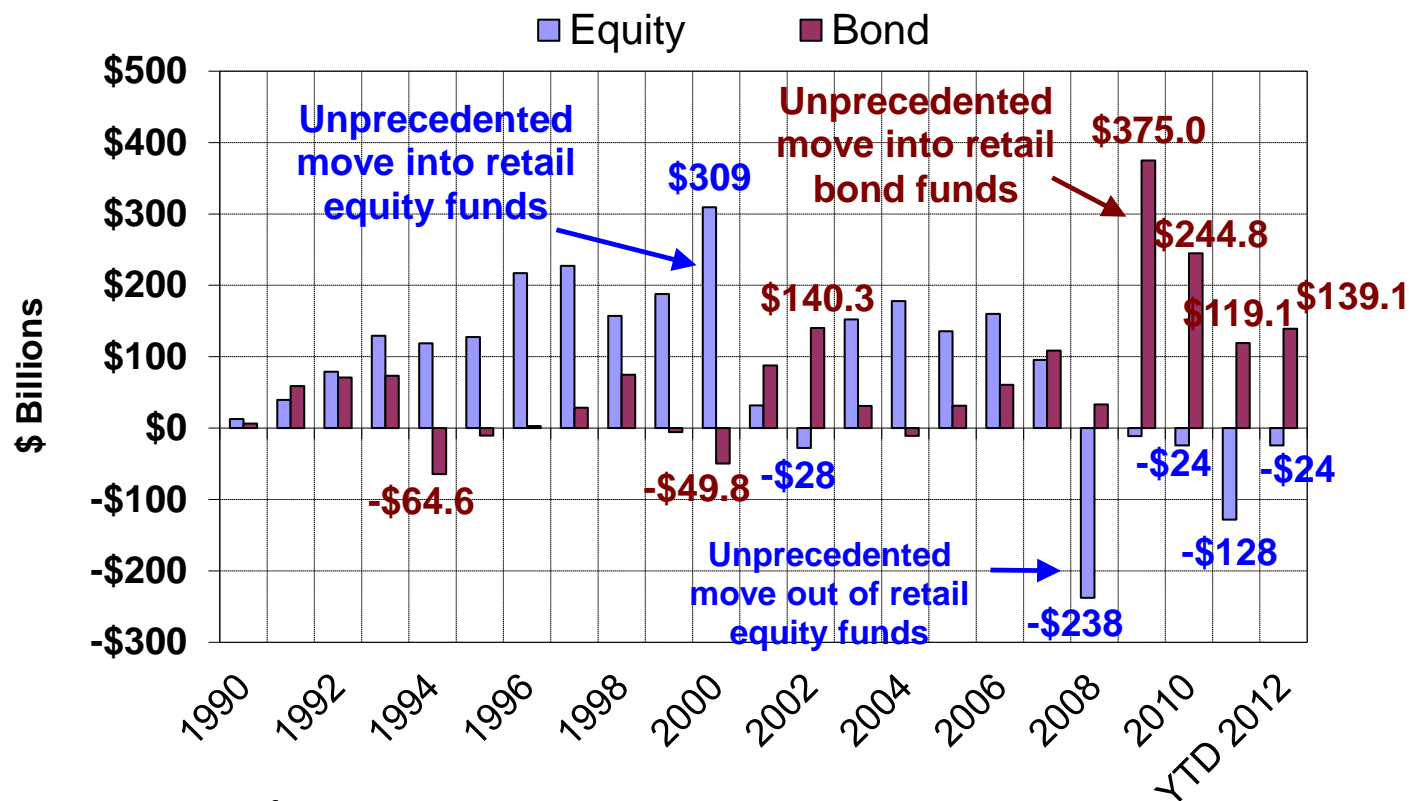
**CHANGE IN M2 (Inverted scale) VS  
CHANGE IN CORPORATE PROFITS**  
(All Corporate Profits per NIPA)  
1971 to Present



Source: Federal Reserve, BEA - National Income and Products Accounts

**A perfect contrarian set up.** Retail money has fled equities in unprecedented amounts since 2008.

**Equity vs. Bond Mutual Fund Net New Cash Flow  
1990 to May 2012**



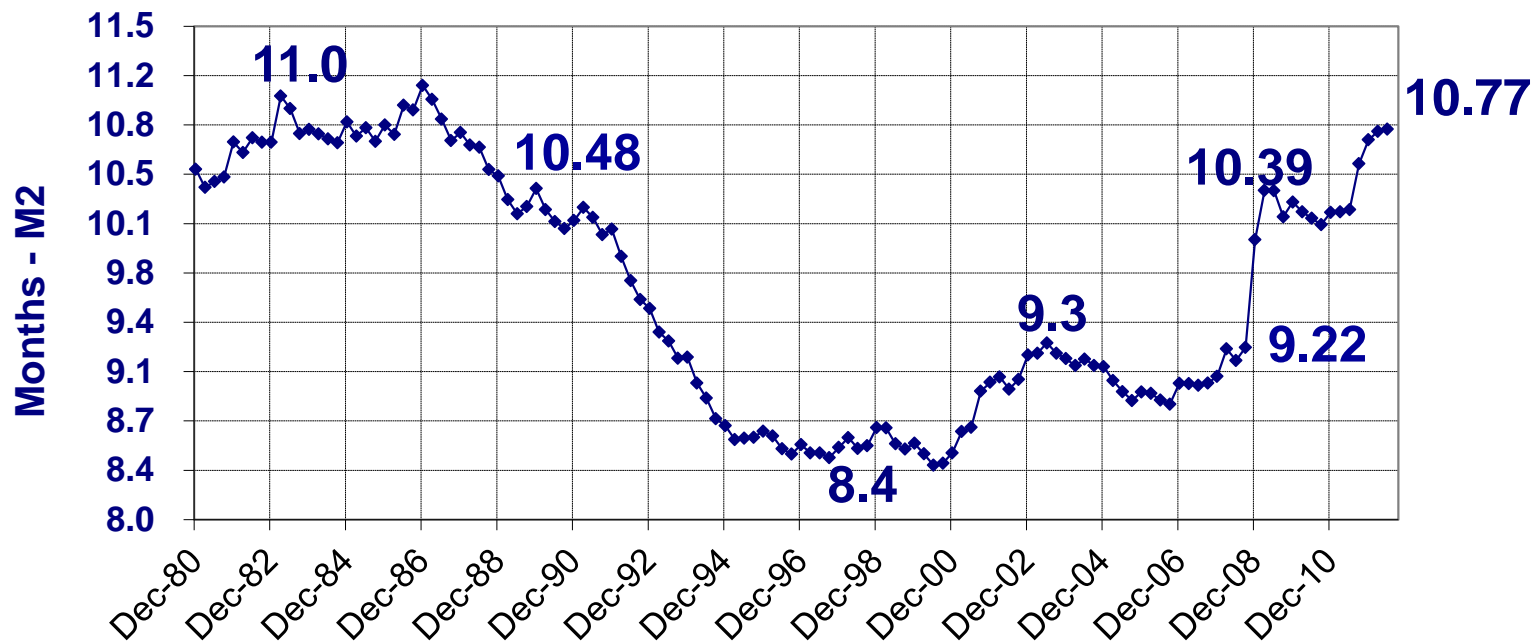
Source: ICI, Sifma.org

Over \$133 Billion have been taken out of Equity mutual funds since May 2011. **Hang on to your hats when this reverses.** Equity inflows have a gearing impact on market value of as high as 10X or more.

# CONSUMERS CAN SPEND AND INVEST

They have nearly 11 months of personal consumption expenditure sitting in cash!

