



Our approach to building wealth isn't for everyone.

This brochure contains information about Gilder Gagnon Howe & Co. LLC that one should consider before becoming our client. This information has neither been approved nor verified by any governmental authority. Gilder Gagnon Howe & Co. LLC is a registered Broker Dealer, a Member of the NYSE Euronext, FINRA, SIPC and is registered as an Investment Advisor with the SEC. Copyright 2006.

GGHC gives the small investor
who possesses long-term patience
—and fortitude—
an opportunity to create wealth.

Our firm was founded to help small investors build significant capital over time.

Our Beliefs

- **There are no safe stocks.**
- **By taking research-based risks, we can, over the long term, earn above-average returns on investments in common stocks.**
- **Our job is to pick stocks; our clients' more difficult job is to stay the course.**
- **Capital growth requires patience, and is achieved only over many years.**
- **While many investors try to create wealth, few succeed. The rest lose heart.**

Our Clients

Gilder Gagnon Howe & Co. manages investments for individuals on a discretionary basis: that is, we buy and sell without asking a client to authorize each decision in advance. Our clients pay us commissions for our work.*

Our clients are diverse in many respects but united in one: they wish the money under our direction to grow significantly. Our clients are prepared to take a measure of risk over a number of years to attain this objective. Their accounts will fluctuate month to month, and year to year. It takes a strong stomach to invest with us.

We don't expect our clients to be expert investors. We ask something more difficult than that: that they concede to us the freedom and responsibility to take investment risks (which will involve losses) on their behalf. By delegating investment decisions, our clients empower us to buy and sell as we see fit. Regular margin and cash accounts pay us commissions per transaction, and retirement accounts pay us fees based on assets under management. We ask clients to trust us to spot opportunities, new ideas, or warning signs and act upon them quickly, which can make a critical difference to their account. Our clients do this by granting us a limited power of attorney. Depending on the investment program agreed upon, option and commodity powers of attorney may also be required. While clients can revoke these powers at any time, becoming our client is a big leap of faith.

Human creativity and innovation produces new enterprises with ideas which, when well executed, can change the world. Our job is to find them.

*Regular margin and cash accounts pay us commissions per transaction, and retirement accounts pay us fees based on assets under management.

What We Are

We are a registered broker dealer, and a registered investment advisor. Functioning as independent businessmen and women, we each have our own clients, but share a belief in growth investing for the long term. We each have different ways of analyzing companies and managing client accounts, but we work together to tap the group's diversity of ideas and opinions. This multiplicity of opinion serves to test each idea from a variety of angles—both before and after a broker acts upon it. Although we share information, we often don't invest in the same stocks or at the same time. In fact, we occasionally find ourselves on opposite sides of a security.

While each broker is responsible for his or her own investment decisions, we are aided by our analyst colleagues who scour the market for growth opportunities; our account managers who help execute our investment programs and work with clients; and our traders who connect us to the markets.

All brokers (and most employees at GGHC) invest their own money in the same companies as their clients. Successes and mistakes are felt by us all. There are times when clients' accounts decline, and yet we continue to trade and charge commissions. Staying this painful course requires long-term thinking, trust, and patience.

We Invest In Companies, Not Markets

We focus on stocks, with a minor emphasis on options, bonds, and commodities. We believe that while market action is impossible to predict, companies which have successfully competed with others are likely to continue to do so. Therefore, we invest in individual stocks, not markets.

If a company's industry is likely to enjoy better than average conditions, its future should wax especially strong. This combination—investing in an excellent company at a favorable time for its industry—offers the most consistent results in the stock market. We invest based on our own independent research and rely on fundamentals relating to a particular company and its industry.

GGHC works for our clients only. We publish nothing. Our discretionary brokers and analysts conduct research on companies, industries, markets, and countries where there may be growth opportunities. We meet with company managements, and analyze their plans and results, but also investigate supply chains, consumers, competitors—angles to give us insights or information to assist our decision making. While we occasionally purchase third-party, independent research, we usually conduct our own fundamental analysis, build our own models and charts, and scour available publications for information and insights.

What we buy

We prefer smaller and medium-sized companies. They often grow faster than better-known major corporations. We also consider companies with new developments, new products, and innovative technologies or approaches to their business. Sometimes there are new issues whose advantages have not yet been fully appreciated, cyclical businesses moving toward an upward swing, firms penetrating new promising markets, or those showing evidence of a recovery.

We invest in promising companies worldwide. Foreign investing adds political, currency, and accounting risks, plus those resulting from our distance from the scene, but many of these firms' prospects in faster-growing economies offer major investment opportunity.

Our Research

The more imaginatively, perceptively, and persistently we follow our investments, the better our results should be.

