



Following are important disclosures for the article “Money Manager Review Spring 2009 – Guest Interview – Mark Coffelt” which appeared in Money Manager Review’s Spring 2009 Publication.

	<u>1yr</u>	<u>3yr</u>	<u>5yr</u>	<u>10yr</u>
<b>Empiric Core Equity Fund</b> Class A Shares – with 5.75% sales charge	-37.99%	-9.63%	-0.02%	5.55%
<b>Empiric Core Equity Fund</b> Class A Shares – without a sales charge	-34.20%	-7.82%	1.16%	6.18%
<b>S&amp;P 500 Index</b> <b>Expense Ratio: 1.68%</b>	-26.21%	-8.22%	-2.24%	-2.22%

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800-880-0324. The Fund imposes a 1.00% redemption fee on Class C Shares held for less than one year. Performance data does not reflect the redemption fee. If it had, return would be reduced. Performance data shown reflects the Class A maximum sales charge of 5.75%. Performance data shown for the load waived shares does not reflect the deduction of the sales load or fee. If reflected, the load or fee would reduce the performance quoted. Performance data shown for Class A shares without sales charge does not reflect the deduction of the sales load or fee. If reflected, the load or fee would reduce the performance quoted.*

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*Before you invest in the Empiric Core Equity Fund, please refer to the prospectus for important information about the investment company, including investment objectives, risks, charges and expenses. You may obtain a prospectus by calling 1-888-839-7424 or visiting [www.empiricfunds.com](http://www.empiricfunds.com). The prospectus should be read and considered carefully before you invest or send money.*

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The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. One cannot invest directly in an index. Alpha: A statistic that measures the difference between the fund’s actual returns and its expected performance, given its level of risk as measured by beta. The difference is expressed as an annual percentage. Beta: A statistical that measures the volatility of the fund, as compared to the overall market.



Sharpe: The sharpe ratio is calculated by subtracting the risk-free rate, such as that of the 10-year U.S. Treasury bond from the rate of return for a portfolio and dividing the result bu the standard deviation of the portfolio returns.  
Basis Point: a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01%  
Standard Deviation: the annual rate of return of an investment to measure the investment's volatility.  
Price-to-earnings: A valuation ratio of a company's current share price compared to its per-share earnings

