

# Value View 2004

A STRAIGHTFORWARD INVESTMENT REPORT FEATURING VALUE AND GROWTH-ORIENTED STOCK-PICKS, FINANCIAL NEWS, MONEY TIPS AND INSIGHTS FOR INVESTORS.



## financial future: a skyline forecast

AS BUILDERS BEGIN WORK ON THE FREEDOM TOWER in New York City, to be the world's tallest building, economist Mark Thornton offers a history-based theory of the relation between super-buildings and the economy. Thornton surveyed economic performance worldwide following the completion of each of the world's tallest skyscrapers, and suggests what these events foretell.

Thornton cites example after example to back up his theory. His conclusions may surprise readers, but are based on historical evidence. Thornton reports, "The announcement and groundbreaking for the world's tallest building takes place at the end of a long boom or sustained bubble in the economy." Generally, this is followed by a bear market for stocks, and an economy heading into "recession or worse".

Lest we accept his reasoning without analysis, consider history. The Petronas Towers' completion in Malaysia signaled the Asian Crisis, pushing markets worldwide into a tailspin. The World Trade Center, completed in 1973, and the record-breaking Sears Tower in 1974, led into the dismal 1970's. The Great Depression was heralded by the Wall Street building in 1929, the Chrysler Building in 1930, and the Empire State Building in 1931. The 1913 completion of the 792 foot

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Noranda, a leading Canadian miner and refiner of copper, zinc, nickel, silver, and gold, has booming profits. The company also owns nearly 60% of Falconbridge, the leading nickel producer. Demand for industrial metals is through the roof, as China and other newly industrialized nations have increased demand to meet the needs of their own flourishing economies. Metal prices have risen, both as a result of this new demand and as a response to growing inflation. Nickel and copper are showing the best results at present, but if inflation continues, we can imagine the gold and silver assets to show more strength. The recent acquisition of a 50% stake in Kaiser Aluminum's bauxite mining assets

and alumina refining facilities will only help build diversity of production. Rumors of buyout bids from a variety of international firms, including a Brazilian entity and a Chinese mining company, have boosted the stock a bit, but higher earnings and forecasts have had more impact on the share price. If a buyout offer materializes, Noranda investors can expect at least a modest premium, but whether such a deal emerges or not, we believe these shares will prove to be a great long-term holding. If inflation continues to trouble the economy, the benefits of holding such a miner will come sooner. With such an opportunity, there is little reason not to buy Noranda, at least at prices below 20.

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Woolworth Building foretold only a short downturn in that year, possibly cut short by WWI. As far back as the 1907 Panic, we can draw correlations to Singer's building (finished, '08) and Met Life's building (completed, 09).

One could question the validity of such indicators, just as one might question the "Super Bowl indicator" or other spurious forecasts. But, Thornton makes a good case for why these connections make sense: "Long periods of easy credit create economic booms, particularly in investment, speculation becomes pronounced, and entrepreneurs lose their compass of economic rationality and make big mistakes. The biggest mistakes – record-setting skyscrapers – come toward the end of the long boom and signal the bust."

Even Thornton points out that no such indicator can be foolproof, and we point out that some of these buildings were completed *after* a downturn, not before. One could say that this building may correlate to the recent dismal economy. But it is wise to consider the possibility that the future may also look bleaker than many in the mainstream media want to admit.

Knowing what to expect is core to sound

investment strategy. As we've suggested, the present is remarkably difficult to precisely assess. Policies and events represent such a departure from the recent past that normal prediction techniques become largely useless.

The sad thing is that most analysts and forecasters have ignored the uniqueness of today's economy, and continue to base statements and predictions on mismatched methodologies.

We're not suggesting that economic law has changed: what has been true remains. However many analysts assume that today is a carbon copy of the glorious 80's and 90's. In fact, today more closely resembles the 70's, when fear of international war and terrorism dominated, and inflation was of great concern to those who intended to save and invest (and great skyscrapers were being built).

The mainstream blindness is best illustrated by recalling the belief among members of the investment community and economic policy-makers that we were heading toward a period of deflation. Of course, deflation of any size hasn't been seen in the U.S. since the Great Depression, but their indicators led them to conclude that we were heading

there. They advocated a more inflationary policy on the part of the government and proposed a Keynesian spending spree.

We would dispute their analysis. We never saw any real deflation, and now, as we've been saying all along, real concerns about inflation are beginning to become realistic.

Indeed, it is an election year. History demonstrates that incumbent administrations always follow an inflationary policy in the run-up to the election, printing and spending money to create an exaggerated impression of a good economy. This has been shown to boost re-elections, but also carries with it an inflationary punch that is often seen in the following year(s).

