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Inside is your improved quarterly newsletter from Sommers Financial



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Money Matter\$



A Quarterly Newsletter from Sommers Financial Management

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Who Is Your Fiduciary? By Harry Maurer

“INVEST YOUR TIME BEFORE YOU INVEST YOUR MONEY.”

“The best way to make money is to have other people make it for you.”

“A businessman is like a turtle. He gets nowhere unless he sticks his neck out.”

“IF A GOVERNMENT ROBS PETER TO PAY PAUL, IT CAN RELY ON THE SUPPORT OF PAUL.” (April 15th is fast approaching...)

—Excerpts from “Money Doesn’t Grow on Trees,” by Breck Speed and Mark Dutton

Stock Profile – First Marblehead (FMD)

First Marblehead’s stock first came onto our screen about 18 months ago after a drop in the stock price due to a CEO change. Since then, the stock has more than doubled, yet still remains attractively priced—with a private equity buyout a possibility.

The First Marblehead Corporation provides outsourcing services for private education lending in the United States. It offers an integrated suite of design, implementation, and securitization services, including design and marketing, borrower inquiry and application, loan origination and disbursement, and loan securitization services, as well as loan servicing for student loan programs tailored to meet the needs of the respective customers, students, employees, and members of national and regional financial institutions, and educational institutions, as well as businesses and other enterprises.

First Marblehead Statistics	
Market Capitalization	\$ 4 Billion
5 Yr. Annual Growth Projection	24 %
SFM Price / Earnings Ratio	9.2
SFM Discount to Intrinsic Value	35 %
3 year Average Return on Equity	38 %
Net Profit Margin	42 %
Debt / Equity Ratio	.014
Current Ratio	23.4

“What do you mean, who is my fiduciary? What *IS* a fiduciary?”

Your fiduciary provides advice, guidance, or hands-on management of your assets and affairs, in a manner that serves your best interests. Registered Investment Advisors—Sommers Financial Management included—are by law fiduciaries for their clients. Who else do you run across in your financial dealings that must act in your best interest?

Will your realtor act as your fiduciary? Maybe, if you are the seller! Your realtor’s commission is calculated on the sale price. A high price yields a high commission. What if you are the buyer? Your realtor’s commission is still calculated on the sale price. Economically, it’s in your realtor’s interest to always represent the seller.

What about a home inspector? If an inspector quashes too many deals, will loan officers and realtors continue to recommend that inspector? Hmm...Maybe you should always independently hire the inspector.

Ethically a sales person should negotiate between buyer and seller, such that both receive a fair deal and feel satisfied. When a person’s income depends on commissions and product-based incentives, there develops a built-in conflict-of-interest, especially in products like life insurance and real estate where there is a huge commission involved.

What’s the point of this diatribe? Simply this: **YOU need to protect yourself, by acquiring knowledge that facilitates good judgment. YOU need to know that the person behind the smiling face may seem OK, but the product might ultimately smell like fish two-weeks dead.**

How do you, the investor, protect yourself? Simply

by asking questions. The Securities and Exchange Commission requires anyone who sells investment products or investment advice to truthfully answer any questions presented by clients or potential clients. **Here’s your super-duper whammy of a question: Will you act as my fiduciary?**

An unqualified YES means that the person or organization that manages your assets will always act in your best interest.

Any waffle-waffling tells you that you are talking with someone who earns incentives for recommending certain products. Be careful of wording such as: “We treat our clients well! Our clients are satisfied with our performance. Our family of mutual funds performs well.”

Gorbachev said to Reagan, “Of course we’ll disarm; don’t you trust us?” Reagan replied: “Yes, the United States trusts the U.S.S.R. We simply need to verify.” Perhaps this is the safest policy for everyone: Trust, but always verify.

