Conservative Concentration

For a change, there is a manager who invests in the past, and not the future. Steve Goddard gets nervous when valuations become very forward-looking and loves Warren Buffett's business strong enough to put 1/4 of his fund's money into Berkshire Hathaway.

World Funds New Market

Fund Facts	
Symbol	AVMIX
Website	www.worldfundsonline.com
Address	The World Funds, P.O. Box 8687, Richmond, VA 23226
Tel. No.	800-673-0550
Inception	10/01/98
Portfolio	
Total Net Assets *	$4.70
Avg Mkt Cap ($ Weighted) *	---
Average Price/Earnings Ratio	---
Average Price/Book Ratio	---
Turnover Ratio	7%
Investment Information	
New Investment	Open
Min Initial Investment	$1,000
Min Subsequent Investment	$100
Min Initial IRA Investment	$0.00
Risk (Against S&P 500 - 3 Years)	
Alpha	0.5670
Beta	0.4876
R-Squared	0.5853

Returns vs. Lipper Multi-Cap Value Index	AVMIX	Index
1 Year (Cum.)	3.02%	2.13%
3 Year (Ann.)	1.00%	1.10%
5 Year (Ann.)	---	1.40%
Returns vs. S&P 500	**AVMIX**	**Index**
1 Year (Cum.)	3.02%	0.25%
3 Year (Ann.)	1.00%	-11.20%
5 Year (Ann.)	---	-1.61%

Fees and Expenses	
Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.99%
Portfolio Manager	
Steve Goddard	10/01/98

* millions — *Data through: 06/30/03*

Source: Company Documents; Lipper

Q&A TICKER's Choice

Q: To say the portfolio is concentrated doesn't quite make the nut. An experienced eye sees the fund manager has a penchant for a deep value style. How do you view it?

A: Depending upon who you talk to, we're either value or core. Morningstar puts us in large-cap blend. Some management consultants put us in value. I'd say right now we're tracking closer to value. We really don't try to put ourselves in a box. We're looking for companies that have very predictable fundamentals and have good characteristics as far as return on capital, and we try to pay a reasonable valuation for it. Wherever that falls, it falls.

Q: Are you a one-man operation?

A: We have four people on staff here — two portfolio managers and two administrators.

Q: Apparently this publicly traded fund is offered to the retail clients, you also manage private money. Are you bringing a reputation to the public marketplace?

A: We're relatively more conservative than most money managers. We really look at the downside more than the upside. We think what kills a portfolio is when you have those positions that are down 75, 80, or 90%. That's the type of thing we try to avoid. So, we're not going to have as many home-runs as another manager might have. But, we're not going to have the disasters that you find in many portfolios. The way we really try to outperform is to concentrate on our best ideas. We think it's virtually impossible to outperform the market over time by having 70 different stocks and having 1 or 2% positions in every single stock. That virtually assures average or below average performance. For the New Market Fund, we try to concentrate heavily in very conservative names. If you measure the New Market Fund against the standard beta or standard deviation, we're far more conservative than the typical equity fund. According to Morningstar, there are only a handful of funds that have the five-star performance rating and the lowest risk rating as well.

Q: The fund pays nice dividends to shareholders, which helps. More helpful is the dividend tax relief.

A: We aren't really an income oriented mutual fund.

Q: The largest holding, Berkshire Hathaway, sticks out like a sore thumb. How long have you owned

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it in the fund and for private clients?

A: The fund didn't start until August 1998. We've held it virtually since inception there. We've also held it in our client's portfolios since 1996. Personally, I've held it since 1990.

Q: What attracted you 13 years ago to Berkshire?

A: To be honest, I just wanted to go to the annual meeting. You had to have a share to get there. I just purchased a couple of shares. Best purchase I ever made. Since then, I've just been accumulating over time. I like the characteristics of Berkshire Hathaway, the people that are running it and the valuation is reasonable, especially in this marketplace.

Q: What were you doing to afford those two shares?

A: I was managing money for another firm at the time. Even when I first started in the mid 1980s, as an analyst, the names that I purchased, Buffett had a position in them as well. So I just started studying his characteristics. The same things that I found had worked in my portfolio were the same characteristics he was looking for: high cash returns on capital and predictable fundamentals. Those are things that are tangible and that you can understand. I am very leery of forecasts and high growth rates that the company hasn't demonstrated in the past. In many of the names in technology and biotechnology, their valuations tend to rely more on the future than the past. That kind of company makes me nervous. If you're wrong it can be ugly.

Q: Yes, you can have your heart broken.

A: Those are the types of positions that can be down 90%. As we've found in the past in many of the hyper growth areas, the management teams have been a bit gamey in the sense of trying to project a forecast they could meet just to get the stock prices up. That just goes against everything we try to look for. We really want shareholder oriented management teams and managements that think like owners and treat us like partners.

Q: Moving on to see how you have adopted Buffett's religion, there is White Mountain Insurance in the portfolio.

