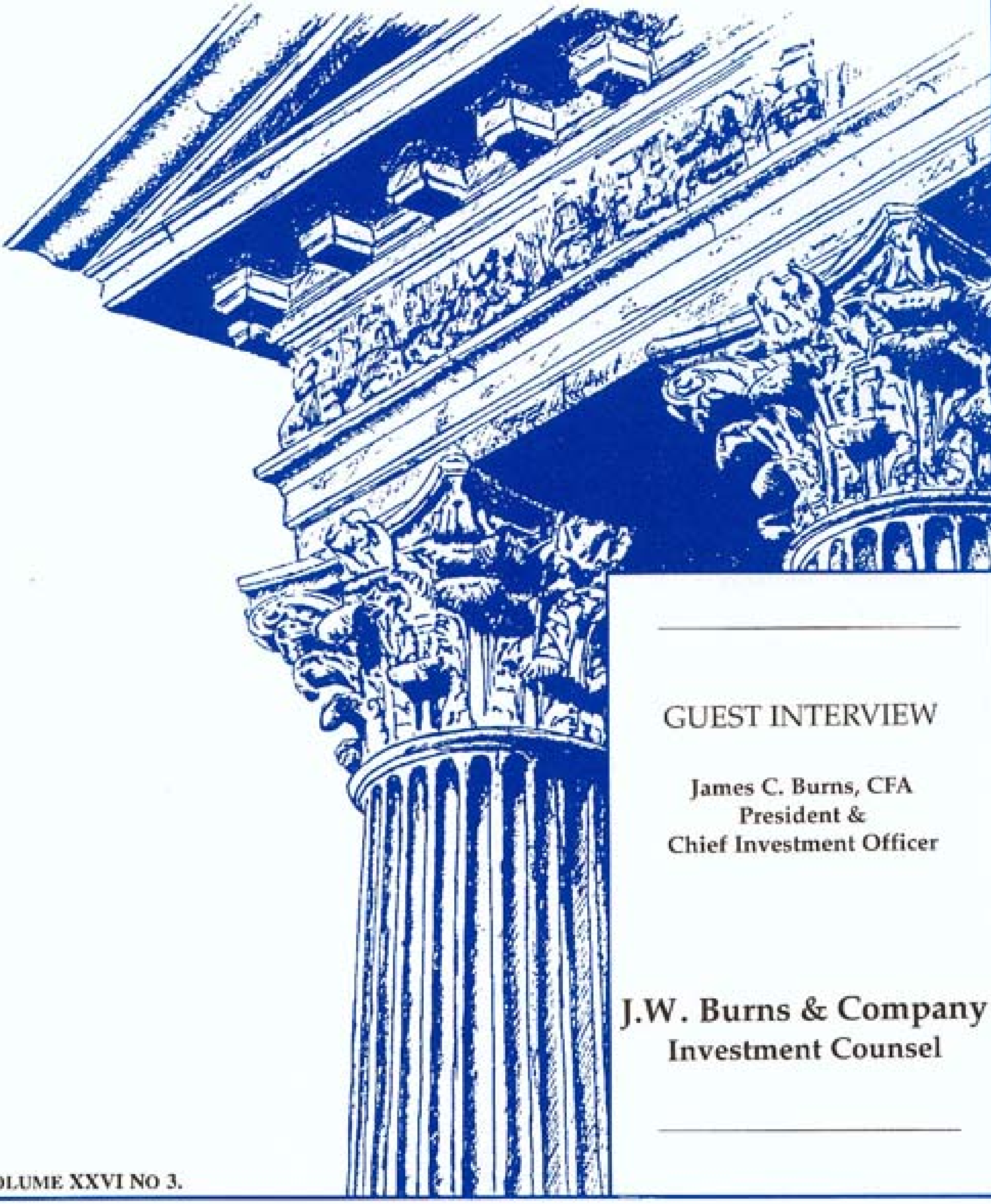
MONEY MANAGER REVIEW™

Published By MONEY MANAGER REVIEW, 1550 CALIFORNIA STREET SUITE 263,
SAN FRANCISCO, CA 94109 - TEL: (415) 386-7111, FAX: (415) 386-1890

