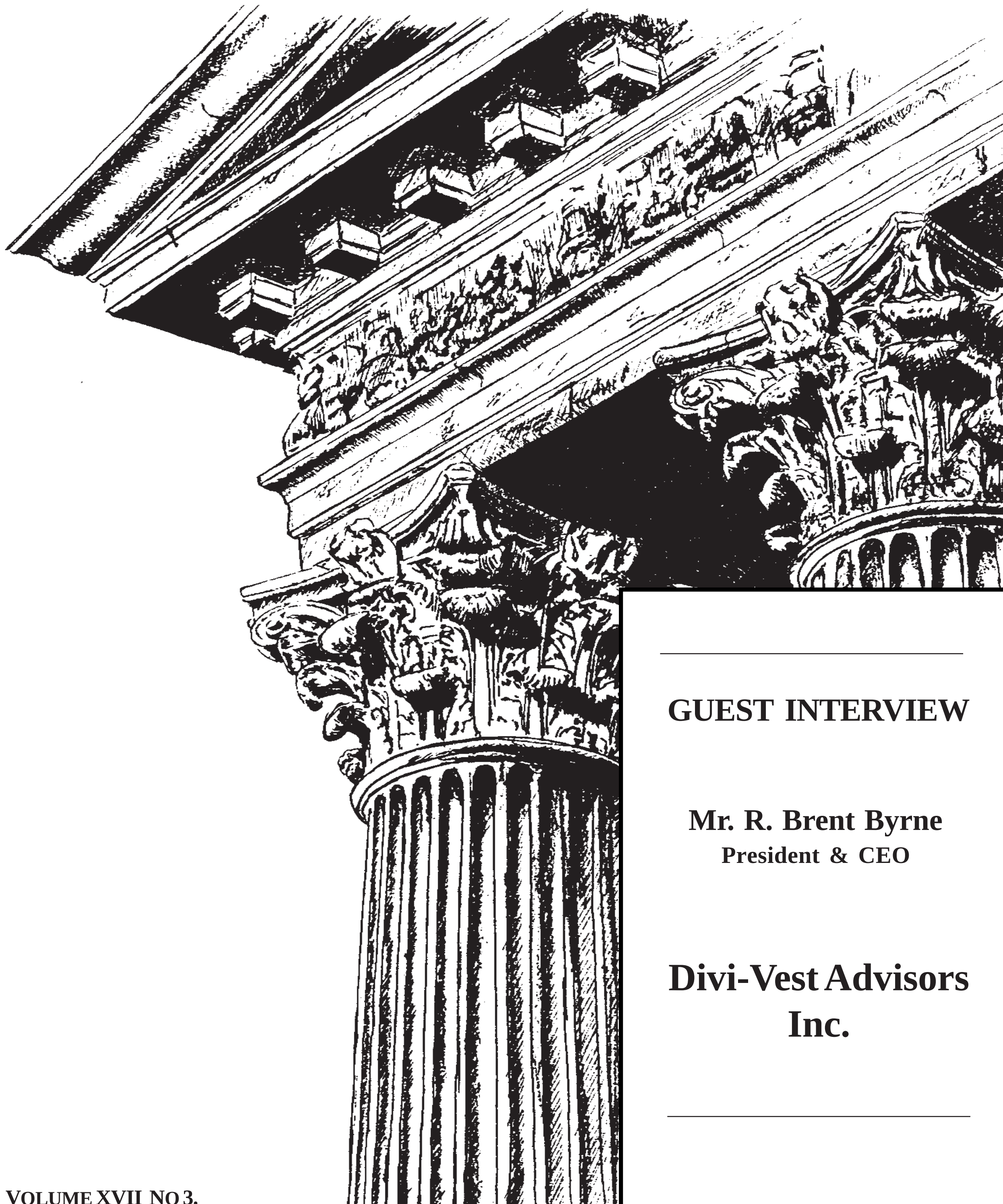
MONEY MANAGER REVIEW

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

FALL 2004

A Guide To The Nation's Leading Investment Managers



GUEST INTERVIEW

Mr. R. Brent Byrne
President & CEO

Divi-Vest Advisors Inc.

VOLUME XVII NO 3.