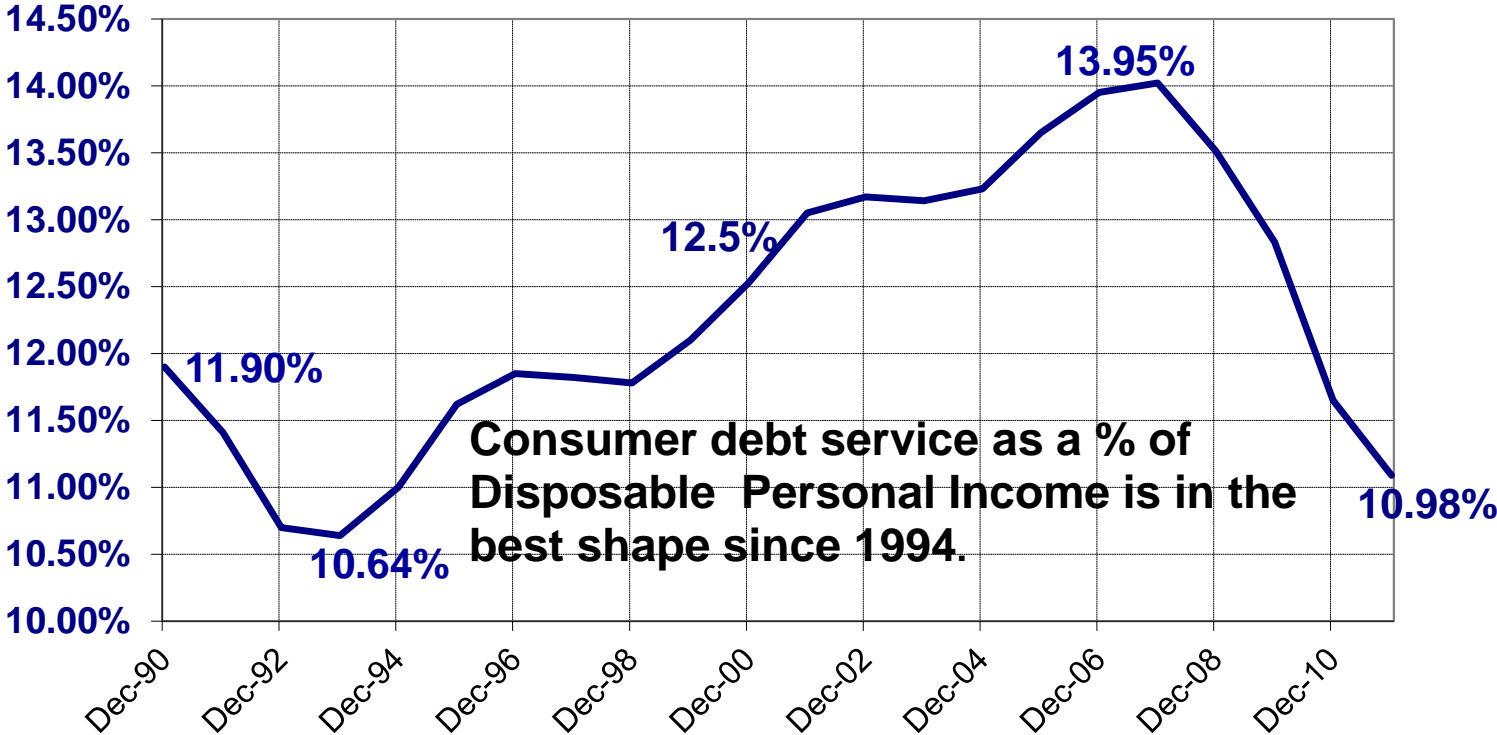
**Rebuilding Liquidity: Months of PCE Held as Cash, Savings Dep & Retail Money Market Funds**  
1980 to June 2012



M2 includes a broader set of financial assets held principally by households. M2 consists of M1 plus: (1) savings deposits (which include money market deposit accounts, or MMDAs); (2) small-denomination time deposits (time deposits in amounts of less than \$100,000); and (3) balances in retail money market mutual funds (MMMFs).

They have the **most income versus debt service in 20 years.**

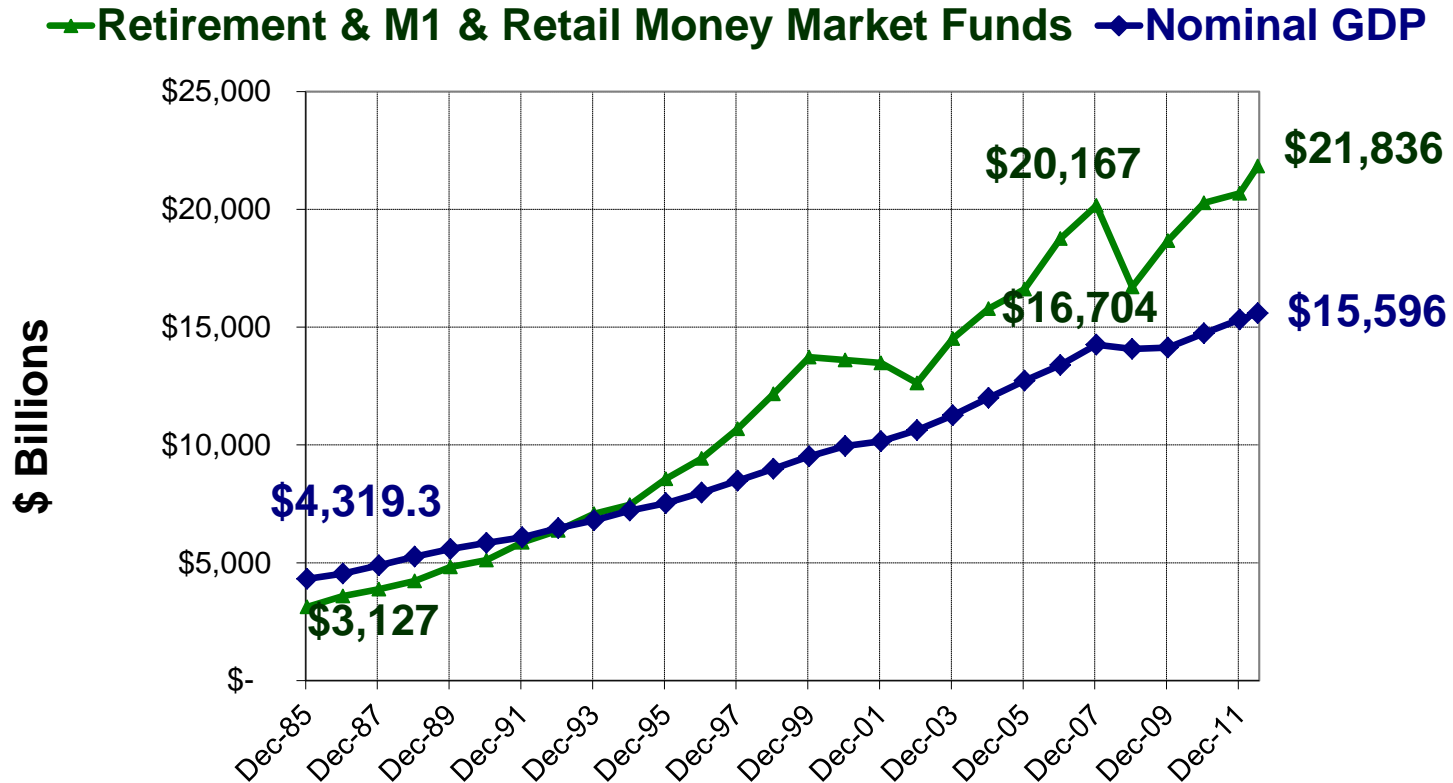
### Rebuilding Liquidity: Debt Service as % of DPI 1990 to Present



Source: Bureau of Eco. Analysis, Federal Reserve

Few would guess **retirement funds and retail cash assets are at record high levels and outgrowing GDP!**

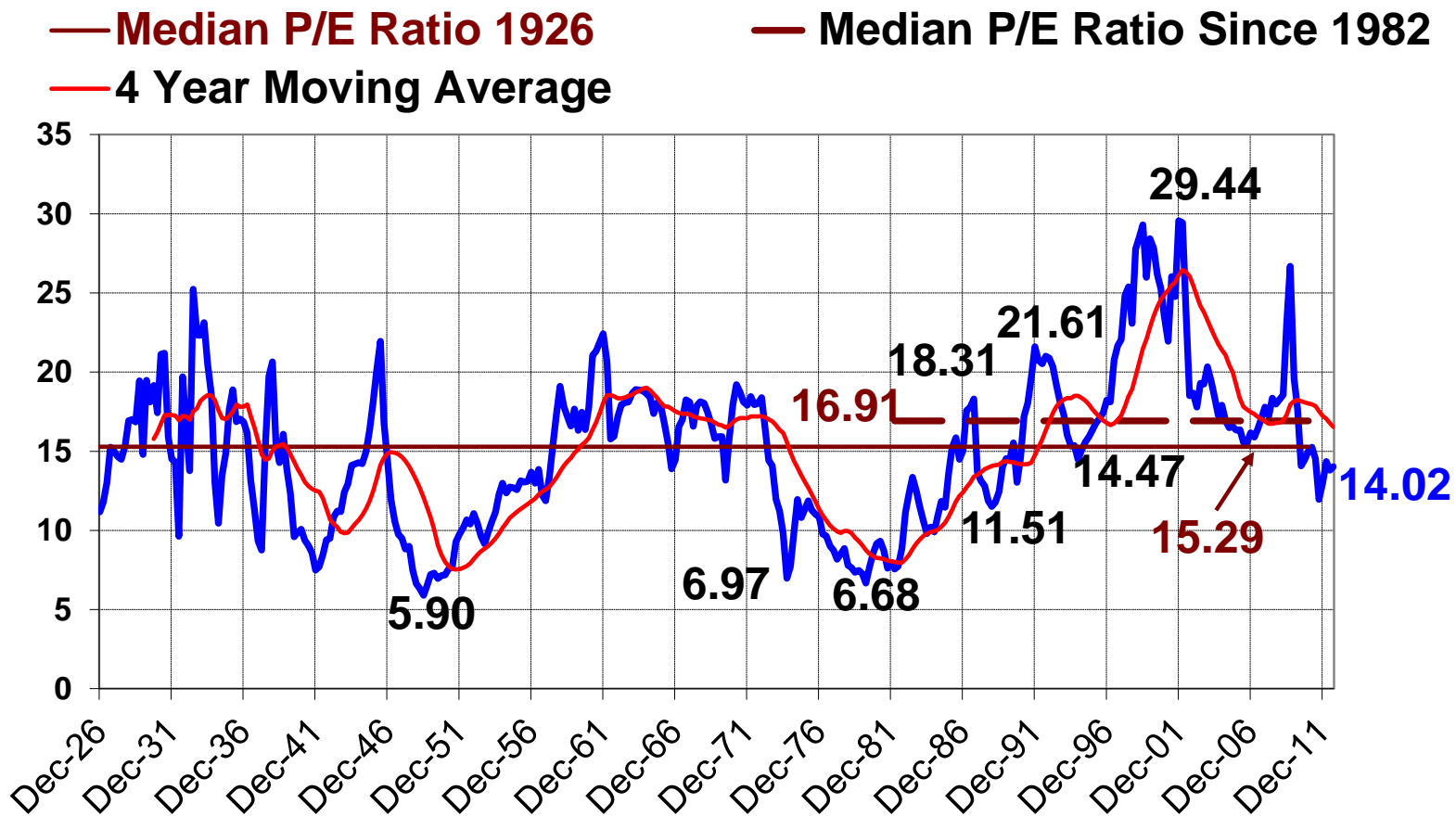
Retirement Accounts & Cash vs. Nominal GDP  
1985 to Present



