

SchwarzPines Analytics

Portfolio Search, Inc. (PSI) web-delivers **SchwarzPines Analytics (SPA)** providing objective, fundamental insights to make you a better investor. Our novel measurements of earnings, shareholder equity and cash flow take you below the surface to calculate the firm's true financial track record and it to the reported figures. Additionally, only **SPA** provides a Fundamental Strength Score that weighs an individual company against the backdrop of firms 3,000 firms we evaluate.

Your equity investments are at risk if you take P&L reports at face value, depend solely on traditional analysis or overlook balance sheet dynamics. Company earnings are frequently distorted by creative accounting, analysts ignoring non-recurring charges and the use of balance sheet accounts to buffer reported earnings. **SPA** pierces this facade enabling you to avoid overpriced securities and identify growth opportunities.

Your time is valuable. With PSI, simply go to web site www.portfoliosearch.com, click Strength Analysis and key in a ticker symbol. You will immediately receive an in-depth **SPA** evaluation via easy-to-read color bar charts with short explanatory text which will allow you to rapidly validate that the firm's real financial underpinnings are consistent with your investment hypothesis on that firm.

The **SPA** methodology rests on the philosophy that changes in balance sheet accounts over time form the most reliable data for the creation of metrics to measure a firm's real earnings, equity, and capital consumption. Our patent pending analytics view each firm in the Russell 3000 from three perspectives: **Economic Profit**, **Organic Equity**, and **Organic Cash**. We provide a straight-forward graphic display that drills down to show the firm's cumulative performance over 12 quarters -- making trends, inflection points and deviations between real and reported figures visually obvious.

Economic Profit is the pro forma change in the levels of a firm's shareholder equity after backing out cumulative capital raised and cumulative dividends paid.

This approach to measuring earnings avoids relying on oft-manipulated figures in reported P&L Statements. The **SPA Profit Drill-Down** shows the difference over between a firm's real earnings (cumulative Economic Profit) and cumulative reported income, highlighting the quality of its reported income.

Organic Equity is total equity less net capital raised from share offerings and is the **SPA** proxy for that portion of total shareholder equity generated from a firm's real earning power.

Organic Equity will be negative for firms having paid-in-capital which exceeds total equity. For some firms, Organic Equity will exceed total equity; often the result of share re-purchases which resulted in negative paid-in capital. For a clear picture of financial strength, the **SPA Equity Drill-Down** shows the firm's long term debt and total reported equity relative to earned equity (Organic Equity).

Organic Cash is the firm's pro forma cash level assuming the firm had never borrowed money and had raised zero net equity.

The **SPA Cash Drill-Down** shows the firm's dependency on capital markets by measuring firm's Organic Cash Flow which is the change in Organic Cash levels over a given time interval. We prefer this metric to conventional "cash from operations" which is derived from Funds Flow Statement which starts with reported P&L figures and which can be quite complicated. Negative Organic Cash Flow indicates a dependency on capital markets, which is acceptable, provided cumulative Economic Profit is growing. On the other hand, declining levels of Organic Cash coupled with stagnant or declining cumulative Economic Profit indicates the firm is not yielding a real return on externally-raised capital.

We believe deterioration in certain balance-sheet-derived-ratios, Filters, often precede earnings surprises. **SPA** has implemented the Strength Score, which is the percentile rank over time of an individual firm against the backdrop of the 3,000 companies **SPA** evaluates. To determine an overall score, we apply 62 Filters -- covering profit, equity,

and capital consumption. Absolute rank is not as important as trends and inflection points. Major score changes can serve as a lead indicator of price behavior for bonds and stocks.

The Strength Score and other novel **SPA** approaches are covered under patent application "Methods For Evaluating The Financial Strength Of A Holding In Comparison To **Other** Holdings" published with the Patent Cooperation Treaty and World Intellectual Property Organization.

To find out more about **SchwarzPines Analytics** contact:

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