Understanding this simple reality steers us toward intelligent investment decisions. There is clear anticipation of inflation, and rising interest rates, which we are already seeing. Observing these factors should help us to select investments that will perform well in the coming economy.

We have said that the economy looks strong for the remainder of this year, but as inflation and rising interest rates build next year, a potential for the type of "stagflation" we saw way back under Gerald Ford seems possible.

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... are companies on the cutting edge of the world's new architecture. Each enjoys a strong position in their changing field. They could be the blue chips of the future but are relatively unproven, and operate in fast-paced industries. The risk is greater, but returns can be outstanding. While they tend to be most appropriate for risk-oriented investors, conservative investors may want to hold a small position of some of these potential world-beaters as well.

**ChoicePoint Inc**, the leading provider of identification and credential verification services, reported an increase in second-quarter earnings compared to one year ago and recently acquired Investigation Technologies, LLC, a provider of online criminal records searches. This will complement ChoicePoint's existing National Criminal File and will strengthen the company's leadership position. Also, ChoicePoint introduced ScreenNow Financial, a web-based screening service designed to help financial services firms make more informed hiring decisions. ScreenNow Financial helps identify individuals who have experienced of industry related disciplinary action and provides standard screening services.

**Engineered Support Systems**, a designer and manufacturer of integrated military electronics, is growing at a steady pace and has been awarded several new contracts. These deals include an \$8.9 million order for the U.S. Army's Knight Precision Targeting System, a \$4.5 million contract from the U.S. Coast Guard, a \$25.5 million deal with the U.S. Air Force for a Deployable Power Generation System, and another \$11.2 million contract extension from the U.S. Air Force for various services. Engineered Support Systems has consistently obtained such awards and it is Value View's opinion that the company will continue its strong growth into the foreseeable future.

**JAKKS Pacific** reported record second-quarter revenue and net income, which is believed to be a result of increased advertising and also the huge success of its TV Games line. JAKKS Pacific and Electronic Arts (EA) signed a deal to launch TV Games, in the near future, based on classic EA SPORTS titles such as Madden NFL '95 and NHL '95. Consumers will only need batteries, a television, and the very small TV Games unit to play. The TV Games unit is a lightweight, compact, and all-inclusive controller with all of the hardware and software built right in. This combination of technology and classic sports titles is expected to be a hit with gamers everywhere.

**LeapFrog Enterprises Inc.** reported

a widened second-quarter loss as consumers bought more of the company's less expensive, and lower profit margin, products; which ultimately hurt net income. It is important to note that earnings in the toy industry are typically made in the second half of the year; which makes this news somewhat less alarming. However, this is not consoling to the investors that LeapFrog has placed on a roller coaster ride over the past few quarters. Analysts believe that the company will make a nice turn-around in the second part of the year, but Value View chooses to remain cautious at this point.

**Nvidia** has announced its strategy to deliver PCI Express technology that is compatible with Intel chipsets. PCI Express is the next revolution in I/O interconnect standard that will deliver the bandwidth required for high-resolution graphics and gaming. This is a great step for Nvidia and consumers alike.

**L-3 Communications** has been awarded numerous new contracts including a \$41 million deal to build the Polish F-16 Aircrew Training System, a \$14 million contract to build hardware for Boeing's Delta Avionics Program, and an agreement to supply the U.S. Army Apache Helicopter Program with L-3's Electronic Standby Instrument System.

**Intuit**, the maker of QuickBooks accounting software, announced a lineup of some planned offerings designed for tax and accounting professionals. The software is designed to help sole proprietors and also

practices that help taxpayers get their refunds faster. Intuit has also teamed up with Goodyear and recently announced the availability of CRE Manager, a real estate management solution designed to maximize profitability by reducing real estate operating costs.

**America Movil**, one of Latin America's top mobile phone companies, announced that it will sell up to \$175 million of local bonds this week. The company did not state what the funds will be used for, but America Movil has recently been in the acquisition stage and will likely continue this.

**Ariba**, the leader in Spend Management solutions, announced an increased third quarter net loss due to a large decline in software license revenues. Ariba also completed its merger with FreeMarkets, a leader in sourcing services and category expertise. The deal puts Ariba in a solid position to help companies address the most critical procurement challenges.

**1-800-FLOWERS.COM** announced its new relationship with Donata Maggipinto, a prominent authority in celebration and gift ideas. Donata appears regularly on nationally broadcasted television shows and is now developing a series of collections exclusively for 1-800-FLOWERS.COM

**NexTel** posted a sizable increase in second-quarter profits compared to one year ago. This was largely due to the addition of more than a half-million subscribers to the company's mobile phone service.