Guest Interview:

Divi-Vest Advisors Inc.
650 E. Swedesford Rd., Ste. 100
Wayne, PA 19087

Telephone: (610) 688-5501
Fax: (610) 688-5404
Email: brent@divi-vest.com

Mr. R. Brent Byrne
President & CEO

Q: Brent, please give us a short history of Divi-Vest.

Divi-Vest Advisors was independently created in 1990, and began managing equities on January 1, 1991. Divi-Vest's first equity offering, EVP, short for Equity Value Portfolio, zeroes in on the popular Dogs of the Dow strategy, with a slight variance. Through trading the system, we've learned that the precise, mechanical running of the Dogs system is flawed, as is the strategy of trying to mirror its performance. EVP's holdings include high dividend yielding Dow Jones Industrial Average component stocks, and some former Dow members. Portfolio holdings number approximately 14. On January 1, 1996, we introduced our second equity offering, ALL-CAP Portfolio. ALL-CAP grew out of our desire to expand beyond blue-chip names, and to manage a more diverse list of stocks. ALL-CAP invests in high dividend paying large, medium, and small capitalization companies. ALL-CAP's holdings number around 26. The ALL-CAP Portfolio has become our flagship offering by taking full advantage of where we think money should be invested. Both portfolios have performed according to plan, with only one calendar year in the negative column ... that being 2002.

Today, Divi-Vest serves over 100 separate accounts, while managing over sixty-five million dollars in assets. Our mission is to serve high net worth and institutional equity investors better than what they've grown accustomed to.

Q: And that is?

Inconsistent stock market returns. Piling up monies in bull markets, and giving it back in bear markets, is not a winning, long-term investment plan. Many investors experienced this exact sequence, firsthand. Divi-Vest did not.

Q: What is Divi-Vest's overall investment philosophy?

Our philosophy is to avoid losers, especially big losers, often referred to as torpedo stocks. A few torpedoes can wreck an otherwise perfect stock portfolio. This is how many investors lost big in the 2000 bear market, ending 3/31/03. Investors simply owned inside their stock portfolios too many crashing tech stocks. Big losses can usually be linked to owning big losers. The alternative, picking winners, opposite our approach of avoiding losers, is the lesser way to go, in our opinion. Picking winners requires one to be able to look into a crystal ball and forecast correctly the direction of earnings, as it applies to individual stocks. The problem, here, is being wrong more than being right. There are too many variables that can affect the future, too many unknowns. Trying to juggle them all at the same time is almost an impossible job, as many growth managers will agree.

Q: How many products do you offer?

Presently, Divi-Vest offers two equity offerings; EVP, our large cap product, and, secondly, ALL-CAP Portfolio, our multi-cap account. We do offer a third option, that being a balanced option. Here, we combine either EVP or ALL-CAP with fixed income securities.

Q: Please describe your investment strategy?

