



Quadrix: The Science Behind Our Stock-Selection Process

Presented by Horizon Investment Services

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Richard Moroney, CFA

- # Editor, *Dow Theory Forecasts*, since 1994
 - # Editor, *Upside*, since 1999
 - # Chief Investment Officer and Portfolio Manager, Horizon Investment Services
 - # Developer of the Quadrix stock-rating system used by *Dow Theory Forecasts*, *Upside*, and Horizon Investment Services
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Quadrix Overview

Quadrix uses nearly 100 variables in six categories to arrive at an **Overall** score. Overall scores, like all scores in Quadrix are percentile ranks. The top score is 100 and the bottom score is 0.

The six category scores used to determine the Overall score are:

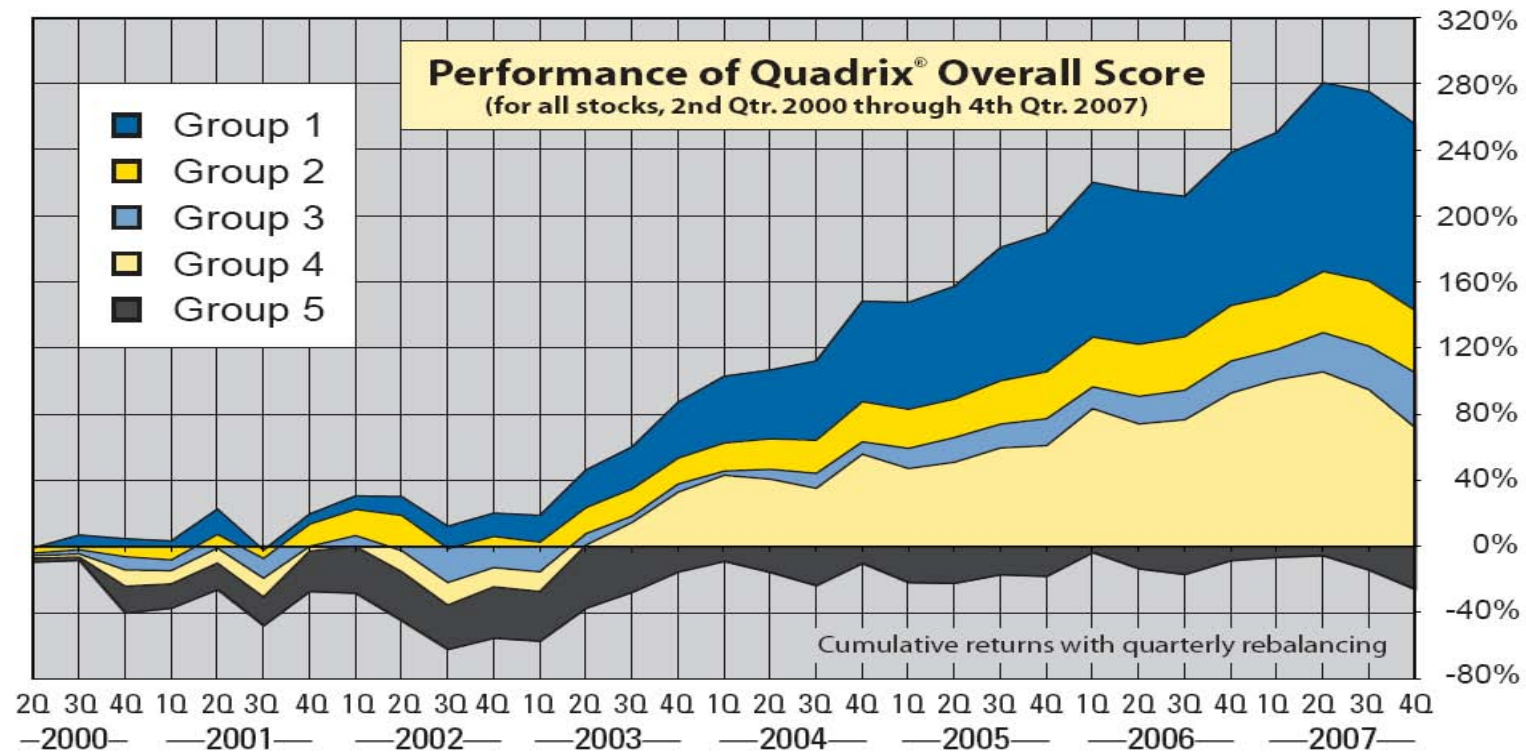
Quadrix Categories

- # **Momentum** – recent growth in sales, earnings, and cash flow
 - # **Value** – price/earnings, price cash flow, price/free cash flow, and other valuation ratios. Also consider current ratios relative to historical norms.
 - # **Quality** – long-term growth in sales, earnings, and cash flow, along with returns on equity, assets, and investment
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Quadrix Categories (continued)