SPX averaged 66.3% of retirement assets and money market accounts since 1995. It is 57.3% today. **The SPX would be 15.7% higher if it were to return to its average mix of retirement assets.**

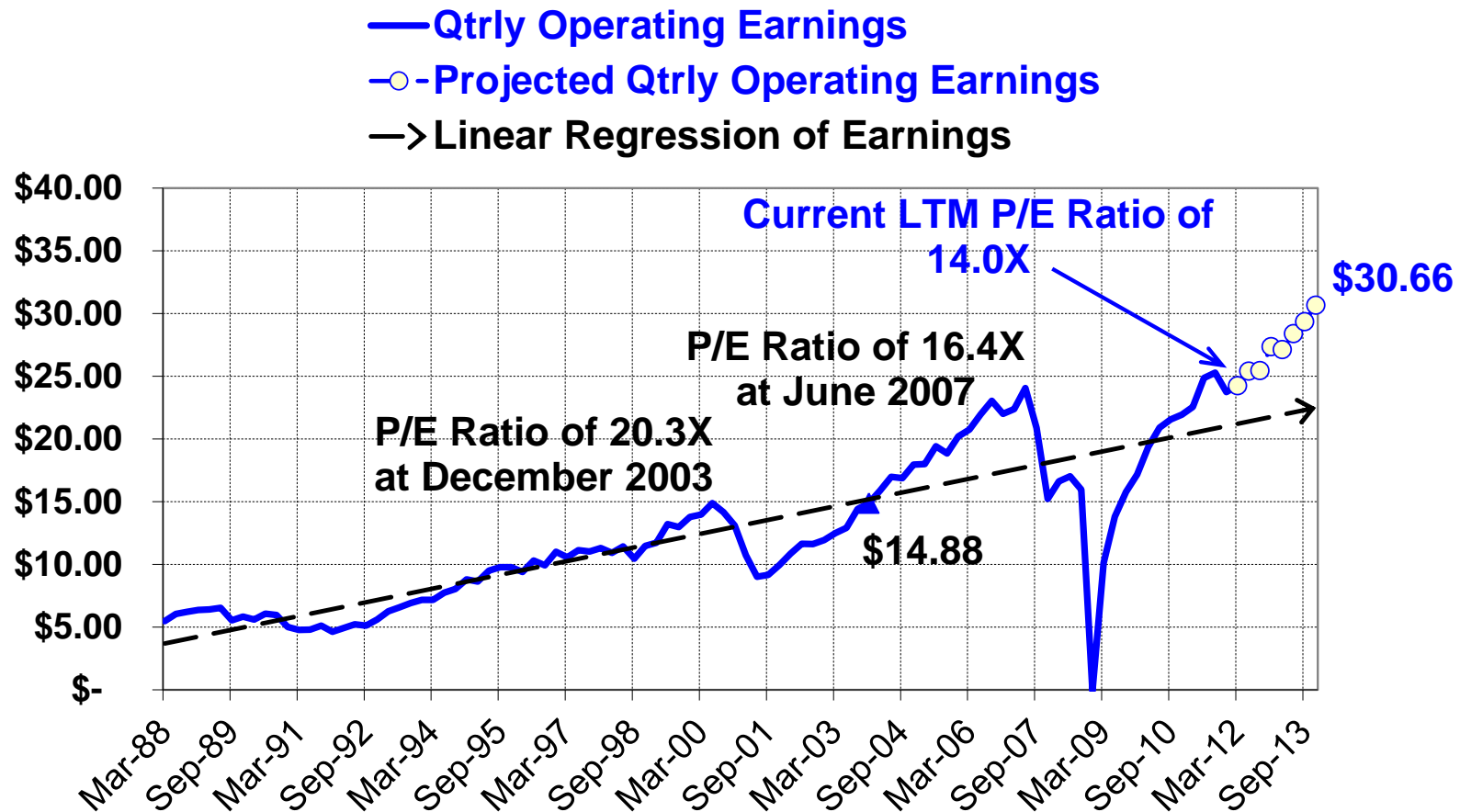
# STOCKS ARE CHEAP

## LTM P/E Ratio S&P 500 1926 to Present



The P/E ratio is not at a level characteristic of a top.

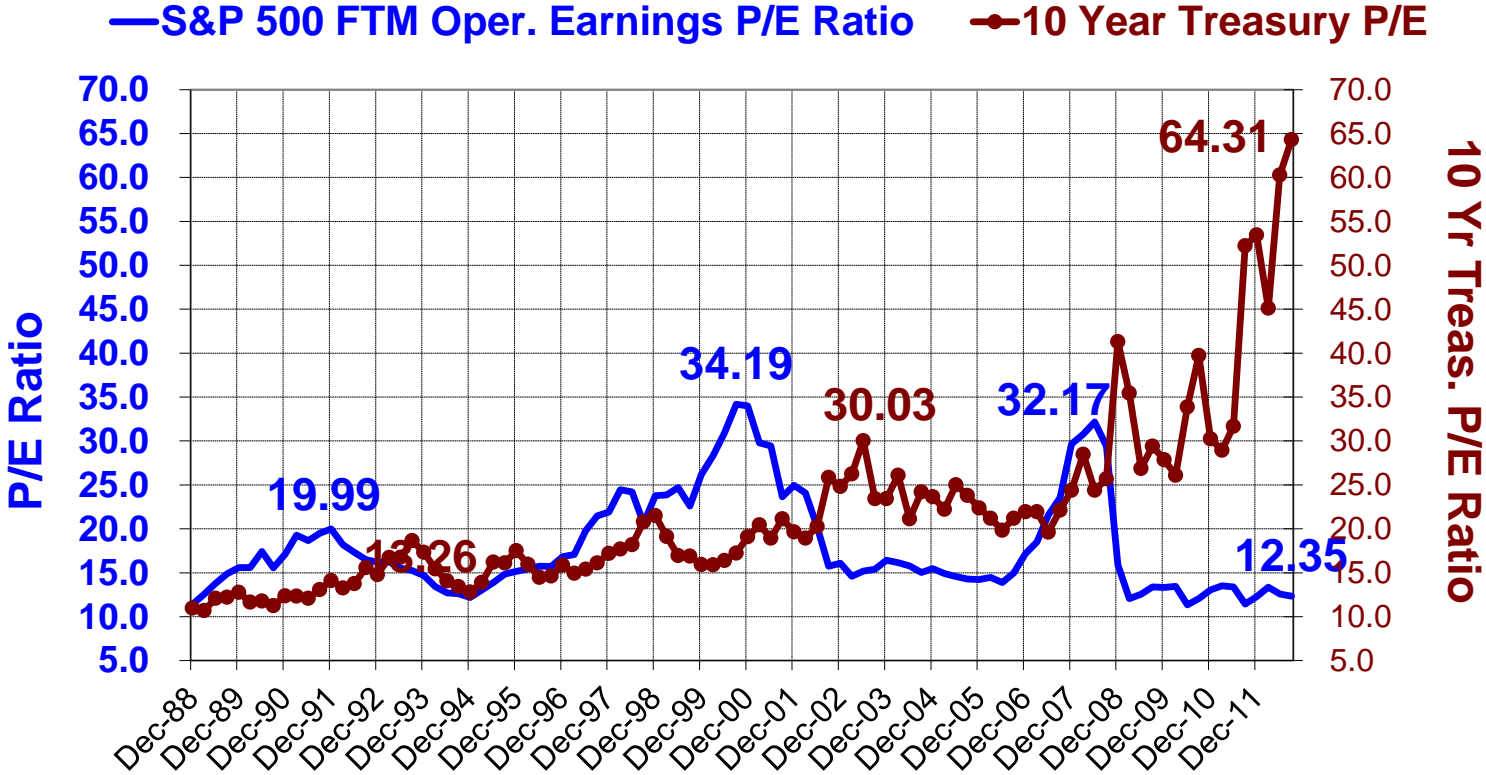
## S&P 500 Quarterly Operating EPS 1988 to Present and Projected to Dec. 2013



SPX would be \$1,625, up 17%, if it were to trade at the June 2007 P/E. **SPX would be 2010, up 45%, if it were to trade at the Dec 2003 P/E** – when earnings were at a similar point of recovering above the prior high.

