audit integrity

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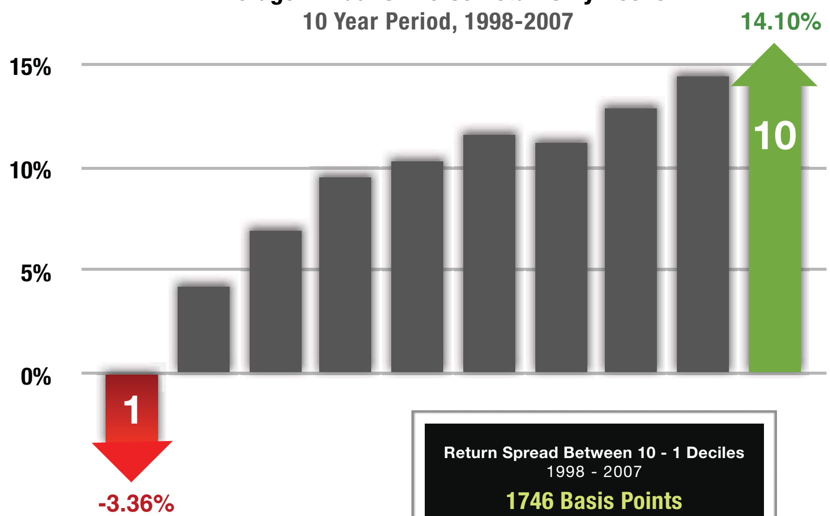
AGR EQUITY FACTOR PERFORMANCE

10 YEAR ANALYSIS 1998 - 2007

AGR EQUITY FACTOR
Average Annual Universe Returns By Decile
10 Year Period, 1998-2007



Return Spread Between 10 - 1 Deciles
1998 - 2007
1746 Basis Points

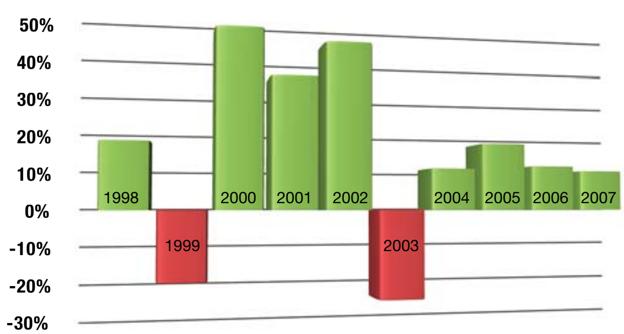
AGR EQUITY FACTOR COMPANY RANKING SCALE

HIGH 1 — Risk of Equity Loss — 10 LOW

EQF Decile	Average Annual Return
1	-3.36%
2	4.29%
3	6.94%
4	9.60%
5	10.34%
6	11.56%
7	11.28%
8	12.85%
9	14.39%
10	14.10%

10-1 AVERAGE RETURN SPREADS BY FOCUS
1998 - 2007

By CALENDAR YEAR

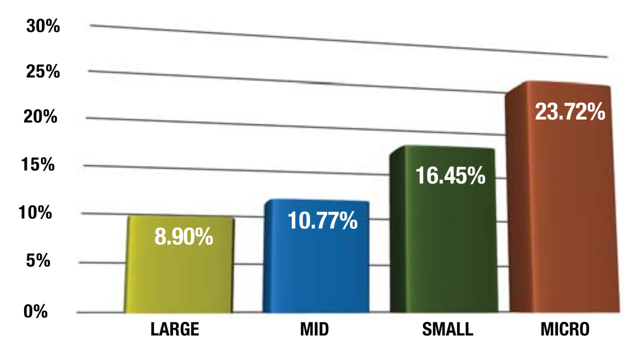


Year	Average 10-1 Return Spread
1998	17.11%
1999	-17.79%
2000	46.21%
2001	34.20%
2002	43.30%
2003	-23.13%
2004	10.90%
2005	17.61%
2006	11.70%
2007	10.50%

NOTES

- All market capitalizations included
- Positive return spreads 8 out of 10 periods
- Negative return spreads in years when returns were very high and positive
- Highest and most volatile return spreads in Small and Micro-cap groups

By MARKET CAPITALIZATION



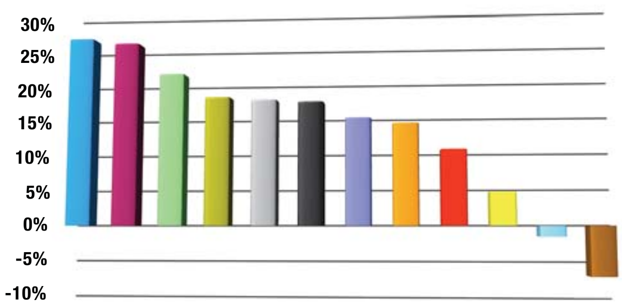
Market Cap Range	Average 10-1 Return Spread
Large Cap >$5 Billion	8.90%
Mid Cap $1-$5 Billion	10.77%
Small Cap $250 Million-$1 Billion	16.45%
Micro Cap $50-$250 Million	23.72%

NOTES

- High Information Ratio for both Best (1) and Worst (10) deciles *(0.33 and -0.87, respectively)*
- Strong Information Coefficient for entire population at 95% confidence interval

