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# Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

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## Do You Pay Uncle Sam More Than You Need to?

by Harry Maurer

If you are self-employed or receive 1099 income only, you own your own business, and have the ability to keep Uncle Sam out of your pocket for a while. The IRS, through a SEP (Simplified Employee Pensions) IRA, permits you to make pre-tax contributions to your retirement account and pay no taxes on those contributions until you decide to take disbursements after attaining age 59.5.

Quoted from [www.irs.gov](http://www.irs.gov): "SEPs provide a simplified method for you to make contributions to a retirement plan for your employees. Instead of setting up a profit-sharing or money purchase plan with a trust, you can adopt a SEP agreement [in less than 10 minutes] and make contributions directly to a traditional individual retirement account or a traditional individual retirement annuity set up for each eligible employee."

What does the IRS mean by this? Simply this: You could make a contribution to your employee's IRA. As a self-employed

business owner, you might have only one employee: you. Your business could make a tax-deductible contribution to your retirement account.

Suppose you earned \$200,000 in 2005. Your business then contributes to your SEP IRA 25% of your earnings, or \$42,000, whichever is less. That means your business defers the payment of taxes on \$42,000.

Assuming a 42% tax rate (33% federal and 9% state), that saves you **\$17,640**.

The choice is simple: Earn \$42,000 and pay \$17,640 in taxes; or keep the entire \$42,000 for yourself by using a SEP IRA. You can also grow the investment in your SEP without paying taxes until you are ready to take disbursements upon reaching an age over 59.5.

Spend half an hour today to set up your SEP IRA, as you only have until April 15<sup>th</sup> of 2006 to contribute for the 2005 tax year. The sooner you do this, the sooner you begin to accumulate investment returns on your tax-sheltered retirement account. \$

## Stock Spotlight – U.S. Bancorp (USB)

### USB Key Statistics

Market Capitalization	\$ 54 Bil
Fwd. Price-Earnings Ratio	11.4
P/E to Growth (PEG)	1.14
Operating Margin	63.7 %
Net Profit Margin	35.3 %
Return on Stockholder Equity	22.2 %
Dividend Yield	4.42 %
5-yr Proj. Earnings Growth	10 %
Industry	Banking

US Bank has been added to client mid-cap allocations for its great dividend yield and steady, non-housing-related loan growth. It formally was based here in Portland, Oregon, but was acquired in the late 1990s. USB is a financial holding company that provides various financial services, including lending and depository services, cash management, foreign exchange, and trust and investment management services in the United States. As of November 22, 2005, the company operated 2,411 branches and 4,999 ATMs in 24 states. U.S. Bancorp is headquartered in Minneapolis, Minnesota.

## 2005 Returns

- **Dow Jones Industrial 30 Average :**  
- 0.6 %
- **Standard & Poor's 500 Index:**  
3.0 %
- **Nasdaq Composite Index:**  
1.4 %
- **Russell 2000 Small Company Index:**  
3.3 %
- **Sommers Financial Management's "MODEL 25" PORTFOLIO** (see next page for an update):  
8.1 %

**Make your 2005 IRA contributions by April 15th, 2006. Also, you may be eligible to fully fund your IRA for 2006 NOW...don't wait!**

## Sommers Financial Management's "MODEL 25" PORTFOLIO Update

The Model Portfolio continues to grow at a pace nearly three times the S&P 500's return with a simple buy-and-hold strategy with the 25 most attractive equities.

This quarter, the portfolio was relatively flat, compared with a 3% rise in the S&P 500 Index. The average annual return for the model portfolio since its inception in June of 2003 has been nearly 33%, besting the S&P's annual return of 11% over the same period.

The past year has seen a "low-return environment" from all asset classes, as bond returns were flat to down, and stock indexes finished the year mixed, but close to the same levels last seen in December 2004. If the new additions to the model portfolio are any indication of what the bargains are for next year, I'd say semiconductors and large cap tech stocks are the place to be in 2006—we'll see...