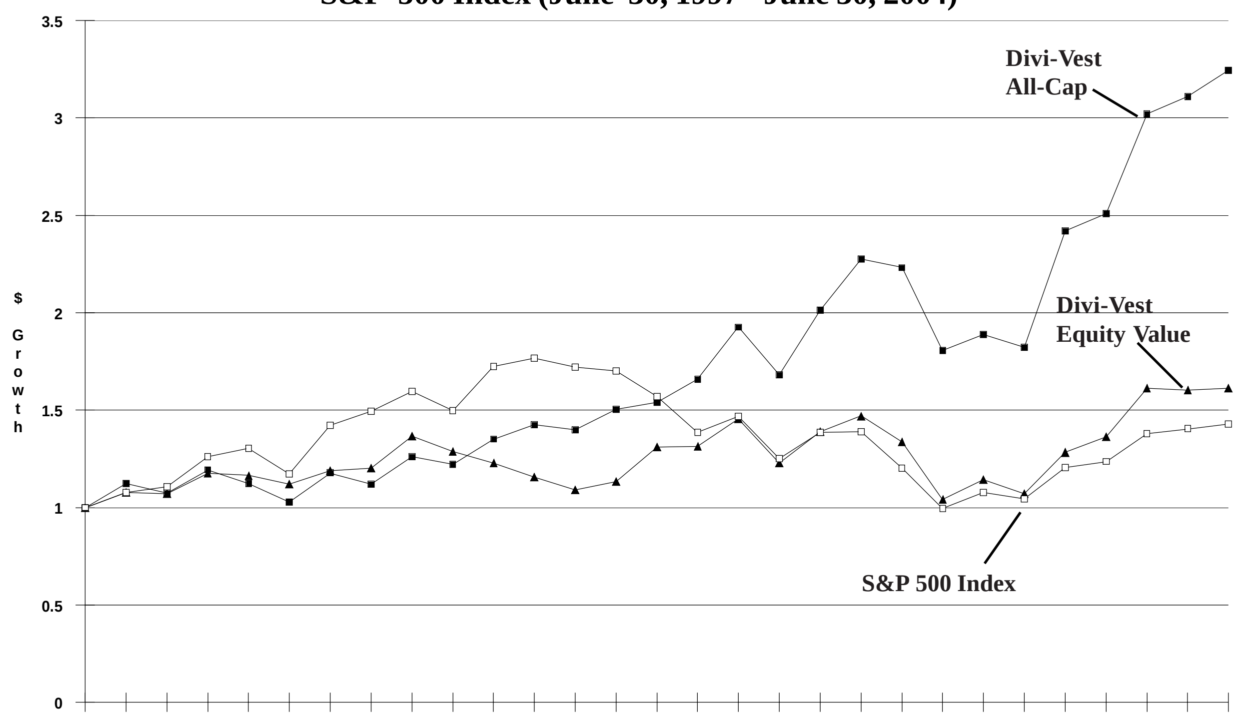
Divi-Vest's investment strategy is centered on identifying the best high dividend paying common stocks, and then investing in these stocks. We believe high dividend paying stocks are high paying, because not many investors care to own them. If investors cared to own them, they would, and in doing so, they would bid prices up to levels that yielded average rates. More importantly, most stocks that pay high dividends have already corrected or fallen in price, presenting investors with opportunities to buy-in at low prices. Buying stocks at low prices is what managers like Divi-Vest have to do, to be successful. It helps our performance, while simultaneously strengthening our adherence to our "avoid losers" investment philosophy. After all, stocks that have fallen in price have already lost. It is the stocks breaking through new highs, that haven't corrected, that are the ones to watch out for. If one is not savvy enough, one runs the risk of being the last trade higher, just in time for the first big plunge … the drop that always hurts the most.

Divi-Vest's sell strategy runs counter to our buy strategy. When our stock holdings appreciate, to levels where their current dividend yields are no-longer above average, we then look to sell. Divi-Vest is not interested in holding onto stock positions that pay average rates.

Q: Describe All-Cap's screening process. How do you select your companies?

We employ a multi-layered screening process. First, Divi-Vest conducts a search covering a list of approximately nine-thousand stocks. We like to see all the available publicly traded stocks that pay generously above the S&P 500 index. This assures our portfolios a rich dividend yield, right

Divi-Vest Advisor's All Cap and Equity Value Growth of a Dollar Returns Vs. S&P 500 Index (June 30, 1997 - June 30, 2004)



*Peformance results include cost of commissions and advisory fees. Past Performance is not indictive of future results.

from the start.

Next, we narrow our list of high yielding stocks further, by applying a high dividend growth screen. Here, the goal is to seek out those specific ‘high dividend payers’ that can increase their dividend payments, annually. A higher and higher dividend means a higher and higher stock price … everything else being equal.

From this transformed list we apply fundamental analysis, to ferret out those stocks most capable of delivering a high current yield, and dividend growth. Stocks, for instance, sporting a high pay-out ratio, may be viewed skeptically, in that the stocks may not have the room to increase dividends. This is an issue.

Our last screen is to review company news and analyst commentary on companies we’re interested in purchasing, if any, and to evaluate technical charts. We want to cover as many bases as we can to make sure stocks entering our portfolios are positioned to perform. At the end of the day, this is how we earn our pay.

Q: Does your investment strategy work from the “bottom-up” or the “top-down”?

Bottom-up. We find it difficult enough to pick winning stocks, let alone the economy and industry groups.

Q: Why do you stay away from options and derivatives?

Divi-Vest does not foresee any incremental advantage in using them. Regarding options, we take the position that, if you like a stock, then buy it. Contrarily, if you do not like a stock, then sell it. The strategy of writing options can oftentimes fall in between liking and disliking a stock. You could say we’re, I guess, more an either/or kind of manager. Anything in the middle throws us off the mark.

