Sommers Financial Management
PO Box 1552
St. Helens, OR 97051

First Class Stamp

Address Label

Blessed are the young, for they shall inherit the national debt.

"When the public is clamoring for stocks, the top of the market is usually near."

"IN OUR NATION'S CAPITAL, NO GOOD BUSINESS GOES UNPUNISHED."

"If you don't know who you are, the stock market is an expensive place to find out."

"INSURANCE SALESMEN PROFIT ON FEAR. STOCKBROKERS PROFIT ON GREED. LAWYERS PROFIT ON EVERYTHING."

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

ETF Extra — iShares S&P U.S. Preferred Stock Index Fund (PFF—38.59)

The iShares S&P US Preferred Stock Index ETF seeks investment results that measure the performance of a selected group of preferred stocks listed on major stock exchanges. The fund includes preferred stocks with a market capitalization over $100 million that met minimum price, trading volume and other requirements determined by Standard & Poors. Preferred stock is a class of equity security which pays a specified dividend that must be paid before any dividends can be paid the common stock holders, and which takes precedence over common stock in the event of a company's liquidation.

Sommers Financial places this fund in the "fixed income" portion of client portfolio allocations, due to the large dividend yield and relatively stable pricing as compared to common stocks.

PFF's Notable Statistics

One Year Return (as of 3/31/10):	86.53 %
Dividend Yield:	7.79 %
3 Year Avg. Return (as of 3/31/10):	- 0.49 %
Total Assets in the Fund:	$ 3.30 Bil.
Total Annual Expense Ratio:	0.48 %

Top Sector Breakdown:

88.12 %	Financials (including auto-finance)
4.69 %	Consumer Discretionary
2.37 %	Consumer Staples

July 1st, 2010

Money Matter$

A Quarterly Newsletter from Sommers Financial Management

Ph. (503) 397-1545 www.sommersfinancial.com Volume 8, Issue 3

A Lesson About Bond Investing—Introducing a Revolutionary New Brand of ETF

By Adam Sommers

For years, bond investing has been considered by some to be "boring", "conservative", or downright unattractive. They may be considered boring because you know the coupon, the yield to maturity, and the time to maturity when you buy a bond. Boring or not, over the past decade, bonds have outperformed almost every other type of investment. We need to be aware of the most effective way to incorporate bonds into a portfolio, and also how they work.

You've probably heard that as interest rates rise, bond values fall. If you build a portfolio of bonds today—with historically low interest rates—when rates inevitably rise, the value of your bond portfolio will decline. Realize the relationship depends on both the time to maturity and the magnitude of the change in interest rates. Hopefully the interest you earn along the way makes up for the decline.

The current worry on Wall Street is that the bond market will be the next bubble to pop. Buying bond funds today is actually considered "risky", which is why our recent purchases have been mainly short-term bond funds—holding bonds that mature within a few years—to blunt the effect of rising interest rates at some point down the road. Risk in bond portfolios comes when you don't hold them to maturity; bond funds don't 'mature', they perpetuate–causing fluctuations in value.

Bond ladders are an alternative to buying short-term bond funds as a way to immune your portfolio from interest rate shocks. As each bond in a ladder matures—say ever year—you purchase a new 'rung' of your ladder at the new rates, always ensuring that your bond portfolio has—and will have—a diversity of yields.

So should you invest in bond funds, or build a bond ladder? Each strategy has its pros and cons.

Bond Funds

Pros:

- The number of bonds issued by different organizations held in a fund give you diversity, which minimizes default risk, so if one issuer declares bankruptcy, it's a small piece of your overall pie.
- Exiting your position is simple if you decide to cash out your funds and change your investment strategy.

Cons:

- You cannot minimize interest rate risk without holding only short-term bond funds.
- You must pay a fund administration fee.

Bond Ladders:

Pros:

- You can immune your portfolio against rising interest rates by holding bonds to maturity.
- You can attempt to get above-average yields by selecting attractive bonds from acceptable issuers.
- If you withdraw your funds rather than reinvest at maturity, your cash flow stream is protected because you know in advance what the amount will be.
- There is a dollar-cost-averaging-like benefit: rising interest rates make it cheaper to buy future income.

Cons:

- You take on issuer specific risk, meaning if the bond issuer defaults, your entire investment is at risk.
- Trading bonds is expensive. Even though a broker might not charge a commission, they take a 'spread' —discouraging you from selling bonds prior to maturity.