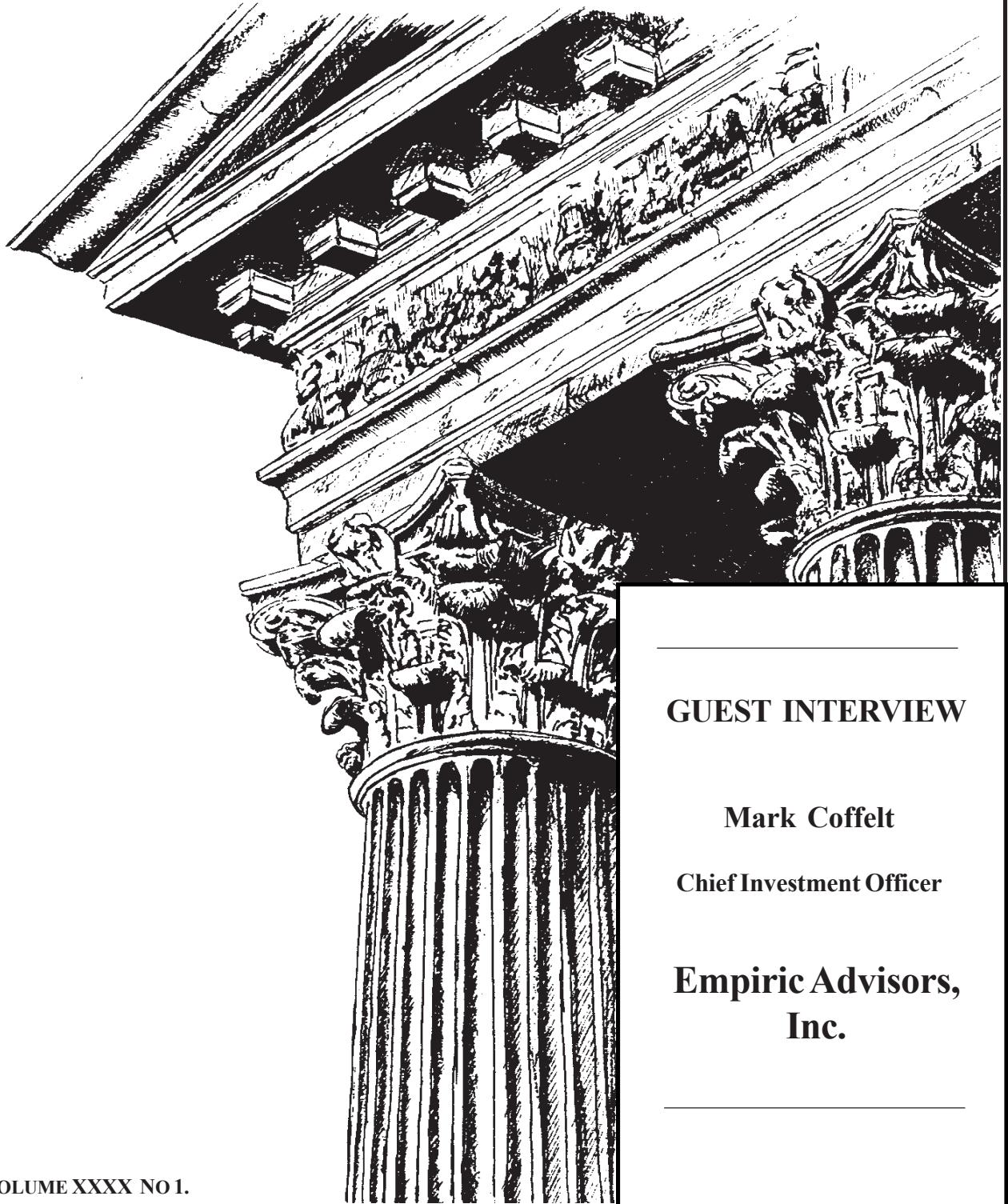
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A Guide To The Nation's Leading Investment Managers



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## GUEST INTERVIEW

**Mark Coffelt**

Chief Investment Officer

**Empiric Advisors,  
Inc.**

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VOLUME XXXX NO 1.

## Guest Interview:

**Empiric Advisors, Inc.**  
**6300 Bridgepoint Parkway Building 2, Suite 105**  
**Austin, Texas 78701**  
**Tel: 512-328-9321**  
**Fax: 512-328-9809**  
**Email: [gabe@empiricadvisors.com](mailto:gabe@empiricadvisors.com)**



**Mark Coffelt**  
**Chief Investment Officer**

**Mark, you recently changed your firm's name from First Austin Capital Management, Inc. to Empiric Advisors, Inc. Why did you change your firm's name?**

The firm's name was changed in January 2007. We felt that the name Empiric better reflected our investment philosophy: Empirical Research.

**Please describe your investment philosophy.**

Our investment philosophy is simple: Stay in the sweet spot of the market, which we define as the segment/style of the market producing the highest Sharpe ratio, and select securities using a structured, quantitative and empirical process. That, of course, is contrary to the way most of the investment world looks at the markets. Most of the investment world today segments stocks into nine style boxes, presumably as a way to assure diversification. And most other managers

use what I would call a more intuitive decision-making process to select stocks.

Since we move to the sweet spot and don't constrain our process by capitalization or by value or growth styles, we can move between style boxes over time, when it makes sense to do it.

The second part of our process is selection of stocks using structured, quantitative and empirical processes. Investors suffer from data overload. Not only is there too much data, but behavioral finance has documented all types of judgment errors that investors make. Using such a structured approach helps us from falling into the same traps.

