



## Ford Model Performance on Foreign Companies May 31, 2006

A convenient way for investors to gain exposure to international markets is through investment in U.S.-traded foreign companies or American depositary receipts (ADRs). Among the roughly 4500 companies that are in the Ford universe of stocks, there are about 260 foreign companies with issues listed on U.S. exchanges or that have an ADR program in place. Recent interest from our clients in these companies has encouraged us in developing a separate database that will add 150 companies to our current foreign company coverage. With this development in mind, it is timely for us to examine the effectiveness of Ford's models and proprietary ratios within this subset of companies.

The following tables show the average returns for selected factor quintiles, or in the case of Share Buyback defined groupings, of a universe of foreign companies that are included in the Ford database. The returns are equally weighted and rebalanced monthly. The universe of stocks totaled about 140 in 2001 and increased to about 260 companies at the end of 2005.

### Price to Value Ratio (PVA)

Ford's Price to Value Ratio divides a stock's current price by the intrinsic value of a share as determined by Ford's dividend discount model. The intrinsic value is computed by discounting expected earnings and dividends over a ten-year time period using a quality-adjusted discount rate. The top quintile of PVA did fairly well on foreign companies over the past 5 years producing positive excess returns in 4 of the years.

PVA	Lowest	Quintile 2	Quintile 3	Quintile 4	Highest	All Foreign
2001	37.1	-9.5	-10.6	3.6	-17.0	0.2
2002	-31.8	-16.2	-11.6	-9.6	-12.9	-15.8
2003	120.3	64.9	63.5	75.4	60.7	76.3
2004	19.8	30.0	26.6	18.4	3.0	19.5
2005	17.5	10.4	13.7	2.2	4.1	9.6
2001-2005	23.7	12.4	13.2	14.7	4.5	14.3
Standard Dev.	34.2	22.2	18.2	17.2	20.2	20.6

### Operating Earnings Yield (OEY)

Ford's Operating Earnings Yield is an earnings-to-price ratio based on the last 3 quarters of operating earnings per share and the current quarter's estimate. There are a few differences in foreign companies that should be noted when evaluating earnings-based factors. Some companies report earnings on a semiannual schedule. Since the Ford database is built to store quarterly totals, the semiannual earnings and sales are divided by two to convert them to "quarterly" values. Additionally, foreign company earnings releases are often presented in home country generally accepted accounting principles. Finally, some of the foreign companies in the Ford database lack quarterly earnings per share estimates from analysts. In the case where an analyst estimate is not available, a current quarter estimate is extrapolated using the available actual earnings points. Despite these differences in underlying data, OEY has produced good predictive results in this universe of stocks. The top quintile of OEY produced average returns for the 5-year period that equaled those of the top quintile of PVA.

However the lower standard deviation of returns for the top quintile of OEY indicates it had the better risk-adjusted performance.

<b>OEY</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>All Foreign</b>
2001	33.7	-0.2	2.1	-21.6	-9.8	0.2
2002	-12.6	-1.6	-13.1	-22.2	-30.5	-15.8
2003	61.7	56.1	56.6	73.5	142.5	76.3
2004	33.8	16.6	19.9	7.7	18.7	19.5
2005	14.4	14.3	7.6	10.9	0.8	9.6
2001-2005	23.7	15.4	12.4	4.8	12.7	14.3
Standard Dev.	20.3	15.4	18.3	21.8	35.7	20.6

### **Price/Normal Earnings Ratio (PER)**

Ford's normal earnings per share represents the current sustainable level of earnings of a company and serves as the base on which we build our intrinsic value analysis and our price/normal earnings valuation metric. Ford's normal earnings tend to smooth out the volatility of historical earnings series caused by cyclical and large gains or losses from extraordinary items. The top quintile of PER produced the highest returns among the valuation factors shown. Its relative outperformance versus PVA might lead one to conclude that the growth estimates, dividend yield or quality rating, which are the additional factors for PVA, caused a drag to PVA's relative performance.

<b>PER</b>	<b>Lowest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Highest</b>	<b>All Foreign</b>
2001	37.8	1.6	-11.9	5.3	-27.0	0.2
2002	-18.1	-10.5	-2.3	-17.2	-30.9	-15.8
2003	105.2	57.4	67.5	72.1	79.1	76.3
2004	34.9	24.0	17.9	18.5	3.0	19.5
2005	16.8	15.5	9.4	3.9	2.5	9.6
2001-2005	29.5	15.4	13.2	13.1	-0.9	14.3
Standard Dev.	30.3	18.9	18.8	19.1	24.4	20.6

### **Earnings Momentum (EMO)**

The Earnings Momentum model is a modified version of Ford's original earnings trend analysis which makes an adjustment for the volatility of earnings. Similar to the original analysis, EMO measures the acceleration or deceleration in the growth of operating earnings per share over a 5-quarter period ending with the current estimated quarter. In each case, 12-month earnings at the end of each quarter are used to eliminate seasonal fluctuations. The performance for the top quintile of EMO among the foreign company universe was positive, outperforming in each year except 2002.

