

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Growth Stock Investing with a Margin of Safety



DAVID POLEN is the Founder, CEO and Chief Investment Officer of Polen Capital Management. He has a BA degree from Brooklyn College of the City University of New York and over forty years of experience in the investment business. Mr. Polen developed PCM's proprietary Systematic Valuation Discipline more than twenty-five years ago by applying Benjamin Graham's concept of Margin of Safety in growth stocks to his own tenets of growth stock investing. Mr. Polen has been frequently quoted and interviewed in the national media on growth stock investing and has appeared as a guest on CNBC numerous times.



DANIEL A. DAVIDOWITZ is a Portfolio Manager and Research Analyst at Polen Capital Management. He joined the company in 2005. Prior to joining Polen Capital, Mr. Davidowitz spent five years as Vice President and Research Analyst at Osprey Partners Investment Management. Before joining Osprey Partners, Mr. Davidowitz spent one year as a Research Analyst at Value Line, Inc. and five years in the health care sector holding various analytical positions at Memorial Sloan-Kettering Cancer Center. Mr. Davidowitz received his BS degree with high honors in Public Health from Rutgers University and a Masters in Business Administration from the City University of New York, Baruch College Zicklin School of Business. Mr. Davidowitz is a CFA charterholder and a member of the CFA Institute and the CFA Society of South Florida.

SECTOR – GENERAL INVESTING

TWST: Would one of you like to tell us about Polen Capital Management and your investment philosophy?

Mr. Polen: Polen Capital Management is an investment management firm. We have been managing a large-cap growth product for 21 years, which is what the firm totally focuses on at this point.

We are a one-product firm and 21 years of history is a very valuable thing to have. Polen Capital turns out to be quite unique. By the way, we were first interviewed by The Wall Street Transcript in July of 1994, this is now the fifth time in our history that we have been interviewed by The Wall Street Transcript. We are on record with your publication and I'm sure what we will discuss today, our methodology and philosophy toward investing is, consistent with what we have said in the past. We are well

documented by your organization, that's a wonderful thing. I just read through the interviews that we've had over the past 15 years, and because our process has not changed, our discussions in each of these interviews have been remarkably consistent.

Over the 21 years since our product's inception, we are ranked in the top 1% for performance over all large-cap growth managers. Our annualized rate of return over that time came out to 14.29%. At the same time all of the statistics that measure risk-taking such as alpha, beta, Sharpe ratio, standard deviation, and downside capture are all at the top of the universe as well. Obviously we've been able to create among the best, if not the best, rate of return while taking probably the least risk of all.

As we present our story here, the reasons we believe that happened, the unique qualities of our investment philosophy and work, can be seen if you go back to July 11 of 1994 in The Wall

Street Transcript. We laid out that entire methodology which is 100% in place today. So the statistics are excellent and are totally consistent with our philosophy and strategy over 21 years now.

TWST: How did your strategy cope with the turmoil in the markets over the last two years?

Mr. Polen: First of all having been in the investment business now for over 40 years, I've lived through other major bear markets, be them short-term in nature or long term. The most recent one we had, which looks like it ended in March of 2009, was pretty vicious from the peak to the trough, but it was business as usual at Polen Capital Management. In other words, I personally lived through the 1987 crash, through the 2000-2002 period when we had a terrible decline, and certainly in 2008 and early 2009. In each case, Polen Capital has had very low downside capture. In other words, in periods when the market has declined, Polen Capital has always declined considerably less. What we realize as long-term investors, which is basic to what we do, is that there are going to be times when the market is going to be very favorable and the wind will be at your back and then from time-to-time, and not predictably, you will have the exact opposite set of circumstances as we had in 2008 and early 2009. But what we do is stay fully invested in only the highest quality stocks which we believe our Systematic Valuation Discipline leads us to and we ride through both circumstances, bull markets and bear markets, and create our results only on a long-term basis.