**Can you explain more about why you believe style boxes are a negative influence on returns?**

Style boxes are a poor way to diversify, and research indicates that investors pay a high penalty for constraining their managers, on the order of 150 to 400 basis points of lost return per year. For example, read (Cassidy, D. (2005). *Multi-Cap Funds: A Rose By This Name Truly Is Different*. New York: Lipper Research) and (Charles T. Howard & Craig T. Callahan. (2005). *The Problematic "Style" Grid*. Denver: University of Denver)

I find it odd that many institutions want their "long" managers to stay in style boxes, and yet, at the same time, will pay five times the fees for a "hedge" manager who may go anywhere. It doesn't make sense. The good news is that I think institutions are starting to get away from a style box structure since it gives money managers an incentive to be "closet" indexers. If all a style box manager has to do is be close to his box to remain employed, then you can bet the returns will be close to the box. It is a prescription for mediocrity.

**Could you further explain why, in your opinion, quantitative investing is superior to a more judgmental approach?**

I noted that investors are overwhelmed with data. With so much data, it becomes easy to rationalize why a company should be or not be in the portfolio. What the behavior finance professors

showed is that those rationalizations are frequently wrong. Few investors know that there exists a branch of psychology on decision-making that deals explicitly with judgment versus a statistical process. The first research emerged in 1954 by the late Paul E. Meehl, a psychology professor at the University of Minnesota. Meehl showed in 20 cases where the accuracy of predictions between “clinical” versus “statistical” processes could be observed, the statistical did better in all 20 cases. (Paul E. Meehl, *Clinical versus statistical prediction: A theoretical analysis and a review of the evidence.*)

Meehl’s work has been updated to now include 136 studies comparing judgment versus statistics. In only 8 cases has judgment exceeded the results of quantitative predictions; this is a remarkable and one-sided result, very unusual in the social sciences. We quantify because that’s how to make better decisions, and I believe its reliability or repeatability is much higher than opinion, even my own opinion.

**Has the recent turmoil in the market affected the way you manage your money?**

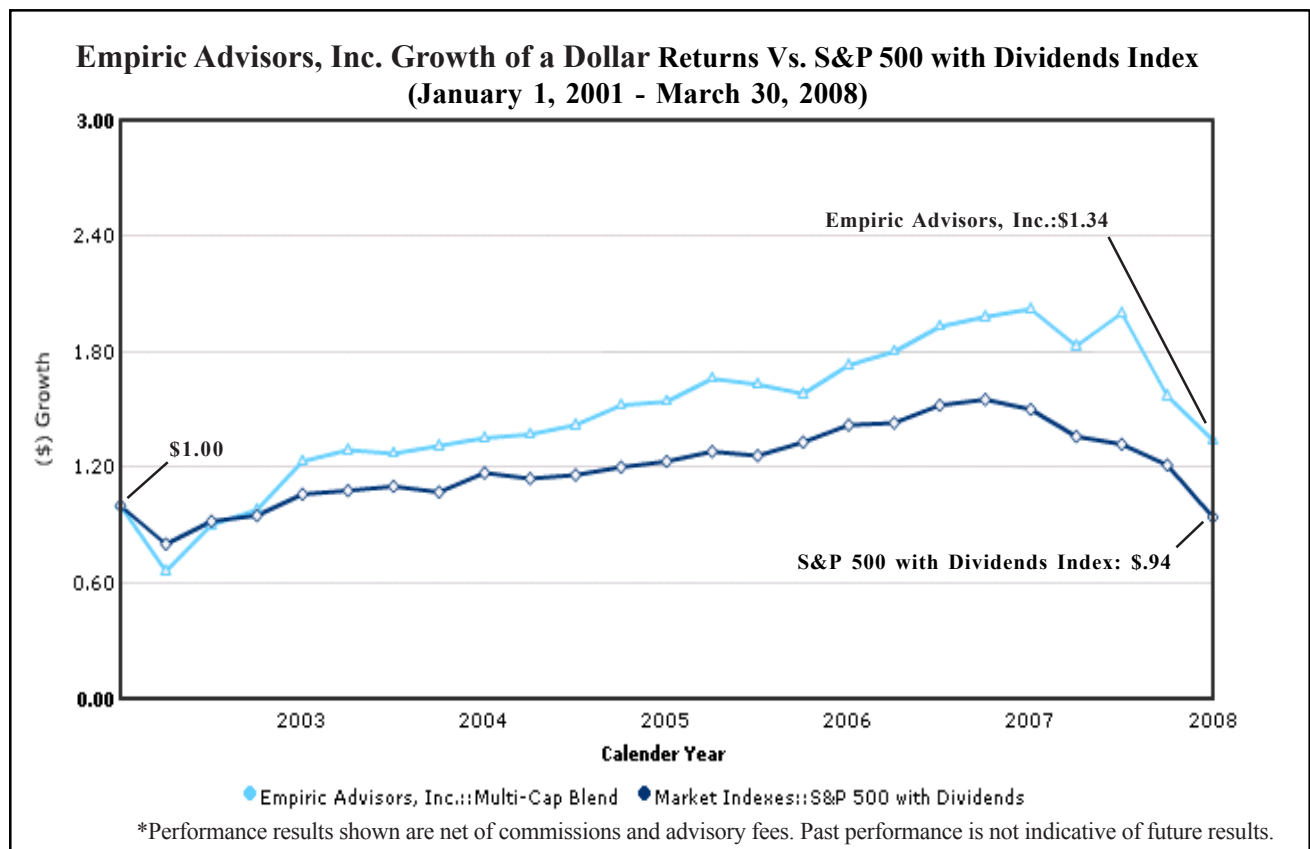
No. But investing is more difficult. For most of 2008 and through today, investors are confronted