As for derivatives, Divi-Vest does not employ their use. We like to own a stock’s price appreciation potential, and income stream, together. Separating these may be beneficial for some market goers, but not for long term managers like us.

Q: How do you define value when it comes to stocks?

Any stock can be viewed as a ‘value’ if its current price falls short of its perceived worth. Investors measure worth, however, in various ways. Growth managers, regard a stock to be a value, if its share price fails to account for future earnings. Value managers, regard a stock to be a value, if its share price fails to reflect underlying worth. In the end, what’s the difference? If any, it’s slight. Not enough to get caught up in. The goal is to make money. We feel “all-weather” is the best choice for style, and that’s what makes Divi-Vest a success. Both value and growth fell in the 2000 bear market. All-weather, by definition, rose.

Q: Explain all-weather.

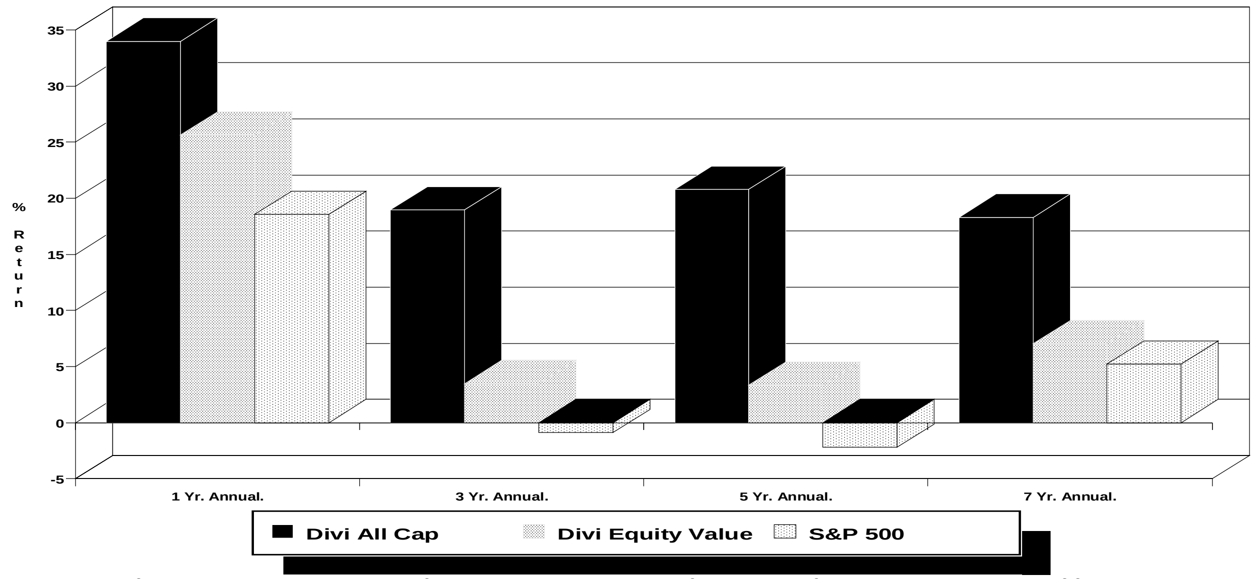
“All-weather” simply means being able to prosper no matter what cycle the market is in. For the most part, all-weather stocks could care less about what the stock market is doing, at any given time. They are kind of like the new Goodyear “Assurance” line of tires that perform on all road conditions. All-weather stocks are out there. They may be considered either traditional growth, or value. The challenge is finding them.

Q: Why do dividends play such an important role in your investment strategy?

It’s no secret that dividends account for nearly fifty-percent of stock market total return, over the long term. Ignoring dividends, as a stock portfolio manager, is analogous to driving down the road without brakes. The end result is usually the same, a crash. All factors deciding total return are important. Dividends are a key ingredient. Let’s not forget the equation, “Total Return = Growth + Income - Expenses.”

