



A Different Way of Thinking

Using Market Power to Enhance Performance

presented to:

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“Market Power”: Key to Long Run Growth

- Dominant market share
- Entry barrier(s) - shield market share and profits from competitors
 - ▶ Strong brand name
 - ▶ Patents
 - ▶ Economies of scale



Market Power Universe: A Select and Stable Group

- Universe developed in 1981 with 125 Market Power companies

- Currently contains 150 companies

- Stable group of quality growth companies

- ▶ 90 of current universe members included since 1981

- ▶ Most changes due to M&A activity

Market Power Universe Sector Concentrations

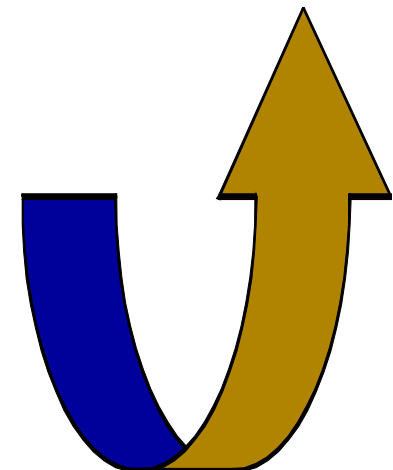
(December 31, 2002)

<u>Sector</u>	<u>Market Power Wght.</u>	<u>S&P 500 Index Wght.</u>
Energy	1.05%	6.00%
Materials	0.32%	2.83%
Industrials	14.50%	11.65%
Cons. Disc.	15.94%	13.38%
Cons.Stpls	18.16%	9.48%
Health Care	26.42%	14.91%
Financials	4.29%	20.45%
Info. Tech.	19.31%	14.26%
Telco. Serv.	0.00%	4.19%
Utilities	0.00%	2.85%

Attractive Properties

- Excellent defensive characteristics due to:
 - ▶ Stable earnings growth
 - ▶ Conservative accounting
- Resiliency
 - ▶ No catalyst needed
 - ▶ Market Power drives bounce back

**Bounce Back
Factor**



Crafting an Investment Strategy: A Time to Buy

- “Market Power” stocks typically valued at premium to market
- Opportunistically invest when temporarily undervalued due to:
 - ▶ Earnings disappointments
 - ▶ Disfavor with analysts
 - ▶ Unrecognized growth opportunities
- “Market Power” attributes lead to bounce-back in valuation, creating return benefits

Crafting an Investment Strategy: A Time to Sell

- A more attractive stock is identified
- Stock reaches full valuation
- Company diversifies away from Market Power businesses
- Market Power erodes

Recent Analysis: Walt Disney Company (DIS)

• Market Power

- ▶ Theme Parks, character licensing, classic animated film library
- ▶ One of most recognized brand names in the world



• Investment Rationale

- ▶ All business segments suffering simultaneously in late 2001 / early 2002
- ▶ Earnings from Media Networks and Studio Entertainment are recovering from cyclical lows
- ▶ Parks and Resorts expected to recover as economy rebounds
- ▶ Attractive Valuation (July 2002)
 - Historically trades at 1.8x market multiple
 - Available at 0.7x market multiple

The Walt Disney Company is a diversified worldwide entertainment company with operations in four business segments: Media Networks (ABC TV and Radio, ESPN, Disney Channel, ABC Family Channel), Parks and Resorts (Disney World, Disneyland, Disney Cruise Line, ESPN Zone), Studio Entertainment (Animated motion pictures and TV programs) and Consumer Products (licensing of Disney characters and other intellectual property).

Recent Analysis: Pitney Bowes (PBI)

• Market Power

- ▶ 90% share of postage meter business
- ▶ Patents on both machines and encryption technology
- ▶ Continual innovation

• Investment Rationale

- ▶ Sharper focus on postage meters
 - Spun off Imagistics in 12/01
 - Discontinuing capital services
- ▶ Total document management solutions in demand after anthrax scare
- ▶ Steady earnings growth likely through 2007



Pitney Bowes

Engineering the flow of communication



> Engineering Communications
> Maximizing Productivity
> Innovative Technology
> Enhanced Security

Pitney Bowes is a provider of global, integrated mail and document management solutions for organizations of all sizes. The company's Global Mailing segment includes the rental of postage meters and the sale, rental and financing of mailing equipment. The Company's Enterprise Solutions segment sells, rents or finances its products, and sells supplies and services. Pitney Bowes' Capital Services segment comprises primarily asset and fee-based income generated by financing or arranging transactions of critical large-ticket customer assets.