

As Seen In... *Forbes*, February 2, 2009

Evergreen Capital Management

The philosophy at Evergreen Capital Management can be summed up quite succinctly: "We are rational contrarians," says David Hay, chief investment officer at the 25-year-old firm.

That strategy is embodied in ECM's trademarked investment management process. Right Cycle Investing emphasizes the monitoring of mutual flows and, as Hay puts it, "Getting the inflection point right."



David Hay
Chief Investment Officer

"We believe most investors are wrong cycle investors," Hay says. "They invest when the market has been going up for years, or in a particular subset that has been on a roll. They may feed it some more, thinking they, too, are on a roll. Suddenly, they are fully invested at the top of a cycle."

With \$620 million in assets under management, the Bellevue, Wash.-based wealth management firm prides

itself in often swimming against the financial stream to the benefit of clients with its Right Cycle approach.

The firm strategically plans when to get out of the notorious bubbles. For example, it downplayed tech stocks in the late '90s before that bubble popped. "We underweighted financials a few years ago, along with home builders," Hay says. "We have been very negative on resource stocks and emerging markets. We are jaundiced about the euphoric themes."

Evergreen manages equity and fixed income portfolios for institutions, tax-advantaged and individual accounts. Most equity accounts are managed around a model that incorporates diversification with S&P sectors. ECM's investment style tends to be focused toward large and mid-cap growth and value as opposed to small cap. It adds up to the Right Cycle. "Our signature strategy is to look at mutual fund flows, especially when they get extreme. They can be a contrary indicator," Hay says. "When you see two or three years of huge in-flows into emerging market funds, and the evaluations get far beyond what is normal, we get as underweighted as we can, or simply get out."

Evergreen Capital: Riding Out the Storm by Investing Right

The way Hay sees the current financial crisis: "Now we have an inverse bubble where people are really giving up on this country and any recovery. We think that is wrong." Hay believes the core principle of Right Cycle investing is embodied in Warren Buffet's maxim: "Being greedy when others are fearful, and being fearful when others are greedy."

ECM's investment advice is available online with its *Evergreen Virtual Advisor*, a weekly newsletter that has proven especially prescient. "Early last year when everyone was talking about inflation and stagflation, we were saying the worry is going to be deflation," Hay says. "We predicted oil prices going down. We just knew you can't have this massive de-leveraging cycle and expect commodity prices to go ballistic."

For those in the market for a wealth manager, Hay offers these tips. "Fee-only is important. It's much more professional,

and you eliminate the conflict of interest. Disclosure is important. What is the professional's own exposure to strategies being recommended? Look at the track record, the quality of the team and, most basic, does the strategy make sense? We offer all those qualities at ECM."

"The financial markets are unfortunately plagued by a series of bubbles. People get too enthusiastic about different asset classes and that's been a recurring pattern over the last decade. We have consistently gone contrary to those bubbles to the benefit of our clients."

— David Hay, Chief Investment Officer
Evergreen Capital Management

EVERGREEN CAPITAL MANAGEMENT

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RIGHT CYCLE INVESTING