Highlights

David Polen and Daniel A. Davidowitz are large-cap growth managers of a concentrated portfolio. They believe that great businesses with competitive advantages have consistent earnings growth that provides the investor with a "margin of safety." It is less about valuation and more about consistent growth and sustainable competitive advantages. They seek out only companies that possess barriers to entry and can grow unfettered, and also that they can purchase at a fair price. They are always buying a business and not just a stock. They take a very long-term perspective as if they were buying a business to own. They never think about when they are going to sell it. They apply what they call a Systematic Valuation Discipline that identifies companies with pristine balance sheets and abundance of cash and little or no debt. They require companies to have a very high return on capital, which they define as 20% or more sustainably. They also want companies with management that is shareholder friendly and allocates capital intelligently, the way they would want them to as partners in the business. Companies include: [Gilead Sciences \(GILD\)](#); [Amazon \(AMZN\)](#); [Allergan \(AGN\)](#); [Apple \(AAPL\)](#).

provides the investor with a Margin of Safety. It is less about valuation and more about consistent growth and sustainable competitive advantages. We are actively seeking out only companies that we believe possess barriers to competition and can grow unfettered, and that we can get at a fair price. Commensurate with that, we will not buy any company that does not meet those criteria. There are a lot of companies that don't meet our high hurdles, but there are enough that do. We end up with a concentrated portfolio. We've always had around 20 stocks in our portfolio at any particular time, and that allows for great growth companies to have a meaningful impact on the upside in our portfolio. Owning only the best companies also allows us to protect on the downside. If you allow yourself to buy marginal or poor businesses, you introduce unnecessary risk into the portfolio. Our criteria aim to minimize that risk.

Mr. Polen: That is an important quality of our work that Dan just referred to; we are always buying a business and not a stock. That is simple because anybody who buys a stock is really buying a share in the profits of a business. But attitudinally, if they are solely interested in buying at one price and selling it at another, they are doing something completely different than imagining that they're buying the entire business as we do. When you imagine yourself buying the entire business even though you're only buying 100 shares or a million shares, it doesn't really matter, but the owner of the business would have a completely different set of attitudes and principles

Davidowitz: We believe that great businesses with competitive advantages have consistent earnings growth that provides the investor with a Margin of Safety. It is less about valuation and more about consistent growth and sustainable competitive advantages. We are actively seeking out only companies that we believe possess barriers to competition and can grow unfettered, and that we can get at a fair price.

TWST: One of the things that distinguishes your large-cap growth investing strategy, is this focus you have on the safety principle, and can you tell us more about that and your strategy altogether?

Mr. Davidowitz: You're absolutely right. We call it the "Margin of Safety" concept and we apply it to growth stock investing, which is rather unique. We believe that great businesses with competitive advantages have consistent earnings growth that

that he would subscribe to rather than the person who would be just buying a stock at a price which he believes is going to go up and hopefully make some money out of it and sell it. That is a rare characteristic in our business, but one which lies at the core of what we do. By having done that for many years, certainly sets us apart from almost all other investors that we know of. The important principles then become the quality of the business as well as the sustainability of growth and profitability. We take a very long-

term perspective of this as if we are buying a business to own the business. We are not thinking about when we are going to sell it. We may choose to sell one of our holdings in a shorter-than-normal time frame for either positive or negative reasons, but that is not what we expect to do when we commit to owning a great franchise. But, all the time, you're thinking about owning a wonderful growth business. Now we will explain some of the principles and what we look for in a business.

Polen: We are always buying a business and not a stock. The important principles then become the quality of the business as well as the sustainability of growth and profitability. We take a very long-term perspective of this as if we are buying a business to own the business. We are not thinking about when we are going to sell it.

Mr. Davidowitz: We apply what we call our Systematic Valuation Discipline, which has very strict criteria that a company must meet to be included in our portfolio.

TWST: That was developed by David Polen, wasn't it?

Mr. Davidowitz: Right.

Mr. Polen: More than 25 years ago.

Mr. Davidowitz: The key tenets of the Systematic Valuation Discipline have not changed at all over our entire history. We are looking for companies that have pristine balance sheets, the best balance sheets that you can find, an abundance of cash with little if any debt whatsoever. We are looking for companies that have strong free cash flow, well in excess of what they need to run their business. We also require companies to have extremely high returns on capital, which we define as 20% or more sustainably. And we want companies that have management that is shareholder friendly and allocates capital intelligently, the way we would want them to as partners in the business.

What you find is that even with those simple but very high hurdles that we put on companies, there's just not that many that have that sustainability and quality that could be considered

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for our portfolio. Again it's those type of the things that lead not only to strong investment returns from the compounded earnings growth that the companies are giving us, but also the sustainability so that when markets decline the businesses hold up a lot better. Those are the key elements that we're looking for to start our work.