FALL 1999

A Guide To The Nation's Leading Investment Managers



GUEST INTERVIEW

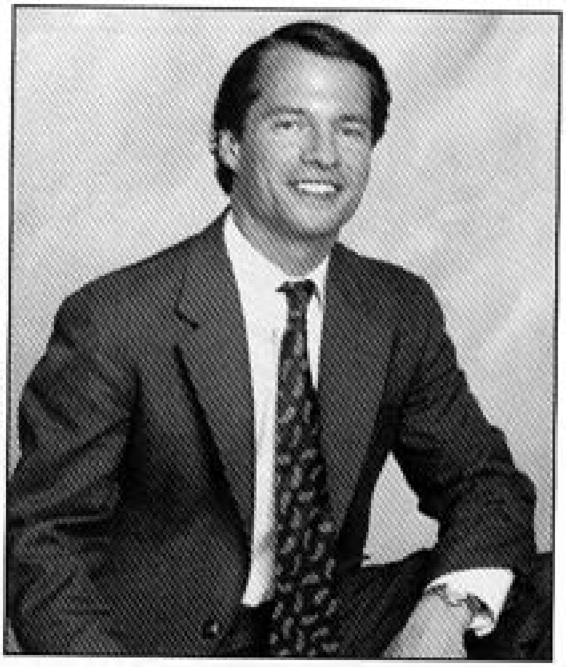
James C. Burns, CFA
President &
Chief Investment Officer

J.W. Burns & Company
Investment Counsel

VOLUME XXVI NO 3.

Guest Interview:

J. W. Burns & Company



James C. Burns, CFA
President & Chief Investment Officer

J.W. Burns & Company
6711 Towpath Road, Suite 200
East Syracuse, New York 13057

Telephone: **(800) 626-7816**
Fax: **(315) 449-1349**

❑ **Jim, please give us an overview of your firm.**

Jim: This year J.W. Burns & Company is celebrating our 25th year in the investment counseling profession. Our firm was founded on May 1, 1974 by my father, John W. Burns.We manage investment portfolios for a wide variety of clients including pension and profit sharing plans, high net worth individuals, Taft-Hartley funds, foundations and endowment funds. J.W. Burns & Company is a totally independent investment counseling firm that is fully focused on serving our clients and building their wealth. Over the years our client base has steadily expanded so that we now have approximately 400 clients located in 26 states and 2 foreign countries. Growth has primarily come by word of mouth from our existing clients. We have recently taken a more proactive approach in marketing our firm outside of the upstate New York area, and quite frankly, based on our superior long-term track record, we think it is our obligation to share our story.

❑ **What are some of your firm's intrinsic strengths?**

Jim: Our firm possesses a number of intrinsic strengths. I think our most notable asset is our strong performance, both on a total return basis and on a risk-adjusted basis. J.W. Burns & Company is one of the few firms in the country which has been able to consistently achieve returns in excess of the overall market. Also, we have been able to do so with less volatility than the market.

Behind this strong performance is another one of our strengths, namely a time-tested investment philosophy. I'll touch on this more later on, but it is the crucial component of our success. We have an experienced investment team here that believes in our approach. As a firm, J.W. Burns & Company has maintained a consistent investment philosophy for 25 years now. Not only have we delivered outstanding returns, but we believe our clients appreciate our straightforward, common-sense approach to investing.

Another often overlooked strength of our firm can be found in our highly efficient, responsive operations. Simply put, we have an exceptionally well-run operation with great client service. We are focused not only on stock selection, but also on excellence in the management of our firm. Each member of our staff is capable of handling multiple responsibilities, even outside of their own direct area of expertise. In addition, we keep records of all our clients' transactions going back to inception. This benefits our clients tremendously when they have any questions whatsoever about their account because they can receive an almost instantaneous response.

