

BIG UPDATE - OCTOBER 2012



Bowden Investment Group

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Letter From the President

The recent third quarter earnings season provided an interesting learning experience for members of the Bowden Investment Group, as it did for most market participants. Despite the large number of companies that missed their earnings estimates, and lowered future guidance, investor sentiment remains bullish and consumer confidence continues to rise. President Obama's reelection has given us more certainty regarding which sectors we believe will outperform the market during his next term.

This month, for the first time since its inception, the Bowden Investment Fund's cumulative returns underperformed the S&P 500. Unfortunately, this brings to an end the group's eleven-year record of delivering better returns than the S&P 500 index. Clearly, this was a major blow to the group.

Upon further review of the disappointing results, we decided to liquidate our entire position in Decker's Outdoor Corporation. We

took the action to liquidate this company based on sound analysis and with the utmost confidence.

In anticipation of our upcoming opportunity to rebalance our current portfolio, each member has completed an industry analysis report, a company specific report, and an in-depth financial statement analysis for their chosen company. We are now in the process of applying valuation models to our respective companies. Based on solid research and analysis, we anticipate making strong buy recommendations at the end of this semester.

Thank you for your interest and thank you for your support of the Bowden Investment Group. We are working hard to properly apply the skills and knowledge we have acquired to the portfolio we so proudly manage. We are committed to outperforming the S&P 500 Index.

- Jack Gibbs

Economic Outlook

The U.S. economy saw improvement in October, mainly driven by housing and oil prices. The country experienced more housing starts and building permits than expected. Home sales prices increased likely due to consumers taking advantage of record-low interest rates. Lower prices at the pump have contributed to increased consumer sentiment, which is now at a 5-year high. In addition to these positive economic indicators, government related spending contributed to an increase in GDP which reached 2.0% in October. However, the unemployment rate remains at 7.9%.

China's economy appears to be stabilizing as exports grew by 9.9% nearly doubling estimates of 5.5% growth. China's banking industry is also showing growth, with the top four banks increased profits by 15% year-over-year. An area of concern for banks are non-performing loans which increased in the third quarter due to defaults on property loans. Of major concern here is the reliability of information coming out of China. Several reports show China may very well be masaging their numbers to artificially prop-up their economy. Only time will tell if they are cheating.

Now that politicking is over and Obama has been reelected, the market can take a more concrete look at what to expect over the next four years. Almost immediately following the election treasury yields rose, oil prices fell, and the dollar weakened as investors had more certainty regarding the future of QE Infinity. Investors spoke out again the following day. Stocks took a major hit across the board and the S&P 500 Index ended the session down 2.37%. Hopefully Congress will work with the President to solve the major challenges facing our nation.

- Julia Spring, Travis Ott

Dreadful Deckers

When we took responsibility for the Bowden Investment Fund in August, there was already a major loser in the portfolio, Deckers Outdoor Corporation. Deckers is an outdoor apparel company with several lines of business, but its cash cow producing more than 70% of its revenue is UGGs, the popular wool boots. Many thought these boots were more than a fashion statement and would become a staple of consumers living in colder climates. Deckers proved to be too heavily dependent on UGG sales. When fashion trends moved forward leaving UGGs behind, Deckers missed revenue targets and the stock price began to fall.

After much deliberation, the Bowden Investment Group voted to put a stop-loss order on all shares of Deckers Outdoor Corporation. Some group members believed the stock would recover, but the majority agreed that the stock was very risky and it would not be prudent to proceed without downside protection in the event of a major price drop. Our worries of a potential significant drop were confirmed on Thursday, October 25 when

Deckers reported its third quarter financial results. They reported earnings of \$1.18 per share, beating expectations of \$1.04 per share.

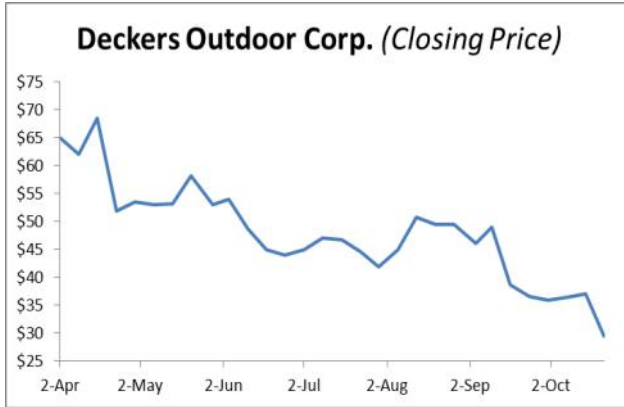
However, the overall news was not positive given their 31.1% revenue decline year-over-year. In addition, management cut their outlook significantly to a negative

revenues. Their costs spiked because of rising sheepskin prices, increasing 80% over a two-year period. Slowing demand in Europe for UGGs, where the economy remains soft, was the nail in the coffin for investors.

Consequently Deckers' shares fell as much as 18% in after-hours trading and the group's stop-loss order was triggered on Friday morning. The executed market order filled at \$29.02 totaling a loss over 50%. As of this week investors seem to believe the stock was oversold at those levels and the stock is now hovering around \$32, above where the stop-loss would have been triggered. Live and learn.

This exercise in placing a stop-loss, which turns into a market order gave the group excellent insight into how these types of orders can lead to an undesirable result. In hindsight, a stop-limit would have been a more prudent order type, but this exercise was an extremely valuable lesson to all members of the Bowden Investment Fund, one they won't quickly forget.

-Julia Spring



14% decline in net income from earlier projections of 22% growth. Management attributed much of this decline to a warmer than expected weather season. Based on where the company currently is in its life cycle, it should not be so dependent upon one seasonal product. Deckers has other business lines especially designed to offset warm weather seasons that hurt UGG's

Fund Composition

- Apple (AAPL)
- ABB (ABB)
- Apache (APA)
- Buffalo Wild Wings (BWLD)
- Chipotle Mexican Grille (CMG)
- CSX (CSX)
- Danaher (DHR)
- PH Glatfelter (GLT)
- Google (GOOG)
- IBM (IBM)
- Intel (INTC)
- Novartis (NVS)
- Patterson-UTI Energy (PTEN)
- Stryker (SYK)
- Tupperware (TUP)
- Vanguard Energy ETF (VDE)
- Vanguard Financials ETF (VFH)
- Vanguard Total Stock Market ETF (VTI)
- Wal-Mart (WMT)
- Exxon Mobil (XOM)

Fund Performance

| | |
|--------------------------------|-------------|
| Beginning October Value | \$90,277.24 |
| Ending October Value | \$86,528.74 |

| Oct 2012 Returns | |
|------------------|---------------|
| Bowden | S&P 500 Index |
| -4.15% | -1.65% |

| YTD 2012 Returns | |
|------------------|---------------|
| Bowden | S&P 500 Index |
| 4.28% | 14.51% |

Recent Fund Activity

Bought

N/A

Sold

DECK

"I've found that when the market's going down and you buy funds wisely, at some point in the future you will be happy" - Peter Lynch