

NORTHWEST VIEWPOINT

Second Quarter, 1999

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ICM Asset Management, Inc.

Portfolio Manager's Roundtable: *The Research Process*

moderated by Cassandra Devaney

As you look through the pages of this quarter's newsletter, you will come across an article on our impressive small- and mid-cap research team and their quest for the Chartered Financial Analyst designation. ICM also has two seasoned research analysts/portfolio managers on the large-cap side who complement our team of eight small- and mid-cap research analysts. I've invited Small- and Mid-Cap Value Senior Portfolio Manager/Research Analyst Kevin Jones,

CFA, and Large-Cap Growth Senior Portfolio Managers/Research Analysts Bob Lewis and Phil Murphy, CFA, to discuss how their respective research processes differ.

Let's start out with the basics.

Bob, would you give us a brief description of the research process for ICM's large-cap growth style?

Bob Lewis: Our research process is built around screening and looking for stocks that historically have a good record of growth in earnings, sales and cash flow per share. We find these stocks and use them to construct a well-diversified, low-risk portfolio of common stocks.

Do you conduct your own research?

Bob Lewis: We've observed that — unlike some of our competitors in the large-cap arena that believe their research is so unique that it gives tremendous insights that add value — we're more in the category of sifting through research done through brokers and independent research sources.

Phil, would you like to expand on that?

Phil Murphy: Just that we are very much top-down.* The sector/industry weighting is probably about 80% of the performance, and the individual stock is 20.

Bob Lewis: Which is why we spend more time looking at industries rather than specific stocks or the economy at large.

So most of your research comes from second-hand sources?

Phil Murphy: Yes. If 30 or 40 other analysts visit a company and write up their reports we can't really uncover any additional information that would change our outlook in our large-cap well-researched universe.

So where do you add value to the process as a research analyst/portfolio manager?

Phil Murphy: We add value where we overweight or underweight the industries and sectors. And then by picking the companies within those industries that are leaders on the forefront of product development, product enhancements, cost cutting, value-added services, product price. Whatever makes them the leaders in those industries with dominant market share.

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Kevin, would it be accurate to say that the small- and mid-cap research process heavily relies on direct contact with the companies you research?

Kevin Jones: Yes. On the small- and mid-cap value side we typically do more hands on research, as opposed to what Bob talked about with the plethora of research that is available to them on the large-cap side. For us it is a completely different type of ballgame.

How so?

Kevin Jones: The number of research analysts that follow our companies are minimal at best. So as a result it forces us to do a lot of our own research.

What types of research do you conduct for small- and mid-cap value stocks?

Kevin Jones: Basically we take two different approaches. One would be what you refer to as top-down*, and the second being bottom-up**.

Which approach do you use more?

Kevin Jones: Bottom-up, because it's most specific to individual company research. Typically what we are looking for is a misunderstanding among the investment community about the company, and this misunderstanding may come through a number of different ways.

Such as?

Kevin Jones: Well, it may be that the number of analysts following the company is so minimal that nobody is really paying attention to what's going on. Or there may be some management changes going on in the company, and people aren't really paying attention or don't really believe that the changes are taking place. It could also be a technological change or new product. So we identify individual companies, without a specific sector bias, that we think offer opportunities to prove the few sell-side analysts that follow them wrong, in a sense. That's what ends up happening at the end of this period—they garnish more attention. The goal for us would be to see the number of analysts following a company increase every two to three months because that's indicative of increased interest.

“... that's where we get our leg up, by doing our own research, because the idea is to identify opportunities before those few analysts do.” -Kevin Jones
Small- and Mid-Cap Value

And how do you use the second approach, top-down?

Kevin Jones: There are specific instances where we will identify opportunities within specific industries, for example I'll highlight Oil Services. We identified some dynamics relative to the supply and demand of capital equipment for the Oil Services industry, because we thought that presented opportunities to us. We then directed analyst resource time to look for individual companies within that industry,

obviously still with the value tilt, to look for sense of misunderstanding within those specific companies. There's already a level of misunderstanding for the entire industry, and we couple that with our own individual research.

Kevin, You mentioned that you have a lot of direct contact with the companies that you research on the small- and mid-cap side. Are you able to talk to top management?

Kevin Jones: Yes. One of the things that is interesting about being a small-cap value manager is that we end up being one of the largest shareholders—quite often in the top ten. So it is very easy for us to get access to the company management, and to have the ear of the CFOs and CEOs and the various other people that they make available to us within the company.