10-1 AVERAGE RETURN SPREADS BY FOCUS (cont.)
1998 - 2007

By INDUSTRY GROUP

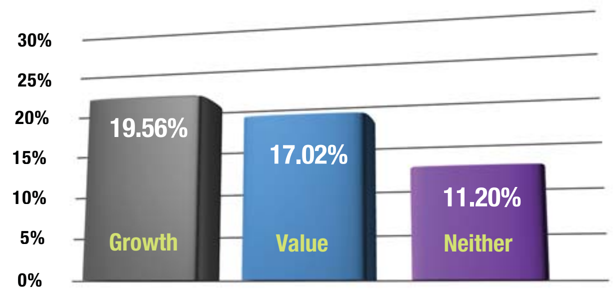


Industry Sector	Average 10-1 Return Spread
Healthcare	25.74%
Services	25.02%
Technology	20.73%
Consumer Non-Cyclical	17.44%
Energy	17.03%
Consumer Cyclical	16.7%
Basic Materials	14.45%
Transportation	13.68%
Capital Goods	10.18%
Financial	4.53%
Utilities	-1.42%
Conglomerates	-6.6%

NOTES

- Positive and high return spreads for 10 out of 12 sectors
- Highest spreads seen in Healthcare, Services and Technology

By INVESTMENT STYLE



Investment Style	Average 10-1 Return Spread
Growth	19.56%
Value	17.02%
Neither	11.20%

NOTES

- High returns spreads for both Growth and Value, based on Price-to-Book ratio
- Significantly higher spread in Value than Growth within Large Cap group
- All market capitalizations included

About the AGR and the Equity Factor

Audit Integrity measures corporate integrity through an extensive analysis of both financial and non-financial metrics. This approach builds on prior approaches to determine the fundamental risk behind earnings quality factors – can the numbers, and the management, be trusted?

Audit Integrity ratings have proven to be significant indicators of negative events such as securities class action litigation, financial restatements, bankruptcies and SEC enforcement actions. In short, aggressive accounting behavior and risky corporate governance practices increase the likelihood of such negative events.

Extensive research has also shown a clear relationship between Audit Integrity's primary risk measure, the Accounting and Governance Risk (AGR®) rating, and equity returns. Consistently, the lowest-rated companies underperform the market and highest-rated companies outperform.

In presenting these most recent research results, Audit Integrity studied equity returns using AGR scores over a 10-year period, 1998-2007.

The results were consistent with prior research showing that corporate integrity, as measured by the AGR rating, is a significant factor in equity returns, with low correlation to other factors.

Research Elements

AGR – The AGR Score is based on a quantitative model which weights specific accounting and governance metrics derived from corporate reporting. The score ranges from 0 to 100, with lower scores indicating higher risk.

AGR Equity Factor – based solely on the AGR score, the AGR Equity Factor adds variables related to AGR persistence and volatility to provide a better measure of equity risk than the AGR on a stand-alone basis. The AGR Equity Factor scores have been partitioned into equal deciles for the purposes of this research.

Back Test Methodology

To test and validate the AGR Equity Factor (EQF), the model was back-tested over the time period of 1998-2007. The following parameters were used:

Company Coverage: *U.S.-traded public companies with > $50m market capitalization*

Deciles: *the assignment of companies to 1 of 10 equal-size groups was done at the universe level*

Pricing Data: *IDC, via FactSet*

Rebalancing: *All groupings were rebalanced monthly*

Holding Period: *3-months*

Returns: *Equal-weighted returns; Split and dividend adjusted*

Market Capitalization: *based on Reuters data, with ranges of $5b+ (Large), $1-$5b (Mid), $250m-$1b (Small) and $50-$250m (Micro)*

Industry Groups: *based in Reuters major industry classifications (RIC codes)*

Growth/Value Groups: *based on Price-to-Book ratio, with the highest 1/3 of the population classified as Growth and the lowest 1/3 as Value*

Accruals Factor: *to compare the EQF vs. an accruals-based approach, a standard definition of an accruals model was taken from academic literature – (Net Income before Extraordinary Items less Operating Cash Flow) / Average Total Assets*

Key Findings:

- ***Large and persistent returns spread*** *between the highest and lowest-rated companies –* ***17.5% spread*** *between the best and worst decile over the prior 10 years*
- ***Consistent*** *performance in* ***yearly returns****, with* ***8 of the 10 years having positive spreads***
- *AGR Equity Factor* ***particularly effective in down and volatile markets*** *- double-digit spreads seen in each of the last 4 years*
- *Returns disparity seen across* ***all market capitalization groups*** *– greatest in small and micro cap groups, 8.9% annual spread for large caps*
- *Consistent results across industry sectors, with* ***10 of 12 major industry sectors*** *showing* ***positive*** *return spreads*
- ***Healthcare****,* ***Services*** *and* ***Technology*** *sectors displayed highest positive return spreads*
- *Equally effective for* ***Growth and Value*** *stocks, delineating the importance of corporate integrity for all companies*
- *From a* ***quantitative*** *modeling standpoint, the Equity Factor provides* ***risk-adjusted, well behaved returns****, as validated through key statistical measures*
- *The AGR Equity Factor* ***measures a different type of risk****, as confirmed through* ***low correlation*** *with broadly-used factors such as Price-to-Book and Accruals*

CONTACT INFORMATION
Phone: (877) 880-8820
Email: info@auditintegrity.com
Website: www.AuditIntegrity.com