**Treasury Bonds are incredibly overvalued.** Paying an effective P/E of 64X for 10 year Treasuries **borders on insanity.**

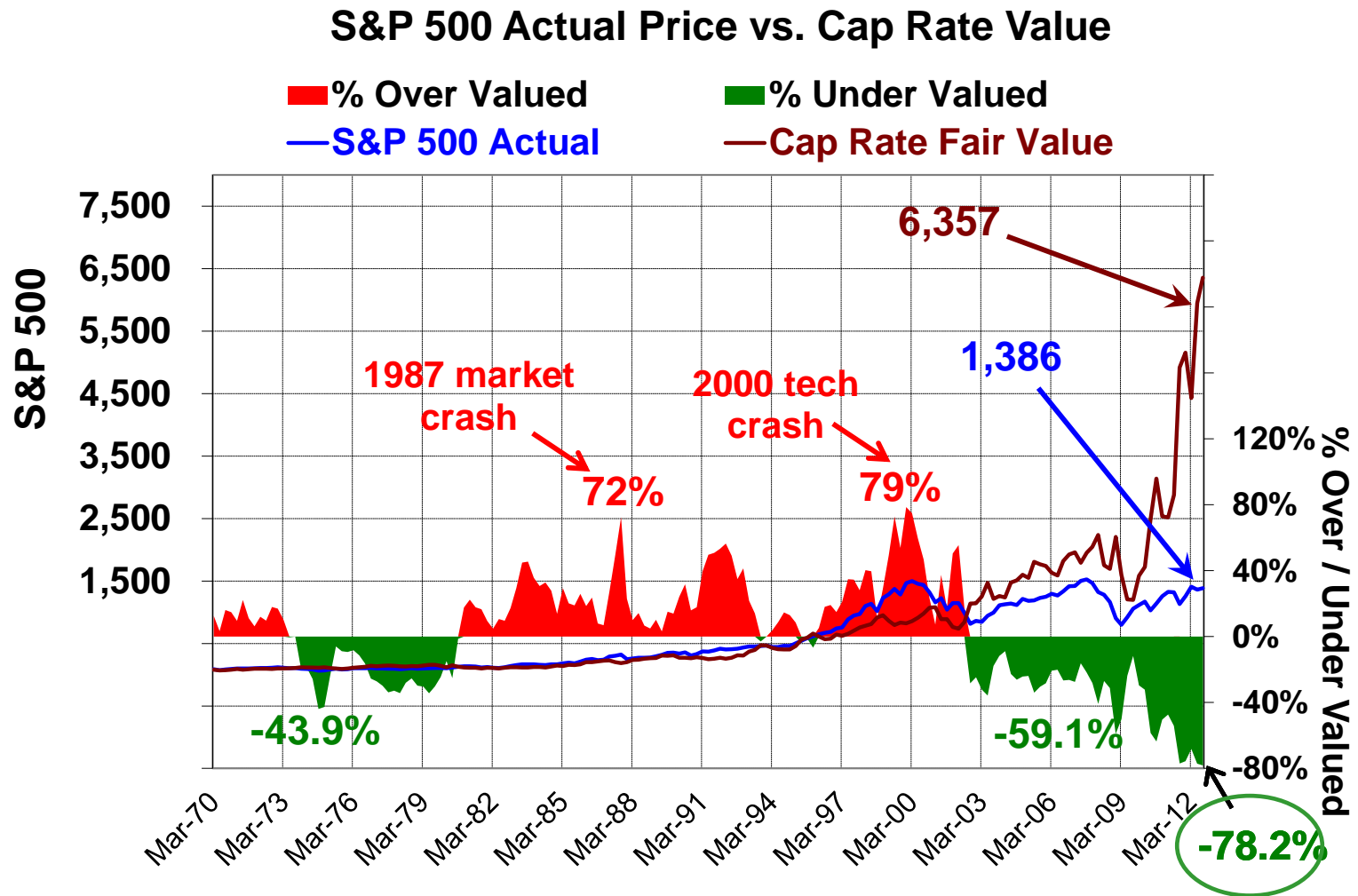
**S&P 500 FTM Operating Earnings P/E Ratio vs.  
The "P/E Ratio" of the 10 Year Treasury  
1988 to Present**



The peak P/E for stocks was only 34X in 2000.



**The S&P 500 is incredibly undervalued** relative to interest rates and earnings growth.



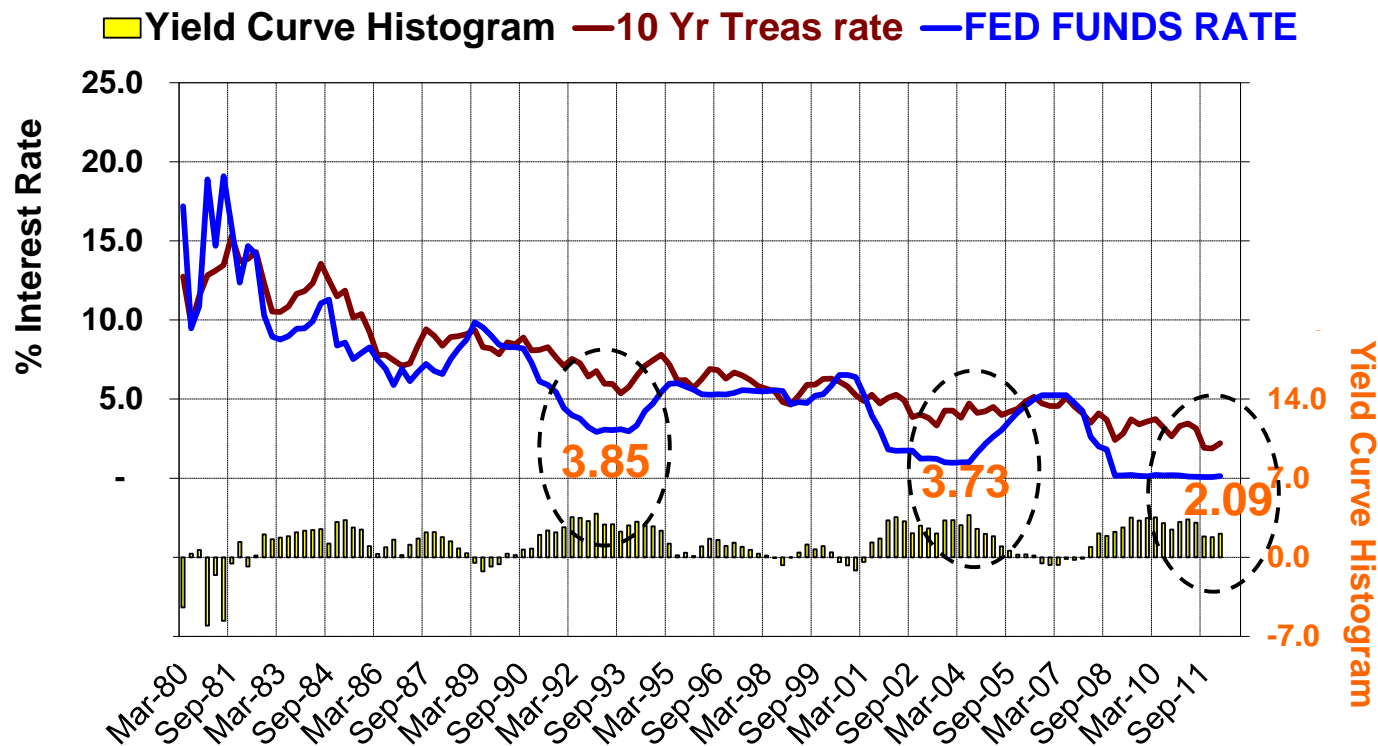
A flipside to the overvalued tops going into the 1987 crash and the 2000 tech crash.

