

To reduce risk and maximize potential wealth for our clients, our individual stock selection embraces the following six characteristics:

1. **Industries:** Sadoff Investment Management LLC screens industries because the majority of the stock prices in an industry advance and decline in unison, thereby exhibiting the same price pattern.

2. **A major well-defined downtrend:** We look for the majority of the stocks in an industry to exhibit a well-defined, 5- to 20-year downtrend. This long-term downtrend plants the seed for the next upturn.

3. **Upside breakout:** We then watch for the majority of the stocks in this industry to breakout from this well-defined, long-term downtrend on increasing volume. This price action strongly suggests a significant pivot is developing. In addition, four factors often validate this turnaround: **(a)** new management, **(b)** write-offs, **(c)** layoffs and **(d)** a new focus.

The result is usually a dramatic turnaround for these companies.

4. **Value and quality:** We search for industries breaking out of downtrends because they are typically undervalued: low price-earnings ratios, favorable book values, etc. Traditionally, the best-managed companies lead the way.

5. **Growth:** We watch for the majority of the stocks within an industry to report earnings that are better than estimates. This creates the upside momentum that may lead to a powerful, sustained advance.

6. **Insider buying:** The final characteristic we look for is insider buying. We look for an industry in which insiders are buying, employees have significant ownership, the corporation is repurchasing its own shares or buyouts are occurring in the industry. This further validates value and growth potential.

Once we have verified these six characteristics, our strategy is to select stocks from within our focus industries that represent well-managed industry leaders, at attractive valuations with excellent growth potential. In addition, we may buy and hold solid, interest-rate-sensitive companies for our growth and balanced portfolios. For each client, we maintain a diversified low-turnover portfolio, which further reduces risk.