TWST: The high-quality businesses held up pretty well, but did you find any buying opportunities during the downturn, in March for example?

Mr. Polen: Absolutely. One of the great things about this particular vicious bear market is that it did not segregate. It seemed as if investors did not want any part of any business. Col-

lectively, the good and bad were all being sold down to incredibly low relative prices. Our methodology is to track, on a very serious basis, hundreds of these great or near great companies over and over again. Polen Capital is a research firm that constantly reviews the facts and fundamentals as Dan just laid them out to you. So when these really great companies, which most times are dearly valued because many investors know how great they are, suddenly become available at excellent prices, we are able to take

the opportunity without hesitation. We were able to take advantage of that opportunity last year.

TWST: Did you have any shift in emphasis in your portfolio? Did you increase exposure in some areas and under-weighted others?

Mr. Davidowitz: Everything that we do is from a bottom-up perspective. We don't try to find exposure to sectors or to different areas of the market or even make predictions about the market. We're very careful not to do that. We are market agnostic. But, like David was saying a minute ago, we cover hundreds of companies and we're well aware of everything about roughly 100 to 125 of those companies that we study intently--those that we own and another 100 or so that we know very well. We're waiting for opportunities with some of them, whether it's a more attractive valuation that we're waiting for or some sort of improvement in the business or whatever. When the situation arose in late 2008 and early 2009 where a bunch of the companies, almost all of the companies in our coverage universe were available at a very attractive price, we had to look at everything roughly at the same time and decide whether the stocks that we owned at the time

were the same ones that we wanted to own going forward. We reacted quickly and did take some action. We sold some of the companies that had held up very well for us and that we didn't think had a lot more upside and ended up buying some great growth companies that were on the bargain counter at the time. That's usually the way we'll take advantage of it.

TWST: What are your views on international stocks? Do you invest in ADRs or focus on international operations of your quality companies?

Mr. Polen: It's a very important aspect of what we do. Technology has enabled businesses to become more global today than at any other time in history. This means strong businesses

can create enormous value for their shareholders as they are not limited by borders or oceans. In the past and, more importantly, in the future almost all great companies will be truly international companies. While it's true that most of the companies in our portfolio are U.S.-based companies, the vast majority of them have 35% to 70% of their revenue outside the United States.

In order to be a great quality company today, whether it's in technology or health care or any other businesses, it's usually necessary to be operating globally. We've been able to ben-

efit from that. We strongly believe that going forward the large emerging markets will become an even bigger factor for our businesses as their relative GDP growth outpaces more mature markets. So the trends that we are all aware of, whether it's in India, China, eastern Europe, Latin America, or even in large mature economies like in the U.S. and western Europe, the great companies will need to do be doing business in a very serious way in all of these places.

Polen: Technology has enabled businesses to become more global today than at any other time in history. This means strong businesses can create enormous value for their shareholders as they are not limited by borders or oceans. In the past and, more importantly, in the future almost all great companies will be truly international companies.

We have always had a large percentage of our portfolio invested in premier technology and health care companies, today they account for nearly 75% of our portfolio. The products and services that these companies create are in true demand all across the globe.

Mr. Davidowitz: Just to add on to that, I think if you look at the companies in our portfolio about half of the earnings

of our companies on average come from outside the United States. We don't own any ADRs at this moment, but we do have a few in our coverage universe. It's more about where the earnings are coming from, not necessarily where the company is domiciled.

Davidowitz: Gilead Sciences is a company with the leading market share of HIV medications worldwide. Gilead has the most potent treatment available that people must take to control the virus and prevent it from progressing. They dominate this area and they are making strategic investments as they continue to increase their business both inside the HIV business and in their cardiovascular business that they are starting to grow now.

TWST: What are some of the companies that you feel are representative of your investment strategy, could you tell us about a couple of core companies and a couple of opportunities that you have found?