# INTEREST RATES AND HIGH FREQUENCY DATA SIGNAL CONTINUING RECOVERY

The yield curve is STEEP . . . It is 28% steeper than average.

## The Yield Curve

10 YEAR U.S. TREAS NOTE vs. FED FUNDS RATE  
1980 to Present

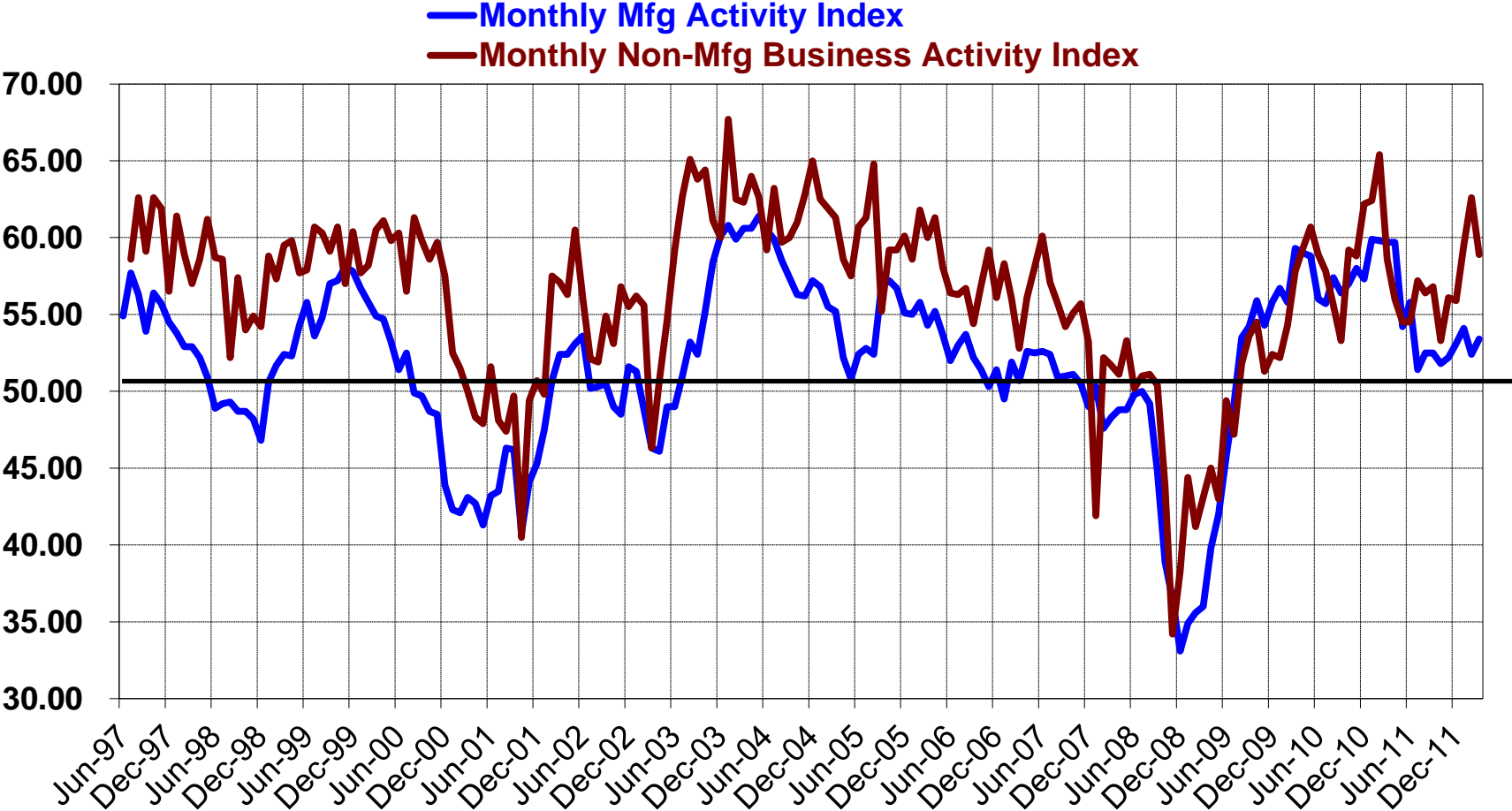


Source: Federal Reserve

***The economy has grown and equity markets have had prolonged bull phases every time the curve has been this steep.***

The Institute of Supply Managers surveys **continue to signal businesses are growing**. (scores over 50 signal expansion)

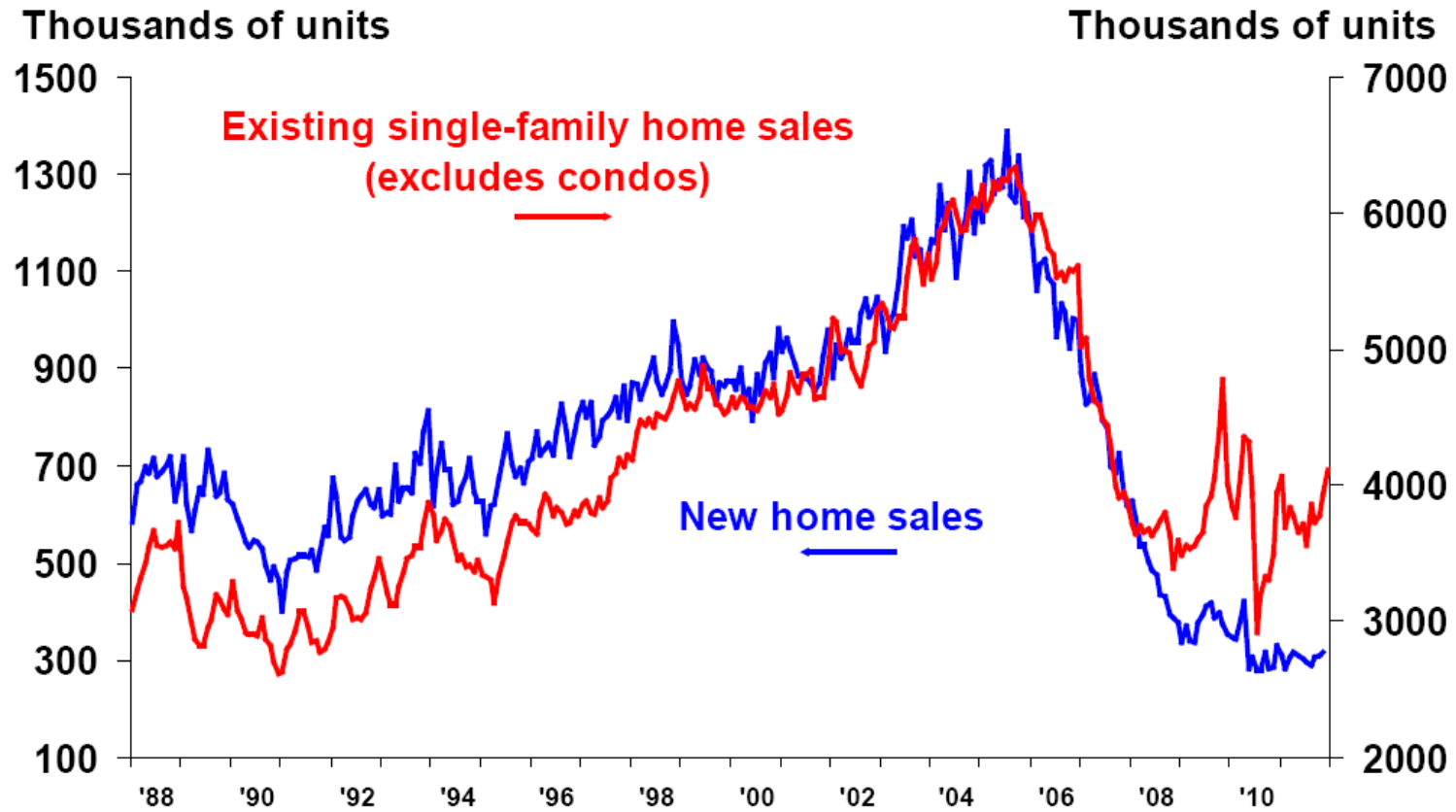
### ISM Business Activity Index: Manufacturing v. Non-Manufacturing 1997-Present