For Divi-Vest, dividends serve two primary benefits. First, as discussed, they help us buy low and sell high. In order to be a successful manager, one must do this job well, at minimum. Secondly, focusing-in on dividends expands our attack on total return. By investing in high dividend paying stocks, we spice up the income part of the equation. And, this leads to the main point. If you maximize both the growth and income sides to total return, then you place

Divi-Vest Advisor's All Cap and Equity Value Annualized Returns Vs. S&P 500 Index (June 30, 1997 - June 30, 2004)



*Peformance results include cost of commissions and advisory fees. Past Performance is not indictive of future results.

yourself in a terrific position to win. Divi-Vest's investment strategy does a fabulous job at maximizing growth and income. Managers with a narrower focus, ones that highlight only one total return factor, are not managers usually delivering consistent performance. Take for instance, indexing. The goal with indexing is to reduce expenses, and to go neutral on growth and income. By investing in this manner, you unwittingly set yourself up for a big fall in flat to down markets. The reason being is that dividends drive performance in bear markets, not the realm of expense. This explains why indexing lost nearly forty-percent during the 2000 bear market. Managers investing solely for stock price appreciation, or growth, share the same fate. This explains why they lost during the 2000 bear market. Investors need to understand that it is important to strive for both price appreciation, and dividends. They are, by far, the two main factors deciding total return.

We applaud the government for getting it right last year by reducing taxes on dividend income. More investors now recognize the importance of earning dividends inside their stock portfolios. Companies that pay dividends are being rewarded by seeing their share prices climb. And, for investors that adapt by owning more dividend payers in their portfolios, they will be better prepared for the next downtick in stocks.

Q: What kinds of markets generally benefit from a dividend strategy?

All stock market cycles benefit from dividends. You find dividends mattering more in bear markets, because stock price appreciation is largely non-existent. Reinvested dividends can account for as much as a third of total return in bull markets.

Q: Where does your research come from?

Divi-Vest's stock research is generated in-house. Our raw stock data comes from numerous outside sources like Value Line, Standard & Poor's, and Zacks, to name a few.

Q: How do you diversify your portfolios?

Divi-Vest diversifies to the extent we can no-longer find good stocks to invest in. This equates, currently, to about 14 stocks for EVP, the blue-chip portfolio, and 26 stocks for the ALL-CAP Portfolio. If we were to experience heightened volatility, expressed in terms of standard deviation, which we never experience, we'll then look to expand Divi-Vest's list of holdings.

Interestingly, the bear market that recently passed showed that diversification, as a means to protect against losses, is not effective. The S&P 500 index, a diversified portfolio of 500 stocks, fell some 40% in the period 4/1/00–3/31/03. Not many avoided big losses by diversifying their holdings. Diversifying between classes of stock, many times referred to as modern portfolio theory, also failed investors. The truth is nothing replaces the need for investors to own stocks that perform, positively. From our vantage, the stocks that have the best chances to perform are the ones that work hardest towards maximizing investors' total return potential. Diversification is not a factor deciding total return. It is not a panacea.

Q: What is your annual turnover rate and what is the average holding period for a stock?

EVP and ALL-CAP registered around a thirty-percent turnover rate each in 2003. This equates to approximately a three year average holding period.

Q: How does asset allocation figure into your model?

Asset allocation, in the conventional sense, does not play a role at Divi-Vest. Allocating monies between equity classes, like the recommendation to diversify, is overrated. Equity asset allocation did not spare investors the wrath of the bear market, and, as far as a total return perspective, it possesses zero mathematical significance. Successful stock investing is all about what you own, not about how many you own, or what size and shape. Unfortunately, the bear market put the skids on many of these great academic theories. If they did work, then we would be the first in line to credit them. These theories need to be scrapped, similar to the idea of what pharmaceutical companies do to drugs when they fail clinical trials. Rarely, if ever, do you find drug companies promoting bad drugs. Bad ideas, though, seem to have extended lives on Wall Street. Investors need to ponder more these so called investing rules of thumb.

Q: Do you do any market timing or are you always 100% invested in the market?

100% invested. We'll always have cash on hand due to dividend generation and residuals from buying and selling. Timing is not our goal from an overall market view. We do try to time our buying and selling right.

Q: What kind of risk reducing strategies do you use?

Divi-Vest's risk reduction measures are ingrained in its investment philosophy and strategy, before stocks are even purchased for investment. We do not employ strategies once portfolios are established, like hedging, shorting, options, etc. Many of these kinds of strategies involve timing decisions, and a bump-up in portfolio cost. Rather, Divi-Vest has found success by picking the right stocks to begin with. Hopefully, we're able to pick them right in the initial phase in order to avoid having to implement any special measures.

Q: How often do you report to your clients?