A: It's not deep value right now. It's trading close to 1.5 to 1.7 times book, which is pretty much in line with other insurance companies. In some of my individual accounts, I had purchased it even before Buffett had taken a large position. That is another shareholder oriented company run by the best insurance man in the world, Jack Burns. I've ridden his horse a couple of times through some other positions where he was the largest holder. One was FSA, which was one of our biggest positions in the mutual fund a couple years ago. They were acquired by a European insurer. He's one of the few insurance managers out there that doesn't have that mutual insurance mindset. He just wishes he was 45 instead of 70 years old.

Q: What is the turnover like?

A: The nominal turnover is about 4 stocks a year. We don't believe in shuffling stocks around every quarter just for the sake of moving positions around. You should think like an investor when you're buying a business. Just because it moves 10% one way or the other doesn't mean you shift your strategy every quarter and shuffle your portfolio. That kills a portfolio when you have high turnover over time. You realize gains. You have transaction costs. You have opportunity costs. All those things tend to add up over time. When we buy something we want to hold it for three to five years.

Q: You are somewhat eclectic compared to some deep value managers when one sees a holding like Dell Inc, the direct computer seller that is branching into other areas.

A: Right. They're trying to get heavy into the server market and storage as well. I really don't consider it so much as a technology company but as an efficient manufacturer. The characteristics we look at are there — high returns on capital. Dell has extremely good return metrics as far as return on capital. They generate large amounts of cash. They're dominant and well run. We purchased it in the past year because the valuations got down to a level we were comfortable with.

Q: I look at Dell as a retailer of computers. You've added an extra wrinkle by saying it is an efficient maker of computing devices.

A: Dell can pretty much use that model for just about anything. I wouldn't be surprised to see them expanding themselves into non-tech products down the road. One thing I think Michael Dell is doing that is smart is instead of trying to fight EMC or some of the largest players in the markets, he's trying to expand by creating alliances and joint ventures. It makes it far easier to transform into the

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storage market or into the server market. That is a less risky way of entering into those ventures.

Q: I'm seeing one of the darlings of the tech world, Cisco Systems. Why is it in a value portfolio?

A: We liked Cisco. If you look at the entire technology industry, there are only a handful of stocks that are going to be around five years from now, one being Dell, Microsoft, IBM, and Intel. Once you get below that, there's not too many names out there that you can say with any type of confidence that they'll be around five years from now.

Q: Do you want John Chambers to pay dividends one day?

A: They're sitting on a hoard of cash. I don't want to see them overpay for acquisitions. I'm not picking on Cisco; I'm just saying in general that Corporate America hasn't had a good track record of using shareholder money wisely to acquire other companies. They've either overpaid or had poor timing. With the big tax law, you're going to see far more pressure for companies to distribute their capital back to the shareholders versus retaining the capital. You'll see payouts increase. You'll have more special dividends. That will be healthy for the market because it will take away a lot of the speculation and accounting gimmickry. A lot more of your returns will come from dividends versus appreciation, which is the way it used to be back in the 1940s and 1950s where people purchased stock simply for yield and not for appreciation.

Q: That was true for that era.

A: Stocks used to yield more than the bond market did, which is where we're getting to today. With bonds trading at 3.75%, and 3.3%, you can find stocks all day long that pay a higher income stream than Treasuries do. Back in the 1940s and 1950s, stock had to pay up more than the bond market because they were considered a riskier investment. They had to pay a higher yield back then. It seems like that's where we're going today. We're slowly going back in that direction where stocks are paying out more yield to attract investors.

About: Stephen M. Goddard, CFA, Portfolio Manager of the New Market Fund, is founder and president of the Fund's adviser, The London Company. Mr. Goddard has 19+ years experience in senior institutional portfolio management and holds an MBA from the University of Richmond and a BA in economics from the Virginia Military Institute.

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Q: Obviously you like to concentrate in the financial services industry with so many companies in the portfolio.

A: Yes. Financial services is probably 20 some percent of the S&P 500. My sense is we're going to see a lot more consolidation going on, not only in the financial services industry, but all the industries, because there is way too much capacity in virtually every industry out there. You just don't have enough top line growth for many of these companies to stay independent.

Q: I agree. What worries me about not enough consolidation already is it is not due to the companies but the Wall Street investment bankers that cook up financing deals to keep them alive.

A: One problem with the low interest rate environment is you're keeping the marginal players alive longer than they should. I still think there's going to be a lot of pressure from the outside shareholders for companies to consolidate. In virtually every industry there are two or three strong players and there's six or seven weaker players looking for a marriage. I'm surprised there hasn't been more activity up to now. The reason why the economy is weak is not that demand has fallen off so dramatically, there's been way too much supply put on the market in the last five years.

Q: We're suffering now after five years of easy money by the Fed. It took away the punch bowl for a while. Now it has reverted back to the prior policy. Maybe it should have done nothing.

A: I'm a believer in Milton Friedman's philosophy to do away with the Fed. We don't need it. Just have a stable policy that says have 1 or 2% growth throughout and just leave it there.

Q: The better players in that environment will capture most of the GDP.

A: I think it better to just leave the market alone. Let rates fall where they're supposed to fall. Same goes for currency. I'm much more a believer in letting the market correct itself versus tinkering around with the tax system, monetary policy or fiscal policy

Dave Jennings

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