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Recommendation
<b>America Movil</b>	<b>AMX</b>	<b>\$35.56</b>	<b>\$2.11</b>	<b>16.9</b>	<b>20%</b>	<b>Buy Aggressively</b>
Ariba	ARBAD	\$8.81	\$0.13	67.8	35%	Inconclusive
ChoicePoint Inc	CPS	\$41.68	\$1.27	32.8	18%	Harvest
Cytec	CYTC	\$21.79	\$0.69	31.6	35%	Hold Loosely
Engin'r'd Sup't Syst	EASI	\$56.02	\$2.94	19.1	18%	Buy
Intuit	INTU	\$37.21	\$1.62	23.0	20%	Hold Tightly
JAKKS Pacific	JAKK	\$19.99	\$1.81	11.0	15%	Buy
<b>L-3 Comm.</b>	<b>LLL</b>	<b>\$61.30</b>	<b>\$2.80</b>	<b>21.9</b>	<b>25%</b>	<b>Buy Aggressively</b>
LeapFrog	LF	\$19.98	\$0.95	21.0	22%	Inconclusive
<b>NexTel</b>	<b>NXTL</b>	<b>\$22.85</b>	<b>\$1.93</b>	<b>11.8</b>	<b>25%</b>	<b>Buy Aggressively</b>
Nvidia	NVDA	\$15.25	\$0.36	42.4	30%	Hold
<b>Priceline.com</b>	<b>PCLN</b>	<b>\$23.59</b>	<b>\$0.79</b>	<b>29.9</b>	<b>30%</b>	<b>Buy Aggressively</b>
1-800-Flowers	FLWS	\$7.50	\$0.27	27.8	30%	Buy

**GLOSSARY OF TERMS**

Buy Aggressively	This rating designates the best buys at the best prices. It does not indicate momentum.
Buy	Also a good buy, but not as exciting or certain as the above.
Speculative Buy	Stocks with great potential, that may not be great values. These certainly involve higher risk.
Nibble	This rating suggests buying a little at a time as prices become more favorable.
Hold Tightly	An attractive stock which is probably too high to buy but does not warrant selling.
Hold Loosely	Stock approaching excessive valuation that may be traded out selectively for better buys.
Harvest	This is a sell rating for quality stocks which seem to be inflated in price. This does not suggest any impending problems. These stocks may be held by those who cannot afford to take profits, but the risk of holding is greater. Selling a portion of such shares is a good strategy.
Inconclusive	This terms is used when news creates uncertainty, or action appears to be negative, even if news has not yet appeared. Most people prefer not to hold stocks in periods of uncertainty and this rating is similar to a clear sell rating. We make this distinction because such uncertainty can create outstanding valuations. We do not want to create the impression that we know something we do not.
Sell	The clear sell rating is reserved for stocks that have struck bad times and should be unloaded by all investors.



... features stocks that appear to be below their reasonable valuations, based on their expected future growth. Unlike many stock-pickers who seem to divide stocks into "growth" or "value" picks, we believe the growth outlook is one of the prime factors for determining value. These stocks may not always show immediate results, but should provide outstanding returns in the long-run.

**Paincare Holdings** is a fast-growing acquirer of medical rehab and pain management practices. The company reported sales and earnings more than double last year's and forecasts are equally strong. The strategy involves targeting successful practices to acquire on a regular basis, such as the recent acquisition of Maine's largest dedicated pain management practice, Northeast Pain Management, purchased in July for \$3.5 million, half in cash and half in stock. While the model may run into some difficulties down the road, we believe the next few years for Paincare will provide astronomical growth, and suggest risk-oriented investors pick up some shares now.

**Sandisk** reported strong 2<sup>nd</sup> quarter earnings, well above estimates, on a 75% revenue jump, largely due to digital memory card sales. The company cut prices to beat out competitors in the market for cards used in cameras, music devices, and similar digital media. The price cutting also hurt competitors who were unable to maintain profits with the deep discounts Sandisk was offering. The company sees further price cuts, but anticipates that supply may become tighter by the 4<sup>th</sup> quarter, leading to the ability to maintain prices at that point.

**Canon**, the Japanese copier, printer, and camera maker, expects strong results for the first half of 2004. The company is also launching a new brand identity, PIXMA, to differentiate its entry-level high-quality photo printing devices. The stock has been not been moving well in recent weeks, but we believe the longer-term prospects are outstanding, and recommend a buy when price action turns favorable.

**Sea Containers'** GNER rail subsidiary has settled a dispute with the British rail regulatory body, in preparation for bids for two new rail franchises. We continue to find these shares attractive, as they sell way below book, and offer outstanding upside potential.

