



First
 Class
 Stamp

Address Label

I have never met a man who could
 forecast the market—Warren Buffett

“FREQUENTLY IN THE FINANCIAL MARKETS, THE WEAK LINK IS BORROWED MONEY.” (This summer, the sub-prime fallout has negatively influenced markets world-wide—Ed)

“I will tell you the secret of getting rich on Wall Street: Be greedy when others are fearful, and be fearful when others are greedy.” (If you find yourself feeling fearful, that may be the time to buy—Ed)

“THE FUTURE IS NEVER CLEAR; YOU PAY A VERY HIGH PRICE IN THE STOCK MARKET FOR A CHEERY CONSENSUS. UNCERTAINTY ACTUALLY IS THE FRIEND OF THE BUYER OF LONG-TERM VALUES.”

“Why should I buy real estate when the stock market is so easy?”

“We’ve done better by avoiding dragons rather than slaying them.”

—Excerpts from “Thoughts of Chairman [Warren] Buffett”- compiled by Simon Reynolds

Stock Profile – Cherokee (CHKE)

Cherokee is a company we have been buying for clients over the past few months to provide a nice yield in the small cap portion of their portfolio. The stock yields 7.9%, and has only 18 employees that generate over \$42 million in revenue.

The company engages in marketing, licensing, and managing brand names and related trademarks primarily in the United States. It owns various trademarks, including Cherokee, Sideout, Sideout Sport, Carole Little, CLII, Saint Tropez-West, Chorus Line, All that Jazz, and Molly Malloy.

The company has a strategic relationship with Target Stores, which has the exclusive right in the United States to use the Cherokee trademarks in certain categories of merchandise. Cherokee was founded in 1988 and is based in Van Nuys, California.

Cherokee’s Notable Statistics	
Market Capitalization	\$ 340 Mil.
5 Yr. Annual Growth Projection	8 %
SFM’s Price / Earnings Ratio	13.4
SFM’s Calculated ‘Payback Ratio’	7 %
3 year Average Return on Equity	84 %
Net Profit Margin	38 %
Dividend Yield	7.9 %
Revenue per Employee	\$ 18 Mil.



Money Matter\$



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Financial Planning—and Location, Location, Location
 By Adam Sommers

A Comprehensive Financial Plan

Consider this: Most people spend more time each year planning their vacation(s) than they do planning their financial future. If you’re reading this newsletter, fortunately you’re most likely not one of them.

When you partner with SFM, you enlist a fiduciary to ensure that your financial goals are planned for, reviewed, and worked toward. In the spirit of prudent, responsible planning for our clients, Sommers Financial this summer purchased a new financial planning package from Money Tree Software based in Corvallis, Oregon. In addition to supporting (relatively) local business, SFM chose this package because it includes comprehensive retirement planning, performs life, disability, and long-term care insurance needs analysis—and assists in determining if a trust attorney and/or an estate plan is appropriate. Prior to this, SFM used a myriad of proprietary tools, along with information we know from experience to put together a financial plan for our clients. This new software allows us to supplement those original tools with a comprehensive third-party evaluation that includes tools such as “Monte Carlo simulation” — which projects the likelihood that you’ll meet your goals, based on 5,000 unique scenarios.

At each annual review with clients who are still in the ‘accumulation’ phase of their financial lives, we plan to utilize this tool in addition to our typical annual portfolio review. In order to fully utilize and appreciate the power of this new package, we may need to first gather information that we have not yet requested of you, such as a current social security statement, existing life insurance policies, estimated survivor income needs, et cetera.

For a sneak preview at the power of this planning software, you can see a sample report at www.sommersfinancial.com, on the “Services” page. Additionally, the website is updated every quarter, with new features and planning tools added on occasion. Please make it a ‘favorite’ and check in every now and then!

Sommers Financial’s New Location

As of September 1st, the SFM office can be found in a new location, at **144 S. 14th Street in St. Helens**. The new office is a historic home, formerly owned by the well-known and respected Federici family. You can see a picture of the building (prior to handicap accessibility improvements) at www.sommersfinancial.com. While not directly on Columbia Boulevard, the new locale has great visibility from the boulevard (just one driveway away), and is just 4 blocks from our recent home in the Golden Fawn building.