New Specified End-Date Bond ETFs:

Recently, both iShares and Claymore introduced bond funds with specified end-dates. Now, we can ladder a portfolio of bond-funds, and reinvest in the next rung via an ETF each year as the current year's fund 'matures'. Currently, we can build a ladder with rungs out seven years. With these new ETFs, we get all of the benefits of both bond funds and bond ladders, while avoiding all the negatives except the fund administration fee—ingenious!

Five-Year Avg. Annual Returns

• Dow Jones Industrial 30 Average:	- 1.0 %
• S&P 500 Large Company Index:	- 2.7 %
• NASDAQ Composite Index:	+ 0.5 %
• Russell 2000 Small Company Index:	- 0.9 %
• SFM's 'MODEL 25' PORTFOLIO:	+ 5.2 %

(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
Abbot Laboratories	A	10.4	11%	9%
Accenture	A-	11.0	13%	8%
Amgen	C	9.1	9%	11%
Aeropostale	D	9.2	14%	12%
AstraZeneca	B	6.6	0%	11%
Baxter, International	B	10.1	11%	10%
Biogen Idec	D	8.5	9%	11%
Buckle	D	11.2	11%	10%
Diamond Hill Investment	D	13.6	2%	10%
Diamond Offshore	B	9.1	26%	19%
Endo Pharmaceuticals	D	6.1	10%	15%
Ensco International	D	3.0	14%	20%
Federated Investors	C	9.9	9%	10%
Gilead Sciences	B	9.2	14%	14%
Google	C	14.1	20%	11%
Gap Stores	C	9.7	10%	10%
Garmin	C	10.0	24%	26%
IBM	A+	10.2	10%	8%
J2 Global	D	11.0	10%	13%
Microsoft	A+	10.7	9%	10%
Noble Energy	D	6.3	13%	27%
Oracle	A-	12.7	14%	10%
Seagate Technology	D	4.0	10%	17%
TJX Companies	B+	11.9	14%	9%
World Acceptance	F	6.9	11%	11%
Averages:	**C+**	**9.4**	**11.9%**	**12.9%**

SFM AGGRESSIVE Stock Portfolio vs. Relevant Benchmarks

	SFM Aggressive	Russell 2000 Index	Nasdaq Index
3 Month Return:	**- 10.7 %**	- 10.2 %	- 12.0 %
12 Month Return:	**14.6 %**	19.9 %	14.9 %
3 Year Average Annual:	**- 9.8 %**	- 9.0 %	- 6.3 %
5 Year Average Annual:	**N/A**	- 0.9 %	0.5 %
ROR Since 4/1/2007:	**- 7.1 %**	- 7.3 %	- 4.0 %

SFM's Model CONSERVATIVE INCOME STOCK Only Portfolio

Company Name	Risk Grade	P/E Ratio	Div. Yield	Payback Yield
Abbot Laboratories	A	10.4	2.8%	9%
Accenture	A-	11.0	2.0%	8%
AstraZeneca	B	6.6	2.6%	11%
Bristol Myers Squibb	A-	8.6	5.0%	7%
Colgate-Palmolive	A+	13.9	2.2%	6%
Campbell's Soup	A-	12.5	2.7%	6%
France Telecom	C	5.7	9.2%	4%
Garmin	C	10.0	4.7%	24%
IBM	A+	10.2	2.0%	8%
Johnson & Johnson	A+	10.3	3.3%	8%
Kellogg	A-	12.6	2.7%	6%
Coca Cola	A-	14.1	3.2%	7%
Lockheed Martin	A-	9.1	3.1%	6%
McDonald's	B	14.0	3.2%	7%
Altria Group	A+	8.8	7.1%	6%
Microsoft	A+	10.7	2.0%	10%
Novartis	B+	10.3	3.5%	8%
Pfizer	B+	6.1	4.2%	9%
Procter & Gamble	A-	13.1	2.9%	7%
AT&T	B+	8.6	6.5%	5%
United Parcel Service	B	13.3	3.1%	4%
Verizon	B	9.6	6.6%	3%
Windstream	B	9.6	6.2%	3%
Walmart	A-	11.9	2.8%	8%
Exxon Mobil	A-	11.9	2.8%	8%
Averages:	**A-**	**10.5**	**3.9%**	**7.5%**