**Carrier Access** took a big hit in late July, when the company reported earnings up only slightly. Like many other firms supplying the telecom industry, CACS is having trouble meeting expectations. We've long believed that Carrier Access is one of the best run companies in the field, but with sales largely limited to broadband, wireless, and fiber access markets, the company is very dependent on industry buying patterns. We suggest remaining patient with this one. The timing of the success is less certain, but we are confident that current prices will prove to be attractive in the long run.

**Converium Holdings**, the Swiss reinsurance giant that focuses on life, health, and specialty lines of insurance, took a big hit in July after projecting significant reductions in earnings. The forecast cut was due to bolstering reserves for U.S. casualty insurance losses in the 1997-2001 period. These losses were from a consortium reinsurance project, and similar

losses likely will be felt by other reinsurers. Still, the shares of Converium plummeted after the announcement. We don't see this as a long-term problem, simply a major, one-time adjustment. Still, this brings up a larger question. What do we do when a stock is dropping fast. The traditional advise is to avoid "catching the falling knife" (see this month's Young Investor article). We feel the long term outlook remains strong, and at current prices, this stock is even more attractive than before. However, assessing the timing of the purchase is difficult, as it may fall further before it turns back up.

Similar debates surround **Atlantic Coast Airlines**. In hindsight, we'd have suggested our readers wait until now to buy, instead of recommending these shares at \$7 or more. Nonetheless, the owner of upstart Independence Air ([www.flyi.com](http://www.flyi.com)) still sells way below book value, and has an attractive business model. The company will roll out its low-fare service to cities on the east coast through the summer, and appears to be taking customers from United. Conservative investors should wait to see how the execution of strategy pans out, but we believe these shares carry enormous potential for those willing to assume some risk. At current prices, a small investment will buy a lot of potential, so we'd advocate picking them up at some point. Still, the shares seem to keep falling, and wisdom suggests waiting until they bottom for the best price. The problem comes in gauging sentiment. Watch for some supported upward motion in the price to buy.

Yet another stock in virtual freefall is **Conexant Systems**. The maker of chips for wireless products, broadband, digital TV, and set-top boxes reduced earnings expectations due to

difficulties related to a Wi-Fi chip price war. This will impede earnings for the coming quarters, but the company is sure to remain profitable by all analyses. Furthermore, the shares now sell for a price that would be low even if the company were losing money. This stock, like the others discussed above, may fall further, but at this price, we believe the bargain is too great to wait. Indeed, this stock is now selling significantly below book value, which is near \$2.50 per share. We'd be buying for all but the most conservative accounts in this price range.

**Nokia**, too, may be considered a "falling angel", as shares have dropped from a high over 23 in March, to today's dismal levels. Earnings have been consistently more disappointing, but we still maintain our favorable long-term outlook. While competitors have picked up market share from new device introductions and innovations, Nokia has begun what may turn into a price war, as it has begun cutting prices for its line of phones. Nokia can afford the cuts, as its profit margins remain the highest in the industry, mostly due to a lower-cost operation. The company has managed its price cuts enough to avoid any threat of losses, and is simply experiencing small reductions in profits at present. Nokia is also aggressively buying back its own shares. While the short-term may be dicey, we believe Nokia will be an outstanding long-term holding, and the current price level is quite attractive – a lower price than these shares have been offered for since 1998.

**Bancolumbia** has issued a preliminary report of 35% increase in first half income. The bank also won a final ruling in a lawsuit related to the company's acquisition of its primary  
*Please see Viewfinders, page 6*