<b>EMO</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>All Foreign</b>
2001	8.9	4.9	-13.5	2.7	-3.1	0.2
2002	-19.6	-21.8	-19.3	-9.8	-9.9	-15.8
2003	88.9	74.5	88.3	48.9	81.9	76.3
2004	24.0	20.0	21.6	20.2	11.0	19.5
2005	13.7	9.1	15.4	4.3	5.5	9.6
2001-2005	18.5	13.4	13.0	11.6	13.2	14.3
Standard Dev.	23.0	22.3	20.3	18.7	26.0	20.6

## Earnings Trend (SED)

Helped by outstanding performance in 2001 and 2003, SED produced strong average excess returns vs. the all foreign stock universe over the last 5 years. SED's results also outpaced the performance of EMO indicating that the earnings volatility damper that EMO effects upon earnings trend can come at a performance cost at times. The performance of both SED and EMO for the foreign stock universe was comparable to their performance on the entire Ford universe of stocks.

<b>SED</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>All Foreign</b>
2001	23.7	-10.3	-6.1	3.4	-9.7	0.2
2002	-19.4	-19.6	-23.9	-4.9	-12.4	-15.8
2003	124.3	69.3	58.8	53.7	80.4	76.3
2004	25.2	22.7	15.8	23.3	9.7	19.5
2005	4.5	19.3	13.0	3.0	8.2	9.6
2001-2005	24.0	12.3	8.3	13.9	11.1	14.3
Standard Dev.	28.7	19.3	17.6	17.6	26.1	20.6

## Price Momentum (PMO)

Among the models presented in this report, Price Momentum has the nearest similarity between the U.S.-traded foreign companies and the rest of the Ford universe of stocks. The reason for this is because the underlying price data is collected from the same sources and in the same way. While the overall 5 year performance for the top PMO quintile was good, it was mainly attributable to exceptional performance in only two of the years, 2001 and 2002.

<b>PMO</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>All Foreign</b>
2001	38.2	6.9	-8.0	-20.8	-11.1	0.2
2002	4.3	-11.4	-11.3	-26.9	-32.5	-15.8
2003	73.5	59.0	63.1	63.0	128.3	76.3
2004	19.1	13.0	23.7	23.3	17.0	19.5
2005	8.5	14.3	9.6	10.6	4.9	9.6
2001-2005	26.4	14.2	12.5	5.2	10.9	14.3
Standard Dev.	27.4	17.0	18.9	20.5	28.9	20.6

## Share Buyback (SHB)

Our Share Buyback factor measures the percentage change in shares outstanding compared to one year ago. Across the entire Ford universe of stocks, our research indicates that companies that have reduced the number of shares outstanding, on average, generate above average performance. Applying the Share Buyback model to our foreign company universe produced similar results. It should be noted, however, that because of the size of the overall universe, the top quintile (those reducing shares by more than 5%) contains fewer than 10 companies in most periods.

<b>SHB</b>	<b>&lt; -5%</b>	<b>-1% to -4.99%</b>	<b>-0.99% to 1%</b>	<b>1.01% to 5.0%</b>	<b>&gt; 5%</b>	<b>All Foreign</b>
2001	-3.4	6.9	-0.2	-0.6	-3.0	0.2
2002	8.8	10.9	-12.3	-13.8	-28.4	-15.8
2003	93.4	61.7	64.6	78.1	93.7	76.3
2004	57.2	23.0	18.4	22.4	15.4	19.5
2005	29.0	23.9	15.9	-4.2	2.2	9.6
2001-2005	32.8	23.9	14.6	12.3	9.7	14.3
Standard Dev.	22.4	16.9	18.1	28.1	24.9	20.6

### **Value Momentum Model (VMO)**

The Value Momentum Model combines valuation, earnings momentum and price momentum into a single stock selection factor. When applied to the foreign company universe, the model produced very good results with positive excess returns in 4 of the 5 years. Also notable is the relatively low standard deviation of returns for the top quintile indicating that the combination of valuation and momentum factors boosts risk-adjusted returns in U.S.-traded foreign stocks as it does in U.S.-based stocks.

<b>VMO</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>All Foreign</b>
2001	31.3	-1.5	-1.7	3.4	-25.6	0.2
2002	0.4	-17.1	-16.2	-9.8	-35.1	-15.8
2003	60.5	53.7	74.9	76.5	119.8	76.3
2004	29.4	27.2	15.6	12.9	12.1	19.5
2005	21.1	14.0	8.8	2.4	2.3	9.6
2001-2005	27.1	12.7	12.6	13.8	4.0	14.3
Standard Dev.	17.7	17.9	20.7	22.4	31.1	20.6