

# SAYBROOK CAPITAL

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INVESTMENT COUNSEL AND MANAGEMENT

At Saybrook Capital we provide investment counsel to clients who share the dual goals of achieving a superior real rate of return over the long term and avoiding a significant loss of portfolio value in periods of declining financial markets.

We seek a select group of clients who understand that superior investment results have always come from doing something different from the crowd. We believe Saybrook is differentiated by its emphasis on original research, the search for undervalued growth, strict valuation disciplines, and highly personalized customer service.

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# SAYBROOK CAPITAL

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## Investment Goals for Our Clients

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On behalf of its clients, Saybrook Capital seeks to:

- **Expand capital and income** at a rate well in excess of inflation, thus achieving a meaningful real rate of return.
- **Preserve principal** in an era of volatile markets.

Saybrook Capital's longer-term performance, as well as our results during the recent years of down markets, demonstrates the firm's success in pursuing these investment goals. Since the firm was founded in 1976, our cumulative returns have exceeded the S&P 500 benchmark. Mitigating losses during "bear markets" has been the key reason for this achievement. For instance, the broad market experienced three years of significantly negative returns from 2000 to 2003, and Saybrook Capital's average account had a cumulative positive return over the same time.

During the credit crisis beginning in 2007, nearly all asset classes and stocks declined significantly. In 2008, our clients had less exposure to severe market losses, in part due to the avoidance of the financial sector, our focus on high-quality companies, and our willingness to hold cash balances. Saybrook Capital also recognizes the opportunities in "bear markets" to invest in exceptional companies at reduced cost. We have provided meaningful real growth through turbulent investment eras.

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## **Service Goals for Our Clients**

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**At Saybrook Capital we consider our size a distinct advantage for our clientele:**

- With a select group of about 50 clients, we are committed to providing a personalized level of service not available at large banks and brokerage firms.
- Each account is managed individually with strict attention to the client's tax, income, and risk objectives.
- Saybrook is singularly focused on managing our clients' assets - there are no conflicts of interest.

**Saybrook Capital's management of each individual account in conjunction with major investment firms and trust departments provides:**

- Institutional-quality research and trading.
- Safe, insured custodial and trust arrangements.
- Electronic account access (if desired).
- Ability to maintain longstanding trust relationships.

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## **Asset Allocation Strategy**

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At Saybrook Capital, clients' assets are not invested in a "model portfolio" or "co-mingled funds". Instead we launch a detailed evaluation process to determine the proper asset allocation. The blend of bonds, cash equivalents, and a range of diversified equities will be determined by a variety of factors, including:

- **Investment Objectives**
- **Risk Tolerance**
- **Tax Status/Rate**
- **Future Cash Flows**
- **Philanthropic Goals**
- **Income Requirements**

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## **Equity Investment Strategy: Undervalued Growth**

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To reach our investment goals, we follow a two-element strategy:

**1) Identify companies with superior growth prospects, which we define as:**

- Secular growth, rather than cyclical recovery.
- Growth that can be sustained at an above-average rate for at least three to five years.
- Expansion that results from quality characteristics, such as dominant products, superior marketing, forward thinking management, and the capability to self-finance.

**2) Invest in such companies when their equities are truly undervalued, as determined by our strict valuation techniques.**

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## Equity Investment Strategy: Decision Making Process



### Analysis of the Macro Environment

- Economic: understanding the inter-relationships of world markets.
- Political: are government decisions encouraging or discouraging production?
- Sector: detecting shifts in consumer preference, government spending, and capital spending.
- Technical: recognizing changes in investor preferences.

### Company Analysis

- Determine growth prospects through insightful corporate research.
- Concentrate on quality companies.
- Emphasize accelerating momentum in products, markets and earnings.
- Isolate, analyze, and understand critical variables.

### Valuation

- Find distortions in market pricing.
- Employ stringent relative value criteria.
- Maintain buy and sell disciplines.

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## **Equity Investment Strategy:** Characteristics of Quality Companies

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### **Outstanding Management**

- Integrity, accessibility
- Orientation to long-term earnings growth without equity dilution
- Conservative accounting
- Recognition of the pervasiveness of change
- Strategic planners
- Strong back-up management
- Good personnel policies

### **Financial Strength**

- High margins
- High returns on capital
- Self-financing
- Strong controls

### **Low Government Regulation**

### **Proprietary Products**

- Effective research to maintain technological lead
- Market franchise

### **Marketing**

- Focus on growing markets
- Ability to dominate
- Strong orientation to customers' needs
- Flow of successful new products
- Unit growth in sales

### **Productivity**

- Low labor costs, but well-paid employees
- Opportunities on learning curve

*Only those companies that satisfy our requirements of excellence and hold the promise of substantial real growth are considered as candidates for investment on behalf of our clients.*

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## **Equity Investment Strategy: Managing Risk-Buy Disciplines**

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### **Recognize that risk is greatest when agreement is greatest**

- The market will do whatever is necessary to prove the majority wrong.
- It helps to be a contrarian.