SFM Conservative INCOME Stock Portfolio vs. A Relevant Benchmark

	SFM Income	Dow Jones Industrial Avg.
3 Month Return:	**- 7.3 %**	- 10.2 %
12 Month Return:	**10.3 %**	15.4 %
3 Year Average Annual:	**- 6.5 %**	- 9.1 %
5 Year Average Annual:	**N/A**	- 1.0 %
ROR Since 4/1/2007:	**- 4.4 %**	- 6.5 %

SFM's ORIGINAL "Model 25" STOCK Only Portfolio

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
Abbot Laboratories	B	B	A	Large
Accenture	B+	B-	A-	Large
American Movil	C	B	A-	Mega
AstraZeneca	C	A-	B	Large
Bank of New York	A-	A+	C	Large
Buckle	B	A-	D	Small
Bristol Myers Squibb	C	A-	A-	Large
Colgate-Palmolive	C	B+	A+	Large
Diamond Offshore	A	A-	C	Mid
Ensco International	A+	B	D	Mid
Federated Investors	A-	B+	C	Small
Gilead Sciences	D	A	B	Large
Garmin	A	A-	C	Mid
IBM	B	B+	A+	Mega
Johnson & Johnson	B-	B-	A+	Mega
McDonald's	C	A-	B	Large
Altria	B	C	A+	Large
Microsoft	C	A-	A+	Mega
Noble Corp	A	A	D	Mid
NetEase, Inc.	A	A+	D	Mid
Pfizer	B	C	B+	Mega
AT&T	A-	C	B+	Mega
Taiwan Semiconductor	A+	B	C	Mega
United Parcel Service	B	B	B	Large
ExxonMobil	A-	D	A-	Mega

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

	SFM Model 25	S&P 500 Index
3 Month Return:	**- 10.9 %**	- 11.9 %
12 Month Return:	**7.7 %**	12.1 %
3 Year Average Annual:	**- 4.4 %**	- 10.5 %
5 Year Average Annual:	**5.2 %**	- 2.7 %
ROR Since 6/1/2003:	**12.1 %**	0.9 %

Commentary & Ramblings

by Adam Sommers

We just passed the time of year where graduates celebrate the commencement of the next phase of their lives. With the job outlook for entry-level job-seekers less than stellar, and the national debt looming over their collective heads, recent high school and college graduates face an uncertain future.

I have the opportunity to work with many students in my community as a soccer and basketball coach, and also via my position as a Trustee for the St. Helens Student Foundation. Over the past few years, I've had the pleasure of working with three St. Helens High School graduates while they perform various tasks and research in my office, as interns. This spring I also had the unique opportunity to be a mentor to a college-bound senior student with his Senior Project. He was studying how to create a winning stock-selection system. From his research, I've added three of his discoveries—DHIL, ARO and STX—to the Aggressive Stock Model Portfolio. Thank you, Chris Semling, for sharing your Senior Project experience with me, and allowing me a window into your learning process. Good luck next year at the University of Denver; I hope you'll return soon to teach me something you learned while away.

Students today have many demands on their time, in addition to over-sized, under-funded classrooms and limited summer job opportunities to save money for college. To assist in filling the funding gap, the organization to which I am most closely tied, the St. Helens Student Foundation, awards over 15 scholarships each year to deserving students. In 2010, the Foundation gave away over $19,000 to graduating seniors.

In addition to the scholarship opportunities, the St. Helens Student Foundation over the last year awarded eight "Classroom Grants" for a total of over $5,000 to school district staff, used to further the education of students via projects that the financially struggling school district could not afford. The Foundation also supported students who needed shoes for their chosen sport; and sent students to team camp for both football and dance.

I believe that the education system in our country is under tremendous stress, and unfortunately not holding students to adequately high standards. Rather than complain about the ills of the system, I feel we as citizens must contribute positively in order to effect change—we need to be the change. One way we can do this is to volunteer at a local school. Coach. Read. Listen. Advise a club. Or, simply ask a teacher what you can do to help.

If you are unable to donate your time, the St. Helens Student Foundation will gladly put your monetary donations to good use. You are able to designate how you'd like your donation utilized. Maybe you'd like to establish a scholarship, or maybe provide a group of students the opportunity to embark on a special field trip. For your reference, I've included with this newsletter a brochure from the St. Helens Student Foundation.

Our future—especially our financial future—rests on the shoulders of our youth. I hope you'll join me in contributing to their success.