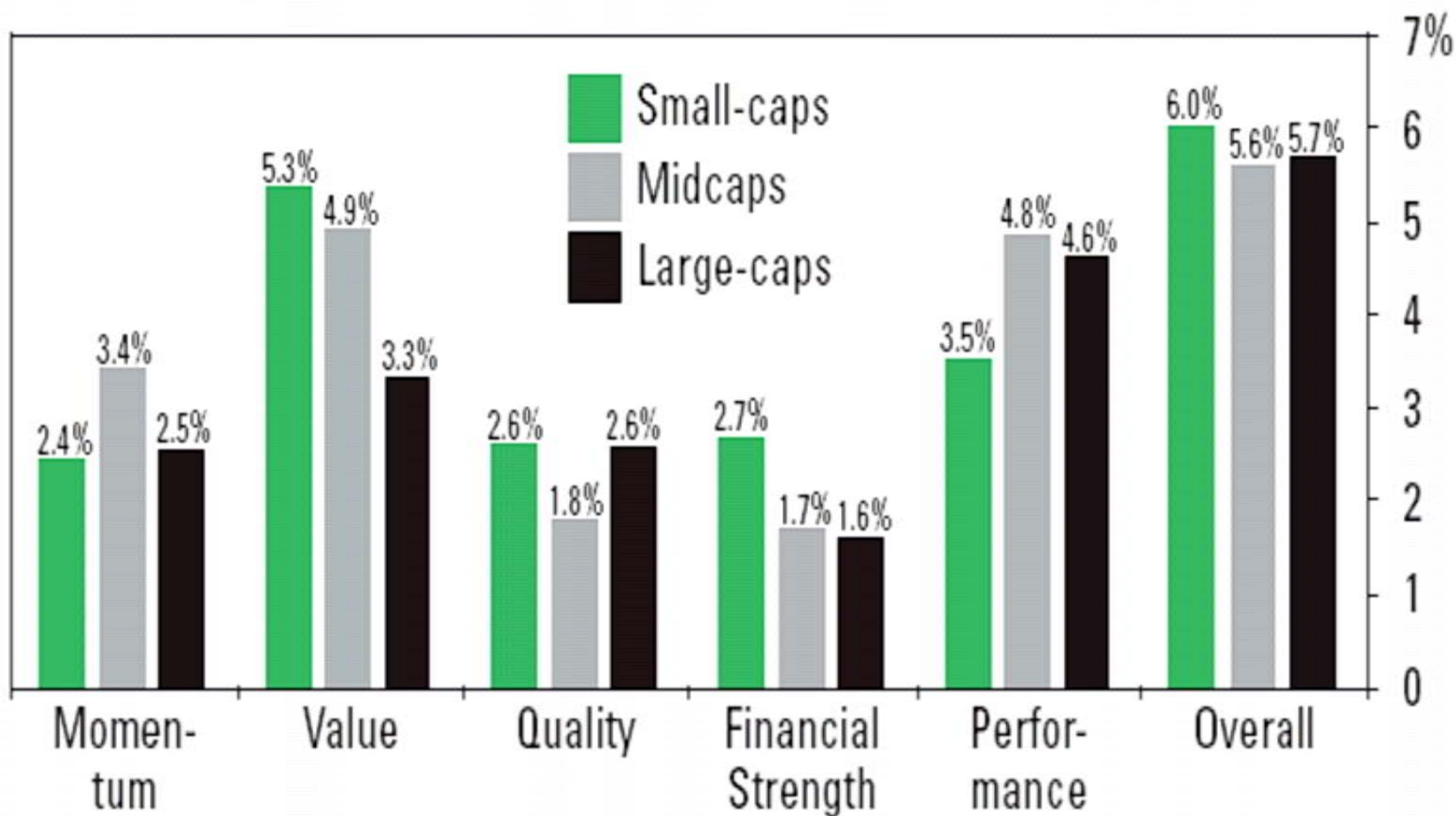
- # **Financial Strength** – debt levels, interest coverage, and profit margins
 - # **Earnings Estimates** – trend in analysts' estimates
 - # **Performance** – stock returns over different periods within the past 12 months
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Quadrix – Actual Results Since 2000