# HOUSING IS A WIND AT OUR BACKS



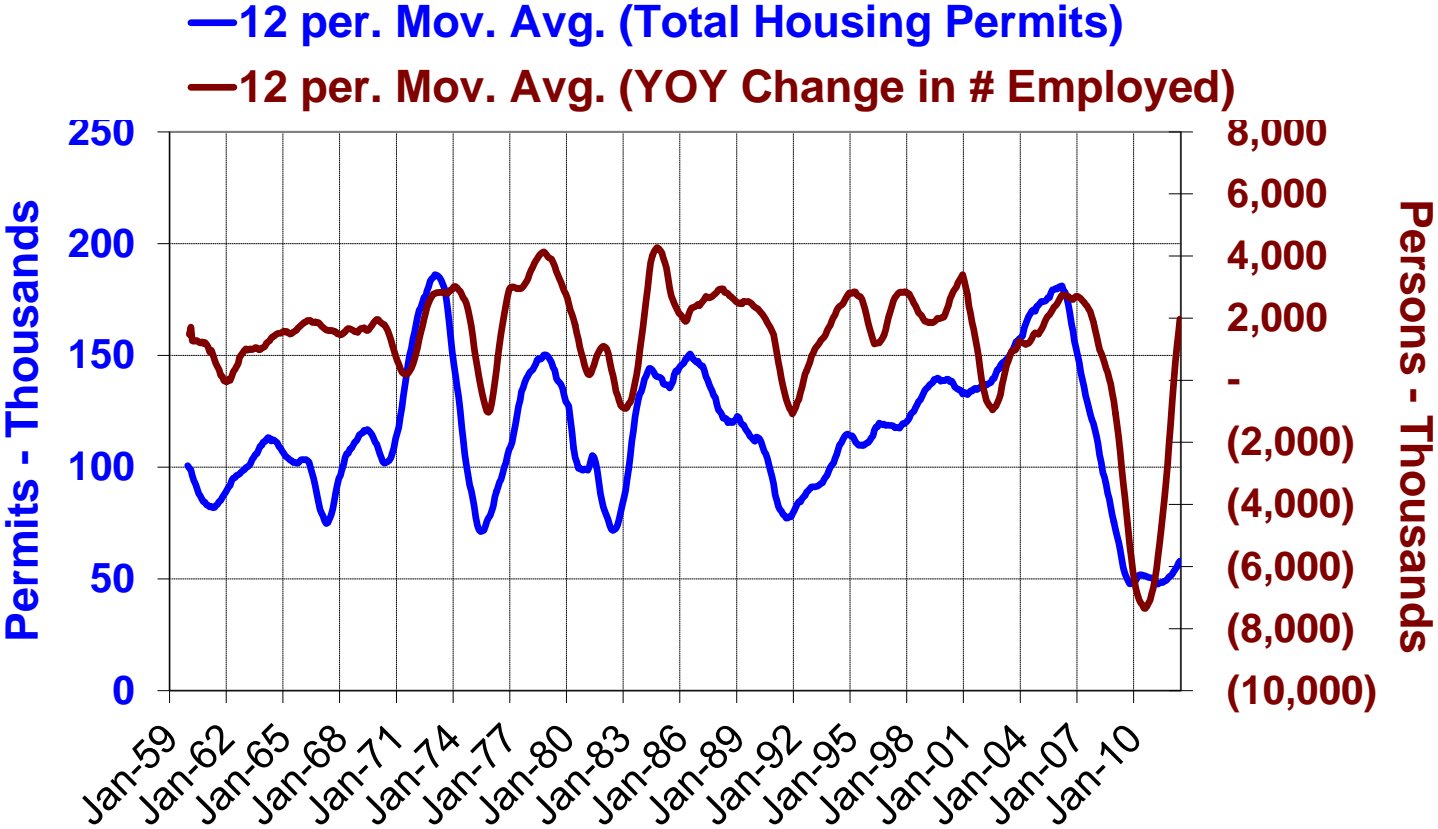
## U.S. Home Sales



Note: Data are seasonally adjusted, annualized rates.  
SOURCES: Census Bureau; National Association of Realtors.

Job growth leads growth in permits. Recent job growth signals a potential for a sharp improvement in housing permits.

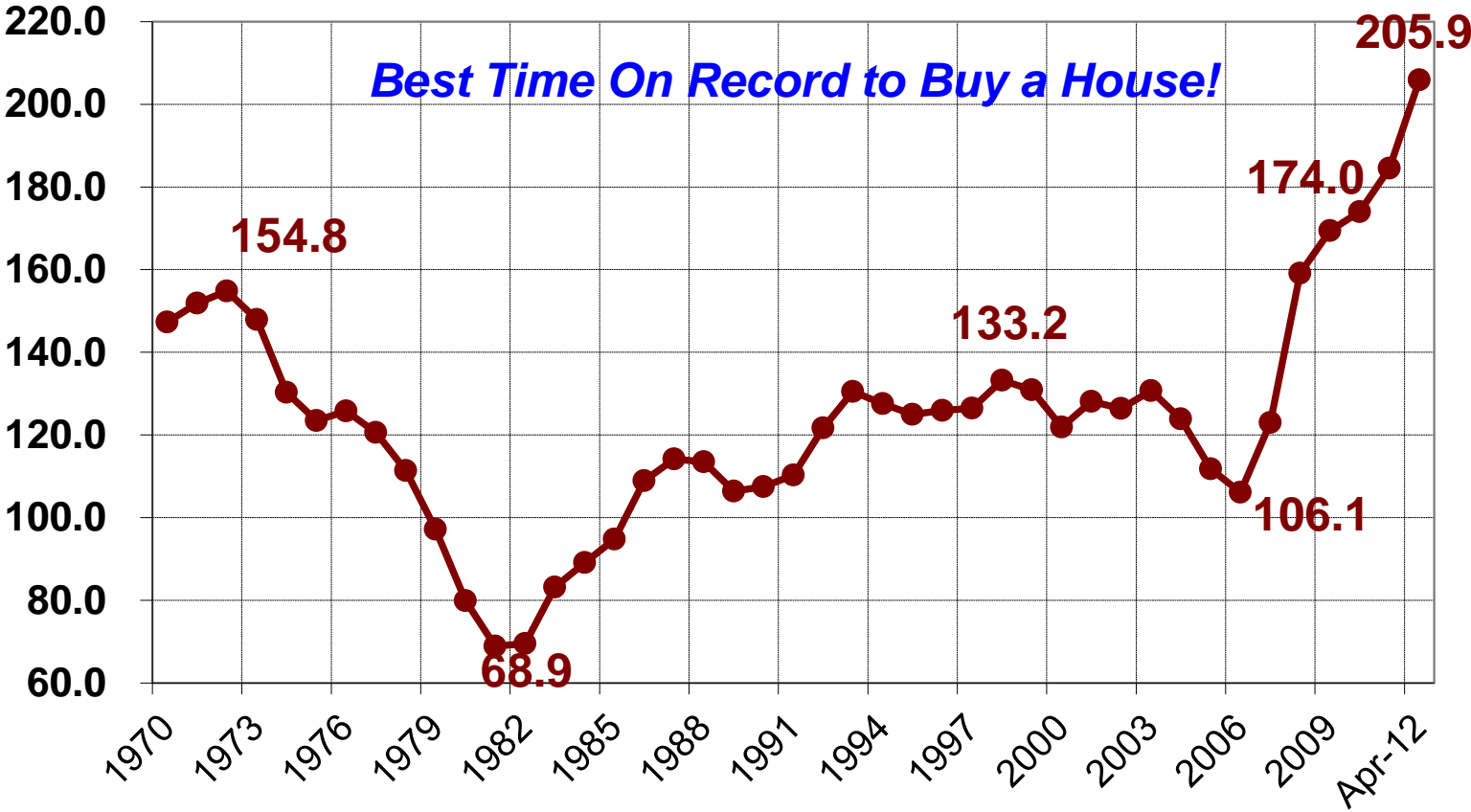
Monthly Housing Permits vs New Jobs  
1959 to Present



Permits could more than double if they return to the historical relation to job growth.