Mr. Davidowitz: We own, at this moment, 17 companies in our portfolio and I would say they are all considered core holdings. We don't have opportunistic positions or trading positions or anything like that. They are all core to what

we do. I'll give you an example of a recent business that we purchased early in 2009, **Gilead Sciences (GILD)**. **Gilead** is a company with the leading market share of HIV medications worldwide. Unfortunately, HIV is still not a disease that is under control, even in developed countries, the population of people living with HIV is still growing. **Gilead** has the most potent treatment available that people must take to control the virus and prevent it from progressing. They dominate this area and they are making strategic investments as they continue to

1-Year Daily Chart of Gilead Sciences

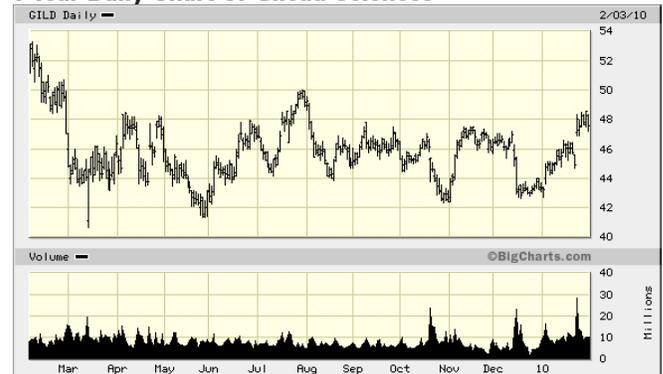


Chart provided by www.BigCharts.com

very big growth for **Gilead**. We believe that the market is not really giving the company credit for any of its pipeline opportunities. So that's one example.

TWST: So you believe your long-term view is a strategic advantage?

Mr. Polen: I think it is very important and it is directly tied in with what I mentioned before about thinking like a true business owner. It is also a very common behavioral problem that leads to a misunderstanding about our firm and investing in gen-

risky than they think. But when done the right way, with a long-term focus on excellent businesses, it is a heck of a lot less risky than most believe.

Mr. Davidowitz: I think one of the very big reasons that Polen Capital has done 13% while the market has done 8% is the protection that our portfolio sees in down markets. Crucial to compounding wealth over many years is that you don't lose the gains you made in up markets when the inevitable down market comes. And nobody announces when the market is going to go

Davidowitz: In the midst of the big sell-off in late 2008 and early 2009, we reevaluated all of the companies in our coverage universe and in our portfolio. We ended up selling some companies like Coca-Cola and Pepsi, and Automatic Data Processing which are very high quality companies that are a little on the lower end of the growth spectrum, but had held up extremely well. We ended up selling those and buying companies like Allergan, Apple and Amazon, really all of them at very depressed prices.

eral. The experience of investing in common stocks, when done correctly even through an S&P 500 Index fund over very long periods of time has had excellent results. While it's true that over the last ten years or so, the experience has not been great and the market, in general, has made basically nothing, although we've been able to make 3% or 4% per year over the last ten years. When looked at over the last 20 years though, the S&P has made north of 8% a year compounded, which is a very excellent return. At the same time, Polen Capital has made over 13% a year compounded over that time period. So to the long-term investors who have laid their bets down, so to speak, 20 years ago and let those investments accrue and compound over time, by just investing in S&P 500 they would have created \$4.85 for every original dollar invested. But by investing with us you would have made about \$12.61 for every dollar originally invested. We've made 2.6 times what the market made by compounding at a higher rate. But both experiences are excellent, so the recent experience of even ten years, which is fairly long, has not been great. But when you look back for the total twenty years, the results are great. Unfortunately people that are looking at investing in stocks currently have the recent ten-year period more in their minds than the twenty-year period and are now missing great opportunities to invest in stocks over the long haul.

I think part of the distraction or confusion is also due to the extreme volatility in returns on an individual year basis. Last year alone, the S&P was up 26% and Polen Capital's portfolio was up nearly 40%. In 2008, the market was down 38% and some investors were down 45%, 50% or more, we were down 28%. The extreme volatility is very difficult to relate to or to deal with. But, when looked on a long-term basis, you don't see the same kind of experience. The short-term experience, which is incredibly volatile, is more distracting than it is informative to people who are looking to do the right things with their money. I think that has created a speculative impression in people's minds that there is a great deal of risk in investing in common stocks. If done in the wrong way, investing or really speculating, is even more

down, you just have to be prepared for it. When you lose as much or more than the market in down years it impairs your ability to compound your wealth. Like David said earlier in this discussion, historically when the market goes down, our portfolio declines a lot less. Over the 20 years, our downside capture is about 50%, or one-half the market's declines. That allows us to keep compounding wealth for our clients off of a higher base. I think it's something that a lot of investors don't realize.