Quadrix- Back-tested Results Since 1990

Average return of top one-fifth minus return of the average stock



What Works Best in What Sectors

<u>SECTOR</u>	<u>MOMENTUM</u>	<u>VALUE</u>	<u>QUALITY</u>	<u>FINANCIAL STRENGTH</u>	<u>PERFORMANCE</u>	<u>OVERALL</u>
Basic Materials	-0.8%	3.4%	-1.2%	-1.1%	2.3%	-0.4%
Consumer Goods	-0.1	2.1	0.3	-0.5	-0.3	2.8
Consumer Services	3.1	1.7	-0.8	-1.8	5.1	2.9
Financials	1.2	3.6	-0.4	-0.4	1.9	2.3
Health Care	1.3	5.3	-0.8	0.6	1.9	2.2
Industrials	-2.2	5.1	-1.5	0.3	2.7	1.5
Oil & Gas	0.6	4.0	0.0	-2.9	3.3	1.2
Technology	1.7	4.1	0.1	1.7	4.8	3.5
Telecommunications	3.2	1.3	-4.8	-2.9	4.6	0.6
Utilities	2.6	5.8	1.3	0.4	0.6	2.7

How We Pick Stocks

Examine Quadrix scores. Based on real-time experience since 2000 and back-testing to 1990, we've refined our initial Quadrix screen to the following:

- # Overall score above 80, and preferably above 90
 - # Value score of at least 20
 - # Performance score of at least 20
 - # Earnings Estimates score of at least 20
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How We Pick Stocks (continued)

Determine if Quadrix is painting an accurate picture.

- Is a stock scoring well for valid reasons, or are unusual circumstances inflating score. For example, have acquisitions inflated reported growth rates? Or has a one-time gain depressed the price/earnings ratio artificially?

Examine industry and company prospects.

- Like most rating systems, Quadrix uses mostly backward-looking factors. So, we want to consider how closely the future will resemble the past for a company. We are keenly interested in whether industry conditions are improving or worsening.
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How We Pick Stocks (continued)

Reconsider valuation

- Before we buy, we recheck a stock's valuation to make sure the good story being told by Quadrix has not been fully discounted.

Look for a catalyst

- Is there a catalyst capable of driving superior returns? What makes this the one stock to buy from a group or sector?
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Net returns for Horizon Investment Services

(Returns after all expenses and management fees, through 12/31/2007)

Core Opportunities Strategy

- Since 11/30/00 inception: 45.9%
- Russell 3000 Index: 33.8%
- 2007: 11.5%
- 2007 Index return: 5.1%
- 3 Year Annualized : 10.8%
- 3 Year Annualized Index: 8.9%

Best Ideas strategy

- Since 7/31/03 inception: 96.4%
- S&P 500 Index: 60.8%
- Russell 1000 & 2000 blend: 67.2%
- 2007: 12.3 %
- 2007 S&P 500 : 5.5%
- 2007 Russell 1000 & 2000 blend: 2.1%
- 3 Year Annualized : 11.4%
- 3 Year Annualized S&P 500 : 8.6%
- 3 Year Annualized Blend: 8.0%

See important disclosure information at end of this document or visit www.HorizonInvestment.com.

Net returns for Horizon Investment Services

(Returns after all expenses and management fees, through 12/31/2007)

Upside Plus Strategy

- Since 11/28/03 inception: 76.2%
- Russell 2000 Index: 47.1%

- 2007: 10.7%
- 2007 Russell 2000 Index: -1.6%

- Three Year Annualized: 9.6%
- Three Year Annualized Index: 6.8%

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Recommended Quadrix Leaders from *Dow Theory Forecasts*

Ticker	Company	Overall	Momentum	Value	Quality	Fin. Strength	EPS Ests.	Performance	Volume Metrics	Sector	Rating
AIZ	ASSURANT INC	98	67	80	85	79	83	96	63	Financial	Focus Buy
HUM	HUMANA INC	98	94	69	89	42	97	98	24	Healthcare	Focus Buy
IBM	INTERNATIONAL BUSINESS MACHINES	88	69	60	78	63	90	79	41	Technology	Buy
LLL	L-3 COMMUNICATIONS	87	77	59	79	33	94	91	79	Services	Focus Buy
LMT	LOCKHEED MARTIN	91	75	63	90	51	62	79	36	Industrial Goods	Focus Buy
MTW	MANITOWOC	94	97	56	87	60	91	59	56	Industrial Goods	Focus Buy
MFC	MANULIFE FINANCIAL CORP	95	79	70	85	68	88	68	85	Financial	Focus Buy
NOV	NATIONAL OILWELL VARCO	98	96	55	98	85	90	65	37	Basic Materials	Buy