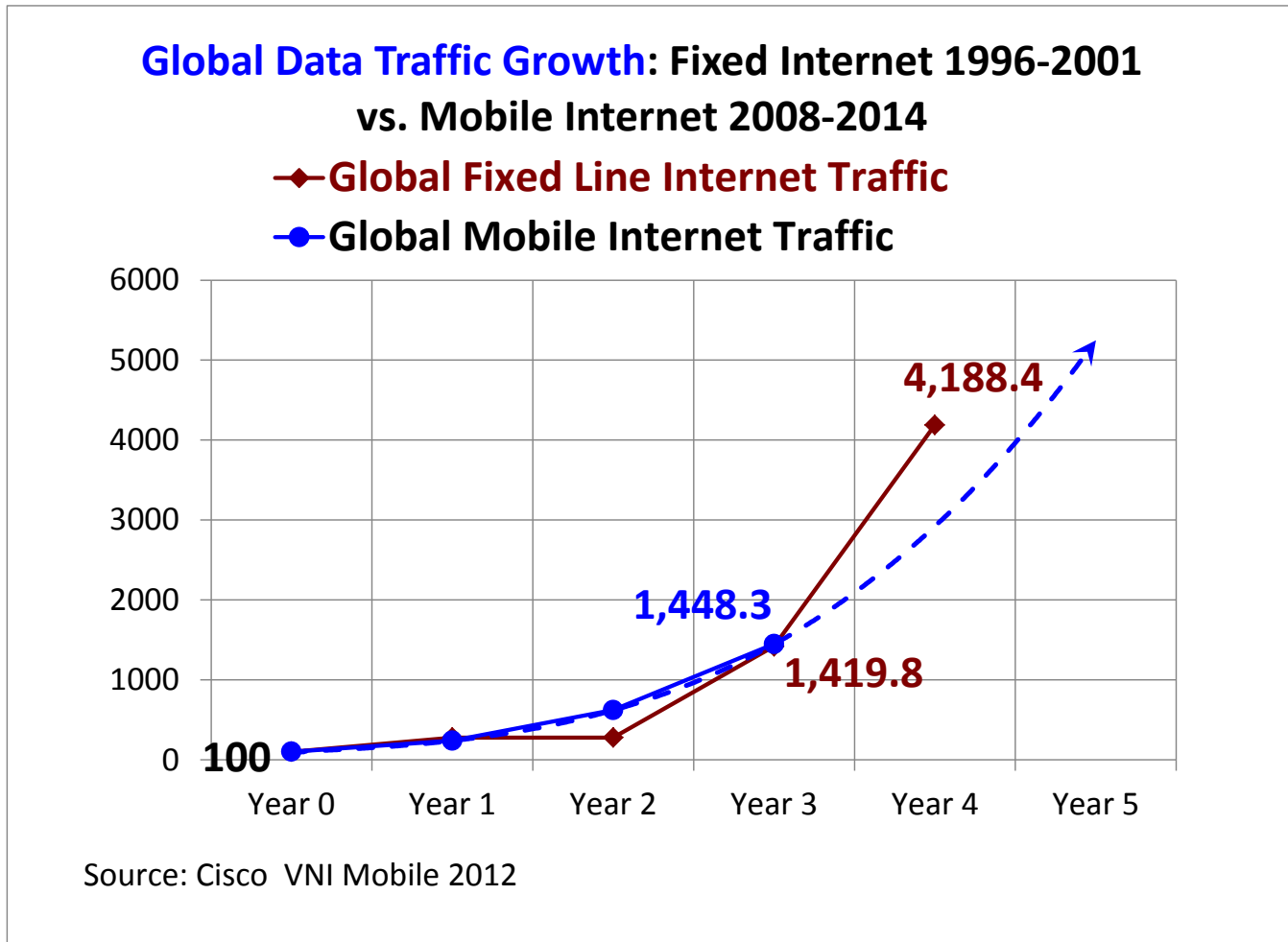
Record low mortgage rates and rising personal income = improving housing affordability.

### US Housing Affordability Index



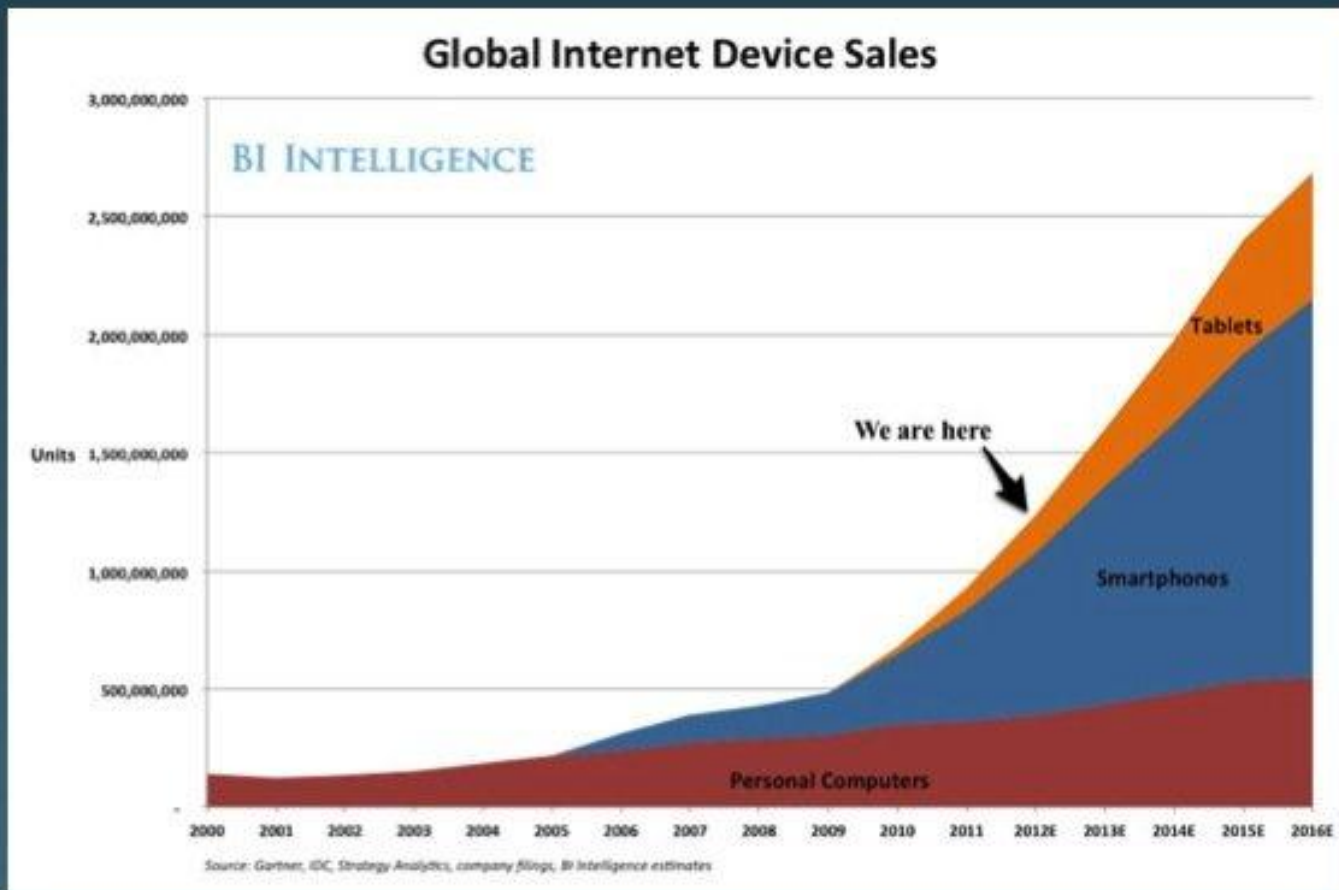
Source: Natl. Assoc. of Realtors  
www.realtor.org

# HANG ON TO YOUR HATS – THE MOBILE REVOLUTION HAS MUCH MORE TO GO



Déjà vu all over again . . . similar growth trajectory as late 90's.  
**We are in year 3 of a multi-year boom.**