TWST: Do you want to mention any other companies in this interview?

Mr. Davidowitz: Yes, I'll talk about some of the opportunities that we took advantage of last year to what I call "high grade" some of the companies in the portfolio. I already told you a little bit about **Gilead**. But, in the midst of the big sell-off in late 2008 and early 2009, we reevaluated all of the companies in our coverage universe and in our portfolio. We ended up selling some companies like **Coca-Cola** (KO) and **Pepsi** (PEP), and **Automatic Data Processing** (ADP) which are very high quality companies that are a little on the lower end of the growth spectrum, but had held up extremely well. We ended up selling those and buying companies like **Allergan** (AGN), **Apple** (AAPL) and **Amazon** (AMZN), really all of them at very depressed prices. These were some of the greatest growth companies with the best competitive advantages that we could find. The only reason we didn't invest in them before is that we thought they were all a little bit expensive, but we ended up getting the opportunity and bought all three of them. Those purchases were very timely, very opportunistic, but we want to hold them for a very long period of time.

Our purchase of **Amazon** is a good illustration of our thinking. We have admired **Amazon** for some time, but we really started to fully understand the company's incredibly strong competitive advantages in 2007. The company's sheer size and scale allow it to pass on better prices to customers than most of its peers, either online or off. This scale also translates into the most efficient fulfillment and merchandising advantages in the indus-

try. This leads to more **Amazon** customers, which feeds the trend all over again. Today, less than 4% of retail sales are done online and we believe this will increase at least three-fold over the next 10 years and nobody at this point can challenge **Amazon's** positioning. So our long-term view is that this company will be multiples of its current size in the next decade and we got the opportunity to buy it during the market sell-off in December 2008 at about \$54 a share. The purchase was opportunistic, but we intend to hold **Amazon** for a long time.

Davidowitz: We have admired Amazon for some time, but we really started to fully understand the company's incredibly strong competitive advantages in 2007. The company's sheer size and scale allow it to pass on better prices to customers than most of its peers, either online or off. This scale also translates into the most efficient fulfillment and merchandising advantages in the industry. This leads to more Amazon customers, which feeds the trend all over again.

1-Year Daily Chart of Amazon.com

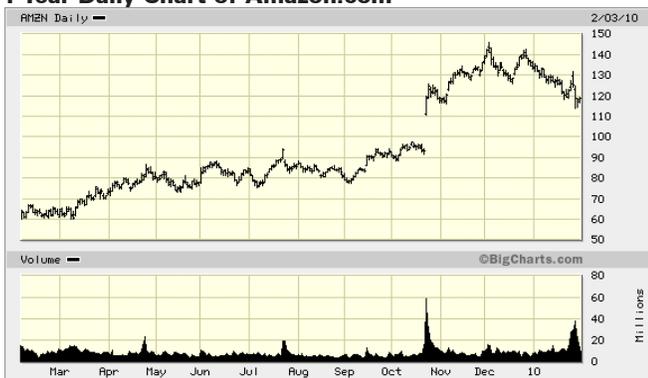


Chart provided by www.BigCharts.com

shareholders enjoy the benefits of having invested in a great company. As everyone knows, that has not always occurred. We set the bar very high in every one of these areas, and if we find that the company is not staying above these benchmarks that we set for them, we will take a serious look at getting out of that position.

So it might be that some external thing that happens. Over the years, there have been a few occasions in which we thought there might be a significant problem with a business, or

just a worry about a lessening of the quality of the business itself or a management team. When we become concerned about the strength of a company's franchise, its competitive advantage, or its balance sheet we will sell immediately. We only have twenty spots on our team and we have no place for a company with the probability of deteriorating prospects.