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Yld.	Recommendation
<b>Atlantic Coast Air.</b>	<b>ACAI</b>	<b>\$3.76</b>	<b>\$1.86</b>	<b>2.0</b>	<b>N/A</b>	<b>0.0%</b>	<b>Speculative Buy</b>
<b>Bancolumbia, SA</b>	<b>CIB</b>	<b>\$6.53</b>	<b>\$0.93</b>	<b>7.0</b>	<b>11%</b>	<b>2.8%</b>	<b>Speculative Buy</b>
Barnes & Noble	BKS	\$34.62	\$2.14	16.2	14%	0.0%	Buy
Beazer Homes	BZH	\$93.95	\$14.14	6.6	12%	0.4%	Buy Aggressively
Canon Inc.	CAJ	\$48.18	\$2.90	16.6	16%	1.0%	Buy
Carrier Access	CACS	\$7.38	\$0.17	43.4	30%	0.0%	Speculative Buy
<b>Conexant Systems</b>	<b>CNXT</b>	<b>\$1.89</b>	<b>\$0.11</b>	<b>17.2</b>	<b>22%</b>	<b>0.0%</b>	<b>Speculative Buy</b>
Converium Hldgs.	CHR	\$11.29	\$5.88	1.9	12%	0.0%	Speculative Buy
Countrywide Fin.	CFC	\$71.58	\$10.15	7.1	16%	1.1%	Buy
Donegal Group B	DGICB	\$20.20	\$1.85	10.9	16%	2.2%	Buy
E*Trade	ET	\$11.08	\$0.98	11.3	14%	0.0%	Buy
<b>Finish Line</b>	<b>FINL</b>	<b>\$28.24</b>	<b>\$2.12</b>	<b>13.3</b>	<b>16%</b>	<b>0.7%</b>	<b>Buy Aggressively</b>
Intervest Bancshares	IBCA	\$15.51	\$1.54	10.1	14%	0.0%	Buy
ITLA Capital	ITLA	\$39.72	\$4.60	8.6	10%	0.0%	Buy
Korea Electric Power	KEP	\$9.31	\$2.00	4.7	10%	3.5%	Buy Aggressively
NetBank	NTBK	\$11.00	\$1.11	9.9	13%	0.7%	Speculative Buy
Nokia	NOK	\$11.60	\$0.96	12.1	15%	2.6%	Buy
<b>Noranda</b>	<b>NRD</b>	<b>\$16.84</b>	<b>\$0.95</b>	<b>17.7</b>	<b>10%</b>	<b>2.1%</b>	<b>Buy Aggressively</b>
<b>Paincare Holdings</b>	<b>PRZ</b>	<b>\$3.15</b>	<b>\$0.10</b>	<b>31.5</b>	<b>20%</b>	<b>0.0%</b>	<b>Speculative Buy</b>
Ruby Tuesday	RI	\$29.04	\$1.64	17.7	16%	1.6%	Buy
<b>Sandisk</b>	<b>SNDK</b>	<b>\$24.20</b>	<b>\$1.40</b>	<b>17.3</b>	<b>28%</b>	<b>0.0%</b>	<b>Speculative Buy</b>
<b>Sea Containers A</b>	<b>SCR.A</b>	<b>\$16.50</b>	<b>\$2.19</b>	<b>7.5</b>	<b>12%</b>	<b>0.3%</b>	<b>Buy Aggressively</b>
SK Telecom	SKM	\$17.55	\$2.44	7.2	15%	0.9%	Speculative Buy



... is a list of legitimate "blue chips" that we follow monthly. These stocks can generally be held for the long term without great concern for market changes. We rate them buy/sell for valuation only. While it may sometimes pay to move from an overvalued member of this list to a bargain-priced choice, most of these stocks can be held even when they are overvalued without significant long-term risk.

**Constellation Brands** surprised on the upside, as strong beer and liquor sales boosted first quarter profits. Mexican beers (Corona, Modelo, Pacifico), and Black Velvet and Montezuma brands led the charge.

**SouthTrust** reported record earnings in the 2<sup>nd</sup> quarter. Shortly after completing its acquisition of Florida First Banks, SouthTrust itself announced it would be acquired by Wachovia for \$14.3 billion in an all-stock transaction. Each SouthTrust shareholder will receive 0.89 shares of Wachovia. MBNA will acquire SouthTrust's credit card portfolio, and continue to use the SouthTrust name. While Wachovia stock is not overpriced, and appears to be on the right track, some believe it is overpaying for SouthTrust. Wachovia management doesn't have the record of success SouthTrust's is known for. Thus, we'd probably suggest most of our readers take their profits and find other opportunities. Still, for those who would rather avoid tax implications, Wachovia may prove to be a profitable holding longer term, and selling now is not absolutely necessary.

**ConAgra** reported strong earnings and sales growth for the quarter. The company attributes the success to its sale of non-core brands, and strong sales from many of its core brands like Wesson, Peter Pan, PAM, Banquet, La Choy and Chef Boyardee. The company plans to increase prices on many of its brand name products as energy and commodity prices rise.

**First Data Corp.** reported rising income. Strong result from the Western Union payment processing division and a continuing share repurchase plan have had positive impact on per share earnings. The recent loss of JP Morgan's business when they merged with Chase won't help, but probably doesn't suggest any larger problems. Still, these shares are not cheap, and the current price warrants near-perfection. We like FDC's prospects, but are unwilling to buy without being offered a better price.