If you happen to drop by the old office, say ‘hello’ to Dave & Tracie McDaniel, owners of Integrated Network Consultants Corporation. They can correctly direct you to the new SFM office—in addition to solving any computer- or network-related issues you may experience.

Until our handicap ramp is complete (hopefully within the month), SFM is not ‘officially’ open for business, per city permit. So if you’d like to schedule a meeting, please call the office and we’ll choose a time and place that’s ‘official’.

You’ll be invited to the grand opening celebration soon!

1 Year Annual Returns

- Dow Jones Industrial 30 Average : **19.0 %**
- Standard & Poor’s 500 Index: **14.3 %**
- NASDAQ Composite Index: **19.6 %**
- Russell 2000 Small Company Index: **11.0 %**
- SFM’s MODEL 25 PORTFOLIO: **25.7 %**

(see inside the newsletter for a detailed update of the Model Portfolio)

Sommers Financial Management's AGGRESSIVE Stock Portfolio

Company Name	Risk Grade	P/E Ratio	Growth Rate	Expected Return
Alum. Corp of China	D	15.0	14%	25%
Actions Semiconductor	A-	7.5	25%	57%
American Eagle Outfitters	C	12.1	15%	11%
Aspreva Pharmaceuticals	B+	4.3	20%	58%
Biovail	C	10.5	8%	18%
Chesapeake Energy	C	4.5	26%	10%
EnSCO International	D	7.7	22%	20%
First Marblehead	A-	7.5	36%	21%
Forest Laboratories	C	11.7	12%	13%
Grant Prideco	C	11.3	19%	12%
Grey Wolf	D	8.5	18%	20%
Harley Davidson	B-	10.6	11%	12%
Lam Research	C	11.1	17%	15%
New Frontier Media	D	12.6	15%	11%
NetEase	B-	14.3	16%	12%
NutriSystems	D	12.9	24%	11%
NVR	D	9.6	10%	14%
OptionsExpress	D	13.1	23%	10%
Patterson Energy	C	9.5	7%	17%
True Religion	C	10.1	21%	14%
Taiwan Semiconductor	A+	13.5	25%	14%
Tessera Technologies	C	20.6	28%	11%
Viropharma	D	13.6	19%	18%
World Acceptance	D	7.9	15%	10%
Zenith Insurance	B+	6.9	NA	11%

The Aggressive Stock Portfolio is made up of the 25 best prospects for total return over the next 3-5 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 10.7 due to our value-based investment philosophy. You will not see companies without profits 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 19%, 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” (avg. 17.8%) 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
Bank of America	A+	7.5	5.1%	12.9%
Bristol Meyers Squibb	A+	19.6	4.0%	22.8%
BP, Plc	A	9.4	3.8%	22.9%
Anheiser Busch	A	15.2	2.6%	61.9%
Citigroup	A+	7.0	4.6%	17.6%
Cherokee	B-	13.7	7.9%	83.6%
Colgate-Palmolive	A	17.2	2.1%	104.4%
Dow Chemical	A	11.5	4.0%	24.7%
First Marblehead	A-	7.5	2.5%	37.0%
General Electric	A+	14.4	2.8%	25.3%
Home Depot	A-	11.4	2.5%	20.5%
Johnson & Johnson	A+	14.3	2.6%	26.1%
Coca Cola	A	19.6	2.4%	30.1%
Linear Technology	A	17.3	2.1%	19.8%
Altria	A+	13.0	4.1%	48.1%
Merck	A	18.1	3.0%	26.6%
Maxim Integrated	A	18.9	2.6%	17.3%
Pepsi	A	18.8	2.1%	32.3%
Pfizer	A+	11.2	4.8%	20.2%
Taiwan Semiconductor	A+	13.5	3.7%	17.8%
US Bancorp	A	9.4	4.9%	20.0%
US Tobacco	A+	12.4	4.9%	1925%
Verizon	A	14.4	3.8%	16.0%
Wachovia	A+	7.6	5.1%	11.3%
Zenith Insurance	B+	6.9	4.5%	24.3%

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 3.7%, twice the S&P 500 Index’s 1.8%. The average return on equity over the past three years for companies in this portfolio is over 31%, 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 13.

