



## BAVIELLO INVESTMENT MANAGEMENT

### The Selective Value Strategy.

#### Capital deployed through a patient, rigorous, value-oriented process.

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The Selective Value Strategy (the “Strategy” or the “SVS”) is one I heavily employ for clients whose goals, return expectations, risk tolerances and time horizons align. Why? Lots of reasons. The Strategy deploys capital in what I call “best idea” investments that are achieved through a process that’s patient, rigorous, and value-oriented. Ideally, here’s how it works:

1. Shares of selected companies are purchased at a significant discount relative to their intrinsic value as determined by an evaluation of the companies’ operating fundamentals.
2. Companies must possess or be subjected to one or more catalysts that may allow them to realize their evaluated intrinsic value.
3. Each company’s evaluation has shown the potential for price appreciation.

#### The Strategy and its operation in detail:

Does not guarantee a rate of return to clients, nor does it target a specific annual percentage return. I do not believe guarantees are possible and any attempt to do so can considerably constrain our investment flexibility, opportunity set, and needlessly shorten our investment horizon. Doing so compromises and reduces the probability of potential good long-term returns.

Investments are not based on market calls and predicting general market fluctuations. This is outside of the scope of the SVS and, frankly, beyond my ability.

Invests only in publicly-traded companies that are primarily available on the U.S. stock exchanges. I invest across market capitalizations (company sizes) but have historically held more small- and mid-sized companies.

Is a concentrated investment strategy. Once fully invested, the Strategy can typically hold between six to 16 companies. Depending on market conditions and evaluations, each

company’s position size is built over time and to varying final levels.

Portfolios should, ideally, be held for a minimum of three years. A preferable and more optimal holding period would be five years and longer, or a full market cycle. The Strategy takes a patient, long-term view when evaluating and selecting companies for investment. Consequently, avoiding the short-term focus of many market participants.

Is designed to outperform the general market, as defined by the S&P 500 Total Return Index, over a five-year period and/or a full market cycle. I believe this is a fair comparison period unless we are in the latter stages of a prolonged and surging bull market. In that case, the SVS is likely to underperform during part or all of that period. Generally, such an environment is marked with broad overvaluation as companies’ prices march higher—disconnecting from

their operating fundamentals and values. Thus, significantly narrowing the opportunity set that fits the SVS's parameters and principles.

**Portfolio companies are well researched from both a quantitative and qualitative perspective.** During such research, the company's filings and conference calls are reviewed in detail, as are the industry and its structure. Research may also include conversations with management or other industry participants.

**Portfolio companies are selected based on their market prices trading at a discount, or a margin of safety, to their evaluated intrinsic value.** Although such holdings possess a margin of safety based on their evaluation, their market prices can continue to fluctuate and even decline. Although there is no guarantee, I believe market prices over time tend to move to value. I will not pay above the intrinsic value range for a company, regardless of the company's popularity.

**Portfolio companies are frequently monitored and evaluated, and are sold, when:**

- a. the company's market price is near or has reached the top of its intrinsic value range;
- b. the company has been re-evaluated or a change in company/industry conditions has resulted in an intrinsic value that is much lower than previously thought;
- c. there is another company that appears to be a better investment than the current holding.

Notwithstanding these sell conditions, one of the goals of the Strategy is to limit unnecessary turnover within the portfolio.

**Will not sell a company based on short-term market price declines, unless there is a permanent impairment of the**

company's value and our reason for owning the company no longer holds true. Otherwise, such price drops will be considered and evaluated for potential opportunistic purchases if the situation dictates.

**Flexes when opportunities/companies are hard to find.** When this is the case it:

- a. may hold significant amounts of cash, a portion of which may be invested in short-term U.S. Treasuries;
- b. may refrain from taking positions in new companies for an extended time; and
- c. will continue to follow the regular process of evaluating and researching companies for potential investment.

Instead of straying from the Strategy's parameters and forcing investments that could result in a permanent loss of capital, at times, it's best to wait for better opportunities that meet the SVS's parameters.

**Primarily focuses on long positions in companies/stocks.** While it does not short companies, it may, on occasion, utilize put options as a hedge on overall market exposure.

**Account(s) will be held at TD Ameritrade and charged an annual advisory fee, quarterly in advance, which will be a set percentage applied against the assets in the account(s).**

And last but certainly not least, I invest side-by-side with clients in the SVS strategy in accordance with our Code of Ethics.



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The strategy discussed in this paper may not be suitable for all investors and does not purport to be a complete investment program.

The S&P 500 Total Return index is an unmanaged, statistical composite that tracks both the capital gains of 500 stocks over time and assumes that any cash distributions, such as dividends, are reinvested back into the index. References to index performance are provided as a benchmark, but are not illustrative of any particular investment. The S&P 500 Total Return index is often used as a benchmark for US equity portfolios and is designed to form a representative sample of the US stock market. The index's return does not reflect payment of any brokerage commissions or fees an investor would pay to purchase the securities it represents. Such costs would lower performance. It is not possible to invest directly in an index. The benchmark includes a materially different number of securities and has different risk characteristics than Baviello Investment Management or the SVS. Past performance of the benchmark is no indication of future returns related to the SVS or any other strategy offered by Baviello Investment Management.

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