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Love is the greatest advantage a parent can give—Warren Buffett

“AS FAR AS I’M CONCERNED, THE STOCK MARKET DOESN’T EXIST. IT’S ONLY THERE AS A REFERENCE TO SEE IF ANYBODY IS OFFERING TO DO SOMETHING FOOLISH.”

“What we do is not beyond anyone else’s competence. It is just not necessary to do extraordinary things to get extraordinary results.”

“We don’t invest into companies with the thought of effecting a lot of change. That doesn’t work any better in investments than it does in marriages.”

“SOMEBODY ONCE SAID THAT IN LOOKING FOR PEOPLE TO HIRE, YOU LOOK FOR THREE QUALITIES: INTEGRITY, INTELLIGENCE, AND ENERGY. AND IF THEY DON’T HAVE THE FIRST ONE, THE OTHER TWO WILL KILL YOU.”

—Excerpts from “Thoughts of Chairman [Warren] Buffett”- compiled by Simon Reynolds

### Stock Spotlight – Ensco International (ESV—\$27.65)

Ensco International is a mid-cap, energy sector equity investment. It tracks the general trend in the price of a barrel of oil—meaning it’s at its lowest valuation in years. ENSCO International Incorporated, through its subsidiaries, provides offshore contract drilling services to the oil and gas industry. Its offshore contract drilling operations include exploration, development, and production of oil and natural gas. As of February 15, 2008, the company owned and operated 44 jackup rigs, 1 ultra-deepwater semisubmersible rig, and 1 barge rig. It also had four ultra-deepwater semisubmersible rigs under construction. The company offers drilling services to international, government-owned, and independent oil and gas companies. It has operations in Asia, the Middle East, Australia, New Zealand, Europe, Africa, and North and South America. The company was founded in 1975 and is based in Dallas, Texas.

ESV’s Notable Statistics	
Market Capitalization	\$ 3.92 Bil.
5 Yr. Annual Growth Projection	11 %
SFM’s Price / Earnings Ratio	3.9
SFM’s Calculated ‘Payback Ratio’	33 %
Net Profit Margin	43 %
Dividend Yield	0.4 %
3 year average Return on Equity	21 %
Debt / Assets	0.20



### Media Creates Short-Term, Self-Fulfilling Prophecy of Panic By Adam Sommers

In the December 22<sup>nd</sup> issue of Forbes Magazine, one my favorite columnists, Ken Fisher, titled his column ‘Media Mayhem’. In it, he laments how media headlines about layoffs and store closings cause panic on Main Street, but in actuality are bullish signals to savvy investors. He also presciently states that the bad in the economy has been noticed – and is already incorporated into stock and bond prices.

Fisher pointed out how media headlines blast us with bad news, but don’t include the entire story. For example, I recall one day in September, the headline ‘Goldman Sachs’ Profit Plummeted’. The real story was that Goldman was still earning a profit in investment banking, despite the current banking malaise—and that they beat analysts’ expectations. The headline indicated no such silver lining, most likely causing the average reader to panic.

Another head-scratcher was “October Retail Sales Down – Worst Ever Recorded”. Since the “recordings” began in 1992, it’s not as big of a deal as the headline makes it out to be. We’ve only had one recession in that timeframe, so we might assume retail sales today to be the worst in the last 16 years. And then there was third quarter earnings, of which two-thirds of companies reported year over year growth, and two-thirds of companies beat analysts’ (I know, analysts are pretty worthless, but nonetheless...) estimates. Where were the headlines touting these upbeat figures? I know: Happy, relaxed investors don’t tune into the news with eagerness or clinched jaws daily – so of course the media feeds off of the negatives. Riots and carnage in the street sell newspapers.

The subprime, real estate, and banking problems are a "crisis" with which the media bombards us 24-hours a day. We are currently experiencing the subsequent doom-and-gloom talk that comes along with events like this.

What the news coverage often fails to relate to their audience is that we have experienced markets like this before - and some far more severe. In 1974, 75% of all brokerage firms failed or merged. From 1981 to 1983, more banks collapsed during this time than any since the Great Depression. And in 1990 and 1991, 1,500 Savings and Loan Associations failed or merged.

As a comparison, over the past year, only 25 banks have failed. At year-end 2008, investment banks and brokerages are merging together in hopes of finding strength in numbers, while the government attempts to aid their liquidity situations.