with “event” risk. What is the Federal Reserve going to do? What is Treasury going to do? What about Congress?

One of the reasons, we believe, the economy is so slow is that investors and entrepreneurs don’t know what the game is. Are we playing football, or basketball, or hockey? Each has different rules, equipment and skill sets. Every day we get a new directive from government. When the directives stop, the economy will start to recover.

**You are listed with Money Manager Review as a multi-cap blend manager. Another service that also tracks the performance of money managers lists you as a multi-cap value manager. Which of the two styles do you lean towards?**

We always lean toward the sweet spot, where ever it may be. We can be long or short, domestic or foreign, equities or cash. At the moment, the best description of the portfolio would be multi-cap stock blend, with about 26% in foreign-based companies. We are long only; no shorts, since we expect stocks are near the bottom.



**For your analysis you use Structured, Quantitative, and Empirical (SQE) long and short strategies. Would you please explain this methodology in greater detail?**

#### Structured Process

As the portfolio manager, every day I run a multitude of quantitative models to produce an output by sector and security attractiveness. From a universe of approximately 3500 securities, potential buys as well as our owned stock portfolio are ranked by their alpha (expected return in excess of the S&P 500 returns) as well as by their expected volatility increment to the portfolio. Thus, the existing portfolio never gets stale, and every day we are evaluating portfolio volatility. Our ongoing objective is to produce high Sharpe ratios by upgrading returns and reducing volatility. A part of this process is evaluating which models are producing good returns. For instance, in early 2008 value models generally were doing poorly, while growth models were doing much better.

#### Quantitative Selection Process

Brilliance may occasionally win, but it is dangerous to bet on it. Instead, our approach is to collect, create, and reverse engineer global investment strategies in a quantitative form. With the consistency of a quantitative approach, it is relatively easy to observe which investment strategies (models) are producing good returns and which investments strategies (models) to avoid. I read a lot of academic papers.

#### Empirical Data

In selecting models to incorporate into the process, we focus first on long-term returns. We only want models which have empirically demonstrated high long-term returns. We then evaluate which models are currently working—let's call that a short-term continuation bet. The last step in selection of securities is a limited qualitative overview. While almost all securities come through the processes described above, not all of the securities that come through are purchased/sold, or shorted/covered. For instance, a security that looked cheap but had accounting problems would not be likely to be purchased. Or a stock with a takeover offer would not likely be shorted.

**You state that you segment and measure various dimensions of the market, including value and growth styles, company size, industries and broad sectors, as well as domestic and foreign companies. Please explain how you do this and how this works in your investment process.**

Step One of our investment process is top-down: identify the market's "sweet spot," or what investment "style," what sectors, and what industries are generating the highest Sharpe ratios.