**Equifax** earnings continue to grow, even after a special gain on the profitable sale of its investment in Intersections Inc. The stock is down, however, due to fears about the impact of the Federal Credit Reporting Act. Equifax, one of the three major credit reporting agencies in the U.S., will increase prices on certain business products to compensate for the costs of providing free credit reports to consumers required by the new credit reporting law that takes effect December 1. Investors are fearful that the cost of the added requirements may injure the company's earning capacity. Also, the mortgage services line cannot be expected to continue growth in the current rising interest rate environment. Nonetheless, we are confident in Equifax's ability to adapt, as it has in the past, and view the current price weakness as an opportunity, rather than a problem.

**Fair Isaac** has taken a bigger hit as earnings appear to be below estimates. The drop

will be the first negative comparison in years. Analysts suggest that the trouble may result from integration problems with a new acquisition as well as dropping software license fees. The company's dismal 3<sup>rd</sup> and 4<sup>th</sup> quarter warnings leave little reason for optimism. However, we find a silver lining: it allows for more reasonable valuations in the shares. While on a fundamental basis, we find these shares attractive, we would warn against jumping too quickly. These shares may well fall further before turning the corner, and thus far, we have no keen insight as to when the earnings drops will end. Thus, we'd suggest waiting to commit on this one.

**Biomet** reported higher earnings for the quarter, on a 19% sales increase. Newly introduced products have met with market acceptance. The company also announced a contract with Diamicon to market diamond-coated replacement joints, which are superior to competitors products because they never wear down. This unique product may provide a boost to future results. The company also purchased spinal implant maker Interpore International, and announced an increased share repurchase plan.

**FedEx** earnings for the 4<sup>th</sup> quarter rocketed forward, and the company increased its earnings estimates for the future due to a vision of continuing strong economic growth. The company also anticipates good opportunities for cross-selling between its main business and the recently acquired Kinko's Copies chain, which also plans to open 70 new branches in the coming year. While all the news appears to be good, high gas prices can't be a boon to a transport company, and FedEx shares are quite pricey.

Janssen Pharmaceutical Products, a subsidiary of **Johnson & Johnson**, issued a two-page letter to doctors notifying them that the company had made misleading claims about the risks associated with Risperdal, a popular schizophrenia drug. The FDA decided that there

was insufficient information, so Janssen released the updated product information. In better news, Johnson & Johnson reported a significant increase in second-quarter profits compared to one year ago driven by increased sales.

**Merck/Schering-Plough Pharmaceuticals**, a joint venture between the two companies, announced the U.S. approval of VYTORIN, the first and only drug approved to treat both sources of cholesterol. VYTORIN inhibits the production of cholesterol in the liver while also blocking the absorption in the intestines. Merck also reported even second-quarter earnings per share compared to 2003, but the company did post a slight increase in net income from continuing operations.

**Pfizer** is ceasing the clinical development of Sumanriole, a drug intended to treat Parkinson's disease and Restless Leg Syndrome. The company said that recent studies failed to distinguish Sumanriole's benefits compared to already existing therapies. On the other hand, Pfizer has received approval from the European Commission to market Lyrica across all European Union member states. Lyrica is a new drug with analgesic and anti-convulsant properties used to treat neuropathic pain and partial seizures in patients with epilepsy. Pfizer is also launching an initiative to greatly increase access to prescription drugs for millions of uninsured Americans. Pfizer will provide working families without drug coverage access to Pfizer medicines at significantly reduced costs.

**Popular, Inc.** recorded a slight decrease in second-quarter earnings per share compared to this time last year. However, the company did post higher net interest income and a lower provision for loan losses; both healthy signs. Popular also announced its pending merger with Quaker City Bank, a west coast bank with assets totaling \$1.81 billion. The deal has