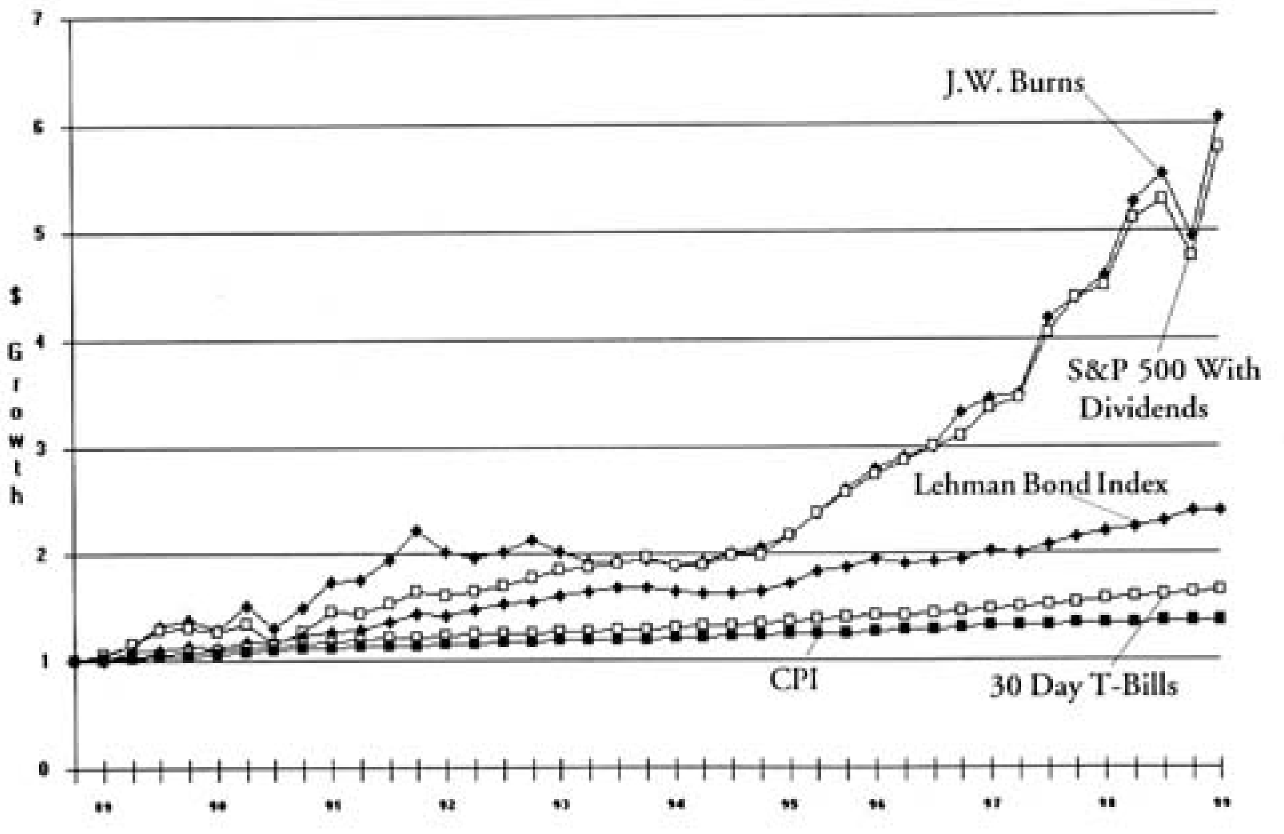
❑ **What kind of investors do you attract?**

Jim: We tend to attract institutional clients and more sophisticated individual investors. To that end, we look for clients who can appreciate the long-term benefits of our philosophy and who recognize that investing requires patience. We readily admit that we are not looking for investors simply chasing hot performance. Our clients are looking for long-term wealth creation. We look to cultivate quality relationships with our clients by keeping them educated about our outlook on the market, the benefits of our investment philosophy, and the individual holdings in their portfolios.

