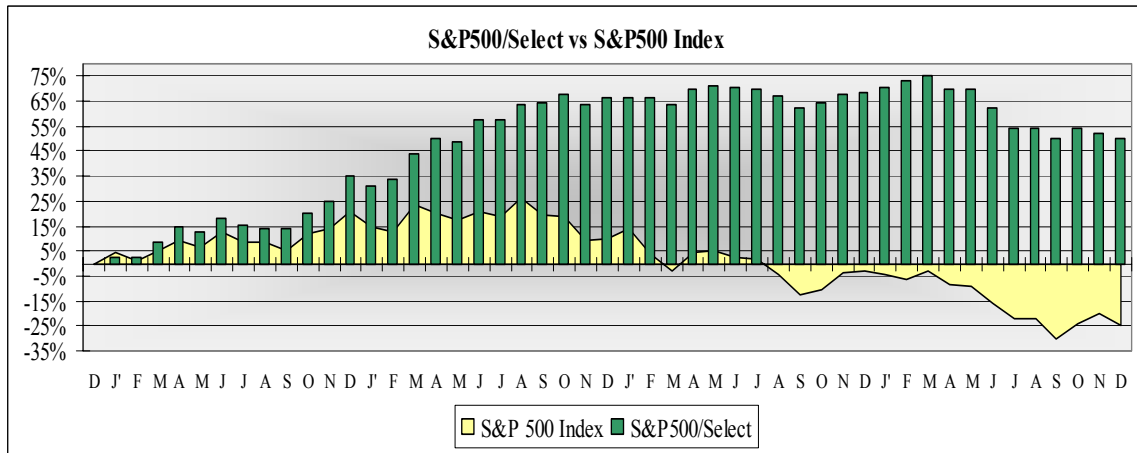


# The Importance of Tracking Growth Potential

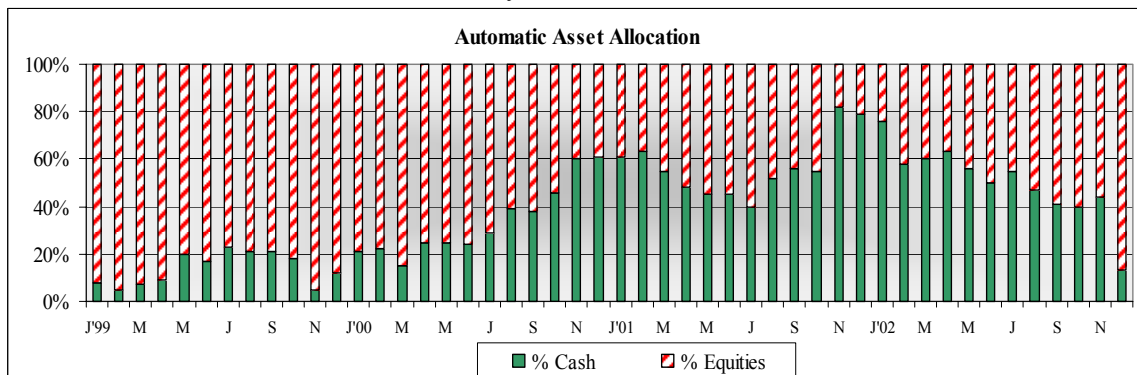
What causes most investors to under perform over the long-term is their tendency to exit the market when short-term volatility creates fear. A decade from now, the accumulated value from selected marketable securities will be higher and most likely will outpace the accumulated returns in both an Index of stocks or business acquisitions. But how can one be certain that a huge bear market will not appear over the near-term horizon? While no one can predict what *will* happen, we have found that by monitoring each quarter the change in internal growth potential for all stocks that make up a market we can determine the probability of what *should* happen.

As our investment strategy has demonstrated in the past, specifically in the transition from bull market of 1999, when our cash levels hit a low of 8%, to the bear market of 2002, when cash levels hit a high of 80%, there is a direct correlation between positive (negative) change in growth potential and near term gain (loss) in the market. This is best illustrated in the two charts below which show that the cumulative gains achieved in our S&P500/*Select* portfolio during the bull market were maintained during the bear market as cash levels rose prior to the market decline. Cash levels began to decline in the second half of 2002 prior to the resumption of the bull market in 2003.

**Accumulated Percentage Change in S&P 500/*Select* vs S&P 500 Index**  
January, 1999 – December, 2002



**Asset Allocation Between Cash & Equities: S&P500/*Select***  
January, 1999 – December, 2002



Measuring internal growth potential on a consistent basis to identify stocks to either buy or sell, which creates an automatic asset-allocation between stocks and cash, is the *unique* value Beacon Street Capital adds to portfolio management.