If history repeats itself, when the market turns irrational and overly pessimistic is often the time when average investors sell rather than holding tight or investing more. The past has shown that, unfortunately, these investors have suffered through the downside, but missed most of the upside.

Fortunately, as disciplined investors, we possess something very important that Wall Street does not: longer time horizons. While Wall Street focuses on day trading and quarterly earnings, we have the opportunity to focus on years and decades. We are investors, not traders. That makes investing easier for us, as we have a strategy to follow. However, we face the difficult task of ignoring the lure of day to day market noise the media feeds us, thereby attempting to distract us from our longer term objectives.

Here are some tips on how to react to the current state of affairs:

1. **Save as much as possible.**
2. **Keep adding to your retirement accounts - dollar cost averaging is especially effective in volatile markets.**
3. **Keep an eye on your discretionary spending, and be sure to live within your means.**
4. **Work toward maintaining good standing with your creditors.**
5. **Diversify your investments.**
6. **Pay down high interest debt.**
7. **Don't panic - turn off the TV and talk radio, and preserve your mental health.**

### Five Year Average Annual Returns

- **Dow Jones Industrial 30 Average: - 3.2 %**
- **Standard & Poor’s 500 Index: - 3.8 %**
- **NASDAQ Composite Index: - 4.3 %**
- **Russell 2000 Small Company Index: - 2.1 %**
- **SFM’s MODEL 25 PORTFOLIO: +2.4 %**  
 (see inside the newsletter for updates to the Model Portfolio)

**Sommers Financial Management's  
AGGRESSIVE Stock Portfolio**

Company Name	Risk Grade	P/E Ratio	Growth Rate	Payback Yield
Analog Devices	C	12.6	18%	19%
American Eagle Outfitters	D	8.0	13%	24%
Franklin Resources	C	9.8	11%	18%
<b>Biovail</b>	C	7.1	6%	18%
Coach	D	7.6	15%	16%
Syneron Medical	D	9.8	16%	20%
Enesco International	C	10.9	14%	23%
Federated Investors	D	6.4	9%	15%
Frontline	C	9.2	7%	13%
Forest Laboratories	C	6.5	9%	22%
Corning	D	10.7	13%	26%
Genco Shipping	F	1.3	10%	20%
Intersil Corp.	D	11.7	17%	37%
<b>Microsoft</b>	A-	8.4	10%	13%
New Frontier Media	F	3.5	10%	26%
NetEase	B-	12.8	17%	14%
Nutrisystem	D	6.9	17%	22%
OptionsXpress	D	6.9	19%	20%
Occidental Petroleum	B-	10.7	10%	17%
Silicon Motor Tech	F	4.5	20%	125%
<b>Taiwan Semiconductor</b>	A-	22.4	15%	16%
Texas Instruments	B-	18.4	15%	20%
Viropharma	C	18.4	25%	29%
MEMC Electronics	F	5.0	15%	46%
World Acceptance	D	4.7	15%	14%
<b>Averages:</b>		<b>9.4</b>	<b>14%</b>	<b>25%</b>

**Sommers Financial Management's  
Conservative INCOME Stock Portfolio**

Company Name	Risk Grade	P/E Ratio	Div. Yield	Ret. on Equity
Accenture	A+	8.9	1.6%	66%
AstraZeneca	A-	7.5	2.7%	25%
Bristol Myers Squibb	B+	12.0	5.4%	26%
British Petroleum	B-	7.8	7.4%	23%
<b>Biovail</b>	C	7.1	16.8%	15%
Colgate-Palmolive	A+	14.6	2.4%	76%
Campbell's Soup	A-	11.5	3.5%	88%
Chevron Texaco	A-	8.3	3.6%	26%
ENI	B+	5.9	9.2%	0%
France Telecom	B-	7.8	10.0%	20%
GlaxoSmithKline	A-	8.7	5.3%	33%
IBM	A-	8.1	2.5%	35%
Johnson & Johnson	A+	11.7	3.2%	26%
Eli Lilly	B+	10.9	4.9%	18%
3M	B-	10.6	3.6%	31%
<b>Microsoft</b>	A-	8.4	2.7%	45%
Novartis	A-	13.3	3.0%	18%
Pepsi	A-	13.5	3.1%	35%
Pfizer	A-	7.9	7.4%	14%
Phillipine Long Distance	C	8.1	5.9%	35%
<b>Taiwan Semiconductor</b>	A-	22.4	5.2%	14%
US Tobacco	A+	16.2	3.6%	189%
Verizon	A-	10.5	5.6%	12%
Windstream	B-	6.8	11.2%	88%
Exxon Mobil	A+	9.8	2.1%	36%
<b>Averages:</b>		<b>10.3</b>	<b>5.3%</b>	<b>40%</b>

