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First Class Stamp

Address Label

One man's crisis is another man's opportunity.

"IF YOU ARE SELLING A RABBIT SKIN, NEVER TALK ABOUT IT UNTIL YOU HAVE CAUGHT THE RABBIT."

"If the neighbor loses his job, it's a recession. If you lose your job, it's a depression."

"Don't fret about market volatility. There is nothing you can do about it."

"IF I HAD A DOLLAR FOR EVERY PERSON WHO SAID 'IT CAN ONLY GO UP' I MIGHT HAVE BROKEN EVEN ON MY HOUSE."

"Beware the naked man who offers you his shirt—he is trying to sell you a book."

—Excerpts from "Money Doesn't Grow on Trees"- Breck Speed and Mark Dutton

ETF Extra — Vanguard FTSE All-World ex-US (VEU—35.58)

While it is true that active managers occasionally outperform in the international sector due to imperfect information, this index ETF makes sense for two reasons: It costs just 1/6th of the average international actively managed fund; and it has a broad exposure to many countries and industries. VEU seeks to track the performance of a benchmark index that measures the investment return of stocks of companies located in developed and emerging markets around the world, not including the United States. The Fund employs a passive management or indexing investment approach designed to track the performance of the FTSE All World ex-US Index. This Index includes approximately 2,200 stocks of companies located in 47 countries, including both developed and emerging markets.

VEU's Notable Statistics

Current Distribution Rate:	2.11 %
One Year Return	- 35.23 %
Annual Expense Ratio:	0.25 %

Top Industries:		Top Countries:	
22%	Financials	17%	Japan
12%	Energy	14%	United Kingdom
10%	Materials	8%	France
10%	Industrials	6%	Canada
9%	Consumer Staples	6%	Germany
9%	Consumer Discret.	6%	Switzerland

Debunking the Myth that I'm Solely an "Aggressive" Stock Trader

By Adam Sommers

I've had more than one well-respected, well-to-do person over the past few months say to me in conversation, "yeah, but you're a young, aggressive stock trader." While I appreciate the thought (especially the young part), that described me about ten years ago—before I founded SFM—when stocks were all the rage, and the only investment that the MTV Generation and I knew.

My theory on saving and investing for the future takes a much more holistic approach than many might presume. Over the past six months, while the stock and bond markets have gyrated, I've concentrated my efforts on more conservative fixed-income opportunities. I mentioned in last quarter's newsletter my high yield bond hedge, which continues to pump out terrific monthly income with minimal principal fluctuation. This quarter I want to focus on two intriguing, conservative investment options I've been utilizing for clients—using FDIC-insured, bank-issued CDs. However; not the boring type with which you're probably most familiar.

The first—and easiest to understand is "Secondary-Market CDs". These are **the same CDs you see at your banks and online, only they are mid-way through their terms**—and the original investor wants out due to cash constraints.

The beauty is that on a small CD (under $25,000), the original investor is often willing to give you an extra 1-4% annualized to cash them out. What's 2% of $5,000? $100. They'll gladly pay you an extra $100 to get $5,000 cash today. I've been buying CDs with less than one year remaining to maturity for **two to ten times the going rates offered at the banks down the street**.

The downside is the availability is spotty, depending on who wants out of their CDs today. The other difficulty is that advisors like me are like vultures swarming—snatching up what's offered, within 15 minutes of receiving notification of what's available (lucky I have a good "Bond Girl"). Another roadblock is the quantities, as the best yields come in $1,000-$5,000 blocks, so **investing a large sum takes time, and a well thought out strategy**.

The second type of FDIC-insured CD I have been purchasing for clients is a "Structured CD", with variable interest rates that are dependent on an underlying index or indicator, such as the S&P 500 or Consumer Price Index (CPI). A recent example would be a 36-month CD paying monthly annualized interest at the trailing 12-month CPI plus 1.5%. If we experience inflation in the next couple of years, this is a great way to stay ahead.

A CD offering potentially stock-like returns was offered recently from SunTrust Bank. The 60-month CD pays the sum of the annualized change in the S&P 500, capped at 18% per year, but guarantees your principal back in five years if the S&P 500 ends lower. When I mentioned this CD to a semi-retired client, he remarked "that sounds like **just what I need, principal protection with the potential to participate in a stock market rally**." 'Exactly', I said, 'and without any hefty variable annuity fees.' Conservative can still be fun, indeed.