❑ **Describe your investment strategy. How would you summarize it?**

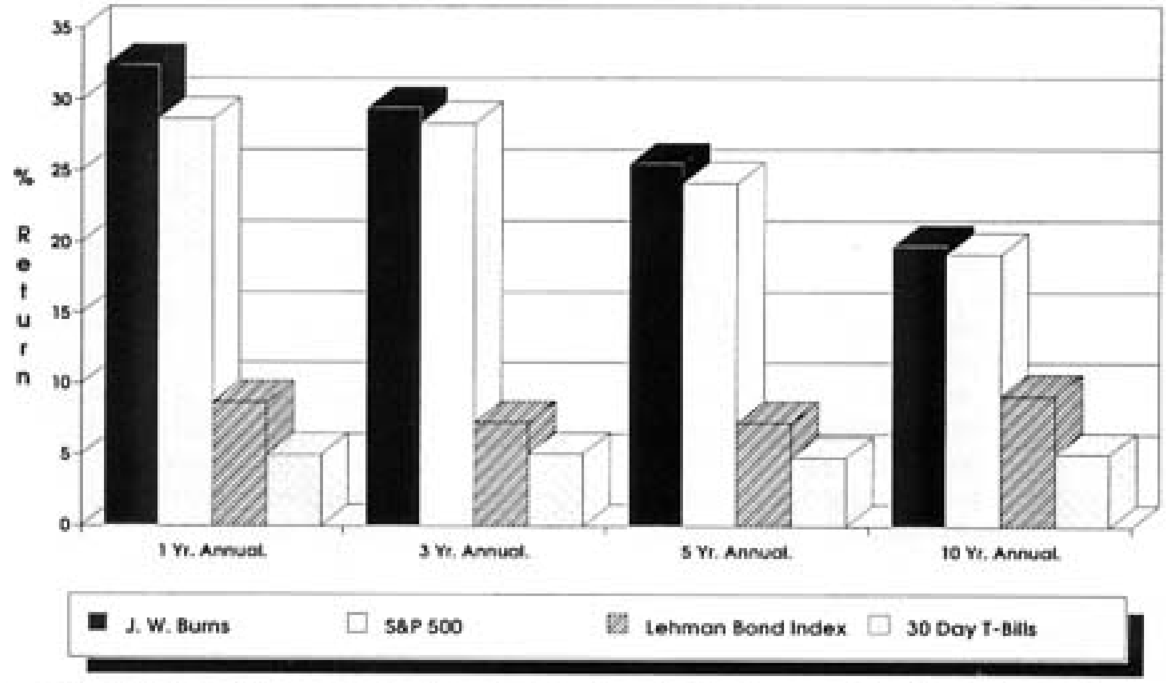
Jim: Our investment philosophy is straightforward- we invest in the world's best businesses for long-term growth. Our research objective is to identify great companies that execute superbly within their industry. As such, we avoid market timing, sector weighting, or trying to invest in simply cheap, beaten-down stocks. Our focus is to identify, invest in and continually monitor the very best businesses for our clients to own. We research and study every aspect of our investments and we do not want to diversify away our stock-picking skills. We want our clients to own a high quality portfolio of 15-22 of the world's strongest businesses in key growth areas of the economy: pharmaceuticals, health care, technology, financial services and consumer growth names. We are patient, long-term investors who don't get overly concerned about short-term market fluctuations. Hence, the turnover in our portfolios is quite low. This has

J.W. Burns & Company's Growth of a Dollar Equity Performances*
(January 1, 1989 through December 30, 1998)



* Performance results include cost of commissions but not advisory fees. Past performance is not indicative of future returns.

J.W. Burns & Company's Annualized Equity Performances*
(January 1, 1989 through December 30, 1998)



* Performance results include cost of commissions but not advisory fees. Past performance is not indicative of future returns.

benefited our clients in a number of ways - in terms of strong performance, low costs and high tax efficiency.

❑ **What do you look for in a company? What qualifications must an investment candidate have in order to pass your test?**

Jim: Our investment philosophy is based around what we refer to as the "triangle of value". The J.W. Burns & Company "triangle of value" is how our firm has created and delivered great value to clients. It has three key components: market dominant products, a high return on equity (ROE), and significant and increasing international exposure. Our first investment criteria is companies that have market dominant products. We want to invest in companies that we can thoroughly understand and that have a leadership position within their market. Next, we seek to invest in companies with high ROEs, companies that reinvest heavily in their own businesses to generate future earnings growth. High ROE also indicates that the company is investing its shareholder capital wisely. Lastly, we invest in companies that are committed to growing their earnings and revenues from overseas markets. We believe that if we can position our clients in growth stocks with these three characteristics, it will lead to long-term wealth creation.

❑ **Do you include any international companies in your portfolios?**

Jim: Not usually. Rather than owning foreign companies directly, we choose to invest in high quality domestic businesses with significant and increasing international operations. We recognize the importance of investing internationally and want to participate in the growth of emerging markets. However, we do not see the need to expose our clients to the risks associated with investing directly in foreign markets, such as currency fluctuations, lack of information, political risks, and so forth.

❑ **Does buying stocks at a favorable price mean that you hold sizable cash positions?**

Jim: No, not really. Our investment philosophy has always been to be fully invested in a portfolio of growth companies. However, when we are positioning a new client's portfolio, we might hold some cash for a few months in order to purchase stocks at favorable prices. Our first priority, though, is to be correct in our analysis on the long-term fundamental strength of the business we are purchasing. Over time, a great company's earnings and business growth should drive the stock price higher.