*Please see True Blues, page 8*

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Yld.	Recommendation
Biomet	BMET	\$43.28	\$1.35	32.1	18%	0.2%	Hold Loosely
ConAgra	CAG	\$26.15	\$1.83	14.3	12%	3.8%	Buy
Constellation Brand	STZ	\$37.00	\$2.52	14.7	15%	0.0%	Buy
Equifax	EFX	\$24.30	\$1.31	18.5	15%	0.5%	Buy
Fair, Isaac & Co.	FIC	\$28.44	\$1.70	16.7	18%	0.2%	Nibble
FedEx	FDX	\$81.92	\$3.33	24.6	16%	0.3%	Hold Loosely
First Data Corp.	FDC	\$43.90	\$2.02	21.7	14%	0.2%	Hold
General Electric	GE	\$33.21	\$1.66	20.0	14%	2.3%	Hold Tightly
Heinz	HNZ	\$36.69	\$2.18	16.8	12%	3.1%	Nibble
<b>Home Depot</b>	<b>HD</b>	<b>\$33.72</b>	<b>\$1.97</b>	<b>17.1</b>	<b>12%</b>	<b>1.0%</b>	<b>Buy Aggressively</b>
Johnson & Johnson	JNJ	\$55.47	\$2.73	20.3	14%	2.1%	Hold
MBIA	MBI	\$54.50	\$5.40	10.1	14%	1.2%	Long-Term Buy
Merck	MRK	\$45.40	\$3.13	14.5	15%	3.2%	Nibble
Pfizer	PFE	\$31.93	\$1.63	19.6	15%	1.9%	Buy
Popular, Inc.	BPOP	\$22.62	\$1.78	12.7	11%	2.8%	Buy
Radian	RDN	\$46.07	\$4.12	11.2	12%	0.2%	Hold Tightly
SBC Communic.	SBC	\$25.40	\$1.94	13.1	12%	4.3%	Hold Tightly
SouthTrust Bank	SOTR	\$39.13	\$2.06	19.0	12%	2.5%	Harvest
Tetra-Tech	TTEK	\$16.10	\$1.09	14.8	18%	0.0%	Nibble
<b>UniLever PLC</b>	<b>UL</b>	<b>\$36.21</b>	<b>\$2.69</b>	<b>13.5</b>	<b>11%</b>	<b>2.9%</b>	<b>Buy Aggressively</b>

Catching a Falling Knife

One of the most common mistakes made by inexperienced investors is trying to “catch a falling knife”. This is the habit of buying stocks that are in “freefall”. It’s a poor strategy, common among new investors and even among old and experienced investors. I’ve even fallen prey to it myself.

Remember, there are two primary approaches to investing: fundamental analysis and technical analysis. We generally fall into the fundamental camp, since we evaluate stocks based upon valuations, rather than looking primarily at short-term price movements. We take this direction because we believe this provides the greatest potential for long-term success.

A single-minded view of only the fundamentals of an investment, however, can limit an investor’s profits and lead to some unpleasant positions. One may purchase a stock that appears to be a great value at \$10, only to see it fall to \$5. Surely, if the stock rises again to \$20, you may have been “right” to buy at \$10, but one might argue that you weren’t “right enough”. Buying at 5 would have yielded a 300% return, while you settled for only 100%. Furthermore, if you were convinced that \$10 is a reasonable price, you might have saved time by buying it on the way back up instead of on the way down. It is quite simple – buying a stock

that is in mid-fall is not a pleasant experience – and it isn’t difficult to come up with a variety of other strategies that would bring happier outcomes.

Still, we mustn’t avoid all stocks which have dropped. Studies have shown that investors who buy stocks which have fallen hard tend to outperform the market on a regular basis. Such a bottom-fishing strategy can provide one of the best performance levels of all strategy sets. Missing out on these opportunities can be costly.

The decision then is not whether to buy “fallen angels”, but WHEN. This is where a tad of technical analysis skill comes in handy. While technical tools can’t really tell you which stocks to buy (unless you’re willing to buy any piece of junk that happens to have good price momentum), it can lead to a better understanding of timing. Once we have selected a good investment based on fundamentals, it is time to decide when to put the money down. A good first step is to watch for a positive movement on good volume before committing. As long as the stock is dropping, there is a good chance you may get it at a better price. Better to wait a few days (or weeks) to assure your purchase is timed appropriately. There’s no advantage to buying before the time is right, even if the choice of stock is ideal. It is here that patience is a virtue.

Don’t try to catch falling knives! Just be sure to pick them up after they hit the floor.

*Viewfinders, from page 4*

banking asset. While the positive ruling cannot be appealed, they have filed a new suit in Bogota. The bank continues to assert that the case has no merit. Bancolumbia appears to be a great value with strong prospects.

**NetBank** has agreed to acquire Beacon Credit Services, a leading provider of RV, boat, and aircraft financing. The six-year-old finance firm has loan production of nearly \$400 million, has been profitable every year of its existence, and is expected to be accretive to earnings. Netbank has begun offering business credit cards. The company’s Meritage Mortgage division is packaging \$1 billion mortgage for resale. NetBank appears to be conservatively priced, selling only slightly above book value, and we recommend investors consider purchasing.

**Interest Bancshares** reported lower per share earnings, and relatively flat net income, which the company explained as a result of lower net interest margins, increased office rent in Rockefeller Center, and higher loan loss reserves. Loan production continues to grow, but margins have fallen. Still, with book value rising to \$13.44, and prospects for the future looking good, we believe these shares remain a good buy.

**ITLA Capital** reports that it lost its Household Tax business, which was acquired by a bank that will now provide the finance credit. ITLA shares remain an attractive venture, albeit not the safest in the banking business.

