**Star Gazer Richard Driehaus – Chairman of Driehaus Capital Management**

Driehaus Capital Management, established in 1982, manages $2.6 billion for institutions and high-net-worth individuals. Richard's track record of success has firmly entrenched him among the top echelon of U.S. equity managers. Richard has been repeatedly ranked amongst the top U.S. equity managers in the world.

[start box] One of the things we try to do is really try and identify stocks early. I've always approached things more from an income statement basis than from a balance sheet. I really bought the idea that earnings growth is the primary determinant of a company's stock price and companies that achieve consistent, sustained earnings growth are ones that are going to be the largest market winners.

I also noticed it was not only classic growth companies or technology-based ones that moved up, but also companies that would have what they call "positive earnings surprise." In the end, it's not only companies that are showing earnings growth but those that have a change in their pattern or where their earnings growth begins to pick up or take off or where there's a change in direction that wasn't really anticipated.

I came out of this from a different perspective than most analysts trained out of the Graham and Dodd school of thought. Graham and Dodd came out of the Depression and they were analyzing companies as if they were going to go bankrupt, they were looking for breakup value so if like a bank made a loan to these companies, what could they get back, what were the liquid quick assets, and I was looking at them more from a growth perspective. So in other words, I came at it from a whole different way, thinking that the life of the company came through its earnings power and not the balance sheet. We think earnings growth is the primary mover of business and then the crucial factor is determining the common stock price over time.

We divide the earnings growth into four different features. If earnings growth is good, we say it's even better than if it's accelerating. We look for positive earnings surprise, we also look for upwards earnings revisions and we also will buy stock with strong, consistent and sustained earnings growth. Some of the most successful market winners that come out of that type of context weren't always accelerating, but they had a really consistent business model and they just kept on growing whether it was the Limited Stores or Home Depot or Wal-Mart or Southwest Airlines, or in recent years like Dell or Microsoft. There are two things I say you'll never know about the market, how high it will go or how low it will go. And with individual stocks, that's even more extreme.

We use technical analysis. And we use it because we think it's vital to see and to respond to what's going on in the market itself. So we believe that technical analysis provides us earlier clues to what *is* happening, rather than something that *might* be happening. We are looking for stock that have increasing buying interest or increasing volume, where there's an overall good chart pattern where the stock was based. We'd rather buy a stock that is up in price and appears to be heading higher and take that risk that it may decline than buy something that's already in a state of decline and hope, wish and pray that it will turn around. I would say that we're good listeners and good observers of what's happening within the market in the context of sectors, micro-groups and individual stocks, and then that combined with our fundamental approach, we can make an individual decision on the stock in a healthier fashion because we're not taking that out of context. We're taking it out of a field of information rather than specific information.

Here is an example of a business model that changed an industry. It was in 1974 when I was starting to buy a stock called Southwest Airlines, the symbol was LUV, it was traded over the counter and operated out of Love Field. They continued to execute that and by 1991, and when we started buying this company it had a market cap of about $70 million dollars. It tripled and that's when we sold it, but that was a mistake. We should have held it because it went up over 100 times. In 1991, Southwest airlines made over 100 million dollars, and the American airline industry lost about $700 million. That's the idea of a business model and the original founder, David Day, inspired others to emulate that model. So, it's Ryanair in London, another one called Easy Jet also operates out of London, and there's several others of course here, there's Jet Blue that copied it. And there's an interesting one we found in Brazil called GOL. GOL is like the Southwest Airlines for Brazil.

The difference is that their economy is just starting to evolve, reemerging, the size of the country is about the size of the US, so there's lots of travel time, lots of distance to cover, so you can't do it by walking or car or bike, it's not like traveling around Rome.

There's some lessons to be learned here about the advantages of long-term holding, in that sometimes, a portfolio, with its existing holdings, if there are no changes, can far exceed all of the changes that you make if you have that one great winner.

If it's a great idea, when you really have a great stock you want to give it more leeway and more chances, and that gets back to the business model. One of the things I look for is called a Category Killer, what is really going to dominate, and Dell had that, in their way of distributing and selling. LUV did it, Home Depot did it, Wal-Mart did it. The success is in execution, as William Blake said, "Execution is the chariot of genius." Execution is only the chariot of genius if the idea is good in the first place.

Believe it or not, we like most things internet-related. Internet advertising or monitoring internet like A.C. Nielsen types of services or companies that do internet processing or internet banking like Digital Insight. Digital Insight looks to us like a long-term winner. Of course we like Google and we like companies throughout the world that are applying this internet model like internet gaming. We also like selected medical stocks. Another area that we really like are international market because we think they are where the American market was 30-50 years ago when growth started to take off here. We like the major markets, the Far East, Eastern Europe, even Latin America. We like the Philippines, Indonesia, Malaysia, we basically like the world. In other words, the emerging markets throughout the world have grown over about 5% and that's causing a pretty good demand for basic resources and basic materials and those are not historically areas that we would have invested in. We like energy and though it's made a big move we think on a longer-term basis it still looks good.

It takes a lot of time and a lot of effort, but you also have to be open to learning, in other words, I'd say when I was growing up in the '50's there was a longshoreman in San Francisco, his name was Eric Hoffer, and he never graduated from any school, but he wrote many books, and Harvard one time gave him a test to see basically what any Harvard graduate should know, and he got 100% right. Basically, the reason I bring this up is he said that he'd rather be a *learning* person than a *learned* person. You need to do the fundamental things well, but then the markets are different and the markets you have to learn a lot through what I call observation and continuing to learn. So you've gotta observe, you've gotta respond, and you've gotta respect the market. I think the most important is to observe what's really going on, and I think from a really bigger picture perspective, are we really missing all the growth that's out there in the world today and that where all the money is that where the money's going to be made in the future. In all these mature economies America, and England, and Central Europe, they're mature, they're developed, are we gonna miss out in the next 100 years where really all the growth is? And the answer is, in a great sense, yes. That's the problem. I'm talking about keeping up with real worldwide growth rather than just doing well vs. the S&P 500 or the Morgan Stanley composite index.

Right geography and right market. We're looking at geography America, which is 5% of the world's market, England and Central Europe, and we're forgetting about 80% of the world population. In other words, we're investing where the billion people are wealthy and not the 5 billion people that are increasing their resources and their positions. That's how when Bank of America was founded it was called Bank of Italy. That type of financial institution, those that are now serving these Eastern European and other markets in India and China, are going to be equally successful I think. [end box]