### **Stay focused on disciplines**

- Thorough research to find superior growth.
- Adhere to valuation standards.

### **Try not to be seduced by “shooting star” themes**

- Information Technology in the late 1990’s or finance in the 2000’s.
- Capitalize on negative psychology when confident in quality and growth.

### **Importance of Diversification**

- A diverse blend of asset classes and sectors reduces volatility.
- Exposure is limited by minimizing new purchases to no more than 5% of the total portfolio.

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## **Equity Investment Strategy: Managing Risk-Sell Disciplines**

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### **Four Reasons to Sell a Stock:**

- Clear overvaluation due to appreciation (sell).
- Overweighting due to appreciation (reduce).
- Changing company character (sell).
- Disappointing fundamentals (sell).

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## **Fixed Income Strategy: Constructing a Bond Portfolio**

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**A diversified portfolio of bonds can play a role for all but the most long-term oriented investor. Fixed income securities can provide the following benefits:**

- Portfolio Diversification
- Low Volatility
- Capital Preservation
- Regular Stream of Income
- Opportunity for Capital Gain
- Tax Advantages

When building a diversified bond portfolio it is imperative to focus on **after-tax** return. Wealthy individuals can take advantage of the tax-free income available from municipal securities, while institutions have the flexibility to seek higher returns from government and corporate bonds.

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## **Fixed Income Strategy: Constructing a Bond Portfolio**

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**In addition to selecting the type of bond, Saybrook Capital uses several strategies to mitigate two types of risk that threaten bonds:**

### **Default Risk**

To preserve principal we buy bonds that are:

- Low Risk (A-rated or higher).
- Diversified among a range of issuers.

### **Interest Rate Risk**

To minimize losses due to market fluctuations we:

- Purchase the bonds with laddered maturities so that the portfolio's yield is not overly impacted by trends in interest rates.
- Analyze economic and monetary trends to capitalize on the volatility in the bond market.

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## Management of the Firm

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**Bruce M. Babcock**, a Chartered Financial Analyst, founded Saybrook Capital in 1976 after spending seven years as a vice president and investment analyst at Smith Barney, Harris Upham & Co.

A 1962 graduate of Yale University, Bruce received an M.B.A. degree from Columbia University Graduate School of Business. He spent three years as a Navy Supply Officer between college and graduate school.

Bruce is a Trustee of the Mary Reynolds Babcock Foundation, the Wake Forest Board of Visitors, and the North Carolina School of the Arts Foundation. In addition, he is a member of the North Carolina Society of Financial Analysts and the Association for Investment Management and Research.

**Luke M. Babcock**, a Chartered Financial Analyst, started with Saybrook Capital in 2001. He graduated from Duke University in 1993.

He worked for Donaldson, Lufkin & Jenrette for seven years, overseeing diversification and asset allocation strategies for large portfolios.

Luke is an Elder of the Bridgehampton Presbyterian Church and a Trustee of Peconic Landing, both on the east end of Long Island. He is a member of the CFA Institute and the New York Society of Securities Analysts.

**Scott R. Hirsch** joined Saybrook Capital in 2007. He graduated magna cum laude from Bowdoin College in 1990 and, as a Fulbright scholar, earned an M.A. degree in International History at Cambridge University.

Prior to Saybrook, Scott managed an investment holding company for a prominent New York family. Previously, Scott worked with the investment firms of Mitchell Hutchins Asset Management and Brown Brothers, Harriman & Co. as an analyst and portfolio manager.

Scott is the Treasurer of the Franklin and Eleanor Roosevelt Institute in Hyde Park, New York.

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## Corporate Goals

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- To achieve excellence in our niche of investing in undervalued growth companies.
- To continue producing superior relative performance.
- To build long-term relationships with a small number of individuals, families, and institutions.
- To concentrate on the successful management of our clients' assets, rather than on the development of a large organization.

*We invite your inquiries at any time.  
Please contact us for more information.*

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