

S M A L L - C A P
P O R T F O L I O



King Investment Advisors, Inc.

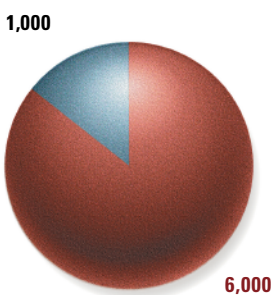
SMALL-CAP PORTFOLIO

(Up to \$2 billion)

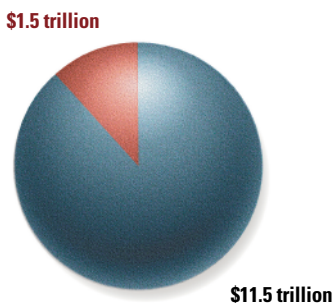
What are Small-Cap Stocks?

- Small-cap stocks represent ownership in companies with market values below \$2 billion. Market values in the U.S. equity market are extremely concentrated – a small number of companies account for a large portion of the total value. The largest 10% of companies account for approximately 85% of the total market value of the U.S. financial markets. In terms of numbers of stocks, however, most are much smaller companies.
- With thousands of companies from which to choose in the small-cap arena, new opportunities constantly present themselves. By analyzing a larger universe, we can maintain a portfolio in which earnings are growing faster than those of the average companies without extreme valuations.
- Our *Business Valuation Approach* identifies small-cap companies selling for less than their true intrinsic values. Our portfolio will invest primarily in companies with a market cap up to \$2 billion (at cost). These companies sell at (1) a discount to their private-market values, (2) a discount to their historical valuations, or (3) low prices relative to their expected growth rates. KING invests in these companies believing the stock market will eventually realize their intrinsic values, causing their stock prices to rise.

Proportion of Small-Cap Companies



Market Value of Small-Cap Companies



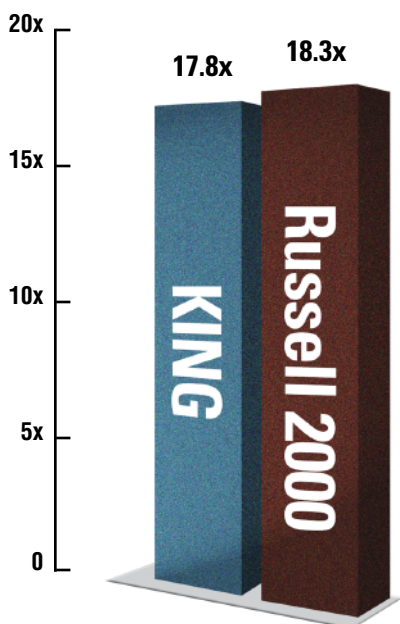
■ Small-Cap ■ Large-Cap

Why Invest in Small-Cap Stocks?

- Historically, small-cap, mid-cap, and large-cap stocks have had long but varying cycles of relative outperformance, which may be followed by extended underperformance. A properly diversified portfolio including a small-cap strategy reduces the capitalization risk and allows an investor to maximize long-term returns.
- Many excellent small companies are unknown to investors. We exploit this inefficiency by buying under-followed companies trading at significant discounts to their intrinsic values.
- Small-cap stocks are often rapidly growing companies who provide a new product or service, exploit new opportunities or possess a unique edge over their competitors. Despite these characteristics, many small-cap companies are currently selling at lower valuations than the largest companies.

Small-Cap Stocks: Valuations

On a P/E basis, (based on 2006 estimated earnings), many small-cap value stocks are trading at very attractive valuation levels. Lower P/Es, in many cases, mean less risk, which is a desirable characteristic in today's financial markets.



Portfolio Construction

■ Portfolios typically hold 25-35 stocks. Our goal is to buy the best stock values with the greatest opportunities for price appreciation. Therefore, some industries are significantly over-weighted or under-weighted. The average holding period for a stock is 18 months. The percentage of stocks in each market cap category will vary.

Equity Buy Discipline

■ Portfolios are typically invested over a 30-90 day period. We review client portfolio holdings daily, and purchase stocks that meet our buy criteria. We typically defer buying stocks that have had recent, sharp, upward moves, or that are near our target price.

Sell Discipline

■ We evaluate securities for sale as fundamentally as we do for purchase. Our primary reasons for selling a security are:

- Price objectives met
- Fundamentals change
- More attractive alternatives found

■ A secondary consideration is price deterioration versus a broad market index. Our sell discipline is driven by fundamentals, but poor relative performance may cause a stock to be considered a candidate for sale.

Cash Position

■ Cash is strictly a by-product of the investment process. We are typically fully invested in stocks. When the risk/reward for common stocks appears unfavorable, or when price valuations are not attractive, KING may increase its cash position rather than purchase stocks that fail to meet our valuation criteria.

OUR STRATEGY FOR MAKING YOUR INVESTMENTS WORK FOR YOU

King Investment Advisors, Inc., founded in 1981, manages approximately \$700 million in stocks and bonds. We are value investors with a growth overlay.

Our goal is to provide outstanding long-term investment results while minimizing the risk of our clients' capital.

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We adhere to the *Business Valuation Approach*. We seek to identify attractive investment opportunities using a broad definition of value, uncovering securities often overlooked by other investors. This Approach has served our clients well for many years in different economic environments.

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We are dedicated to providing a high level of professional service to our clients. Additionally, we are committed to the highest level of ethical standards by always placing the interests of our clients first.

We manage our clients' assets as if they were our own.



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