**Outgoing** stocks from the portfolio during the fourth quarter included:

- **Adobe Systems**—This stock had a nice run to \$38/share since we purchased it around \$28/share last quarter, causing us to take our 30% profit in both the model and client portfolios.
- **Forest Labs**—FRX is still attractive at #33 on our list, but not enough to remain in the portfolio.
- **H&R Block**—HRB just barely missed the cut at #28 after a nice 8% rise from \$23 to \$25/share.
- **J2 Global**—JCOM has finally dropped out of the model portfolio after over 2 years due to running up in price from \$20 then to over \$45 today, causing our valuation to place it at #32 on our list.
- **China Finance Online**—This stock was short-lived in the portfolio, rising from just over \$5 to \$6.50—a 30% rise—in less than 3 months.
- **K-Swiss**—Hanging around at #30 on our list, KSWIS will most likely come back into the portfolio at the slightest drop in price after jumping 10% over the past quarter.
- **3 M**—This is a great large cap stock to own, but the 10% rise last quarter caused it to fall to #36.
- **National City Mortgage**—Despite the 4.41% dividend yield, NCC relies too much on the housing boom to sustain a spot in our portfolio.
- **US Bank**—This stock just missed, coming in at #26—see page one for more information on USB.

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

- **American Eagle Outfitters**—This mall-based

<u>Company Name</u>	<u>Symbol</u>	<u>Industry</u>	<u>SFM Rank</u>
American Eagle	AEOS	Retail Apparel	15
Bank of America	BAC	Banking	20
Burlington Resources	BR	Oil & Gas	12
China Nat'l Drilling	CEO	Chinese Gas/Energy	6
Colgate-Palmolive	CL	Consumer Products	13
Dow Chemical	DOW	Chemicals	19
Doral Financial	DRL	Financial Services	5
First Marblehead	FMD	Education Financing	2
Harley Davidson	HDI	Motorcycle	17
Intel	INTC	Semiconductors/Tech	10
Ipsco	IPS	Steel Pipes	21
Innovative Solutions	ISSC	Defense Contractor	14
Johnson & Johnson	JNJ	Consumer Healthcare	19
Linear Technology	LLTC	Semiconductors/Tech	8
Microsoft	MSFT	Software	11
Maxim Integrated	MXIM	Semiconductors	18
Nokia	NOK	Wireless Telecom	23
NetEase.com	NTES	Chinese Internet	23
NVR, Inc.	NVR	Homebuilder	1
Southern Peru Copper	PCU	Copper Mining	4
Q Logic	QLGC	Semiconductors	22
SEI Investments	SEIC	Asset Management	17
Shanda Interactive	SNDA	Chinese Web Portal	16
Taiwan Semiconductor	TSM	Semiconductors/Tech	9
Tessera Technology	TSRA	Semiconductors	3

retailer with a P/E ratio of 11 is a hit among teens.

- **Burlington Resources**—We added this holding prior to their announced acquisition by Conoco Phillips, causing us to reap a gain of 20% in just 3 months.
- **First Marblehead**—This stock has been on a roller coaster after the CEO was fired, but appears a great value at 10 times next year's earnings.
- **Intel & Microsoft**—Blue Chip technology stocks.
- **Maxim, Q Logic, and Tessera**—All three are in the semiconductor equipment industry and trade at P/Es of 20 with return on equity and growth rates near 20%.
- **Southern Peru Copper**—Copper has been on a tear the past few years, even outpacing the run-up in gold, and this miner operates around the globe.
- **Shanda**—35% growth, 50% profit margins, with a P/E of 11 and trading at only 2.5x their cash in the bank.

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

	<u>Model Portfolio</u>	<u>S&amp;P 500</u>
One Year	8.1 %	3.0 %
Annual ROR Since Inception	32.9 %	11.2 %