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Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

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A Change of Scenery for Sommers Financial Mgmt.

Back in May, Teresa and I were out for a Sunday drive around town, and we happened upon a beautiful piece of property in the hills of Warren, about 3 miles from the house at which we were married. We made a hasty yet heartfelt decision to purchase the 3.25 acres and begin building a house in which we can raise a family. We have begun building, with the walls having been erected this past week. We enjoy driving up the recently paved road to gaze upon our view of Mt. St. Helens (just erupted), Mt. Hood, and Mt. Adams, and monitor the progress on our house. Needless to say, we are currently in a state of flux, renting a duplex in St. Helens since our house on Fullerton Road sold to the first interested party.

Thankfully, the Sommers Financial

Management office is not entirely packed away in storage until 2005 as are most of our belongings. I am currently (and have been for the past year) available at the Pieper-Ramsdell Insurance Agency in old-town St. Helens during normal business hours. The street address is 61 Plaza, near the historic courthouse on the river. The phone number is 503-397-0714. I can still be reached at my home office number (503-397-1545), but please realize I check these messages twice daily, as our new exchange student daughter "O" from Thailand is residing in what would be my "office" in our temporary location.

I will have a beautiful home-office upon completion in February, but now that I am a licensed insurance agent in addition to being a registered investment adviser, I will continue to be available at my office in

Please feel free to drop in and visit me at the office anytime!

Annual Returns

- Dow Jones Industrial 30 Average : 8.7 %
- Standard & Poor's 500 Index: 11.9 %
- Nasdaq Composite Index: 6.2 %
- Russell 2000 Small Company Index: 17.5 %
- Sommers Financial Management's MODEL PORTFOLIO (see next page for an update): 21.1 %

Stock Profile – IPC Holdings (IPCR)

IPC Holdings is a stock we've been buying and holding over the past 18 months in client accounts. With a PE of less than 10 and a dividend yield of 2.5%, the stock is very attractive to conservative investors. Additionally, we began buying the stock at less than \$34/share and it has appreciated nearly 15% to more than \$38/share today. This is a small company with very little analyst coverage—a "hidden gem", some might say (barring any more hurricanes in Florida).

IPC Holdings, Ltd. provides property catastrophe reinsurance, and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. During 2003, approximately 84% of the Company's gross premiums written covered property catastrophe risks. Property ca-

IPCR Statistics	
Market Capitalization	\$1.85B
Fwd. Price-Earnings Ratio	7.4
P/E to Growth (PEG)	0.74
Net Profit Margin	71.3%
Debt/Equity	0.13
Current Ratio	10.8
5-year Beta (volatility)	.05
Return on Stockholder Equity	16.6%
Dividend Yield	2.5%

tastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots, floods and other man-made or natural disasters.

Sommers Financial Management's MODEL "20" PORTFOLIO Update

Since June 30th of 2003, this portfolio has increased 38% to \$276,068 by September 30, 2004. This return was measured in a time when the S&P 500 increased only 14.4% - demonstrating our ability to nearly triple the general market's return with blind fundamentalism. Even in the face of rising interest rates, construction is stronger than ever, helping our over-weighted finance & homebuilding sectors. Over the last quarter I replaced a few of the stocks in the portfolio and now hold the top 23 stocks of interest, with no longer any money market exposure.

Outgoing stocks include:

- **Christopher & Banks**—Retailing in the midwest is not-treating CBK well, and both sales & earnings at existing stores are down, causing this stock to fall from our top 20 on future earnings worries.
- **J2 Global**—This is a stock I profiled 6 months ago in this newsletter. Since then, it has risen more than 50% and just last month dropped from our top 23 due to the rising valuation—it was a nice run and will most likely be one to continue watching in private accounts.
- **Lennar**—Just as KBH 6 months ago, another homebuilder that has risen to valuations above the qualifications for the model portfolio.
- **Nokia**—After nearly a year of bad news, NOK has finally begun to crawl out of the doldrums and even with a dividend of 2.5%, the future growth projections are not enough to keep this stock in the top 23.
- **Pier One Imports**—PIR moves out of the top 23—even out of the top 40— due to both better prospects at other companies and a shaky future outlook, regardless of Warren Buffet's new ownership stake.
- **Par Pharma**— Par made an excellent run of over 20% in the last quarter, but the rising valuation caused it to drop out of the top 3 generic drug-makers & the top 20.

Incoming stocks to the portfolio include:

- **Colgate-Palmolive**— Along with Coca-Cola, CL is a well-known brand that has recently taken a nosedive due to a poor outlook. Colgate laid the blame on rising commodity prices (oil primarily). Though CL is heavily leveraged, the steady profits they've returned make the gamble worth it. After a huge drop in the price of the stock last month, CL is now at #1 on our list...sorry NVR—there's finally competition for the most fundamentally attractive stock in the universe!
- **Lincare**—a company that has gained momentum in recent years providing home oxygen unit delivery and service to the many Americans afflicted with Lung diseases such as emphysema.
- **Marvel Entertainment**— Spiderman and other licensing agreements for Marvel's age-old classics, along with a PE of less than 15 allowed MVL to crack the top 23.

<u>Company Name</u>	<u>Symbol</u>	<u>Industry</u>	<u>SFM Rank</u>
Abercrombie & Fitch	ANF	Retail Clothing	12
China Nat'l Drilling	CEO	Chinese Gas/Energy	4
Colgate-Palmolive	CL	Consumer Products	1
Doral Financial	DRL	Financial Services	8
IPC Holdings	IPCR	Life/Health Insurance	7
Johnson & Johnson	JNJ	Consumer Healthcare	16
KB Home	KBH	Homebuilder	22
K-Swiss	KSWS	Shoe Manufacturer	10
Lincare Holdings	LNCR	Medical devices	19
Altria Group	MO	Tobacco/Foods	9
Merck	MRK	Brand Name Drugs	15
Marvel Entertainment	MVL	Entertainment	21
Mylan Labs	MYL	Generic Drugs	20
New Frontier Media	NOOF	Entertainment	14
NetEase.com	NTES	Chinese Internet	6
NVR, Inc.	NVR	Homebuilder	2
Oracle	ORCL	Computer Software	23
Ryland Group	RYL	Homebuilder	13
SEI Investments	SEIC	Financial Services	18
Taiwan Semiconductor	TSM	Semiconductors/Tech	3
US Bank	USB	Regional Bank	17
SM&A	WINS	Defense Contracting	11
Washington Mutual	WM	Banking	3

- **New Frontier Media**— This is a small company involved in the pay-per-view adult entertainment industry. They provide services through electronic distributions platforms such as the internet, satellite, and hotel PPV.
- **NetEase.com**— This China-based company provides an internet portal to the Chinese market that rivals Yahoo here in the U.S. Fundamentally, NTES doesn't appear to be a future dot-bomber.
- **Taiwan Semiconductor**—TSM manufactures semiconductors, which are found in everything electronic these days. At just 18 times earnings, Taiwan Semiconductor appears like a terrific bargain.
- **SM&A**—with a stock symbol of WINS, we hope the wager works out. SM&A is a consultancy that assists defense contractors is winning US Government contracts. The war in Iraq and the new Dept. of Homeland Security should have this company winning for the next few years! \$

Returns for the Model Portfolio versus the S&P 500 Index

	<u>Model Portfolio</u>	<u>S&P 500</u>
This Quarter	3.8%	(2.3%)
Year-to-date	9.5%	0.2%
One Year	21.1%	11.9%
Since Inception 6/30/2003	38.0%	14.4%