**Sommers Financial Management's  
ORIGINAL "Model 25" Stock Portfolio**

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
Accenture	B	C	A+	Large
Analog Devices	A	A-	C	Mid
<b>Biovail</b>	A	A-	C	Small
Chevron Texaco	A	C	A-	Mega
Syneron Medical	B	A+	D	Micro
Enesco International	A	A-	D	Mid
Federated Investors	A	A	D	Small
Frontline	A	A-	D	Small
Corning	A	B+	D	Mid
GlaxoSmithKline	B	B-	A-	Large
IBM	A	C	A-	Mega
Johnson & Johnson	B	C	A+	Mega
Medtronic	B	B	B-	Large
3M	B	C	B-	Large
<b>Microsoft</b>	B	A-	A-	Mega
Nokia	A	C	C	Large
OptionsXpress	A	A-	D	Micro
Occidental Petroleum	A	B-	B-	Large
Pfizer	C	B-	A-	Mega
Phillipine Long Distance	B	A-	C	Mid
Raytheon	B	C	A-	Large
<b>Taiwan Semiconductor</b>	C	A-	A-	Large
Texas Instruments	B	B+	B-	Large
US Tobacco	D	A+	A+	Mid
Exxon Mobil	B	C	A+	Mega

**Commentary and Ramblings**

By Adam Sommers

I had a client respond to my seven tips for getting through these trying times with her own—possibly wiser—version of my 'Tips for Living'. After thinking them over, I decided that since most of the items in my newsletter are money related, just this once I should share these tips with you—since they are the antithesis of 'Money Matters'. After all, **money does matter, but it is just a means to an end—not the end in itself.**

Maybe it's my paternal instinct kicking in, and maybe it's just a reaction to stepping back from the stock market and economic news for a moment, but these six tips really resonated with me. I hope they provide you with some food for thought as we enter 2009.

1. Have a place to live where you owe nothing. (yes, if you're young, this takes time)
2. Use water from the ground, take power from the sun, and know how to garden.
3. Be able to wear your clothes until they are threadbare and be fine with that. No need for designer labels or the new season's styles and colors; and have the basic black dress for all occasions.

Items 1-3 cover a person's basic needs: food, clothing, and shelter. Beyond that:

4. Have a hobby you love that isn't expensive (make your own music, read, dance)
5. Have a skill for which someone will always want to barter.
6. Have the support of friends and family when times are tough.

Voila! There you have it. You can live a long time on next to nothing!

**Introducing Alexa Raeann Sommers...**

Born Friday October 24, 2008—7 lbs. 4 oz.—20 inches long



**SFM AGGRESSIVE Stock Portfolio vs.**

**Relevant Benchmarks**

	SFM Aggressive	Russell 2000 Index	Nasdaq Index
3 Month Return:	- 26.8 %	- 26.3 %	- 24.3 %
12 Month Return:	- 39.8 %	- 34.7 %	- 40.5 %
3 Year Average Annual:	N/A	- 8.6 %	- 9.5 %
5 Year Average Annual:	N/A	- 2.0 %	- 4.3 %
ROR Since 4/1/2007:	- 24.3 %	- 21.4 %	- 19.9 %

**SFM Conservative INCOME Stock Portfolio vs.**

**A Relevant Benchmark**

	SFM Income	Dow Jones Industrial Avg.
3 Month Return:	- 13.2 %	- 19.1 %
12 Month Return:	- 24.6 %	- 33.8 %
3 Year Average Annual:	N/A	- 6.0 %
5 Year Average Annual:	N/A	- 3.2 %
ROR Since 4/1/2007:	- 12.6 %	- 16.5 %

**SFM ORIGINAL Model "25" Portfolio vs.**

**A Relevant Benchmark**

	SFM Model 25	S&P 500 Index
3 Month Return:	- 17.1 %	- 22.4 %
12 Month Return:	- 36.9 %	- 38.5 %
3 Year Average Annual:	- 7.9 %	- 9.2 %
5 Year Average Annual:	2.4 %	- 3.8 %
ROR Since 6/1/2003:	7.4 %	- 1.2 %