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Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

Ph. (503) 397-1545 www.sommersfinancial.com

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IMPORTANT NOTICE—Update Your Beneficiaries

By Adam Sommers

Here's a 2007 Resolution for you: Make sure to update your beneficiary designations on all of your investment accounts, trusts, and your will, soon. This year is a terrific year to begin making this review an annual habit.

Why 2007? The Pension Protection Act of 2006 allows non-spouse beneficiaries to roll over assets inherited from qualified retirement plans into an IRA of their own. The beneficiary will avoid tax on the rollover, and will be taxed only when the assets are withdrawn.

Previously, this tax treatment was available only for people who inherited retirement assets from a deceased spouse. The new law will mean more flexible retirement and estate planning for non-spouse beneficiaries, such as domestic partners and children.

A big key for clients of Sommers Financial Management won't necessarily be in updating your primary beneficiary, but in updating or adding contingent beneficiaries. A primary beneficiary is who you designate to receive your

assets upon your death. A contingent beneficiary will inherit your assets *only* if your primary beneficiary/beneficiaries pre-decease(s) you.

Named beneficiaries on investment accounts inherit your account without having the assets dragged through state probate (a grueling, unpleasant process, I'm told). **The new law makes updating or adding contingent beneficiaries to all of your accounts even more important than ever.**

If you would like to update your beneficiaries on any of your accounts managed by Sommers Financial Management, please contact us to receive the required forms. For non-retirement accounts, Transfer-On-Death forms require the stamp of a notary public.

If you simply want to find out who is currently listed as your beneficiary/beneficiaries, please call, email, or stop by, and we will gather the information from your file.

Here's to a healthy and prosperous 2007! \$

If you're eligible, be sure to contribute to your 2006 IRA before April 15th, 2007!

3 Year Average Annual Returns

• Dow Jones Industrial 30 Average :

6.4 %

• Standard & Poor's 500 Index:

9.2 %

• NASDAQ Composite Index:

6.9 %

• Russell 2000 Small Company Index:

13.8 %

• Sommers Financial Management's MODEL 25 PORTFOLIO (see next page for an update):

20.2 %

Stock Profile – Actions Semiconductor (ACTS)

The semiconductor industry, in general, looks to be an attractive sector for 2007. Company balance sheets are strong, with abundant cash and low debt levels. We have seven semiconductor companies on our top 40 screen— Actions, Texas Instruments, Linear Technology, Taiwan Semiconductor (all in the Model Portfolio) — indicating great value across the industry.

Actions Semiconductor is a highly profitable, financially healthy, small company — trading at a very reasonable price.

The company operates as a fabless semiconductor company in the People's Republic of China. It provides system-on-a-chip products and solutions for the development and manufacture of personal media players. Personal media players are bat-

ACTS Statistics

Price (as of 12/20/06)	\$ 8.55
Market Capitalization	\$ 736 M
5 Yr. Annual Growth Projection	25 %
Fwd. Price-Earnings Ratio	8.5
Price/Cash	2.82
Return on Stockholder Equity	85.1 %
Net Profit Margin	46 %
Debt/Equity Ratio	0.45

tery-powered, portable consumer electronic devices that capture, store, and play digital media files, such as compressed audio, image, and video files (e.g. Ipods). \$

Sommers Financial Management's "MODEL 25" PORTFOLIO Update

Since the third quarter newsletter, the formula for how companies graduate to the top of our screen (and land in the Model Portfolio) has been slightly tweaked. We now focus on three areas equally: Valuation, Cash Flow (Profitability), and Risk. Previously, value far outweighed the other fundamental measures. So far, so good—as was demonstrated in the fourth quarter—where the Model Portfolio outpaced the S&P 500 by nearly 3%.

That being said, normally we do not focus on short term results—and as we all know—past results do not predict future returns. We will continue to monitor our success with respect to stock-picking, by continuing to update the Model Portfolio—and in client accounts, we'll complement these and other individual company stocks with exchange-traded funds, fixed income instruments (bonds & CDs), mutual funds, and real estate investment trusts.

For your reference: with respect to the box on the right, there are only 25 As, 25 Bs, 25 Cs, and 25 Ds on our entire screen.

OUTGOING stocks from the portfolio during the fourth quarter of 2006 include:

- **NVR**—NVR has been in the model since the beginning back in 2003, and has given us a 37% rise.
- **Sunoco, Nabors, Eagle Materials, Ensco**—after recalibrating the formula used in the analysis, these formerly hot sector stocks did not make the grade.
- **Calamos Asset Management**—This stock failed to pass the risk test, earning a D grade and a spot at #46.
- **CompuCredit**—CCRT gained over 30% over the past 3 months, and no longer makes the cut for the Model.
- **DR Horton**—Another homebuilder whose past ticket into the Model was because of low valuation alone.
- **Interdigital Communications**—IDCC was ousted due to receiving an F grade for risk, but it still hovers close at #30 due to the bargain-basement valuation and the strong cash flow the company generates.

<u>Company Name</u>	<u>Valuation</u>	<u>Cash Flows</u>	<u>Investment Risk</u>
Actions Semiconductor	A	A+	A-
Aspreva Pharma	A+	A	B+
BP, plc	A-	D	A
Biovail	B+	B+	D
Citigroup	B-	C	A
China National Offshore	A	C	A
Chevron	B+	D	A
Syneron Medical	A	A	F
Freeport McMoRan	A+	A	C
First Marblehead	A-	A	D
Grey Wolf	A	B-	C
Ipsco	A	B-	B
Linear Technology	C	A	A-
Moody's	A	A+	C
Microsoft	D	A	A
OMI Corp	A+	A	C
Southern Copper	A	A	B-
Pfizer	D	B	A+
Patterson Energy	A+	C	D
PetroChina	A	C	A
Taiwan Semiconductor	B	D	A+
Texas Instruments	B-	B	A-
US Bank	C	B	A+
Viropharma	A	A	D
Exxon Mobil	B	C	A

- **NetEase.com**—NTES has been in the model for a couple of years, and barely missed the cut this time, sitting at #31.

INCOMING stocks to the portfolio this quarter include:

- **First Marblehead**—Welcome back, FMD, with an A grade for valuation and cash flow, but a D for risk.
- **Linear Technology**—Welcome back to this semiconductor manufacturer, trading at only 5 times cash.
- **Microsoft**—Another Model boomerang stock, with an A for cash flow and risk, but a D for valuation.
- **Pfizer**—Another large cap with high cash flow and risk grades, but a D for valuation.
- **Taiwan Semiconductor**—TSM barely made the cut, coming back in the portfolio after a quarter off the list.
- **Texas Instruments**—Another attractive large cap stock—this may be my pick for best investment, 2007.
- **US Bank**—Yet another boomerang, USB looks like a great pick for 2007—10% growth, and returning 80% of profits to owners via share buybacks and dividends.
- **Exxon Mobil, BP, and Chevron**—The big three oil companies earn good grades for valuation and risk. \$

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

	<u>Model Portfolio</u>	<u>S&P 500</u>
Three Months	9.0 %	6.2 %
One Year	9.3 %	13.6 %
Three Year Annual Avg.	20.2 %	9.2 %
Annual ROR Since Inception	28.5 %	13.0 %