The El Dorado Strategy

The strategy is designed to be easy to hold for the long term and in all market conditions. It should be considered a core portfolio holding for U.S. market exposure.

The companies in the strategy are selected for their durability, profitability and consistency. The portfolio as a whole is also managed for lower volatility. Average turnover is 30-35% and much of the turnover is used to manage the sector exposure within the portfolio or fine tune exposure to style factors like value or growth.

Good Business

Good businesses possess man of the following attributes:

- Predictable revenue
- Profitability
- Not in capital intensive industries
- Strong brand recognition
- Demonstrated technical leadership
- Cost advantages
- Participation in long-term global trends
- Geographic expansion opportunities

Capital Stewardship

A shareholder-friendly management enhances the company's value by allocating cash productively:

- Reinvest in the business and still have excess cash
- Make acquisitions
- Buy back stock
- Pay dividends and routinely increase dividend payments

The Buy Decision

- We look to buy a stock when it is cheap relative to both its own historical averages and our current assessment of its growth prospects.
- The stock prices of individual companies can vary significantly over short periods of time. We prefer to wait for buying opportunities, but are looking at the market for individual companies rather than overall market performance trends.

The Sell Decision

- When management's stewardship of company capital forces us to re-assess their objectives, abilities, or conflicts of interest.
- When the prospects for a company have dimmed to the point there are better opportunities in other securities.

The Investment Process

Our process begins with quantitative screens for low beta securities showing growth in both free cash flow and dividends. These screens reduce the investible universe of public corporations down to just 40-80 names.

Why Low Beta?

The positive attributes of Low Beta:

- Low beta is a quantitative reward for consistent earnings performance.
- Low beta is also a proven way of limiting draw-downs while staying invested.
- Low beta equities also produce lower standard deviations which in turn result in higher compound returns.

We typically target a weighted average beta of 0.70-0.80 when measure against the S&P 500.

Portfolio Concentration

By policy the portfolio may hold as few as 10 or as many as 25 securities at any one time. Single company positions are limited to no more than 15 percent of the portfolio and will more commonly average 5-6 percent of the total (approximately 20 holdings).

The End Result

The result is a collection of quality firms, which tend to have steady revenue and earnings, low financial leverage, and high returns on capital. They also tend to pay dividends, repurchase shares, and show discipline in their acquisitions.