What other research methods do you use?

Kevin Jones: We also rely on contacts that are in the business. It's interesting how we are able to use clients for this. In fact, I just had a phone call about an hour ago where a client called up to tell us that, because of his profession, he knew something about one of our companies. It's nice because, although I can't say that I don't believe what management is saying, obviously it behooves us to test the hypothesis of what they say is happening. It's nice to be able to use those other resources outside of just your traditional research. And that's

* Top-down investing looks at trends in the general economy and next selects industries and then companies that would benefit from those trends.

** Bottom-up investing searches for individual stocks before considering the impact of economic trends.

where we get our leg up, by doing our own research, because the idea is to identify opportunities before those few analysts do.

Let's turn the tables for a moment and talk about the difference in size between your two research teams. We've got a research team of eight on the small- and mid-cap side, and a team of two for large-cap. Bob, Phil, are two of you enough to research large-caps?

Bob Lewis: Absolutely. Our universe of stocks that we look at and screen for, realistically is probably 200...

“We spend more time looking at industries rather than specific stocks or the economy at large.” -Bob Lewis
Large-Cap Growth

Phil Murphy: ... and it doesn't change much.

Bob Lewis: For the most part the research sources that we use, whether they are brokers or independent researchers, we use for extended periods of time. So you've built up the contacts and have the inputs coming in all the time. And they are companies with which you are very familiar with and have been for an extended length of time. It's just not practical to have a large number of analysts till the same fertile soil.

Phil Murphy: Another big differentiation is that we are looking to hold our stocks 5, 10, 15 years. And so we

do not have to ferret out the next idea. We will hold on to a stock until we find a better idea. On the other hand, small- and mid-cap value, if they are successful, are looking for turnover every year or two for each stock.

So we follow about 200 stocks on the large-cap side; Kevin, how many stocks do we follow on the smaller-cap side?

Kevin Jones: I would say that, in some sense, we easily follow somewhere in the range of 1500 companies. Each analyst is probably very close to 30-60 companies, and may even follow as many as 200 in a peripheral sense - where they will look at quarterly earnings and keep track of what's going on with the company. Being an opportunistic buyer, you have to be able to take advantage of the opportunities when they present themselves. These (large-cap) guys don't have to act that quickly because they are going to own a stock for 5, 10, 15 years. We have to be able to take advantage of the opportunities. As a result, we have to maintain quite a large database of research.

Do the small- and mid-cap value and large-cap growth research teams ever get together to share ideas between the different styles?

Phil Murphy: As a firm we've discussed the idea. The initial opinion was that it would be a great way to share ideas, thoughts and so forth. But then you realize the downside to that is that when you start talking together you start thinking together, and subconsciously there might be a little bit of a drift together. And when you do that you lose the benefit of the different products, styles, approaches and opinions. All of a sudden it defeats the entire purpose of putting us all together to diversify the firm by adding those different kinds of styles.

Kevin Jones: We haven't instituted a formal process for this, but I think what we are doing right now, what I've actually enjoyed doing, is talking about things on an informal basis. It's primarily Jim, myself, Phil and Bob, and it's more of listening to someone else's perspective. So, although we may not actually exchange ideas and say, “I think you ought to take a look at a particular stock,” we do discuss the dynamics of the respective industries and what the other's perspective is. I think that this is a valuable input without leading us so far as to what Phil is mentioning, the danger of leading each other into going the same direction. We may find ourselves there, but we only find ourselves there in the end, not the beginning.

Thank you, gentlemen, for your insights and explanations.

We request that clients advise ICM and their broker/consultant in the event that there are any material changes in their investment objectives, financial situation and/or prior investment instructions. Please call ICM at (800) 488-4075 if you have any questions or need additional information.

Our Promise to You

by Catherine Williams, Client Services Manager

I had a great conversation this morning with a client from Boca Raton, Florida, and his consultant. We talked about the recent performance rebound in his small- to mid-cap value portfolio, and I explained our outlook for the next six months. In the midst of our conversation I remembered the last time we talked. It was some time last fall, and small- and mid-cap stocks, value in particular, had

taken quite a beating. That day my friend's disposition wasn't nearly as sunny as his local climate, but after talking he agreed that he needed to view his portfolio as a long-term investment. Today he is glad that he picked up the phone that day to call his consultant and ICM, and ultimately decided to tough it out during that rocky period.