3 Year Average Annual Returns

- Dow Jones Industrial 30 Average : 6.4 %
 - Standard & Poor’s 500 Index: 8.7 %
 - NASDAQ Composite Index: 7.1 %
 - Russell 2000 Small Company Index: 11.9 %
 - SFM’s MODEL 25 PORTFOLIO: 17.4 %
- (see inside the newsletter for important updates)

**Sommers Financial Management's
AGGRESSIVE Stock Portfolio**

Company Name	Risk Grade	P/E Ratio	Growth Rate	Expected Return
Alum. Corp of China	B	9.9	14%	46%
Actions Semiconductor	B	13.6	19%	33%
Asta Funding	D	7.3	14%	10%
Aspreva Pharmaceuticals	C	5.2	20%	42%
China National Offshore	A	9.7	36%	24%
Diamond Offshore	C	10.2	30%	13%
Syneron Medical	D	14.9	18%	9%
Enesco International	C	7.7	37%	18%
Eagle Materials	D	11.8	35%	17%
Freeport McMoRan	D	9.8	14%	14%
First Marblehead	B	9.2	32%	18%
Graco	C	13.6	17%	8%
Grant Prideco	D	10.9	20%	12%
Hooray! Holdings	C	13.6	20%	24%
K-Swiss	C	13.9	13%	15%
Linear Technology	A	21.0	19%	9%
Lam Research	D	11.2	20%	16%
NetEase	B	15.6	25%	15%
OptionsExpress	D	13.0	20%	9%
Southern Copper	B	10.6	6%	9%
Patterson Energy	D	7.3	7%	19%
PetroChina	A	10.6	26%	19%
True Religion	C	10.7	23%	15%
Taiwan Semiconductor	A+	17.2	22%	13%
Viropharma	D	11.9	19%	15%

The Aggressive Stock Portfolio is made up of the 25 best prospects for total return over the next 1-5 years. This list includes more small companies, and more companies that do not pay dividends than our other two portfolios.

We have displayed four pieces of data that seem especially appropriate for an aggressive portfolio. As you can see, the risk grades for some of the holdings are below average, due to the aggressive nature of the stocks. However, the average P/E ratio is only 11.6 due to our value-based investment philosophy. You will not see companies trading at 50 times earnings in any of our portfolios, as we purchase businesses for our clients as owners, not traders.

The growth rate of companies in this aggressive portfolio measures an average of 21%, calculated as the consensus average of all analysts who cover the company for the estimated growth in earnings (profit) over the next five years. The "Expected Return" is SFM's "payback yield", which is the single most important metric we use when analyzing a business to purchase.

**Sommers Financial Management's
Conservative INCOME Stock Portfolio**

Company Name	Risk Grade	P/E Ratio	Div. Yield	Ret. on Equity
Alum. Corp of China	B	9.9	12.1%	23.3%
Bank of America	A+	7.5	4.4%	13.7%
BP, Plc	A+	8.6	4.1%	19.7%
Citigroup	A+	7.6	4.3%	18.0%
China National Offshore	A	9.9	3.5%	29.7%
Cherokee	B+	16.8	7.0%	75.1%
ConocoPhillips	A	6.7	2.5%	20.1%
Chevron	A	8.1	3.0%	24.3%
Fifth Third Bancorp	A-	11.3	4.0%	12.2%
General Electric	A+	12.4	3.2%	25.5%
GlaxoSmithkline	A+	14.8	4.0%	8.6%
Home Depot	A	11.3	2.4%	20.5%
Johnson & Johnson	A+	14.1	2.5%	27.9%
Coca Cola	A+	17.5	2.9%	31.3%
Linear Technology	A	21.1	2.2%	20.4%
3M	A-	12.9	2.5%	34.4%
National City Corp	A	8.7	4.3%	16.4%
Southern Copper	B	10.2	9.7%	43.7%
Pfizer	A+	11.0	4.6%	21.0%
PetroChina	A	10.7	4.6%	26.1%
iStar Financial	B+	10.0	7.2%	9.3%
Taiwan Semiconductor	A+	17.2	2.8%	14.7%
US Bancorp	A+	9.7	4.5%	19.7%
US Tobacco	A	14.4	4.0%	1725%
Washington Mutual	A	7.2	5.2%	11.1%

The Conservative Income Stock Portfolio is made up of the 25 least volatile, highest yielding, reasonably valued companies on our screen.

The holdings in this portfolio received the highest grades for investment risk, as there is traditionally less risk of loss when investing in stocks of large, established, low-priced, dividend paying companies.

The average dividend yield of stocks in this portfolio is 4.5% versus 1.8% for the S&P 500 Index. The average return on equity over the past three years for companies in this portfolio is over 24%, indicating consistent, high-quality earnings for the shareholders—which they pay out in the form of dividends. The average SFM calculated P/E ratio is a mere 11.6.