In other cases it's been different, but in every single case when we sell the stock it is because somehow they did not continue to meet the criteria that we believe the business should have to maintain. That is really key to our Margin of Safety. When the market declined greatly, even though we did make certain portfolio adjustments, we were not concerned about the underlying businesses that we already owned. As long as they are great businesses and you are an investor in it for the long-term you learn to stay with them during tough market conditions. Eventually the tough market conditions will turn for the better. This happened

Polen: The word risk itself is the key concept in investing, and it is also by far the most misunderstood. Our trademark is that we've taken less risk yet created better results. One of the unique things about Polen Capital is that we are considered in the industry to be highly concentrated. Most people would say that seems like it's a risky thing to do. But the fact is that if each individual stock in your portfolio was selected because the underlying business itself was of higher quality, thereby meaning it has lower risk, then the whole portfolio would likely have lower risk.

TWST: You hold stocks for the long-term, but what would trigger an exit from your portfolio?

Mr. Polen: The quality standards that we set for acquiring a company must be maintained for us to continue our investment in the portfolio. The criteria are exactly the same. We're buying companies with the best balance sheets, that are incredible free cash flow generators and that have very high returns on capital and good earnings momentum and growth. At the same time we would like to see the management teams that are totally dedicated to doing a great job for the shareholders and that the

last year, and the stocks will then rise up to fair values. We've always operated in that way and by doing that, I think it's pretty clear that we've taken less risk than other managers even though we stay fully invested just about at all times. The returns have been, as we said before, in the highest percentile of all large-cap growth managers over the many years.

TWST: What about the risk factors that you incorporate within your management process at the portfolio level and at the individual stock level since you want to have a concentrated portfolio?

Mr. Polen: Actually the word risk itself is the key concept in investing, and it is also by far the most misunderstood. Our trademark is that we've taken less risk yet created better results. One of the unique things about Polen Capital is that we are considered in the industry to be highly concentrated. As Dan said before, we currently own seventeen stocks and on average we've owned between seventeen and twenty three over the history of the firm. Most people would say that seems like it's a risky thing to do. But the fact is that if each individual stock in your portfolio was selected because the underlying business itself was of higher quality, thereby meaning it has lower risk, then the whole portfolio would likely have lower risk. Owning more stocks rather than less is not going to reduce the risk of the portfolio unless the underlying stocks, no matter what the number was, have less risk themselves. But most people really don't understand that concept.

Polen: We truly believe that by focusing on owning businesses and not on buying stocks that go up and down gives us a very heavy advantage over others that tend to buy and sell stocks more frequently. I think even professional investors who own a stock for more than one year is fairly unusual, so the turnover rates are quite high. This is really just evidence of the fact that people are speculating by buying and selling what they think is going to make money in the near-term, therefore they look at stocks only as things to buy and sell.

Risk is a key concept in investing. I believe many if not most portfolio managers misunderstand it. They tend to take more risk than necessary to create the results. I'm sure everyone is trying to create good results, but they're taking more risk than necessary to create the good results. Therefore when the market goes into a negative condition as it has three or four times over the last twenty years, their results are terrible. Then they make new judgments in the down market, often emotionally and compound their errors. This produces the less than satisfactory results of professional money managers, which we are all well aware of, over time. Managing risk is really the key concept in managing a portfolio, and I'm proud of the fact that we have done very well in that regard. The last year and a half has been a great example of our ability to do that.

Mr. Davidowitz: I agree that the concept of eliminating or reducing risk through diversification is completely misunderstood. The quality is much more important than the number of stocks, and how we do it in our portfolio is exactly that way: from a stock-by-stock, company-by-company, individual look at the business, the strategy, the competitive advantages and the unique risks to each individual business and trying to figure out if there is a potential for capital loss if we were to invest in that business. If there is that chance, a significant chance, we won't take that opportunity. It starts on an individual security basis and that's really the most important part. Then, of course, we have to make sure that we don't have too much exposure to overlapping risks between companies. We typically will not have more than 50% of our portfolio in any particular sector and usually not more than 10% in any particular company. But we still do believe that concentration is a key not only to the long-term return, but also to

risk management because of our high-quality approach.

TWST: What do you think are the differentiators that distinguish your large-cap growth approach from that of peer companies?

Mr. Polen: First of all, because we have a twenty-one year certified and documented track record that stayed well within our stated system and methodology, we now can look back over that history and see what we were able to produce. Most of what we do differently and in our opinion better, is built into our investment discipline. It is structural and can easily be transferred to our future employees. Because of this we are very confident that we can continue to produce outstanding results.