❑ **What resources do you use for your research?**

Jim: We do all of our own research in-house. We take a great deal of pride in the intensive fundamental research we do at J.W. Burns & Company. We visit the companies we invest in, we develop relationships with the managements of these companies, we frequently go to analyst meetings and investment conferences, and so forth. Furthermore, all of the key professionals at J.W. Burns & Company do extensive reading and we have frequent meetings in which we vigorously discuss and assess every stock in our clients' portfolios. We are very committed to our research. And all the professionals here purchase the same stocks that we buy for clients' portfolios. So, we eat from our own cooking, so to speak. We really don't pay much attention to the conflicting research and verbiage from Wall Street firms. We may look at it for information from time to time, but we do our own focused research right here.

❑ **You have been able to outperform the overall market with less risk. How have you been able to do so?**

Jim: Well, minimizing risk is not our primary goal, but I must admit that I am pleased that we have been able to perform so well while at the same time keeping volatility to a minimum. Again, I believe it is a direct result of our investment philosophy. We invest our clients in companies with consistent, above-average earnings growth. Consistent earnings growth often translates into consistent stock performance over the long run. Companies with erratic earnings tend to be more volatile. By structuring an appropriately diversified portfolio focused in the high growth areas of the market, our clients have participated in the market's rise without having returns all over the board.

❑ **You mentioned that your firm has performed well in weak markets. Can you give me some examples?**

Jim: J.W. Burns & Company has performed well in down markets, the two most recent examples being 1994 and 1990. In 1994, the S&P 500 was up 1.3%. Most mutual funds and money managers had negative returns for the year. J.W. Burns & Company finished the year up almost 6%. In 1990, with the onset of the Persian Gulf War, the S&P 500 was down over 3% for the year. J.W. Burns & Company returned 8.1%. We are growth managers, so protecting on the downside is not really part of our investment philosophy. But, I think these results are a reflection of the types of companies we hold in our portfolio. We like to own businesses which have a demonstrated ability to grow their earnings despite the overall economic environment, such as pharmaceutical and consumer stocks.

❑ **How do interest rate changes, or changes in the overall economy, have an impact on the way you invest?**

Jim: Generally, changes in interest rates or the economy will not have a dramatic effect on the way we invest our clients' money. In fact, in our research we seek to identify outstanding companies that will continue to grow regardless of overall economic conditions. That is why our portfolio has names such as Wrigley's Gum, Coca-Cola, and the pharmaceuticals — precisely because we want to position our client's portfolio for long-term wealth creation by investing in companies that offer consistent, high quality, and predictable earnings, year after year.

❑ **What do you mean when you say you use a disciplined approach?**

Jim: Disciplined to us means sticking to our investment philosophy, driven by the J.W. Burns & Company "triangle of value". I think discipline is key to understanding our firm, and our long-term investment success. Any investor who follows the financial markets will be bombarded by all kinds of conflicting opinions and investment ideas. I believe the path to long-term investment success lies in focusing on a quality approach to investing, and not deviating from that approach. That takes intellectual rigor, focus and discipline. I have heard people say they believe J.W. Burns & Company's finest hour was during the 1992-1993 health care reform period, when our firm had the discipline to stick with the pharmaceutical companies, even though they were being attacked with possible price controls. We have made our clients a tremendous amount of money sticking with these great companies, because as you know, pharmaceuticals have been some of the very best performers in this bull market.

❑ **How do you determine the bond-to-equity mix for your balanced accounts?**

Jim: The equity bond mix for our balanced accounts is based first and foremost on the specific objectives and needs of individual clients, and then based on our outlook for the financial markets. As a general rule, our balanced accounts have a slightly heavier weighting in stocks than might be found at most other firms, because we continue to believe equities will produce superior returns relative to bonds over the next 3-5 years. But there are times when we may become more defensive in the short run in our balanced portfolios. We use bond positions within a client's portfolio to provide income and to mitigate the volatility that is inevitable with equities. Generally, we invest in high-quality, investment-grade corporate bonds and some preferred stocks where we can gain a yield pick-up versus treasury bonds. This has been very successful for us. The maturities in our bond portfolio have generally been in the short to intermediate range, about 3-10 years. The current asset mix in our balanced portfolio is approximately 70% equities to 30% fixed income.

❑ **Would you address the issue of when to sell a stock?**

Jim: We will sell a stock when one or more of three issues arise with a company: 1) the company's earnings have slowed down consistently, 2) a fundamental condition for the purchase has changed, and/or 3) our research has turned up a better investment opportunity.