Step Two is bottom-up: identify the quantitative "sweet spot," or what quantitative models are producing the highest returns.

Step Three is to merge the top down with the bottom up and narrow the universe to approximately 200 potential buys. For the potential buys, we perform a qualitative overlay. That's where we seek what might be missing from the data and not picked up by the computer models.

Step Four is to buy or not buy a stock based upon its return and volatility impact on the portfolio.

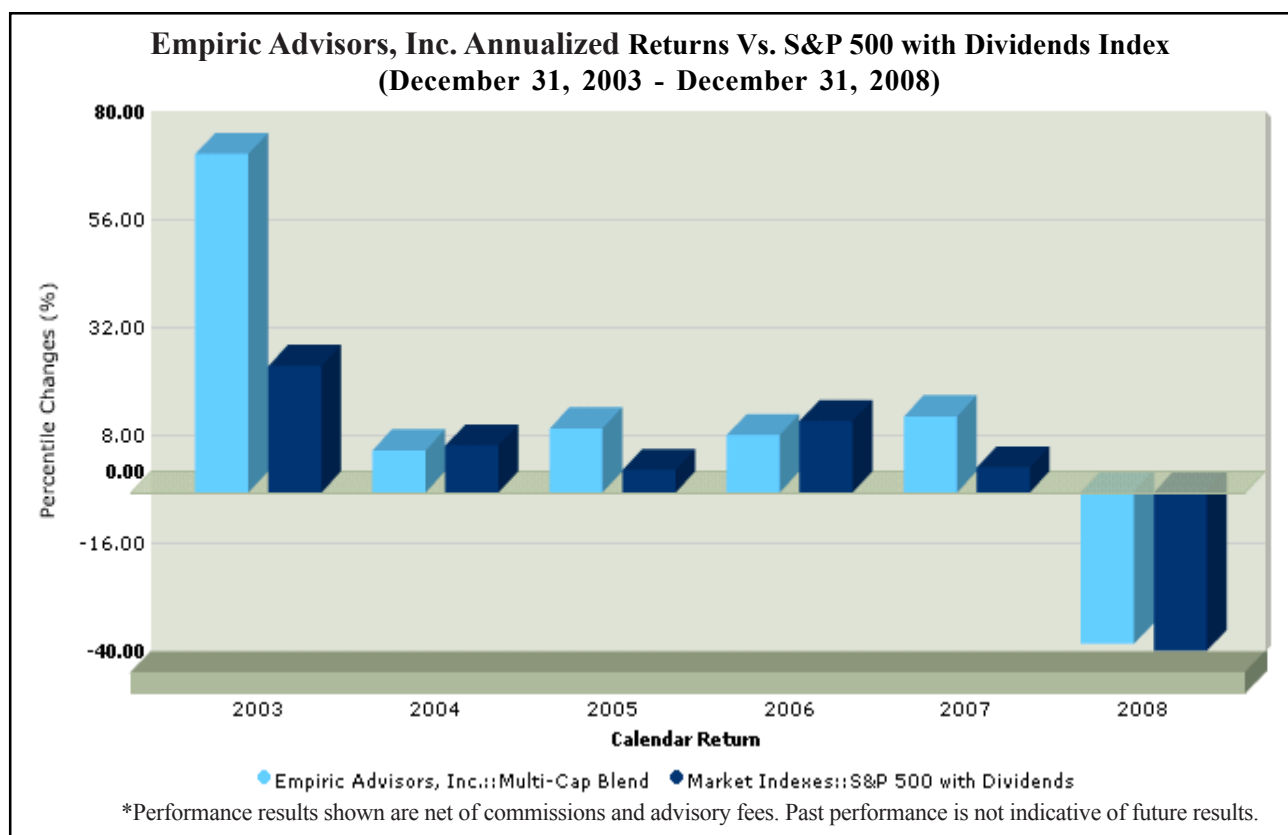
**You have said before that you try to measure the "pulse" of the market. What does that mean?**

By "pulse" of the market, I am referring to the characteristics that are generating the highest risk-adjusted returns, or the fastest current in the river.

