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## Cheap isn't always a bargain

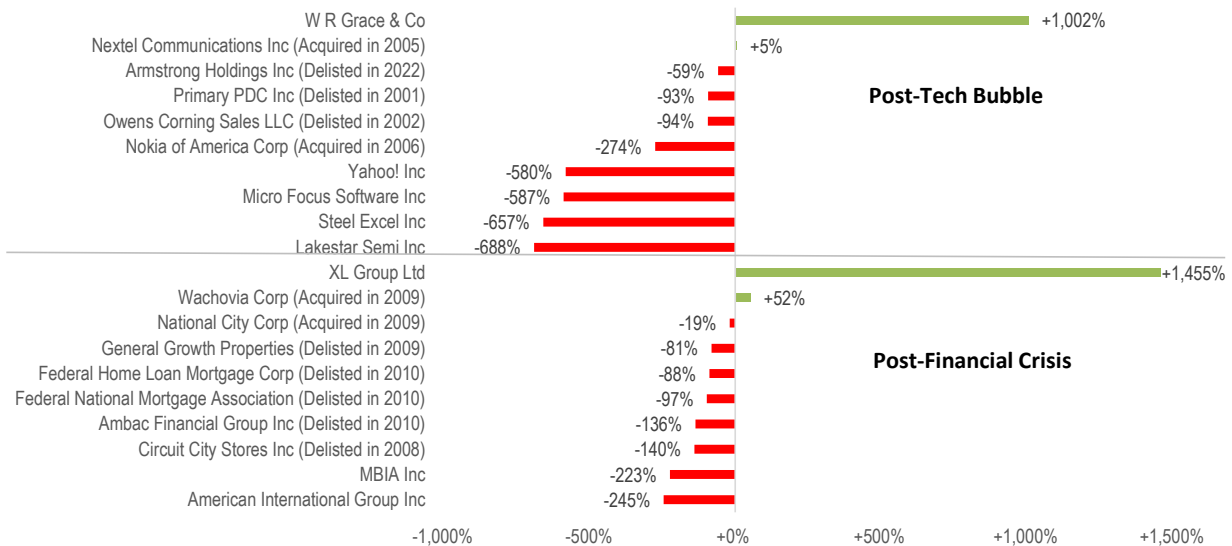
### It's deal-hunting season

A guilty pleasure of mine this time of year is to scan websites for good deals, sorting by the biggest percentage discounts. Anybody who has gone down this dark path already knows that this is a fruitless exercise. All it leads to is hundreds of listings of absolute garbage. Investors often make the same mistake during bear markets.

### But do not equate big price declines to value

Nearly one year into this bear market, some have begun to scour the lists of the largest decliners for big discounts, failing to realize that those lists are dominated by prior market leaders for which the risk of failure was drastically underpriced. As the chart below clearly demonstrates, the biggest decliners in the first year of each of the last two bear markets were dominated by underperformers and failures. In each cycle, eight out of ten of those biggest initial decliners — not including the decliners that didn't last a year from the peak (e.g. Lehman Brothers) — underperformed the market significantly in the subsequent decade (or however long they continued to trade). See Appendix for further details.

**Chart 1: Biggest 1-year S&P 500® decliners from market peaks and subsequent 10-year\* returns relative to the S&P 500®**



Source: Richard Bernstein Advisors LLC, Bloomberg, S&P

Some of the underlyings mentioned may be held in one of RBA's portfolios.

\*This list does not include Lehman Brothers or Washington Mutual, which ceased to trade publicly within one year of the market peak. For other companies that ceased to trade publicly, the return period ends when the company is delisted/acquired.

Note:

## Appendix

**Table 1: Biggest 1-year S&P 500® decliners from March 2000 market peak and subsequent 10-year returns\***

Company	Sector	1yr return from peak	10yr (or listed period) subsequent return*	Same period S&P 500® return	Relative return
Yahoo! Inc	Communication Services	-93%	17%	596%	-580%
Lakestar Semi Inc	Information Technology	-86%	-91%	596%	-688%
Owens Corning Sales LLC ( Delisted in 2002)	Materials	-86%	-79%	15%	-94%
Micro Focus Software Inc	Information Technology	-84%	10%	596%	-587%
WR Grace & Co	Materials	-82%	1,599%	596%	+1,002%
Armstrong Holdings Inc ( Liquidated)	Consumer Discretionary	-82%	-47%	12%	-59%
Nextel Communications Inc ( Acquired in 2005)	Communication Services	-82%	139%	134%	+5%
Nokia of America Corp ( Acquired in 2006)	Information Technology	-81%	-73%	201%	-274%
Primary PDC Inc ( Delisted in 2001)	Information Technology	-81%	-94%	-1%	-93%
Steel Excel Inc	Energy	-80%	-60%	596%	-657%

Source: Richard Bernstein Advisors LLC, Bloomberg, S&P

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\*Note: For companies that ceased to trade publicly, the return period ends when the company is delisted/acquired.

**Table 2: Biggest 1-year S&P 500® decliners from October 2007 market peak and subsequent 10-year returns\***

Company	Sector	1yr return from peak	10yr (or listed period) subsequent return*	Same period S&P 500® return	Relative return
Federal National Mortgage Association (Delisted in 2010)	Financials	-98%	-76%	21%	-97%
Federal Home Loan Mortgage Corp (Delisted in 2010)	Financials	-98%	-67%	21%	-88%
Ambac Financial Group Inc (Delisted in 2010)	Financials	-98%	-92%	44%	-136%
American International Group Inc	Financials	-97%	47%	292%	-245%
Circuit City Stores Inc (Delisted in 2008)	Consumer Discretionary	-95%	-99%	41%	-140%
XL Group Ltd	Financials	-95%	1,746%	292%	+1,455%
General Growth Properties (Delisted in 2009)	Real Estate	-93%	-85%	-3%	-81%
Wachovia Corp (Acquired in 2009)	Financials	-93%	55%	3%	+52%
National City Corp (Acquired in 2009)	Financials	-91%	-16%	3%	-19%
MBIA Inc	Financials	-90%	69%	292%	-223%

Source: Richard Bernstein Advisors LLC, Bloomberg, S&P

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\*Note: This list does not include Lehman Brothers or Washington Mutual, which ceased to trade publicly within one year of the market peak. For other companies that ceased to trade publicly, the return period ends when the company is delisted/acquired.

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