Recommended Quadrix Leaders from *Upside*

Ticker	Company	Market Cap	Overall	Momentum	Value	Quality	Fin. Strength	EPS Ests.	Performance	Sector
AMED	AMEDISYS	1,178	87	77	42	88	88	31	97	Healthcare
AMSG	AMSURG	821	86	57	58	74	86	84	87	Healthcare
NFLX	NETFLIX	1,565	94	92	52	90	85	43	88	Services
OXPS	OPTIONSXPRESS HOLDINGS	1,877	97	92	49	99	97	52	89	Financial
PETS	PETMED EXPRESS INC	307	99	87	57	96	90	99	80	Healthcare
PHLY	PHILADELPHIA CONS HLDG	2,557	100	86	95	98	100	67	40	Financial
SVR	SYNIVERSE HOLDINGS	1,034	93	69	67	82	60	97	77	Technology
WTI	W&T OFFSHORE	2,219	98	77	79	76	90	99	88	Basic Materials

How Our Quantitative Approach is Different

- # **We don't sell stocks short or use leverage.**
 - # **We don't assume history will repeat.**
 - Quadrix was not designed based on back-tested results. We built a system that graded stocks the way we do, rewarding issues with strong operating momentum, good track records and fundamentals, and attractive valuations. Because we do not optimize based on history, we are less vulnerable to a shift in the consensus view regarding “what works on Wall Street.”
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How Our Quantitative Approach is Different (continued)

We spread our bets.

- By using a diversified mix of factors, Quadrix rewards stocks with broad-based appeal. Also, stocks can earn high Quadrix Overall scores in a variety of ways. Because Quadrix Overall leaders are not all the same, a basket of such stocks can provide a diversified portfolio.

We don't put things on autopilot.

- My team and I evaluate top Overall scorers, looking over Quadrix's shoulder to make sure stocks are being graded accurately.
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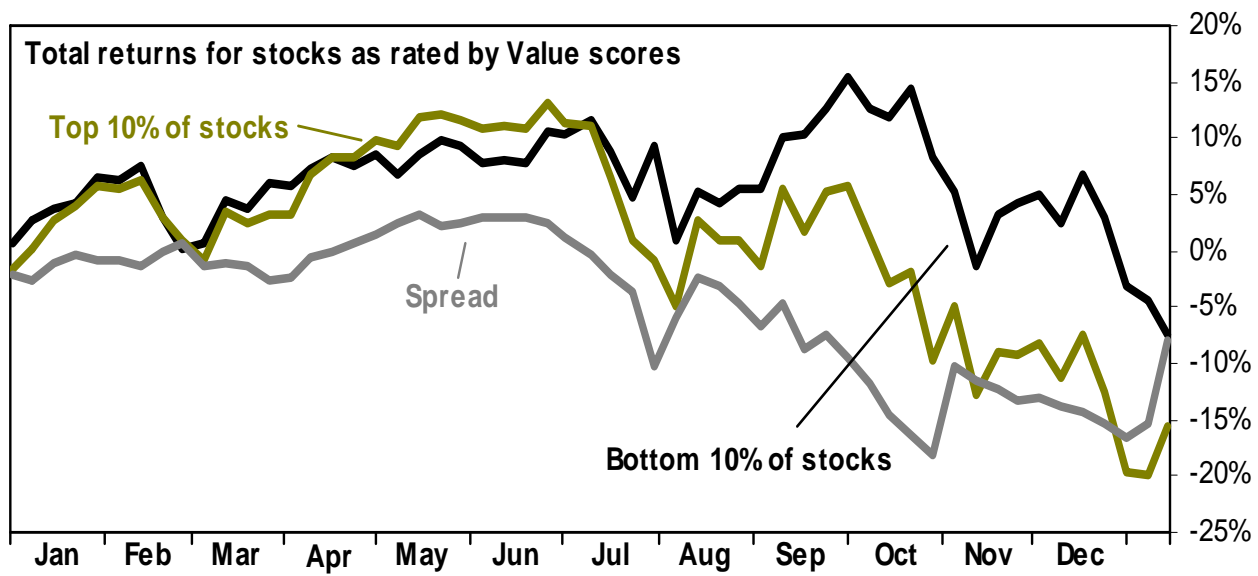
How Our Quantitative Approach is Different (continued)

We think quantitative methods and the human mind are complementary — not mutually exclusive.