❑ **Do you utilize any specific tax strategies?**

Jim: Well, let me start by saying that our number one priority is to build our clients' wealth, so our investment decisions are based on that. I would turn a portfolio over 100% or more if I thought that made sense. That said, our buy-and-hold investment approach has been tremendously successful, not only in terms of strong performance but also in terms of high tax efficiency and low costs. A key point about J.W. Burns & Company Investment Counsel is that even though all our clients own essentially the same securities, each portfolio is individually managed. As such, we pay careful attention to the tax consequences of any investment decision on a particular portfolio. In situations where we encounter significant capital gains, we attempt to offset these with any losses or spread them out over multiple tax years. Also, as I mentioned, our investment philosophy generally results in low turnover. By holding on to our winning positions and selling those that don't work out, we keep capital gains to a minimum.

❑ **You said one of the key growth sectors your firm invests in is technology. What do you think of the Internet sector as a place to invest money?**

Jim: There is no question that some investors have made a tremendous amount of money by investing in Internet stocks. But the extraordinarily high P/E ratios and the lack of earnings altogether make them questionable investments looking out three to five years from now. Also, as a frame of reference, in 1991 Biotechnology stocks were all the rage and had huge share price run-ups. In fact, of the 35 largest biotech companies at that time, only 10 have now gone above their 1991 high. In 1982 and 1983, the PC computer boom was hot and yet by 1984, the top 24 companies were on average 50% off their highs, and within a year most of these firms had exited the business. Remember companies such as Atari, Wang, and Tandy? Dell and Gateway were not even public companies at that point! This gets right back to the core of our investment philosophy. We want to own companies with market-dominant products and consistent, above average earnings growth. At this point, we do not believe that any of the "pure" Internet companies exhibit either of these characteristics. Right now, the only focused Internet company we own is Cisco Systems, and the leading provider of the hardware necessary to transmit all the data across the Internet. This company has been a huge benefactor of the burgeoning growth of the Internet. We are constantly assessing the industry and are looking for companies which will dominate and/or use the Internet to increase their efficiency and expand their existing business. So, I would never rule out taking a position in one or more of the pure Internet companies. However, at this time, they do not have any defined earnings growth and are speculative based on their already enormous price appreciation.

❑ **How has the business world changed because of this new technology?**

Jim: I think America is currently undergoing a once-in-a-lifetime technological revolution that is changing the way people live and work. It is clearly making American businesses much more efficient and globally competitive. For example pharmaceutical companies have seen their efforts to develop new medicines transformed by the use of technology. Researchers no longer need to dribble compounds, one at a time, into sample dishes and wait for long periods of time for the outcomes. Now, microchip machines can do hundreds and even thousands of tests at once and get the results automatically, making new drug development that much more efficient. So I believe technology and the Internet are both tremendous productivity enhancers.

❑ **Speaking of the Internet, maybe you can give us your firm's Web address for those interested in more information.**

Jim: Surely. Our website is located at http://www.jwburns.com.

❑ **Jim, I appreciate you taking the time for this interview. I will leave the last words to you.**

Jim: Well, I hope anyone who reads this interview might understand the commitment, quality and focus of our investment counseling firm. Our investment strategy has been very successful and we believe that will continue in the future. Since the inception of J.W. Burns & Company over 25 years ago, the economy has experienced the highest inflation and interest rates in U.S. history; a severe stock market crash; five presidential elections; an energy crisis; a war in the Persian Gulf; an end to the Cold War; and numerous global currency crisis and regional depressions. Throughout all this, we have been able to consistently outperform the market indices and significantly increase the wealth of our clients. Not many investors, mutual funds, or even money managers can make that claim. At the core of this performance success is our philosophy. We have seen it work in various market conditions, and we remain very optimistic about our firm's future.

We believe in our research, our people, and the long-term growth of American business. J.W. Burns & Company is *built to last*, because the companies we invest in are *built to last*.

Thanks for the interview.

This interview was originally printed in the FALL 1999 Issue of *Money Manager Review*. *Money Manager Review* provides essential information on the performance and investment styles of the nation's top private money managers. This quarterly guide has become a standard reference for consultants, public and private pensions, foundations, trusts, and individuals. For subscription information call (415) 386-7111 or write *Money Manager Review*, 1550 California St., Suite 263, San Francisco, CA, 94109 or visit us at our Internet Web Site at http://www/managerreview.com.

Reprinted from Money Manager Review, FALL 1999, Vol. XXVI No 3.