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Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

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

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Referrals are the best source for new clients

As many of you know, **I am not a salesman.** From the very beginning in 1996, my passion for investments came in the form of my analytical ability to sort through the annual reports, prospectuses, and proxy statements to find great values and hidden potential among the 1,000's of investment choices. As I stare 2005 in the face, I took a moment to reflect on what could most benefit my business using resources already in my possession. "First of all, what is my most valuable asset?," I asked myself. Is it my brain? My education? My wife? My computer? The internet? My charm? My good looks?

"No, its my clients!," I realized. Without you, I wouldn't need the rest (well, maybe with the good looks and charm I could keep my wife, right?).

Putting together the fact that I am an analyst by nature, and my business' most valuable assets are my clients, I came up with a great way to benefit my business in 2005.

"REFERRALS...that's it!" In order to continue building the best financial management practice available, I would like to ask a favor of my existing clients: **If you know of anyone who can benefit from outstanding asset management with a personal touch (who doesn't?), please have them contact me** for a free portfolio review. You are my best advertisement, as you know the value of my service. I am available to discuss options for all kinds of special situations, such as early retirements, inheritances, and lottery winnings! :)

Check out my new website at www.sommersfinancial.com

2004 Returns

- Dow Jones Industrial 30 Average : 3.2 %
- Standard & Poor's 500 Index: 9.0 %
- Nasdaq Composite Index: 8.6 %
- Russell 2000 Small Company Index: 17.0 %
- Sommers Financial Management's MODEL PORTFOLIO (see next page for an update): 35.9 %

Stock Profile – International Gaming Technology (IGT)

International Gaming Technology is a stock we've been buying for both clients' mid-cap and large-cap allocations. It is ranked 21st according to our scoring, but is a great stock in terms of growth—as you can't find many larger caps still growing at more than 10% per year. We have been trading it in client accounts for about 2 years now, and have made good premium returns by selling covered calls.

International Game Technology (IGT) is engaged in the design, development, manufacturing, distribution and sales of computerized gaming machines and systems products in all jurisdictions where gaming is legal. In addition to its United States production facility in Reno, Nevada, IGT also manufactures products in the United Kingdom and through third-

IGT Statistics	
Market Capitalization	\$11.9B
Fwd. Price-Earnings Ratio	19.3
P/E to Growth (PEG)	1.29
Operating Margin	32.8%
Net Profit Margin	17.3%
Debt/Equity	0.40
5-yr Proj. Earnings Growth	15%
5-year Beta (volatility)	.51
Return on Stockholder Equity	22.4%
Dividend Yield	1.4%

party manufacturers in Japan and Canada. The Company receives revenues in two ways: product sales and gaming operations.

Sommers Financial Management's MODEL "20" PORTFOLIO Update

2004 was a great year for the Model Portfolio. While the 4th quarter saw most of the gains—the portfolio managed to outperform the S&P each and every quarter. Keep in mind the returns on the model portfolio are capital appreciation only, and don't take into consideration the dividends and interest received. Our portfolio has an average yield of 1.2%, which would increase our total annual return to approximately 37%. After releasing third quarter earnings in October, many of the stocks we held last newsletter no longer qualified for the portfolio, while many new and some recurring companies appeared in our list of holdings.

Outgoing stocks include:

- **Abercrombie & Fitch**—This teen fave is hot, sending it's stock up over \$47, giving us a healthy gain of nearly 100%, but valuing the stock a little too richly for us.
- **IPC Holdings**—The hurricanes in south Florida depleted IPC's cash hoard after paying out claims, leaving the stock looking too vulnerable to hold.
- **KB Home**—This homebuilder is a like a yo-yo, coming in and out of the portfolio every quarter.
- **K-Swiss**—This shoemaker climbed from \$18/share to over \$28/share, causing the valuation to become too rich for our value-oriented portfolio.
- **Lincare Holdings**—LNCR rose from \$19 to over \$28 the month after coming into the portfolio. We thankfully exit with a 45% return.
- **Merck**— A Vioxx recall and the threat of lawsuits, coupled with less than spectacular growth rates prior to the news finally caused us to drop MRK from our list.
- **Marvel Ent.**— After a brief stint, the creators of Spiderman and the like no longer pass muster for the top 23.
- **Ryland Group**— Another homebuilder who rose too far too fast, just like KB Home.
- **SEI Investments**— SEIC is still an attractive stock, but trading at 28 times earnings is just too rich for our blood. We exit with a 40% increase in the stock.
- **SM&A**— The company that helps in obtaining government contracts has seen its revenues shrink over the last year, as the threat of terrorism continues to be just that—a threat.

Incoming stocks to the portfolio include:

- **DR Horton**— Another homebuilder to add back to the list after a brief stint out of the top 23.
- **Forest Labs**— FRX is now the most attractive generic drug manufacturer in our portfolio, sitting at #8.
- **Harley Davidson**—Harley has come back into the fold as the growth from 2004 and the prospect of 2005 come into play.
- **International Gaming Tech**— This stock is profiled

<u>Company Name</u>	<u>Symbol</u>	<u>Industry</u>	<u>SFM Rank</u>
China Nat'l Drilling	CEO	Chinese Gas/Energy	5
Colgate-Palmolive	CL	Consumer Products	2
DR Horton	DHI	Homebuilder	15
Doral Financial	DRL	Financial Services	16
Forest Labs	FRX	Generic Drugs	8
Harley Davidson	HDI	Motorcycle Manufacturer	14
International Gaming	IGT	Gaming Manufacturer	21
J2 Global	JCOM	Technology/E-commerce	11
Johnson & Johnson	JNJ	Consumer Healthcare	10
Lennar	LEN	Homebuilder	18
Altria Group	MO	Tobacco/Foods	12
Mylan Labs	MYL	Generic Drugs	23
New Frontier Media	NOOF	Entertainment	7
NetEase.com	NTES	Chinese Internet	13
NVR, Inc.	NVR	Homebuilder	3
Oracle	ORCL	Computer Software	19
Shire Pharma	SHPGY	Generic Drugs	17
San Juan Basin Roy.	SJT	Gas/Energy	1
Timberland	TBL	Shoe Manufacturer	22
Taiwan Semiconductor	TSM	Semiconductors/Tech	4
US Bank	USB	Regional Bank	9
Winnebago	WGO	Recreational Vehicles	20
Washington Mutual	WM	Banking	6

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- **J2 Global**— JCOM was dropped from the portfolio last quarter, but after releasing superb third quarter results, comes back into play at #11.
- **Lennar**— Yet another homebuilder makes a move back in.
- **Shire Pharma**—This international drug manufacturer looks attractive at less than 14x projected 2005 earnings.
- **San Juan Basin Royalty Trust**—Coming in at #1 on the list of most attractive, SJT managed to dethrone Colgate rather quickly. This stock has a return on equity of 303%, and an operating margin of 98%. Oh yeah, the dividend yield of almost 9% isn't bad either.
- **Timberland**— TBL comes in to replace K-Swiss, looking a bit more attractive at 13 times projected 2005 earnings.
- **Winnebago**— The baby boomer generation should continue to give WGO jumbo sized returns for the next 10-15 years as they begin traveling the country by highway in their 30 foot long vehicles. Look out! We just hope the stock jumps. \$

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

	<u>Model Portfolio</u>	<u>S&P 500</u>
This Quarter	24.0%	8.7%
One Year	35.9%	9.0%
Since Inception 6/30/2003	58.0%	24.4%