Five Year Average Annual Returns

• Dow Jones Industrial 30 Average:	- 3.8 %
• S&P 500 Large Company Index:	- 3.9 %
• NASDAQ Composite Index:	- 2.1 %
• Russell 2000 Small Company Index:	- 2.8 %
• SFM's 'MODEL 25' PORTFOLIO:	+ 3.2 %

(see inside the newsletter for updates to the Model Portfolio)

SFM's Model AGGRESSIVE STOCK Only Portfolio

Company Name	Risk Grade	P/E Ratio	Growth Rate	Payback Yield
Accenture	A-	9.7	13%	10%
Amgen	A-	10.3	11%	11%
Biovail	C	8.0	0%	11%
Cherokee	D	9.6	2%	10%
Coach	C	12.7	13%	11%
Diamond Offshore	C	8.6	20%	19%
Endo Pharmaceuticals	D	5.6	9%	14%
Ensco International	D	7.6	12%	30%
Federated Investors	C	10.8	9%	9%
Forest Laboratories	C	6.2	3%	20%
Google	C	16.5	19%	50%
J2 Global	D	11.0	13%	13%
Johnson & Johnson	A+	10.8	8%	9%
Linear Technology	C	17.9	16%	10%
Medtronic	B+	9.6	11%	10%
Microsoft	A-	11.9	11%	10%
Noble Energy	D	6.7	12%	22%
NetEase	C	17.2	19%	11%
NutriSystem	D	9.1	17%	20%
OptionsXpress	D	10.4	18%	13%
Pfizer	A-	6.5	0%	13%
Silicon Motion	F	9.2	25%	46%
MEMC Electronics	F	13.6	13%	20%
Walter Energy	F	8.2	26%	15%
World Acceptance	F	3.8	10%	14%
Averages:		**10.1**	**12%**	**17%**

SFM AGGRESSIVE Stock Portfolio vs. Relevant Benchmarks

	SFM Aggressive	Russell 2000 Index	Nasdaq Index
3 Month Return:	**+ 23.7 %**	+ 20.2 %	+ 20.0 %
12 Month Return:	**- 23.1 %**	- 26.3 %	- 20.0 %
3 Year Average Annual:	**N/A**	- 9.9 %	- 5.2 %
5 Year Average Annual:	**N/A**	- 2.8 %	- 2.1 %
ROR Since 4/1/2007:	**- 14.6 %**	- 16.2 %	- 10.8 %

SFM's Model CONSERVATIVE INCOME STOCK Only Portfolio

Company Name	Risk Grade	P/E Ratio	Div. Yield	Ret. on Equity
Accenture	A-	9.7	1.6%	60%
AstraZeneca	B+	7.8	6.8%	27%
Bristol Myers Squibb	B	8.8	6.2%	29%
Colgate-Palmolive	A+	13.9	2.5%	98%
Campbell's Soup	A-	11.5	3.5%	107%
Chevron Texaco	A-	8.0	3.8%	24%
France Telecom	C	6.5	12.4%	20%
Heinz	B	10.7	4.6%	51%
Hershey	A-	13.8	3.5%	69%
IBM	A+	9.7	2.1%	60%
Johnson & Johnson	A+	10.8	3.5%	27%
Kellogg	A-	11.7	3.1%	58%
Lockheed Martin	A-	8.9	2.8%	75%
McDonald's	A-	13.0	3.5%	27%
Altria	A+	8.3	7.8%	30%
Merck	B	8.3	6.1%	25%
Microsoft	A-	11.9	2.2%	40%
Pepsi	A-	13.4	3.4%	37%
Pfizer	A-	6.5	4.4%	13%
Procter & Gamble	A-	11.9	3.5%	19%
Phillipine Long Distance	C	9.4	5.0%	33%
Taiwan Semiconductor	B+	15.3	4.4%	16%
Verizon	A-	9.3	6.2%	16%
Windstream	A-	7.3	12.0%	149%
Exxon Mobil	A+	9.6	2.4%	34%
Averages:		**10.2**	**4.7%**	**47%**