When we become interested in a company, we study its management, markets, finances, and accounting. Once we invest, we assess the company's progress by studying its reports and personal contact. Since we look for new ideas while testing our conviction on our holdings, we follow many more companies than we own. This work may entail checking a company's claims with its competitors, talking to dealers who sell its products, understanding its clients' perceptions and buying patterns, or monitoring its suppliers. We'll hold a stock as long as we believe it can meet our expectations, or until we think another stock offers superior promise.

We also keep an eye on the larger world affecting business: commodity prices, retail sales, housing starts, interest rates, politics, world affairs, and scientific and cultural trends. This helps us understand the degree of ease or difficulty that industries and companies are likely to experience in the months ahead. Our craft is projecting and interpreting trends of companies and industries.

Investing means taking risks. At GGHC, we believe that since all stocks possess risk, one should own only those offering the greatest possible reward. And please bear in mind the downside: growth investing can result in dramatic losses over one or more market cycles.

Doesn't Always Work

We often make mistakes buying or selling short. Sometimes we haven't given sufficient weight to a critical aspect of the investment. Or we're too early, or too late. Or things happen... life is speculative.

In down markets, smaller or medium-sized companies' share prices come under great pressure. Their lack of marketability, lower-than-average dividends, and unfamiliarity to the investing public may temporarily outweigh the attractiveness of their growth prospects. The outlook of a smaller company can deteriorate suddenly. Turnaround companies, rather than reversing their fortunes, sometimes spin into deeper trouble; cyclical companies may fail to bounce; new issues flounder; new products disappoint.

What often characterizes successful investors is their attitude toward selling. Unsuccessful investors avoid accepting losses, but eagerly cash in profits, seldom staying with a position which later may greatly increase in value; meanwhile, their portfolios are cluttered with relics. We try to be quick to unload unsuccessful properties. Inevitably, we sell some at substantial losses; if we hold large positions, selling, or covering, may require weeks or even months to accomplish.

Margin and the Short Side

We believe in owning as many promising stocks as possible for each account. To accomplish that, we generally buy on margin.* Margin, or leverage, allows clients to participate in more investments than their cash deposit would permit. Borrowing to speculate violates a conventional rule of investing, for the client is exposed to forced liquidations should the market collapse. To reduce this exposure, we sell short—thus enabling us to troll for investments upstream and downstream as stock prices rise and fall. This unconventional facet of our program is vital—for it enables our investors to double their dollars at work (and our commissions, as well) while moderately reducing their exposure to sharp breaks in the market.

We are attracted by weakness as well as strength. If we find companies whose stock might sharply decline, we borrow shares of their stock from another broker, sell them, and if we're right, repurchase them later at a lower price. We then cover or close the short by returning the borrowed shares to that broker (GGHC earns interest income from the lending broker). That is selling short.

At difficult hours, profits in short positions help offset losses in stocks we are holding. If our shorts go against us, the market's strength should be pushing up the stocks we own. There are extra risks involved: not only can long positions decline while short positions advance, but short positions can rise indefinitely (meaning the losses rise indefinitely).

*Retirement accounts are prohibited from using margin.

Not for the Short-term Investor

Most American fortunes have been made by owning growth stocks. Buying a new stock is not unlike meeting a new friend—you may remain acquaintances, you may have a rewarding relationship for a number of years or—rarely—for a lifetime. Our strategy is to end up with those few great stocks. Conceiving, creating, developing, and fully extending the reach of a growth company is a work of genius—much can go wrong, and usually does. The men and women responsible for these growth companies are the top one-tenth of 1% of executives. For every one great stock, therefore, we must follow and buy hundreds—even thousands—of companies, over many years. The reciprocal of trying many, and selling most, is to cleave closely to those few that are working and whose future looks large, and gets bigger over time.

Our long-term strategy is helped by the power of compounding—the ability of your invested money to make money. Through compounding, you are reinvesting your gains, which helps generate additional gains, and so on. Time is the key, of course—the sooner and longer you invest, the greater the effect. This may be why Albert Einstein called compound interest the greatest miracle of all time.

We review each account periodically to assess its progress in comparison to the market and to our other portfolios, and report regularly on its holdings, activities, and status. Losses hurt. It's natural to get rattled, lose faith, and withdraw investment dollars. Most investors do. It is those rare individuals with the fortitude to endure—weathering set-backs of 40% or more—who prosper.

An Invitation

We've told you something about us, and if you are interested in opening an account at GGHC, it is important that we also learn about you. We would like to discuss your goals, your personal and financial situation, and help you decide whether an account with us is right for you. It takes a thorough, confidential conversation or two to make sure we understand each other, and are ready to proceed. Please accept this invitation to call or pay us a visit.

Telephone: 212.765.2500 ■ 1.800.223.6717

www.gghc.com



GGHC

GILDER GAGNON HOWE & CO.

Gilder Gagnon Howe & Co. LLC
Members of the NYSE, Euronext, FINRA & SIPC
475 Tenth Avenue ■ New York, NY 10018
Tel: 212.765.2500 ■ www.gghc.com