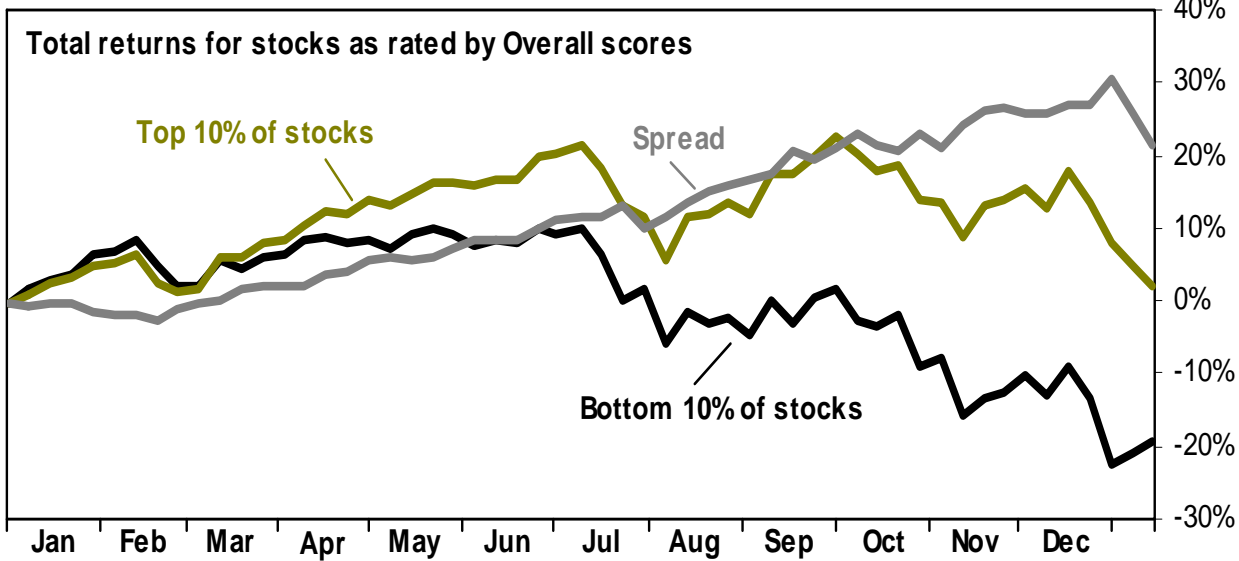
- Quadrix has its idea of what constitutes the perfect stock. We have our own idea. When Quadrix and we agree, we recommend the stock in *Upside** or *Dow Theory Forecasts**. Considering the strong returns we've delivered, our best-of-both-worlds approach appears to have merit.

*Upside and Dow Theory Forecasts are published by Horizon's sister company, Horizon Publishing Company