Divi-Vest reports quarterly, or as often as clients request. Custodians that house our clients' assets send monthly statements.

Q: Who are the principals in the company and what are their backgrounds?

Presently, I am the sole principal. As Divi-Vest grows, additional principals will be added.
My background in stocks started in college while attending Stock Investing 101, at Kutztown University, PA (I earned a BA in Business, 1981). It was in college … there, I first learned I had a passion for stock investing. My first substantive job on Wall Street came in 1983 while working as a stockbroker for Janney Montgomery Scott, a NYSE member firm. I learned the business of investing from stocks and bonds, to private investing. It is at this juncture that I must mention the name of a terrific stock pro and individual, David Himmelheber, Himmelheber Investment Research. I met David in the mid 1990s after I launched Divi-Vest. He, from all accounts, is one of the early advocates of dividend investing. David's insights greatly increased my understanding of how stocks tick, and what to look for when paging through data.

In 1998, I won the now defunct Wall Street Journal "Dartboard" contest, where pros were pitted against dart throwers. Interestingly enough, I won by choosing RJR, before they spun off Nabisco. I picked RJR for its growth and dividend yield. But, also, as a contrarian call in light of the government's $600 billion attack on tobacco. It was my gutsiest call ever. As you can see, I have a little rebel in me.

In October of 1999, I formed a private investment partnership, as a hobby, to acquire and manage the Leonard Nelson estate (www.leonardnelson.com). Nelson was a first generation New York School painter from Philadelphia. His roots, though, were in New York. Since embarking on this project, two very complimentary Nelson books have been published; one by Rizzoli, and the second by New York School Press.

Q: Describe your relationship with brokers and can clients use other brokerage firms?

We do not act as broker, nor do we hold clients' assets. We use brokers primarily for custody and trade execution. If investors wish to hire us to manage their stock portfolio(s) and use their favorite broker(s), we will do this per the client's request. We do suggest brokers, if asked to do so.

Q: What are your greatest strengths as a manager and what is unique about you?

I would have to say my track record in stocks, and my disdain for losing money. In the late 1800s, my great grandfather Bodfish gambled away to the Mayor of Oakland the Seventeen Mile Drive (Carmel, Ca.), in a card game. The Byrnes, to the best of my knowledge, have not gambled ever since. Even before Divi-Vest was incorporated in 1990, I researched and back-tracked the Dogs of the Dow strategy to the bear market of 1973-1974. I wanted to make sure the system I would use to build my money management business was protected, in case things went south. The last thing I wanted to do was build a stock business, only to see it buckle underneath the weight of a bear market, and my foundation as well. Fortunately, the model held up exceptionally well, and I soon started courting clients.

The flexibility I enjoy while managing ALL-CAP, is worth mentioning. ALL-CAP, unlike many investments in today's marketplace, can go wherever the values reside. I am not bound by size or type of company. If blue-chips are running, then so is Divi-Vest. If small-caps are in, you can count on Divi-Vest there as well. I do not have the issues that specialized investments have. For the average investor, this means a great deal. No-longer do you need a complicated equity investment plan split ten different ways.

What I don't do is also important. I don't subscribe to investment schemes that make no sense, no matter how popular they are. Divi's limited tech exposure during the late 1990s is one such example. I just could not buy into my portfolios stocks that had no chance for survival. The "new paradigm" theory was too new for me to, suddenly, drop everything. Fortunately, I have adhered to my high dividend yield focus. It has proved to be the right thing to do.

As for unique traits, personally, I attribute part of my success to my background in the arts. I paint, or, I should say, I used to paint before life became complex. I play a little piano as well. In my opinion, the market is part science, and part art, or emotion. Being able to scale back and forth between the two, without question, is the advantage. One progression I've observed over the years in stocks is that the focus has become too scientific. The idea that you can just push a button and everything will be fine, as it applies to stock investing, is naive. Evidence of this bend towards science, which I refer to as the "scientification" of the investment process, is today's over-ownership of index funds, and index fund look-alikes. Computers, not people, run these investments. The artfulness of money managers has been glossed over. Maybe now, having witnessed the bear market's crushing blow on index returns, we'll see the pendulum swing back towards managers like Divi-Vest. Stock investors will gain from it.

This interview was originally printed in the FALL 2004 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 2004, Vol. XXVII No 3.