**In a few years, the number of mobile devices will DWARF the number of PCs**

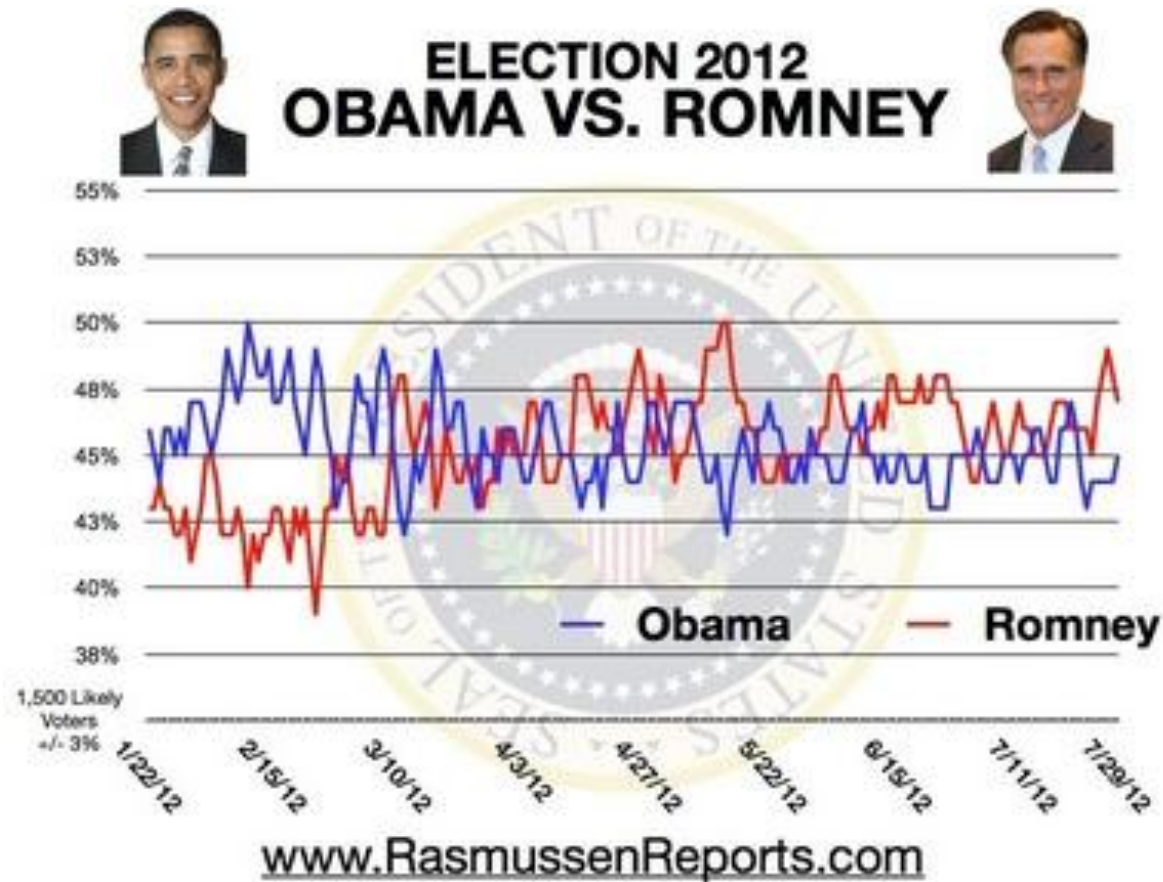


**BUSINESS  
INSIDER**



# SO . . . WHAT ABOUT THE ELECTION? It is the Economy Stupid!

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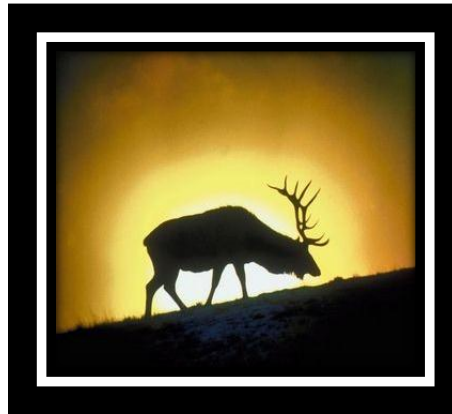


# **BY THE TIME THE HERD JUMPS IN – YOU ARE LATE**



Patient buying of growth stocks is needed to invigorate investor returns. Aberdeen focuses on young micro-cap tech stocks and is engaged in the mobile revolution.

# Investment Opportunities in Small and Micro-Cap Technology Businesses



## Aberdeen Investment Management, LLC

A Guide Service for Micro-Cap Technology Investment

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*THIS SUMMARY IS NEITHER AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO PROVIDE ANY SERVICES DESCRIBED HEREIN. SUCH AN OFFER OR SOLICITATION WILL ONLY BE MADE VIA MEANS OF ADVISORY SERVICES MATERIALS TO INVESTORS WHO MEET THE SUITABILITY STANDARDS DESCRIBED THEREIN.*

**Keep it Simple**: Invest in a select group of small and micro-cap publicly traded technology businesses that are in an early phase of their growth.

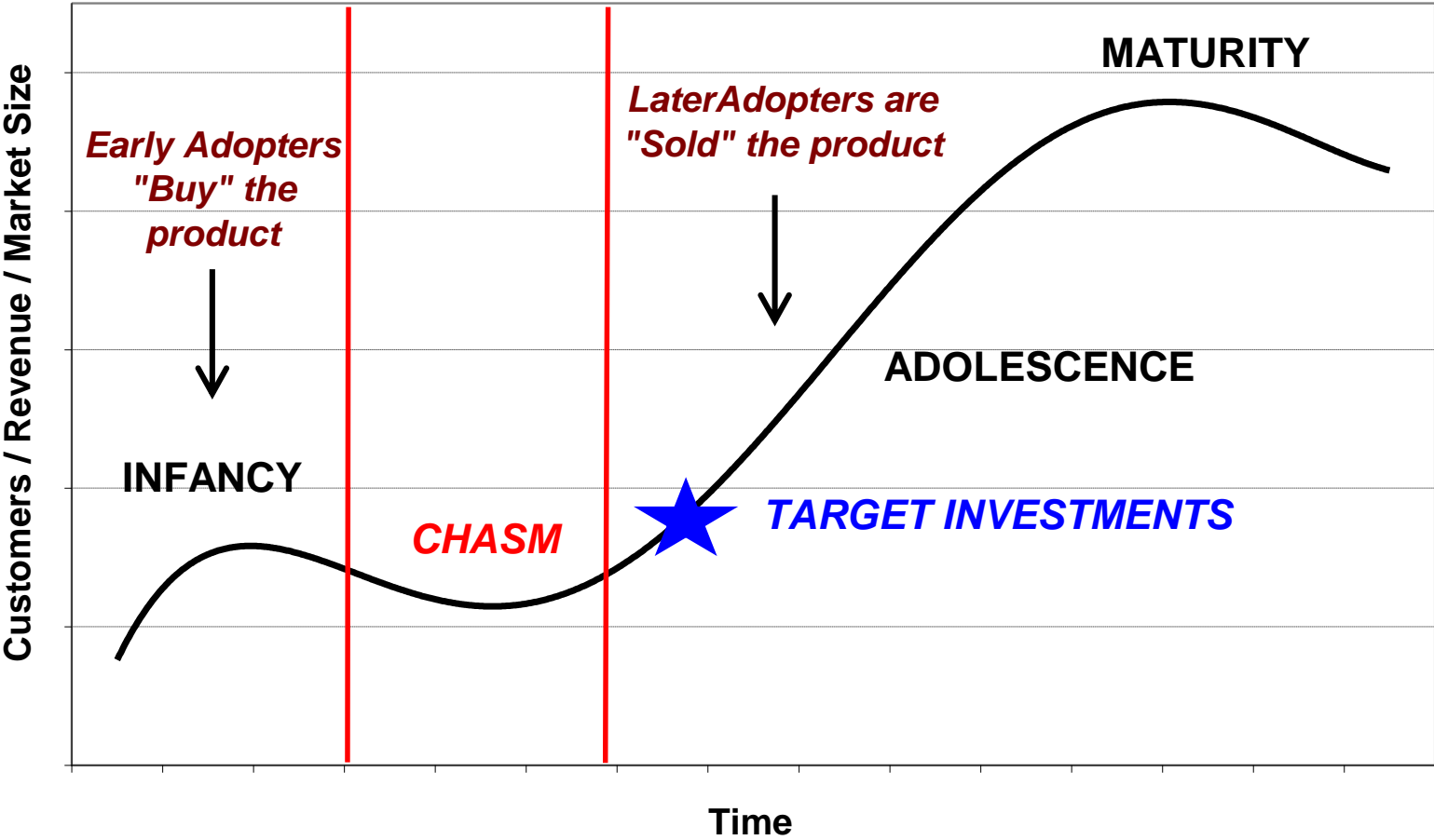
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### ***Harness the migration from analog to digital***

- The Dominant Themes:
  - Online commerce & media, mobile, cloud computing, SaaS
- Portfolio company profile:
  - Wt. Average revenue: \$104.5 million growing 16% in 2012
  - Wt. Average EBITDA: \$9 million growing 42%
  - Wt. Average market cap: \$221.6 million
  - Wt. Average EV: \$169.5 million
- Investment Cycle:
  - 8 of our 21 investments since 2003 have been bought out, 3 have been exited at a loss, 10 remain active
  - Average investment duration ~30 months

# Climbing the "S" . . . 15 year old boys instead of embryos

## The "S" Curve Technology Adoption Cycle



# The Aberdeen Investment Program

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*Long term investment.*

*Targeted 3 to 5 year returns are 2X to 4X the original investment.*

*Concentrated investments to maximize returns. 10 to 15 positions.*

*Low turnover.*

*Compensated principally on performance. An asset based fee is also charged.*

*No lock ups. Investors hold investments in separate accounts. The investor can add or withdraw capital with appropriate notice.*

*The investor provides Aberdeen with discretion to execute transactions on the clients' behalf.*

## Management

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**JEB B. TERRY, Sr.:** President, [jbtsr@aberdeeninvestment.com](mailto:jbtsr@aberdeeninvestment.com),

Mr. Terry draws upon investment experience in the areas of venture capital, leveraged buy outs, foreign emerging markets and public stock markets.

Mr. Terry has an MBA from Columbia Graduate School of Business and a BBA from Southern Methodist University.

**Russell L. Jennings.:** VP, CPA, [russell@aberdeeninvestment.com](mailto:russell@aberdeeninvestment.com)

Mr. Jennings has over 15 years of corporate financial experience with technology, investment advisory and start-up companies. Mr. Jennings graduated from Texas A&M University with a BBA in Accounting.

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