

APRIL 1, 2004

# Money Matter\$



A quarterly newsletter from Sommers Financial Management

(503) 397-1545 Email: sommersfinancial@comcast.net

Volume 2, Issue 2

## Top Ten Wealthiest Americans—The Forbes 400 Recipe for Wealth

In a recent publication of Forbes, they listed the 400 most wealthy individuals in America. If we were to look at the top 10, we would learn that each one's fortune is derived from owning stock in one of only five different businesses. (For a list of the people and the companies, turn to page 2) Interestingly, there are some common ingredients to their successful wealth building:

- **Long-term ownership of equity.** None of the top 10 changed their investment strategy because they were worried about the advent of a bear market, for example, or the level of interest rates. They didn't change their investment posture because of who was in the White House or because of wars or outbreaks of a deadly virus in Asia.
- **Lack of Trading.** Where are the hyperac-

tive day-traders on the Forbes list? They aren't and they never will be there. You can't ante up for commissions and taxes, not to mention guess correctly and expect to build true wealth.

- **Concentration.** The vast majority of investors over-diversify. Diversification is a risk-reducing strategy, not a wealth-building strategy.
- **Buy early in the game.** You don't need to buy the IPO, certainly, to invest like the top 10, but you do need to get in early in the game. This means you must focus on smaller companies that can grow exponentially, not existing powerhouses.
- **Buy "great" companies.** The Forbes wealthiest made their money by owning

(Continued on page 2)

## Stock Profile – J2 Global Communications (JCOM)

Many of you may have noticed that we've been adding a small company called J2 Global Communications to your accounts. The call option premiums for JCOM are fetching nearly 5% per month—making this a great short-term investment as well as long-term holding. It is attractive due to its high growth rate, low valuation, and above average profit margins. It also has virtually no debt and a hefty stash of cash, making the business extremely flexible. J2 Global Communications, Inc. provides outsourced, value-added messaging and communications services to more than four million customers around the world. J2 Global's network spans more than 1,100 cities in 20 countries on five continents. The Company offers its services and software through three distinct sales channels: Web, Corporate and Li-

### JCOM Statistics

Market Capitalization	\$479 M
Growth Projection—next 5 years	29.9%
Fwd. Price-Earnings Ratio	18.6
5-year Beta	1.22
Return on Stockholder Equity	28.8%
Return on Assets	25.9%
Debt/Equity	0.11
Profit Margin	25.9%
Operating Margin	38.6%

censed Services, and markets those services under the j2, eFax, jConnect, jFax, Consensus, Hotsend, PaperMaster, Protofax and Documagix brands. \$

### Returns Since June 1, 2003

- **Dow Jones Industrial 30 Average :**  
16.4 %
- **Standard & Poor's 500 Index:**  
16.4 %
- **Nasdaq Composite Index:**  
25.4 %
- **Russell 2000 Small Company Index:**  
33.4 %
- **Sommers Financial Management's MODEL PORTFOLIO (see next page for an update):**  
34.6 %

## Common Ingredients for wealth building from the Top Ten Wealthiest Americans

(continued from page 1)

great businesses. Sommers Financial Management researches and sifts through all publicly traded companies to come up with great investments that are not only good stocks, but good businesses.

Arne Alsin, a Portland-based money manager says, "Great investing is not about taking advantage of each opportunity...it's about picking the right spots. It's not about frequent bets. It's about betting infrequently...and loading up when the odds are in your favor." \$

### The 10 Wealthiest and their 5 businesses

Microsoft (MSFT)—Bill Gates & Paul Allen  
 Berkshire Hathaway (BRKA)—Warren Buffett  
 Wal-Mart (WMT)—Five Walton heirs  
 Oracle (ORCL)—Larry Ellison  
 Dell (DELL)—Michael Dell

## Sommers Financial Management's MODEL PORTFOLIO Update

Since June 1st, this portfolio has increased nearly 35% to \$269,256 by late March. That is an annualized return of almost 42%, and was measured in a time when the S&P 500 increased only 16.4%, or 19.7% annually. After being valued at nearly \$280,000 in late February, the market brought our portfolio down with it in March. However, in the first ten months of the portfolio's existence, the Model Portfolio has succeeded in *more than doubling* the market's return.

Over the last quarter I replaced a few of the stocks in the portfolio and continued to hold the top 21 stocks of interest.

### Outgoing stocks include:

- **China Yuchai**—the stock has dropped precipitously since the January newsletter, as the Chinese Yuan's tie to the falling dollar and American disinterest in a stodgy diesel manufacturer in China, along with an infrequent dividend caused us to also lose interest in holding this stock in our model portfolio.
- **Cytec**—the maker of medical devices for women's health has increased to more than \$20/share after we picked it up for \$13. The rise in price caused us to discontinue holding the stock due to the higher valuation.
- **Eaton Vance**—I continue to buy this stock in client accounts, but after finding a few of the new model portfolio holdings, EV fell to number 24 in the ranking, disqualifying it for this portfolio.
- **KB Home**—KBH has had a nice run with housing stocks, and barely fell out of the top 20 in ranking due to valuation.

### Incoming stocks to the portfolio include:

- **J2 Global**—this stock is profiled on the first page.
- **Charter One Financial**—I have been placing this stock into client allocations that require small/mid company holdings. The price-earnings ratio is a mere 13, and dividend yield is 3%. On March 10th, CF announced a contract to place 67 new branches into existing Wal-Mart stores.
- **Polymedica**—If you've ever watched daytime television or primetime game shows, you've probably heard of Liberty Medical, who deliver diabetes medication to

<u>Company Name</u>	<u>Symbol</u>	<u>Industry</u>
Abercrombie & Fitch	ANF	Retail Clothing
Charter One Financial	CF	Banking
Doral Financial	DRL	Mortgage Bank
Harley Davidson	HDI	Motorcycles
IPC Holdings	IPCR	Life/Health Insurance
J2 Global Comm.	JCOM	Technology
Johnson & Johnson	JNJ	Consumer Healthcare
K-Swiss	KSWS	Shoe Manufacturer
Lennar	LEN	Homebuilder
Altria Group	MO	Tobacco/Foods
Merck	MRK	Brand Name Drugs
Mylan Labs	MYL	Generic Drugs
Nokia	NOK	Electronics
NVR, Inc.	NVR	Homebuilder
Oracle	ORCL	Computer Software
Polymedica	PLMD	Medical Supplies
Radian Group	RDN	Mortgage Insurance
Ryland Group	RYL	Homebuilder
SEI Investments	SEIC	Financial Services
US Bank	USB	Regional Bank
Washington Mutual	WM	Banking

your home. Liberty is a division of PLMD. They are poised to grow at 30% per year over the next five years, and they pay a dividend of over 2%, quite a yield for a small company.

- **Radian Group**—a mortgage insurance provider, this sector has been hit hard with the record number of foreclosures recently, but RDN has managed to increase it's revenue by more than 18% over the past year. The stock trades at only nine times earnings. \$

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

	<u>Model Portfolio</u>	<u>S&amp;P 500</u>
This Quarter	6.8%	1.3%
One Year	NA	32.8%
3 Years	NA	(1.0%)
Since Inception 6/1/2003	34.6%	16.4%