**Do you also attempt to forecast the direction of the market?**

We would if we could. We just don't know any reliable quantitative methods for determining market direction. With stocks at current levels, we have eliminated our short positions, because the upside vastly outweighs the downside. But that still gives us no market direction in the next few months.

**Would you describe yourself as being top-down, in the sense that you look at the macroeconomics of the market, or bottom-up, by attempting to pick individual stocks or market sectors?**



We come at the market both ways. We are top-down in the sense that we are looking for the capitalization level and dimension of value or growth that is producing returns. We also look at sectors and industries from the top-down perspective. Our quantitative strategies focus on individual securities. The blend of the two is the sweet spot, or that mix of stocks we think will give our portfolio the highest Sharpe ratio.

**What factors do you use to change the sector weights of your portfolios?**

Once we have identified which of the nine “style” boxes is the sweet spot in the market, our sector holdings are compared to the sector allocation of that style. The sector weights of small value likely will be different than the sector weights of large growth. However, we don’t constrain ourselves by sector allocation since risk is handled on the individual security and portfolio level, but we do measure how far from the sector allocation we are. For instance today, the sweet spot is small value, and small value has a financial sector weighting of 15%. Our weighting in financials is 5%.

**How much turnover do you have in your portfolios, and what is the average holding period for a stock?**

As one would expect, turnover is high, generally running in excess of 150% per year. When one uses quantitative strategies, a stock either fits or it doesn’t—there is little room for rationalization. Additionally, as one of the largest shareholders in the fund, much of which is held in taxable accounts, we do a lot of tax harvesting to reduce taxes. With quantitative strategies, there is a lot of substitutability between securities, and this makes tax harvesting easier for us than for managers who own stocks because they met the management.

**You state that you also use short strategies. What investment instruments do you use to short the market?**

Shorts are made with stocks and occasionally with ETFs. Our goal with shorts is to add to returns rather than to just reduce volatility.

**Are you always 100% invested, or do you ever raise cash to protect from declining markets?**

No. We can go to 100% cash if needed, and we do vary our cash levels. Most of the variation is dependent upon our ability to execute, rather than our view of whether the market will go up or decline. We tend to be net buyers when the market is down, and net sellers when the market is up.

**Your portfolios also hold global companies. What percentage of the portfolio would you describe as global?**

Today the percentage that is global is 26%, although it varies depending upon the sweet spots and opportunities in individual stocks.

**Does your weighting in the global companies remain constant, or do you shift the amounts you hold between domestic and global?**

We go to the sweet spot. If the sweet spot is international companies, then that is where we will be.

**What tools do you use to control risk?**

Early on in the Empiric Core Equity Fund's history, we did not worry about risk. As a result, we were more concentrated, and the fund's volatility was higher. So we had some very high-return periods, but also low-return periods. That has a bad effect on the shareholder. With high volatility, shareholders become short-term in their investing, piling into funds with high returns and out of funds with low returns. Buying high and selling low is not the path to investment riches. It wasn't good for us, either, since heavy flows into and out of the portfolio made it difficult to achieve good results. So about six years ago, I began incorporating standard deviation into my quantitative models to maintain high returns, while being able to mute the volatility. Today, our process is equally focused on returns and risk. Here's what it means: Morningstar used to classify us as "high risk." Now we are "below average" risk and may even get to "low risk." Best of all, we have long-term shareholders rather than market timers.

**What factors must be present before you decide to sell a stock?**

Since our process is a daily evaluation of return and risk, stocks which add little return or a lot of risk naturally fall to the bottom of our scoring process. The only factor which must be present to sell a stock is a better alternative. As the market's sweet spot shifts, characteristics generating the highest Sharpe ratio shift as well, and as such stocks will go up or down in ranking.

**In the past year, we have seen chaos in company earnings, especially in the financial sector. How much emphasis does your computer model put on shifting trends in earnings?**

Clearly, earnings have much to do with stock appreciation or depreciation. Empiric's quantitative models track earnings closely, which is why our position in the financial sectors is currently only about 5%. We also focus on balance sheets. Good balance sheets in the financial area are elusive, to say the least.