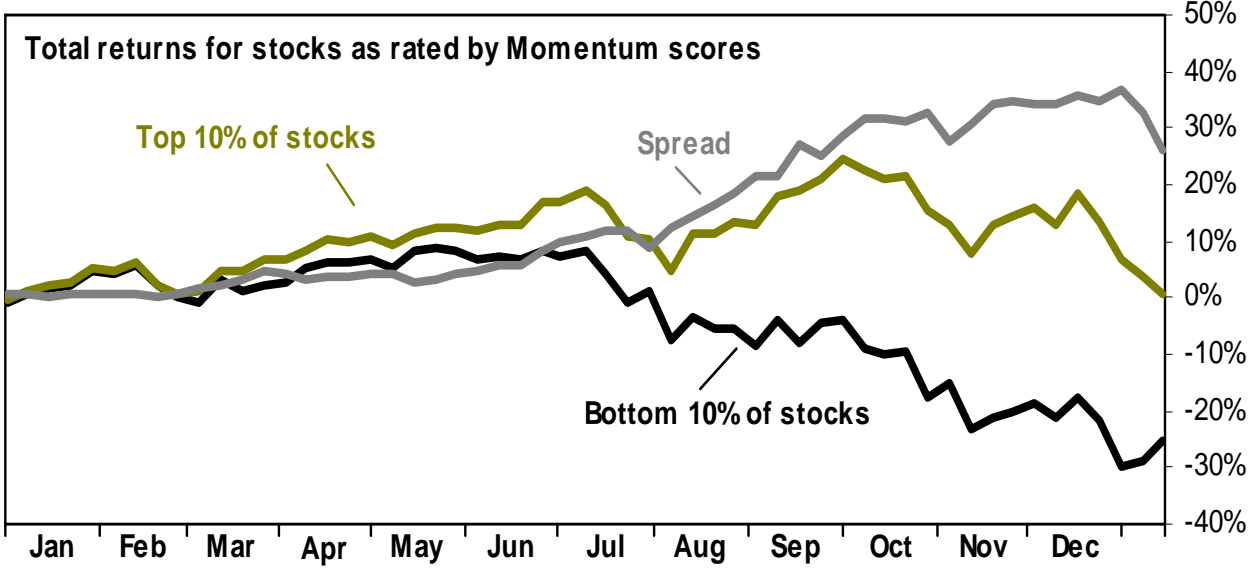
Value — Top 10% vs. Bottom 10%



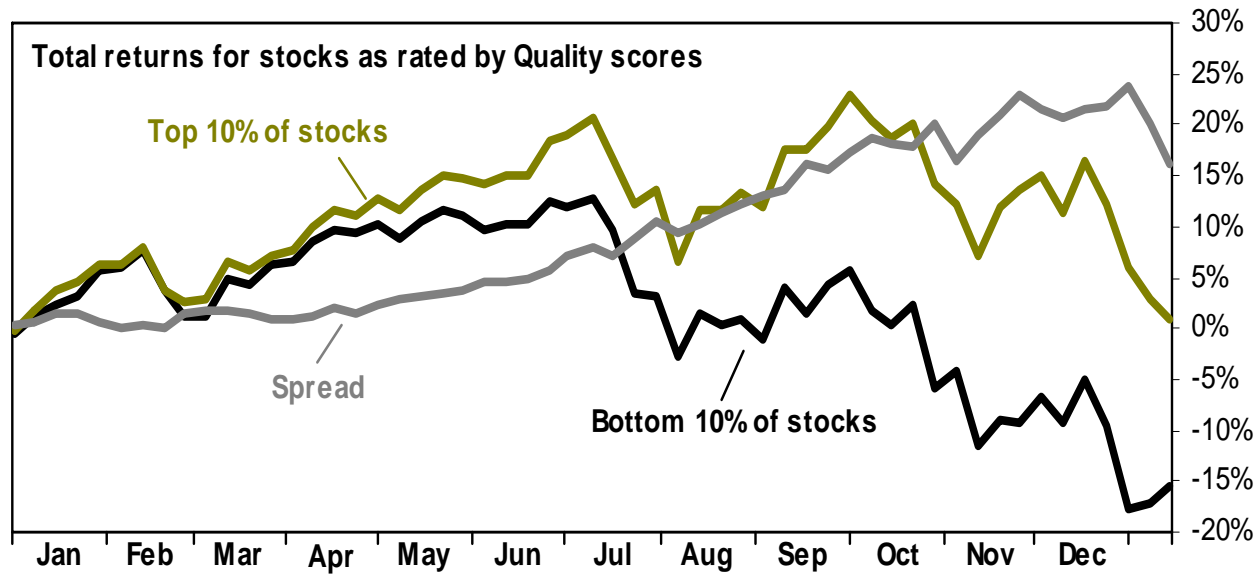
Overall — Top 10% vs. Bottom 10%



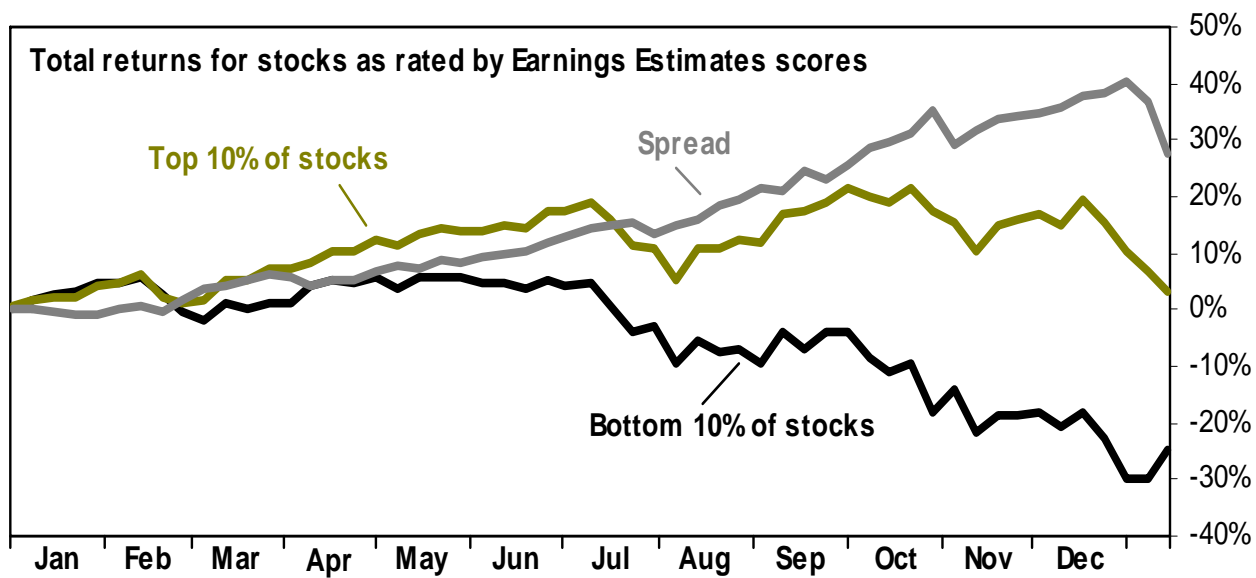
Momentum — Top 10% vs. Bottom 10%



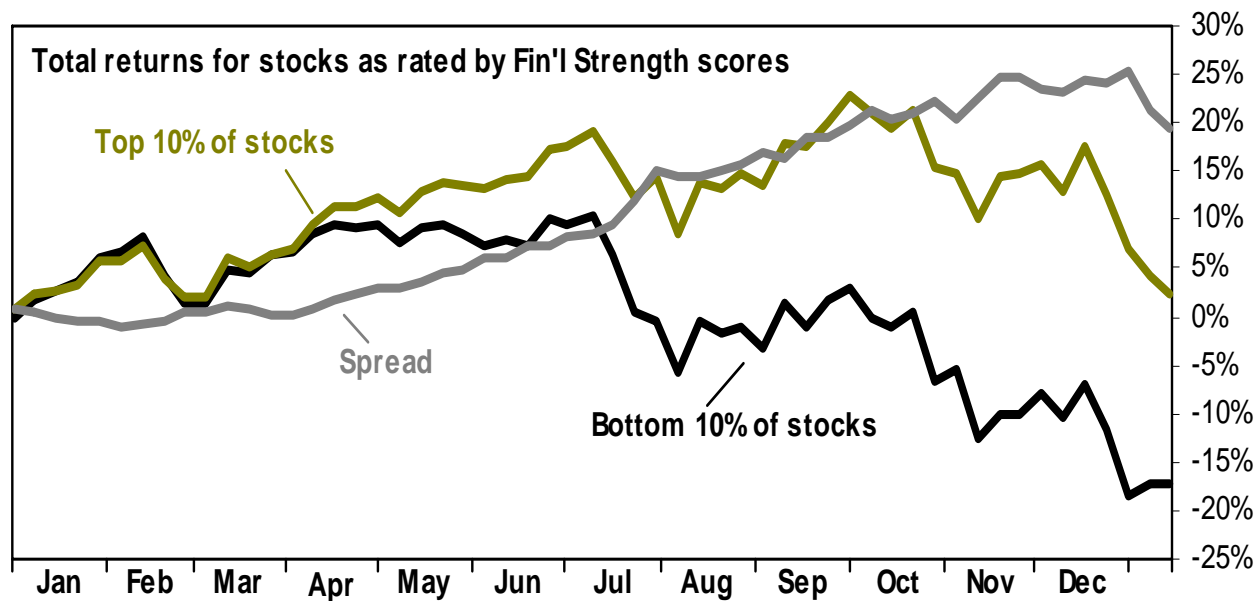
Quality — Top 10% vs. Bottom 10%



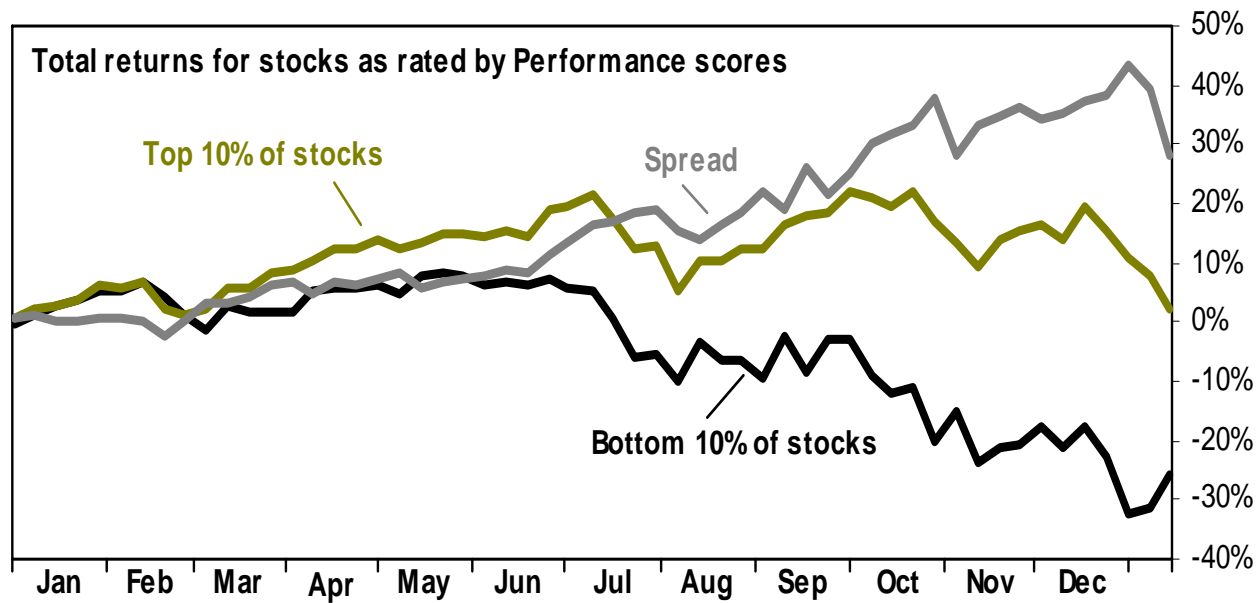
Earnings Estimates — Top 10% vs. Bottom 10%



Financial Strength — Top 10% vs. Bottom 10%



Performance — Top 10% vs. Bottom 10%



Disclaimer

Performance through 12/31/07

Horizon Investment Services LLC, is registered with the SEC as an investment adviser. The firm manages equity, mutual fund, income, and balanced portfolios for U.S. investors. The composite performance results include all fully discretionary accounts for the strategies shown above managed by Horizon Investment Services and exclude any accounts with significant client-imposed investment restrictions. Accounts are added to the composite after their first full calendar month of investment performance. Accounts that have significant cash flows that total over 30% of assets are temporarily removed from the composite. Composite performance results are presented after brokerage commissions, reinvested income and advisory fees and are asset-weighted, time-weighted total return figures. Performance was reduced by the highest fee charged to any client employing these strategies for the periods under consideration. Actual fees may vary depending on fee schedule and portfolio size. Advisory fee schedules are available upon request or may be found in Part II of Horizon Investment Services' Form ADV.