We've already mentioned the characteristics of our approach that in combination are unique. We also truly believe that by focusing on owning businesses and not on buying stocks that

go up and down gives us a very heavy advantage over others that tend to buy and sell stocks more frequently. I think even professional investors who own a stock for more than one year is fairly unusual, so the turnover rates are quite high. This is really just evidence of the fact that people are speculating by buying and selling what they think is going to make money in the near-term, therefore they look at stocks only as things to buy and sell. The evidence is that Polen Capital Management has held its stocks over five years or more on average which is what you would expect if you are buying a business to be a true investor. In addition to our long-term, low turnover approach, the concentrated nature of our high-quality portfolio keeps us focused on only the best businesses. Those particular elements in combination are very unique.

Mr. Davidowitz: The turnover ties into the investing time horizon. When we are looking at these businesses before we decide to purchase one, we're trying to figure out what this business is going to look like five years from now and ten years from now, not what's going to happen in the next quarter or the next year. Our ability to focus on the long-term strategy and growth of the business allows us to eliminate a lot of the noise that's in the marketplace that causes a lot of short-term stock price swings. This allows us to keep our turnover low and allows the companies' earnings growth to do the investment compounding for us.

TWST: What advice would you have for our readers about large-cap growth investing, are there any headwinds ahead that investors should be wary of?

Mr. Polen: As I mentioned before, in my experience investors do not understand the concept of risk. They focus too

much on the number of stocks that they own instead of the quality of the businesses. I think that most people are not aware of the simple fact that the S&P 500 has produced over the last 20 years, a rate of return north of 8%, which is heavily tied to the nominal growth of the U.S. economy. When you invest for the long-term, even passively, you can earn an acceptable return, but you have to be able to stay with it, not jump in and out of the market based on human emotions of greed and fear. We believe that we can then add to that acceptable return by understanding which businesses have competitive advantages that lead to long-term earnings growth. But in the short run, the volatility of the stock market will create a lot of noise that you need to filter out.

For instance, the results this past year, 2009, statistically are going to be outstanding for most equity managers with many up 30% or more and the S&P up over 25%. But to believe that that is going to continue is ridiculous, it's nonsense. Just as after the markets had already declined by nearly 60% it would be ridiculous to think the declines would continue forever. At the end of the day an individual investor can earn an acceptable return over the long run in buying stocks without much effort, other than controlling his emotions. But he can do even better by hiring a professional money manager that has a common sense approach to managing the risks inherent in investing. This does require some time and effort, but people research cars and refrigerators before they buy them, why should they do any less with whoever they trust with their money?

TWST: Do either of you have anything to add, anything we didn't touch on in the interview?

Mr. Davidowitz: The key I think for all investors is discipline and, as David said, risk control. By focusing only on investing prudently in quality companies that you understand, Warren Buffett calls that a circle of competence, and not being emotional, you should do very well. It was very easy at this point last year to be extremely emotional given what was going on in the market but we definitely did not partake in that type of thinking. Again it goes back to our long-term view on all of our companies where we can eliminate the short-term noise. I think discipline, risk control and not being emotional are keys to investing success; and that's what we try to do here.

Mr. Polen: I would just add that I have found that many investors who we speak to have unrealistic expectations of what investing in stocks is all about. They tend to react to the current market conditions, so when the market is good, which very often it is, they believe that you could just make all kinds of amazing returns in the stock market by taking much too much risk. When the market is down they develop fear and insecurity about stocks and tend not to take advantage of the opportunities that a down market would create. Unfortunately you need to keep a level head no matter what the market is doing and keep a longer term perspective in order to have good results. The way that Polen Capital has been able to do that is by entering the arena as a very long-term investor in businesses, not stocks; and we stay fully invested. By doing that and only finding what we believe to be the highest quality companies, we are accepting the fact that the market will be good at times, it will be bad at times and it will be dull and uninteresting at other times. But over time, it will produce a certain rate of return which we believe will be acceptable. We believe the effort that we are putting in as professionals and knowledgeable people who have our emotions well under control, will produce returns that are well in excess of the market. When we look back over time we have produced really outstanding results. We believe that people looking forward over the next 10, 20, 30 years have a very good chance of having excellent results at the end of the day.

TWST: Thank you. (PS)

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