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# Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

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## The Oracle of Omaha Speaks about the US economy

Warren Buffett, during May's annual shareholder meeting of his holding company Berkshire Hathaway, shared his opinion on many facets of our economy in regard to politics and investing. Sometimes called a sage, Buffett—second only to Bill Gates in terms of Net Worth—had some “quips of wisdom” I'd like to share with you regarding the trade deficit and value of the US Dollar:

“It seems to me that a \$618 billion trade deficit, rich as we are, strong as this country is, well, something will have to happen that will change that. Most economists will still say some kind of soft landing is possible. I don't know what a soft landing is exactly, in how the numbers come down softly from levels like these....” The US is “like an incredibly

rich family that owns so much land they can't travel to the ends of their domain. They sit on the front porch and consume a little bit of everything that comes in, all the riches of the land, and they consume roughly 6 percent more than they produce. And they pay for it by selling off land at the edge of the landholdings that they can't see. They trade away a little piece every day or take out a mortgage on a piece.”

“I have a hard time thinking of any outcome from this that involves an appreciating dollar.” [But, Buffett later added, he is not predicting an end to U.S. economic power.] I'm not pessimistic about the U.S. at all.... We have over 80 percent of our money tied to the dollar. It's not like we've left the country.” **We won't be leaving the country either—**

**UPCOMING HEADLINE:**  
**Sommers  
Financial Expands!**  
(call for early details)

## One Year Returns

- **Dow Jones Industrial 30 Average :**  
-1.54 %
- **Standard & Poor's 500 Index:**  
4.43 %
- **Nasdaq Composite Index:**  
0.45 %
- **Russell 2000 Small Company Index:**  
8.14 %
- **Sommers Financial Management's MODEL PORTFOLIO (see next page for an update):**  
25.3 %

## Stock Profile – IPSCO (IPS)

IPSCO, Inc. produces steel products in Canada and the United States. It offers primary and secondary manufactured steel products, such as carbon steel slabs, discrete plates and coils, cut plates, and finished tubular products. The company's steel and pipe products are used in various applications, including railroad cars, barges, ships, storage tanks, bridges, structural poles, and other products. Its tubular products include pipes for low pressure distribution; oil and gas well casing and tubing; pipes for gathering oil and gas from wells, transmitting these products long distances, and for final distribution to end-customers; and products for building, manufacturing, and construction applications. IPSCO has various metal scrap collection sites principally in western Canada. It sells its products through direct sales staff and

### IPS Statistics

|                              |          |
|------------------------------|----------|
| Market Capitalization        | \$ 2.09B |
| Fwd. Price-Earnings Ratio    | 4.5      |
| P/E to Growth (PEG)          | 0.21     |
| Operating Margin             | 26.7 %   |
| Net Profit Margin            | 17.9 %   |
| Debt/Equity                  | 0.26     |
| 5-yr Proj. Earnings Growth   | 21 %     |
| 5-year Beta (volatility)     | 1.06     |
| Return on Stockholder Equity | 36.4 %   |

distributors. The company was founded by J. W. (Bill) Sharp in 1956 as Prairie Pipe Manufacturing Company, Ltd., and the name changed to IPSCO, Inc. in 1984. The company is headquartered in Regina, Canada. \$

## Sommers Financial Management's MODEL "24" PORTFOLIO Update

The Model Portfolio in the second quarter bounced back from a rough beginning of 2005, as did the entire market. My synopsis of the transactions this quarter will be abbreviated, as I feel the need to disclose and explain the Model Portfolio to my clients and prospective investors.

Many clients have asked why their portfolio's performance doesn't mirror the model portfolio. In answer: Each client's portfolio is allocated and balanced based on personal risk tolerance, time horizon, personal preferences, and account value. The Model Portfolio was created as a way for me to test my analysis in ranking attractive equity issues. The portfolio does not take into consideration market cap, industry diversification, international exposure, or fixed-income investments. It is simply the top 24 most attractive stocks according to my proprietary analysis.

If a client specifically requests a portfolio that mimics the Model Portfolio, I try to convince them that proper diversification will lessen the volatility and allow them to reach their goals while allowing both of us to sleep soundly at night. Since the Model Portfolio has only been around since June of 2003, I can't say that the volatility has been unbearable. However, I predict that since this portfolio only includes stocks, and is not properly diversified (diversification is a risk-reducing strategy), that it will swing down farther than the market in a downturn, just as it has swung upward faster than the S&P 500 since 2003. We will surely see how bulletproof my fundamental analysis is during the next bear market—as it is my goal to have the best investments continue to rise to the top of my list due to their attractiveness no matter the market sentiment.

If any client would like to discuss the Model Portfolio in further detail, please don't hesitate to call me at (503) 397-1545 and I will give you all the details you desire.

**Outgoing** stocks this quarter included:

- **Allergan**
- **Federated Investors**
- **International Gaming**

| <u>Company Name</u>  | <u>Symbol</u> | <u>Industry</u>         | <u>SFM Rank</u> |
|----------------------|---------------|-------------------------|-----------------|
| China Nat'l Drilling | CEO           | Chinese Gas/Energy      | 8               |
| Colgate-Palmolive    | CL            | Consumer Products       | 4               |
| DR Horton            | DHI           | Homebuilder             | 26              |
| Doral Financial      | DRL           | Financial Services      | 9               |
| Forest Labs          | FRX           | Generic Drugs           | 14              |
| Harley Davidson      | HDI           | Motorcycle Manufacturer | 12              |
| H&R Block            | HRB           | Tax Preparer            | 19              |
| Ipsco                | IPS           | Steel Manufacturer      | 3               |
| J2 Global            | JCOM          | Technology/E-commerce   | 16              |
| Johnson & Johnson    | JNJ           | Consumer Healthcare     | 17              |
| KOS Pharmaceutical   | KOSP          | Biotech/Pharm           | 24              |
| Lennar               | LEN           | Homebuilder             | 21              |
| Linear Technology    | LLTC          | Semiconductors/Tech     | 7               |
| Merck                | MRK           | Major Pharma            | 18              |
| 3M                   | MMM           | Conglomerate            | 23              |
| Nokia                | NOK           | Wireless Telecom        | 20              |
| New Frontier Media   | NOOF          | Entertainment           | 22              |
| NetEase.com          | NTES          | Chinese Internet        | 15              |
| NVR, Inc.            | NVR           | Homebuilder             | 5               |
| Oracle               | ORCL          | Computer Software       | 25              |
| SEI Investments      | SEIC          | Asset Management        | 13              |
| Steel Dynamics       | STLD          | Steel Manufacturer      | 10              |

- **MBNA Bank**
- **US Bank**
- **Winnebago**
- **Washington Mutual**

**Incoming** stocks to the portfolio this quarter include:

- **Lennar**
- **Minnesota Mining (3M)**
- **Merck**
- **National City Corp**
- **Nokia**
- **PetroChina**
- **Steel Dynamics**

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

|                           | <u>Model Portfolio</u> | <u>S&amp;P 500</u> |
|---------------------------|------------------------|--------------------|
| This Quarter              | 2.9 %                  | 0.9 %              |
| One Year                  | 25.3 %                 | 4.4 %              |
| Since Inception 6/01/2003 | 66.5 %                 | 23.2 %             |