Profit Investment Management

Fourth Quarter, 2008 Commentary - Large Cap Growth Equity

Portfolio Composition
We start an initial position at a level of 1% to 2% of the portfolio. Generally, a position is built to 2.75% percentage of the portfolio. Typically, portfolios contain 37-60 companies. Risk control is managed through careful stock selection. Sector weights are the result of individual fundamental stock selection. We buy securities displaying low price to earnings relative to historical performance or peer group, strong balance sheets, high returns on equity, low P/E-to-Growth ratios relative to a company's industry sector, attractive discount to intrinsic value, when we can identify a catalyst, strong management team. We sell securities when they become overvalued relative to their intrinsic value and when events change the underlying thesis for initial investment.

Portfolio Characteristics

	Large Cap Composite	Russell 1000 Growth	Russell 1000	Small Cap Composite	Russell 2000
Beta - Forecast Global Market	0.98	0.98	0.89	1.21	0.98
EPS Growth - Long Term (I/B/E/S)	12.51	13.18	10.89	13.99	14.54
EPS Growth - Historical 5 Year (I/B/E/S)	26.79	24.54	18.05	26.12	15.06
P/E - Forecast 12-Month	11.35	12.11	11.95	14.43	17.98
Dividend Yield	1.86	1.94	2.87	1.09	1.83
PEG Ratio - Forecast 12-Month	0.90	0.91	1.05	0.97	1.04
Price-to-Book	2.04	2.61	1.70	1.47	1.31
Market Cap - Weighted Median	40,936,216,665.00	27,320,622,415.00	31,875,144,240.00	988,737,660.00	762,054,510.00

Market Outlook
"They were careless people, Tom and Daisy - they smashed up things and creatures and then retreated back into their money or their vast carelessness or whatever it was that kept them together, and let other people clean up the mess they had made."

– "The Great Gatsby" by F. Scott Fitzgerald

The above quote from a book set in the 1920's about wealth, excess materialism, and immorality seems appropriate to characterize John Thain (CEO of Merrill Lynch), Ron Gettelfinger (head of the United Auto Workers), and Bernard Madoff in addition to a few other deserving people. As some pundits "stayed the course" and hoped for a market turnaround, no matter how slim the actual chance. The music stopped, the lights went on, and the party ended as some of the most significant events in market history took place during the fourth quarter. Some of the most volatile trading days in Dow Jones history occurred during the month of October – days where 600+ point swings became the norm. The Bush administration announced the funding of $250 billion into the nation's nine largest banks, as part of a $700 billion "rescue" package. The government followed that up with an $800 billion dollar giveaway to throw another lifeline to the financial industry – $600 billion to guarantee the bad debt underwritten by Fannie Mae and Freddie Mac, $200 billion to assist consumers in obtaining car loans, student loans, business loans, and credit card debt. With unemployment numbers trekking higher each month to near 7%, those investors holding out for a glimmer of hope were given another blow when the Bureau of Economic Research announced on December 1st that the U.S. economy had been in recession since December 2007. To add further insult to injury the heads of "Big Three" automobile manufacturers flew on private jets to Washington D.C. to beg for money.

Money the collective group argued for, although couldn't specify why, was needed in order to save a business that runs on a model better equipped for the past than the future.

Amidst all the doom and gloom of the market, Barack Obama, was elected the 44th president of the United States. Market sentiment shifted ever so subtly on the announcement as investors once again put on their rally hats. Promises of change and hope are easy to be swayed by and create an emotional response. But for the cynic they're also similar to the slogans of hucksters and snake oil salesmen of an earlier period who claimed to have a quick and easy cure to any and all serious ailments.

Rather than rely on words of hope we at Profit Investment have been more pragmatic and have been adjusting the portfolio throughout the year to withstand a lengthy downturn in the economy. We have been focusing on accumulating fundamentally sound, cash rich companies that we believe will weather the turbulent storm. Total return potential through share price appreciation and dividends are key in our stock selection process. With a government deficit estimated to be nearly $500 billion before the various bailout plans were announced. We believe that the potential for future currency devaluation and inflation is ever increasing. While we continue to be bottom-up investors and take pride on our ability to pick individual stocks for outperformance. We have become ever more aware of the macro-economic shifts that may impact the fund and are taking appropriate measures. In 2009, we look forward to the opportunities that are presented before us and are dedicated to being excellent stewards of the capital that our clients have entrusted with us.

Performance
The Profit Large Cap Equity portfolio outperformed the Russell 1000 Growth by 5.56% in the fourth quarter of 2008. The outperformance was primarily driven by stock selection. Health Care and Telecommunication Services were the primary contributors to our portfolio. The Utilities and Consumer Discretionary sectors were the primary detractors. The Health Care sector was responsible for 1.18% of the portfolio's outperformance. We were materially overweight (+410bps) the Health Care sector, one of the better performing sectors in the index. While this allocation decision added 23bps to our performance, the relative outperformance of Gilead Sciences and Amgen were the real drivers of our performance in the Health Care sector.

	Large Cap Composite	Russell 1000	Russell 1000 Growth	Small Cap Composite	Russell 2000 Growth
Energy	7.4%	12.8%	8.9%	4.8%	5.0%
Materials	0.0%	3.4%	3.6%	1.6%	3.7%
Industrials	19.2%	11.1%	13.1%	23.8%	16.2%
Consumer Discretionary	5.5%	8.7%	9.3%	5.5%	11.3%
Consumer Staples	9.4%	12.2%	14.6%	11.7%	4.0%
Health Care	20.0%	14.1%	15.3%	15.6%	15.3%
Financials	7.5%	14.3%	3.9%	7.6%	22.6%
Information Technology	27.0%	15.7%	28.7%	28.6%	16.5%
Telecomm Service	3.8%	3.4%	0.7%	0.9%	1.1%
Utilities	0.0%	4.3%	1.9%	0.0%	4.3%

We were overweight the Telecommunication Services sector by just over 300bps. While the sector performed poorly in the Index, declining more than 26%, our selections appreciated 5.45% and led to our outperformance in the sector. We have only two holdings in the sector, AT&T and Verizon Communications which appreciated 3.7% and 7.4%, respectively.

As previously mentioned, the Utilities and Consumer Discretionary sectors were the biggest detractors from our performance. In both cases, the underperformance was wholly driven by allocation decisions. We have a zero weight in Utilities, a sector which declined 12.6% during the quarter. While that does not sound impressive, Utilities was actually the best performing sector in the Index. We materially underweight the Consumer Discretionary sector as a result of our concerns about the economy. Unfortunately, Consumer Discretionary outperformed the index.

Looking Forward: Despite the recent performance of the Consumer Discretionary sector, we plan to maintain an underweight in the sector as a result of our continued concerns about the struggling economy. We will maintain our relative weightings in Telecommunication Services and Technology, and our zero weighting in Utilities.