

July 1, 2003

Money Matter\$



A quarterly newsletter from Sommers Financial Management

Phone (503) 397-1545 Email sommers@crpud.net

Volume 1, Issue 3

Patience is a virtue when it comes to investing. Hold on for the ride!

In last quarter's Money Matter\$ issue I focused on the words of the great Warren Buffet: "Occasionally, successful investing requires inactivity." Additionally, I highlighted the success of my client accounts in 2002, when the market averages ended the year with negative double-digit returns. Now, after a run-up in the stock market of over 20% since March 15th, I have had a few clients express concern over their accounts lagging the market during the recent upswing.

Sommers Financial Management tries to uphold a very systematic, stable investment approach. Due to this style, our focus is on earning clients 12-20% returns per year, regardless of market action. This strategy has performed very well over the past few years, beating the market averages. We attempt to take the vola-

tility out of investing by implementing a strategy aimed at stable investment results; therefore, we may not follow the market up as far and fast, just as we do not follow the market down as far and as fast.

Many very respected investment professionals like Benjamin Graham, Warren Buffett, Ray Lucia, and Bill Miller believe that comparing individual investment portfolios to market averages is beside the point. **We should be comparing the investor's tolerance for risk along with their financial goals to review if the investment manager is attaining the proper return to achieve those goals without subjecting the investor to undue or undesired risk.**

(Continued on page 2)

Returns Year-to-date for 2003:

- Dow Jones Industrial 30 Average : 7.72 %
- Standard & Poors 500 Large Company Index: 10.76 %
- Nasdaq Composite Index: 21.51 %
- Russell 2000 Small Company Index: 16.80 %
- Integrity Investment Services, A small, focused, private investment company managed by Adam Sommers - Registered Investment Adviser: 11.87 %

Sommers Financial clients can and are encouraged to convert their taxable accounts of less than \$10,000 into an account with Integrity Investment Services to obtain further diversification. Please call (503) 397-1545 for details!

Some considerations when deciding how to invest for your child's education: Coverdell ESA vs. 529 Plan

Coverdell Education Savings Account:

- Distributions used for educational purposes are tax free. Distributions from a 529 plan are also tax free—until 2011 (one of the sunset provisions that our representatives are so busy enacting lately).
- You choose the investments. We can invest in stocks, bonds, mutual funds, or just plain old cash. With a 529 plan, you must choose a money manager provided by the state, similar to your 401K options (very limited). On top of that, since most 529 plans are relatively new, these accounts have short histories, making it difficult to evaluate their quality.
- Funds in a Coverdell ESA can also be used for eligible primary and secondary education expenses, such as books, computers, private schooling for younger ones, etc.

529 College Savings Plan:

- Contributions are capped at \$250,000, while the Coverdell only allows up to \$2,000 per year.
- Assets in a Coverdell ESA are considered property of the student, which can reduce the student's financial aid package. On the other hand, the assets in a 529 College savings plan belong to the account owner.
- Oregon offers a tax deduction for contributions into the local 529 plan, as do many other states.

Note:

You can simultaneously contribute to a Coverdell ESA and 529 Plan if you remain within the contribution requirements of each plan.

Hang on for the ride! *(continued from page 1)*

Sommers Financial Management does not invest in companies that do not earn profits, take on unusually high debt, or trade at astronomical prices relative to their intrinsic values. These are usually the companies who get hit extra hard in market downturns, and the companies who usually enjoy the largest gains in market upturns. This is precisely the volatility that we attempt to avoid.

Those investors who wish to speculate or gamble on stocks that fit the profile of high-flier are encouraged to do so; however, Sommers Financial Management does not have the resources or expertise to distinguish the companies who will end up filing for bankruptcy (1 in 2 businesses) from those that will become the next Microsoft (1 in 1,000,000 businesses). We currently manage many aggressive accounts and are prepared to take on

extra risk to earn that additional return for our investors. However, in these aggressive accounts we will continue to hold only fundamentally solid companies.

If our troops in Iraq had encountered chemical weapons, additional American casualties, or even a slower victory, the recent run-up in the market might never have occurred. I'd hate to think of "what could have been" if the war had been unsuccessful or its onset further postponed or chastised by the international community. Our prudence in being 50% cash and in fundamentally solid companies has caused client returns to lag the general market over the past three months by a few percentage points.

Let's review our returns 12 , 24, and 60 months from now and see if we are achieving our goals—and maybe even compare our returns to those of the market. I think you'll be pleasantly surprised with the results.

The Economy – Are We Due for a Pickup? Some good news, some bad

There are signs that the economy may be turning in a positive direction. Below are some important developments that support the apparent investor belief that all will be well in the American economy by Christmas, and also some items that point to a continuing struggle for our economy.

Positive signs:

- Consumer confidence, after falling from 140 in 2000 to around 60 amid war fears in March, has rebounded in the past few months to over 80.
- The housing and real estate markets remain robust.
- Interest rates were just cut to levels not seen since the 1950's.
- The Labor Department reported that non-farm business productivity rose at an annual rate of 1.9% in the first quarter 2003, up from .7% in the

fourth quarter of 2002.

- Bank of America, the largest lender to individuals and companies, said that demand for commercial loans was accelerating (this is key for an economic pickup)
- Oil prices have dropped more than 20% since mid-March.
- In the past year, the dollar has fallen more than 30% against the Euro, boosting American companies' competitiveness vs. our European counterparts.
- The geopolitical situation in Iraq and in regard to terrorism gives reason for optimism globally.
- The recent tax cuts enacted will likely provide some stimulus.

Negative signs:

- The job market is terribly weak. Unemployment is at an eight-year high and there are few signs of a turn-around. It's hard to believe that consumer spending—which accounts for roughly two-thirds of the nation's economic activity—can remain robust in the face of such high joblessness and record consumer debt (which rose at a 10% annual rate in the first quarter of 2003 from 4th quarter 2002)
- The manufacturing sector continues to struggle (competing with China). Factory usage is at its lowest level in two decades.
- Overall economic growth remains tepid, growing at 1.6% annual rate in the first quarter of 2003.
- A massive under-funding of pension obligations across Corporate America exists.

Sommers Financial Management's Top-Rated Stocks in select sectors

1. **Pfizer** - Largest drug/healthcare company in U.S. whose brands include: Listerine, Viagra, Celebrex, etc.
2. **Doral Financial** - Major mortgage lender in Puerto Rico and New York.
3. **Abercrombie & Fitch** - A national retail chain of men and women's branded clothing targeting young buyers.
4. **Coca Cola Femsa** - Mexico's largest bottler of Coca Cola, Corona, Lift, and other beverages.
5. **KB Home** - US homebuilder that targets first and second-time homebuyers. (currently overvalued after run-up)
6. **SEI Investments** - Asset manager assisting corporations with company retirement plans, from administration to technology. (just increased dividend by 100%)
7. **Harley Davidson** - Need I say more?
8. **Mylan Labs** - Generic pharmaceutical manufacturer
9. **Microsoft** - World's largest software company with over \$40 billion in cash and now paying a dividend.
10. **IPC Holdings** - Small insurer/re-insurer for life & health