This portfolio is consisted of companies that are good long-term holdings in an equity 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	D	Mid
Actions Semiconductor	A+	A+	A-	Micro
American Eagle Outfitters	B+	A-	C	Mid
Aspreva Pharmaceuticals	A+	A+	B+	Micro
Bank of America	A-	B-	A+	Mega
Biovail	A-	B	C	Small
Cherokee	C	A+	B-	Micro
Dow Chemical	A	D	A	Large
First Marblehead	A+	A+	A-	Small
Harley Davidson	B+	B	B-	Mid
Johnson & Johnson	C	B+	A+	Mega
Linear Technology	D	A	A	Mid
Lam Research	A	A-	C	Mid
Altria	C	C	A+	Mega
Maxim Integrated	C	A-	A	Mid
New Frontier Media	A-	A-	D	Micro
NetEase	B-	A+	B-	Small
Pfizer	D	B	A+	Mega
Patterson Energy	A	B	C	Small
Qualcomm	D	A	A-	Large
True Religion	A	A	C	Micro
Taiwan Semiconductor	A-	A-	A+	Large
US Bancorp	B	B+	A	Large
US Tobacco	B-	A	A+	Mid
Zenith Insurance	A	B+	B+	Small

Outgoing:

- CNOOC
- ConocoPhillips
- Freeport McMoRan
- Southern Copper
- PetroChina
- Texas Instruments

Incoming:

- Biovail
- Harley Davidson
- Lam Research
- New Frontier
- Patterson Energy
- Zenith Insurance

Commentary and Ramblings By Adam Sommers

Darn it. *I knew* I should have patented, trademarked, registered, or kept secret my system of evaluating stocks. Each quarter in this newsletter, I give updates on how the stock selection criteria I’ve outlined performs, in addition to any changes I make to the evaluation formulas. While I don’t provide full detail, *I know* that some stock investors use this newsletter when building their own portfolio—that’s why I wait one quarter to put it on the web for the whole world to see (only SFM clients get this sneak peak in print).

Now, Barron’s (published by the same outfit that publishes the Wall Street Journal and SmartMoney magazine) has come out in their September 3rd issue with a surprisingly similar selection process to create the new Barron’s 400 Index that supposedly “wallops the S&P 500 and the Dow.”

“The Barron’s 400 collects the most fundamentally sound and attractively priced stocks from all corners of the market, using a proven and disciplined stock-selection process. Stocks are analyzed for fundamental strength in growth, value, profitability and cash flow by weighting 24 separate indicators.” Hmm...that sounds eerily similar to my comments in these newsletters over the past few years in regard to the selection of model portfolio holdings.

I wonder, did the Barron’s 400 creators read my newsletters? Let’s compare: SFM’s proprietary formula gives weight to only 21 measurements with respect to growth, value, profitability/cash flow, and risk. Maybe it is materially different—but maybe not. They’re looking at three more pieces of data than I am. And yes—risk is unique to my analysis.

What’s more interesting (and maybe reassuring) is of the 20 companies receiving “Top Grades” on page 24 of the September 3rd Barron’s issue, 10 of them are on my screen, also receiving high grades from the SFM evaluation system.

I’ve been building this system since prior to introducing the model portfolio in 2003. **A visionary, you wonder? I wish. Nah, just analytical like all fundamental stock investors.**

Returns of SFM Portfolios versus the S&P 500 Index

	S&P 500 Index	SFM Model	SFM Aggressive	SFM Conservative
Three Month Return	1.6 %	4.5 %	-6.6 %	-1.8 %
Twelve Month Return	14.3 %	25.7 %	NA	NA
Three Year Average Annual	12.3 %	23.0 %	NA	NA
Four Year Average Annual	13.3 %	26.2 %	NA	NA
Annual ROR Since Inception	13.4 %	30.8 %	NA	NA