

October 1, 2003

# Money Matter\$



A quarterly newsletter from Sommers Financial Management

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Volume 1, Issue 4

## With a market run-up like this—what should we expect next?

The stock market has been on a tear since the middle of March when the United States decided to take action in Iraq. The S&P 500 Index, an index of 500 of the largest companies in the United States, has increased by more than 10%, while the technology laden Nasdaq Composite Index has shot up by more than 20%. Some market analysts think that we have signs of recovery in our economy that warrant rising stock values and a new bull market. Others believe that we are in a temporary upswing in a long-term bear market that began in early 2000. Some investment professionals proselytize that stock traders have pushed valuations back up to the stage where we are again witnessing a bubble that will inevitably pop in the same manner that we experienced from March of 2000 to March of 2003, where stock values

dropped by close to 50% from their highs.

Sommers Financial Management is of course concerned with the overall market and it's future direction, but we view our investments from a more microeconomic standpoint. We look for fundamentally sound investments in industries that may not be so affected by general market declines. Some stock pickers consider these types of investments defensive, because they are not based on economic cycles. Some industries that we are currently overweighting include health care, gambling, and insurance.

Our philosophy currently has us out of the market again with approximately 40% of client funds. This is due to our feeling that current

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## Stock Profile – SEI Investments (SEIC)

Some of you may have noticed in recent weeks that we've purchased a small company called SEI Investments in your accounts. SEI was incorporated in 1968 and operates in five industry segments: Private Banking and Trust, Investment Advisors, Enterprises, Money Managers and Investments in New Businesses. Private Banking and Trust provides investment processing solutions, fund processing solutions and investment management programs to banks and other trust institutions. Investment Advisors provides investment management programs and investment processing solutions to affluent investors through a network of independent registered investment advisors, financial planners and other investment professionals. Enterprises provides retirement investment and business solutions to pension plan sponsors, hospitals, foundations, unions, endowment funds and other institutional investors. The Company also provides treasury investment and business solutions to corporations. Money Managers provides investment solutions to United States-based investment managers,

United States-based mutual fund companies and investment managers worldwide of alternative asset classes (such as hedge funds and private equity funds). Investments in New Businesses provides investment management, fund processing and investment processing solutions to non-United States banks, investment advisors, enterprises and money managers located outside the United States. This segment also includes other initiatives in new United States markets.

### SEI Investments

Growth Projection—next 5 years	18.00%
Dividend Yield	0.85%
Price-Earnings Ratio	25.9
5-year Beta	1.5
Return on Stockholder Equity	46.76%
Debt/Equity	0.09
Profit Margin	23.09%

### 5 Year Average Returns:

- **Dow Jones Industrial 30 Average :** 3.84 %
- **Standard & Poors 500 Index:** -0.33 %
- **Nasdaq Composite Index:** 1.35 %
- **Russell 2000 Small Company Index:** 6.90 %
- **Integrity Investment Services, A small, focused, private investment company managed by Adam Sommers - Registered Investment Adviser:** 5.64 %

*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!*

## What Next? *(continued from page 1)*

market prices have run-up faster than corporate earnings and the economy can support. Additionally, we are concerned with the overabundance of consumer debt. Consumer confidence and consumer spending is what pulled our economy out of recession back in early 2002, and we believe that this positive effect was the result of low borrowing costs in the form of lower interest rates and the growing indebtedness of both our government and its citizens. Bond prices are poised to fall, as interest rates have basically one direction in which to turn, so we are avoiding placing client bond allocations into the market until interest rates tick up from current levels. One final reason for our reluctance to invest 100% into the market is that historically, September and October have been the worst months in terms of

stock market returns. **In every October after a positive September (there have only been 7 positive Septembers prior to this year), the market has ended the month of October down from September's close.** Historically, the market's returns from June through October have been nil to negative, while all the positive returns were earned in the months from November through May, Hence the saying "Sell in May and go away [until November]."

We are looking forward to a fine finish to a wild and crazy year in the market. Hopefully, all of the excess exuberance will be deflated out of the market in October and we can begin to build our positions again in November. In the meantime, we will find opportunities to invest in, while continuing to manage your money to the best of our ability, with prudence and conviction.

## Sommers Financial Management Creates a Model Portfolio

Back on June 1st, I decided to create a model portfolio that would keep track of my stock-picking performance aside from individual portfolios that are tailored to my clients. With this portfolio, I plan to stay 100% invested at all times in the 20 stocks that are fundamentally most attractive in terms of financials. This portfolio will not take into consideration any market timing or industry leanings.

I place every prospective investment into a proprietary spreadsheet that Sommers Financial Management created. The spreadsheet takes into consideration data from the financial statements and from industry analysts, and gives a numerical score to each stock (including closed-end mutual funds). With this model portfolio, I have "invested" \$200,000, or approximately \$10,000 into each of the 20 stocks that receive the best scores. I only buy and sell when a company drops out of the top 20, and replace it with the company who moves in to the top 20.

Since June 1st, this portfolio increased 14% to over \$228,000 by mid September. That is an annualized return of more than 48%, and was measured in a time when the S&P 500 increased only 4.9%, or 17% annually. From these results, I am anxiously awaiting to measure the performance of the model portfolio versus the market averages for years to come.

I plan to devote space in every newsletter to updating you on the progress of this model portfolio, and if anyone wants to be 100% invested on the basis of fundamentals and has at least \$100,000 to invest, I would be happy to build them an individual account based on the model portfolio.

<u>Company Name</u>	<u>Symbol</u>	<u>Industry</u>
Abercrombie & Fitch	ANF	Retail Clothing
Doral Financial	DRL	Mortgage Bank
Eaton Vance	EV	Asset Management
Harley Davidson	HDI	Motorcycle Manufacturer
IPC Holdings	IPCR	Life/Health Insurance
Johnson & Johnson	JNJ	Consumer Healthcare
KB Home	KBH	Homebuilder
Coca Cola Femsa	KOF	Latin American Beverages
Mentor	MNT	Medical Devices/Implants
Altria Group	MO	Tobacco/Packaged Foods
Merck	MRK	Brand Name Drugs
Mylan Labs	MYL	Generic Drugs
Nokia	NOK	Consumer Electronics
Oracle	ORCL	Computer Software
Pfizer	PFE	Brand Name Drugs/Healthcare
Pier 1 Imports	PIR	Retail Store/Consumer
Possis Medical	POSS	Medical Devices
Ryland Group	RYL	Home Builder
SEI Investments	SEIC	Financial Services
US Bank	USB	Regional Bank
Washington Mutual	WM	Banking

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

	<u>Model Portfolio</u>	<u>S&amp;P 500</u>
This Quarter	5.2%	1.1%
One Year	NA	20.5%
3 Years	NA	(30.6%)
Since Inception 6/1/2003	10.0%	3.0%