The Quadrix stock-rating system is a product wholly-owned by Horizon Publishing Company, Horizon Investment Services' sister company. Horizon Investment Services has contracted with Horizon Publishing Company to use the Quadrix stock-rating system for its stock-screening processes.

Disclaimer cont.

*As of December 31, 2007, the Core Opportunities Strategy composite included 15 accounts with \$15.8 million in combined assets. The Core Opportunities Strategy tends to be weighted more toward large-capitalization stocks while also holding small-capitalization stocks, which tend to be more volatile. The inception date of the composite was November 30, 2000. The comparative market index for the Core Opportunities is the total return performance of the Russell 3000 Index. The Russell 3000 Index is an unmanaged index that measures the performance of the 3,000 largest U.S. companies in terms of market capitalization. Past performance is no guarantee of future results.

**As of December 31, 2007, the Best Ideas Strategy composite included 90 accounts with \$44.0 million in combined assets. In addition to large and mid-capitalization stocks, the Best Ideas Strategy contains small-capitalization stocks, which tend to be more volatile. The inception date of the composite was July 31, 2003. The comparative market index for the Best Ideas Strategy is a 50/50 blended performance of the Russell 1000 and Russell 2000 indexes, calculated by averaging the cumulative total returns of the two indexes for the periods presented. In our opinion, this blended index represents a fair approximation of the composition of the Best Ideas Strategy. The Russell 2000 index is an unmanaged index that measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. The Russell 1000 index is an unmanaged index that measures the performance of the largest 1,000 companies in the Russell 3000 index of the 3,000 largest U.S. companies in terms of market capitalization. The S&P 500 index is presented solely because it is a widely followed index. The S&P 500 index is an unmanaged index that measures the performance of 500 large company stocks weighted by market capitalization. Past performance is no guarantee of future results.

***As of December 31, 2007, the Upside Plus Portfolio composite included 29 accounts with \$13.2 million in combined assets. The Upside Plus Strategy contains many small-capitalization stocks, which tend to be more volatile than S&P 500 stocks. The inception date of the composite was November 28, 2003. The comparative market index for the Upside Plus Strategy is the total return performance of the Russell 2000 Index. The Russell 2000 index is an unmanaged index that measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. Past performance is no guarantee of future results.



Thank you for attending.
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