SFM Conservative INCOME Stock Portfolio vs. A Relevant Benchmark

	SFM Income	Dow Jones Industrial Avg.
3 Month Return:	**+ 11.1 %**	+ 11.0 %
12 Month Return:	**- 17.3 %**	- 25.6 %
3 Year Average Annual:	**N/A**	- 8.1 %
5 Year Average Annual:	**N/A**	- 3.8 %
ROR Since 4/1/2007:	**- 10.0 %**	- 14.0 %

SFM's ORIGINAL "Model 25" STOCK Only Portfolio

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
Accenture	A-	B-	A-	Large
Amgen	C	A-	A-	Large
AstraZeneca	C	B+	B+	Large
Bristol Meyers-Squibb	A-	C	B	Large
Colgate-Palmolive	C	A-	A+	Large
Campbell's Soup	B	B-	A-	Mid
Diamond Offshore	A-	A-	C	Mid
Ensco International	A	A-	D	Mid
Federated Investors	B+	A+	C	Small
IBM	B	B-	A+	Mega
Johnson & Johnson	B	B	A+	Mega
Lockheed Martin	A-	C	A-	Large
McDonald's	C	B-	A-	Large
Medtronic	B	B	B+	Large
McGraw-Hill Publishing	A-	B+	C	Mid
Altria	A	C	A+	Large
Microsoft	C	A-	A-	Mega
NutriSystem	A	A-	D	Micro
Oracle	C	B+	A-	Large
Pfizer	B-	B-	A-	Large
Procter & Gamble	B	C	A-	Mega
Phillipine Long Distance	B	A-	C	Mid
Taiwan Semiconductor	C	A-	B+	Large
Windstream	B	B-	A-	Mid
Exxon Mobil	C	C	A+	Mega

SFM ORIGINAL Model "25" Portfolio vs. A Relevant Benchmark

	SFM Model 25	S&P 500 Index
3 Month Return:	**+ 15.7 %**	+ 15.2 %
12 Month Return:	**- 20.8 %**	- 28.2 %
3 Year Average Annual:	**- 7.1 %**	- 9.2 %
5 Year Average Annual:	**+ 3.2 %**	- 3.9 %
ROR Since 6/1/2003:	**+ 8.9 %**	- 0.8 %

Commentary & Ramblings

By Adam Sommers

I keep shaking my head, wondering "what was Obama thinking?" when he handed over $20 billion ($30 billion more to come) of OUR (taxpaying citizens) money to General Motors—which at the time was worth less than $3 billion—early in his presidency. What did we buy him? A headache, and a couple of months of salaries to his favorite lobbyist and campaign contributor, the United Auto Workers union. Now how do you suppose he is proposing to get OUR money back?

The answer was well reported in a recent issue of Barron's: By stealing it from GM's lenders. Not the banks, however—oh no—they are in need of 100% of their capital lent, so Obama will happily oblige this backdoor bailout. The government, the banks, and the UAW are throwing GM bondholders—along with stockholders—under the bus. It appears traditional bankruptcy priority gets thrown out the window when Big Brother steps into the mix.

In Obama's proposed bankruptcy restructuring, current GM shareholders are wiped out completely—which is appropriate given the way the company was operated over the past couple of decades; there is always a risk that owning stock will result in no value. Next, **the banks will receive back 100% of the money they lent to GM**. The government will become a 61% shareholder, the UAW will own 17.5% of the new company, while GM bondholders who loaned money to the company 10, 20 and 30 years ago will have a measly 10% stake in the new GM.

The first thing that should cause outrage is **the taxpayers are receiving only 48% of what GM owes them** (in the form of risky new GM stock), while the banks are being handed 100% of what GM owes them—in cold, hard cash.

Another thing that angers me is **the UAW is receiving about 66%** (again, more than taxpayers) of their estimated post-retirement healthcare costs (Who else gets paid health care after retirement these days?), while **bondholders, who loaned money to employ the UAW and build the business to begin with, are receiving just 11% of what's owed them**—in the form of stock in the new GM.

I am crossing my fingers the bankruptcy court does not allow this underhanded, steamroll of a plan thought up by Obama and his cronies. I want to see the Supreme Court step in and do what's right—even if it means liquidating GM and paying out cash to everyone involved. Cash would be a better payback than the stock that Obama plans to issue to us (the taxpayers and bondholders)—which may in all reality end up worthless just a few years down the road—similar to many airlines' fates coming out of bankruptcy numero uno. Is it 2012 yet?