Over the years I've been fortunate enough to get to talk to a lot of our clients. I can now honestly say it has been through the good times, as well as a few rockier moments. As with our entire team of client services representatives, we're here to help you out whether you want to change your mailing address, find out the market value of your portfolio, or discuss specific portfolio holdings.

Whatever information you want, we'll make sure you get it in a timely and professional manner. That's our mission, and our promise to you.

Client Services Mission Statement

Our Promise to You

As a client of ICM, you can expect professional, personal service from our team of knowledgeable client services representatives. Exceeding your expectations is the core of our business.

We believe that the value of genuine, quality client service, consistently delivered, is what sets us apart from other professionals. And while the markets may be volatile, our commitment to service will always remain constant.

We are dedicated to keeping communication channels open, and we pledge to return your calls in a timely manner, normally within 24 hours. As your liaison to each of ICM's departments, we will provide you with the information you need.

Your Client Services team views every opportunity to serve you as an opportunity to enhance your total ICM experience.

Attention Broker/Consultants With ICM Clients

We're Bringing You Faster, More Concise Information

In a recent survey that we conducted of our consultants, your most frequent request was for faster, more concise information.

We are committed to providing you with this timely and pertinent in-

formation about ICM's investment style and outlook as it relates to your clients' portfolios.

We will be sending you regular faxes, but if you prefer e-mail just send your e-mail address to us at

clientservices@icmasset.com. As always, please feel free to call us at (800) 488-4075 or (509) 455-3588 if you have any questions, or if there is anything else we can do to assist you.

To help us serve you better, please utilize the following directory for the ICM Client Services department:

New Account Administrators:	Debbie Long, Shelly Johnson
Deposits/Withdrawals:	Debbie Long, Shelly Johnson
Account Transfers:	Shelly Johnson, Debbie Long
Account Terminations:	Shelly Johnson, Debbie Long
Marketing Materials:	Rebecca Johnson, Krista Williams
Address Changes:	Rebecca Johnson, Krista Williams
Audio Tape/Newsletter:	Rebecca Johnson, Krista Williams
Scheduling Conference Calls or Meetings:	Rebecca Johnson, Krista Williams
Client Reporting:	Brenda Emert, Krista Williams, Rebecca Johnson
Databases:	Dominic Cozzetto, Krista Williams
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As always, Client Services is available for any questions or requests you may have. We would be happy to assist you anytime.

A Cut Above

*by Kevin Jones, CFA
Senior Portfolio Manager*

As you sit there perusing our current newsletter, five of ICM's small- and mid-cap value research analysts are sitting on pins and needles waiting for their CFA exam results due some time this month. What is a CFA you ask? The acronym CFA stands for Chartered Financial Analyst and is globally recognized as the standard by which employers and investors can validate the knowledge, integrity and professionalism of investment managers and financial analysts.

The CFA designation is awarded by the Association for Investment Man-

agement and Research (AIMR). The CFA program is designed to provide an educational process to further develop financial skills specific to the investment management industry. The program's broad-based curriculum includes core areas from portfolio management to asset valuation to derivatives and quantitative analysis. In addition, AIMR encourages members to demonstrate their commitment to learning by participating in their formal continuing education program.

AIMR only awards the CFA designation to individuals who meet a number of requirements. These include passing three sequential exams (administered once a year in June); attaining three years of experience in financial analysis; and pledging to adhere to the code of ethics that governs

the conduct of those holding the CFA charter. CFA charterholders are also required to be a member of a local Financial Analyst Society.

After months of intense preparation, the grueling exam process culminates with a six-hour exam. AIMR estimates that CFA candidates spend an average of 250 hours studying for each of the three levels of the program.

Five of ICM's research analysts and portfolio managers currently hold the Chartered Financial Analyst designation, with the anticipation of more to come. For those who are not as familiar with ICM, it is a requirement of all research analysts to be working towards their CFA.

Please join us in wishing them all the best of luck!

▶ Index Watch

	2Q99	YTD
<i>Large-Cap Indices</i>		
The Dow	12.54%	20.45%
S&P 500	7.05	12.38
Russell 1000	7.12	11.54
Russell 1000 Value	11.28	12.87
Russell 1000 Growth	3.85	10.45
<i>Mid-Cap Indices</i>		
Russell 2500	16.40	10.88
Russell 2500 Value	16.02	6.74
Russell 2500 Growth	16.81	15.58
<i>Small-Cap Indices</i>		
Russell 2000	15.55	9.28
Russell 2000 Value	16.56	5.26
Russell 2000 Growth	14.75	12.82



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