**How would your methodology go about pinpointing those companies or sectors that will lead the market when it recovers?**

The Good Book notes that the last shall be first, and the first shall be last. That's a pretty good description of how companies and industries behave early in a recovery. Additionally, small companies tend to come out of recoveries stronger than larger caps, as the propensity of risk-taking grows. We have been adding smaller companies for the last few months. I would also like to note that this is another benefit of being unconstrained: We are able to focus on the area of the market that is recovering. Thus, here's another example of why constraining a manager to a box hurts performance.

**How do you go about doing your investment research? Is your research proprietary, or do you use outside sources?**

We use almost no outside investment research since we want consistency in the way we evaluate our companies. About 99% of what we do is proprietary. Our interest in outside research is not stock recommendations, but rather

information feeds, or quantitative papers of stock market “anomalies.”

**Please tell us a little about your professional investment background?**

I started investing at age 11, and I still find it is one of the most interesting things I can do. On those rare occasions when I take a vacation, I read investment books or academic articles. Beyond my personal, practically fanatic interest in investing, I do have academic training. My undergraduate degree is in economics from Occidental College (B.A., *cum laude*), and I have an MBA in management from The Wharton School. Also I have held a Chartered Financial Analyst designation since 1987. Prior to opening Empiric Advisors in 1987, I worked at Cargill in Minnesota and Racal Electronics in Florida as a financial analyst and comptroller, respectively.

**Who are the other principals in the firm, and what are their backgrounds?**

We diligently outsource all activities other than investing. So, I have two financial analysts who help with data management and research, and a compliance officer.

**What is your prognosis for the market over the next 12 to 24 months?**

One of the most difficult aspects of investing is perspective. Twenty-one years ago, we started our advisory firm. Coincidentally, my first day in the office was Black Monday, Oct. 19, 1987. That day the Dow crashed 21.68 percent (from 2,246 to 1,739), or the largest one-day percentage decline in stock market history. *The Wall Street Journal* ran articles implying the possibility of depression. Then, as today, stock markets all around the world dropped.

Yet, since Black Monday in 1987, we forget that we had an S&L crisis, which closed almost half the thrifts in the country, a Mexican peso crisis, an Asian currency crisis with Russia defaulting on its sovereign debt, and the bailout of Long Term Capital Management. We also had the technology bubble and bust. Now, a credit freeze has dropped the Dow from its 14,164 high.

Investing in the short term, one can only deal with probabilities. Like the probability the bear has already run its course. Like the probability the stock upturn has started. Like the probability that recession will end.

So rather than focusing on the short term, I would rather focus on the decade ahead. The dividend yield is currently 3.3 percent. Let’s assume the same historical 6 percent earnings growth. With the price-to-earnings at 12x, the market is selling below normal valuations, a 33% off sale, if you will. Using the same process, the decade beginning 2009 should provide reasonably good returns of roughly 14.3% per year (3.3% yield + 6.0% earnings growth + 5.0% in valuation change). That’s a return worth going for.

Over the long-term, I would bet every penny I have that stocks will be higher. Surely there will be future crises that will temporarily depress stocks, as have the current mortgage debacle and credit freeze. But once we are through the storm, stocks will resume their relentless appreciation, reflecting the wealth generated by the companies and the employees each stock share represents. It’s a process that has worked for 200 years. It’s a good bet it will continue to work. In ten years, we think it is reasonable for the Dow to be over 30,000, or a return of about 14% a year. Of course, we could be wrong.

Warren Buffett once suggested that investors pay a high price for a cheery consensus. Before the mass of investors get too cheery, I would encourage decisive investors to seize the day.

**You are listed as a mutual fund. Do you also take separately managed accounts and, if so, what are your account minimums?**

Empiric Advisors does accept Separately Managed Accounts with a \$1 million minimum.

**How would an investor get more information on your firm?**

For more information on Empiric, please visit our website at [www.EmpiricFunds.com](http://www.EmpiricFunds.com) or speak with Gabe Rodriguez at 800-880-0324.



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