This portfolio consisted of companies that are good long-term holdings in a large cap allocation (one piece of the pie) for clients nearing or at the retirement stage of their life.

**Sommers Financial Management's
ORIGINAL "Model 25" Stock Portfolio**

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
Alum. Corp of China	A+	B	B	Mid
Actions Semiconductor	A	A	B	Micro
Analog Devices	B	B-	B+	Mid
Aspreva Pharmaceuticals	A+	A+	C	Micro
Bank of America	A-	B+	A+	Mega
BP, Plc	A	C	A+	Mega
Citigroup	A-	B	A+	Mega
China National Offshore	A+	A	A	Large
Cherokee	C	A+	B+	Micro
ConocoPhillips	A	D	A	Mega
Chevron	B+	D	A	Mega
First Marblehead	A+	A+	B	Small
Graco	B+	A	C	Small
Home Depot	A-	C	A	Mega
Johnson & Johnson	C	B+	A+	Mega
Linear Technology	C	A	A	Mid
3M	B	B+	A-	Large
Maxim Integrated	C	A-	B+	Mid
NetEase	B+	A+	B-	Small
Southern Copper	B	A+	B	Mid
Pfizer	C	A-	A+	Mega
PetroChina	A+	A	A	Mega
Taiwan Semiconductor	B+	B+	A+	Large
US Bancorp	B+	B+	A+	Large
US Tobacco	C	A+	A	Mid

Outgoing:

- Biovail
- Syneron Medical
- Freeport McMoRan
- Grey Wolf
- Ipsco
- Moody's
- Microsoft
- OMI
- Patterson Energy
- Texas Instruments
- Viropharma
- Exxon Mobil

Incoming:

- Aluminum Corp. of China
- Analog Devices
- Bank of America
- Cherokee
- ConocoPhillips
- Graco
- Home Depot
- Johnson & Johnson
- 3M
- Maxim Integrated
- NetEase
- US Tobacco

Commentary and Ramblings

By Adam Sommers

The first three months of 2007 have been quite a roller coaster ride in the stock market. In the news we have continued chaos in Iraq, rising and falling oil prices, major mergers and acquisitions, continued real estate confusion, sub-prime lending woes, and a paralyzed central bank. Ben Bernanke and his board of bankers would like to lower interest rates to prop up the bursting housing market and prevent a recession, but also want to leave the door open to a possible rise in rates to combat inflation caused by rising oil, corn and other commodity prices.

Our portfolios have been ebbing and flowing with the market—but fortunately client accounts seem to fall about half as far as the markets in general, but continue to rise at nearly the same pace. We postulate that the positive fluctuations in accounts is due to our investment diversification. We expose client portfolios to companies of all sizes worldwide, bonds issued by governments and companies based all over the globe, income producing real estate from around the world, and global commodities. This diversification strategy will most likely not earn our clients tremendously outsized returns in any one year, but it should reduce investment risk in volatile global markets, and provide for sustainable, healthy returns.

This quarter I have added two portfolios to our newsletter in order to assist in explaining that a portfolio of 25 stocks is not sufficient to place in a client account without knowing a client's time horizon, risk tolerance, and investment appetite. There are many different styles of portfolios that we create specifically for each client. The portfolios to the left should give you an idea of the objectives for the equities held in clients' individual accounts.

In regard to the original model portfolio, the formula continues to be adjusted, causing a dozen stocks to turn over last quarter. We are getting close to having the ideal weightings on our chosen financial metrics—but it is a constant process to improve our screening techniques.

In the future, I will most likely provide updates on returns earned in the two new portfolios at the left and compare them to the S&P 500 Index and the original Model Portfolio. I hope you enjoy the expanded and improved newsletter format—comments, suggestions or complaints should be forwarded to the email address at the bottom of the page.

Returns of the "Model 25" versus S&P 500 Index

	<u>Model</u>	<u>S&P 500</u>
Last Three Months	1.4 %	0.2%
Last Twelve months	0.8 %	9.7 %
Three year annual average	17.4 %	8.7 %
Annual ROR Since Inception	27.4 %	12.2 %