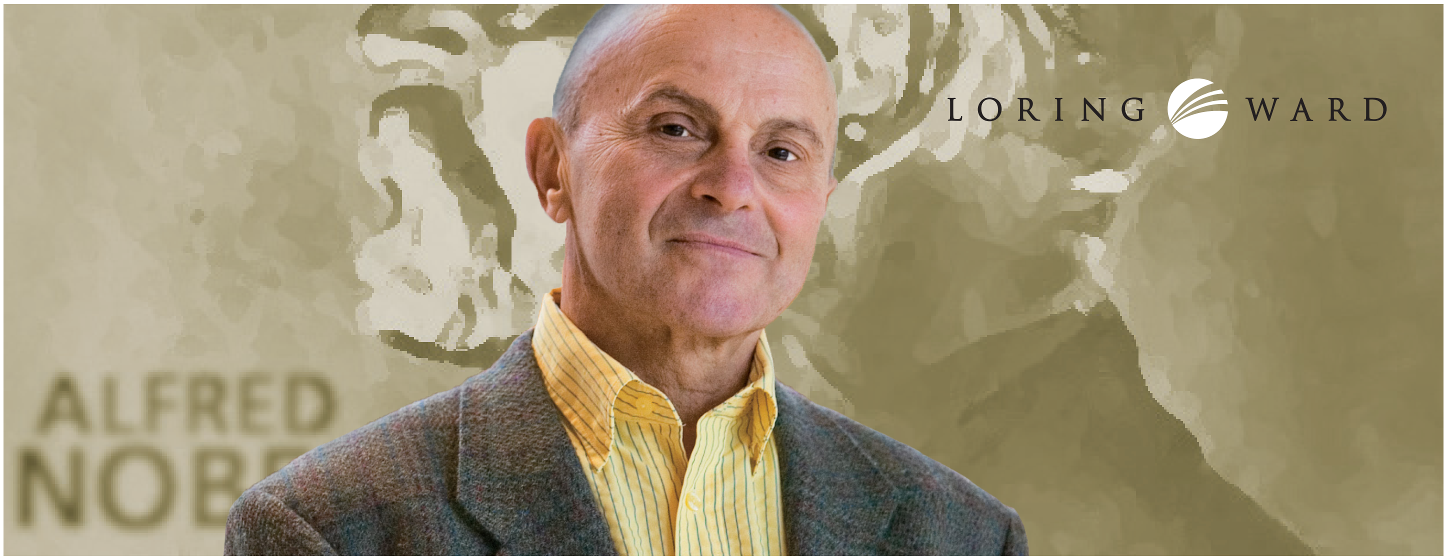

LORING WARD

Pioneer of Modern Finance

Professor Eugene F. Fama, Sr., Recipient of the 2013 Nobel Prize in Economic Sciences

Not only has Professor Fama's work deeply shaped Loring Ward's Asset Class Investing philosophy, he has also developed the investment strategies behind all the investment vehicles Loring Ward uses to build its portfolios. From the beginning of the firm in 1990, Loring Ward adopted an Efficient Markets approach to portfolio construction. The results over the years confirmed the soundness and practical wisdom of Fama's research. Below are some highlights from his extraordinary career

University of Chicago Professor Eugene F. Fama is widely recognized as one of the "fathers of modern finance." His groundbreaking research and analysis have transformed our understanding of markets, stock prices and investing and have had an enormous, practical impact on countless investors.

Fama is a prolific author and researcher, having written two books and published more than 100 articles. He is also one of America's most cited academics and has taught generations of noted economists, professors, and investment professionals — his list of former students reads like a Who's Who of finance.

Fama has won many notable honors and awards during his career, culminating in October 2013, when he was awarded the Nobel Prize in Economic Sciences — along with Robert Shiller and Lars Peter Hansen.

Professor Fama's path to the Nobel Prize began in 1965 when he published what he termed the Efficient Markets Hypothesis. Fama's research demonstrated that financial markets are "infor¬mationally efficient;" prices on traded assets (such as stocks, bonds, or even real estate) reflect all known information and quickly change to reflect new information as soon as it becomes known.

What this means for investors, according to the hypothesis, is that it is impossible to consistently outperform the market, except through luck. In other words, active management strategies are unable to consistently pick stocks that will "outperform" or in any way "time" the markets. This means investors may be better off accepting the market's rate of return and not taking the unnecessary risks involved with trying to outguess it.

As the economist Burton G. Malkiel noted, the Efficient Markets Hypothesis means that "a blindfolded monkey throwing darts at a newspaper's financial pages could select a portfolio that would do just as well as one carefully selected by experts."

In 1992, along with Professor Kenneth R. French, he published a study on the Multi-Factor Asset Pricing Model. Their research identified two stock risk factors — small companies and value companies — that investors should expect to be compensated for. As Fama and French found, the greater the risk exposure, the greater the expected long-term return. For investors, this means we need to decide how much of these risks we are willing to take in our portfolios.

In a recent essay, Fama wrote: "I love my work. I have no intention of stopping as long as I'm breathing — and I may even do it after that." Now in his seventies, he continues to be a financial pioneer and thought leader. His recent work with Professor French on profitability suggests another possible dimension of excess returns, with important potential consequences for investors.

Above all, Fama's career and work demonstrate the practical impact that academic research can have for investors. Thanks to Fama, many investors no longer spend precious time and money trying to outperform markets. Instead, they focus on taking reasonable, compensated risks — in accordance with their goals and comfort level — and put their faith (backed by data) in the long-term potential of free markets and capitalism to create wealth.

Notable Research by Professor Fama

- The Behavior of Stock Market Prices
  Fama, Eugene F., University of Chicago — Graduate School of Business; Journal of Business 38: 34–105. (January 1965).
- The Cross-Section of Expected Stock Returns
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; The Journal of Finance, 47: 427–465. (June 1992)
- Value Versus Growth: The International Evidence
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; National Bureau of Economic Research (August 1997)
- The Corporate Cost of Capital and the Return on Corporate Investment
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; (April 1998)
- The Capital Asset Pricing Model: Theory and Evidence
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; National Bureau of Economic Research (August 2003)
- The Value Premium and the CAPM
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; National Bureau of Economic Research (March 2005)
- Dissecting Anomalies
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; National Bureau of Economic Research (June 2007)
- The Anatomy of Value and Growth Stocks
  Fama, Eugene F., University of Chicago — Graduate School of Business and Kenneth R. French, Dartmouth College — Tuck School of Business; National Bureau of Economic Research (September 2007)