**E-Trade** reported strong earnings for the 2<sup>nd</sup> quarter, solidly beating estimates. The company’s mortgage banking division is also offering a new home equity credit line program which features a 24-hour closing period. We believe this diversity of income will provide some stability as changes in both industries unfold. Also, shares sell at an attractive price. We’d be buyers here.

**Countrywide Financial** reported a big jump in earnings, which nonetheless

disappointed some traders who had expected even greater results. Management says that strong mortgage lending growth was responsible for the expansion, and that the company has been able to maintain its #1 position in the market. The company’s leading position in the adjustable rate mortgage market has served it well in this period of rising interest rates. The company was also able to increase the dividend by 33%. The Countrywide Bank division is also expanding with 4 new branches in the Chicago area, the first in Illinois, as well as additional Pennsylvania offices. The company is also expanding its commercial real estate lending division. The company also plans a 2-for-1 stock split for August 25<sup>th</sup>. We still believe Countrywide shares are attractive, but the stock price may not move in the near future because of the overhang from disappointed traders.

**Barnes & Noble** continues to open new stores nationwide, and sells at a conservative valuation. We rate the shares a buy.

We continue to view **Korea Electric Power** as a big bargain. In addition, we introduce **SK Telecom** as a new bargain. The leading Korean cell phone service provider is selling far below its value. Sales and earnings have shown outstanding growth over the years, and new revenue cuts imposed by the government, while disappointing, will not devastate the company. Furthermore, the shares have already fallen in response to the regulations, and now provide incredible value for a fast-growing company.

**Donegal Group** is a property and casualty insurer focused in the eastern U.S. which demonstrated solid earnings growth over the years. The stock sells at a reasonable price, (B.V. is \$17.23). The company reported lower per share earnings for the quarter, but these comparisons resulted from different share totals for the two periods. We rate the shares a solid long-term buy.

**Finish Line** reported outstanding

earnings on 14% same-store sales growth. Earnings momentum is powerful here, and forecasts suggest it may continue. The company’s diverse product mix has helped it to increase sales faster than its competitors, and the company is also benefiting from a reduction in the number of competitors, now that the Footstar/Footaction chain has collapsed. The company expects the upcoming back-to-school selling period to provide a big boost, too. Finish Line also announced its initial dividend, starting at five cents per quarter, and announced a share repurchase plan. We believe this company offers great cause for optimism, and recommend a buy.

Casual restaurant chain **Ruby Tuesday** reported strong earnings, which the company attributed to strong same-store sales growth. The company is apparently winning the battle for health-conscious diners with a strong menu of low-carb meals and other healthy offerings. The company also has plans to open over 50 new company-owned restaurants in the coming year, while franchisees may open as many as 40 more. These results are more impressive in light of weaker results at many competitors. We rate Ruby Tuesday a buy.

**Beazer Homes** remains underpriced. Shares rose briefly, until the company reported an increase in new home orders of “only” 3%, which many analysts decried as a sign of serious weakness. Still, growth is continuing, and order growth in stronger economic markets, like California and other Western states, are growing at a faster pace. Still, serious drops in the Midwest may portend troubles ahead, and were the region a bigger portion of the firm’s business, we’d be worried. Instead, the Southeast and West are dominant for Beazer, and both are still growing. Traditionally, home builders are not high-growth companies as they have been in the past few years. This is why shares normally sell at such a low P/E. But Beazer, even if sales growth slows, would still be a great buy.

Intention

It is from intentions that all things manifest. To intend to go to point B from point A will result in the arrival at point B. However, there must be an action. To arrive at point B, there must be action taken at some point.

Let's say that point B is a football game. Those that arrived must have intended to arrive there. Not everyone arrived in the same way (the action). Some may have walked, others rode the bus, some took the train or subway, or drove. But, no matter how they arrived, they all intended

to arrive at the game. It is intention combined with action that produces desired results.

No action is to have no intention. To have an intention to go to the football game and take no action means that there was never any intention. So it is with life. To be wherever you are in life is based upon intention or lack thereof. Everything we have is stems from intention. Everything we lack is from stems from a lack of intention

Be clear about intentions. Intentions are not wishful thinking. Make only intentions upon which you plan to take action.

*To walk blindly is not always the wisest decision. The intention of what you are asking for is all important. For that is what you will create. This is what will manifest.*

*To have no intention is also an intention and leaves you open to be blown around. A time of chaos may follow.*

*Be clear on your intention. Today I intend to \_\_\_\_\_*

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Skyline, from page 2

The market may be beginning to take this potential into account, which explains the downtrend over the past month. Possibly, this fall is the result of terrorism fears that have been drastically overplayed in the media. Terrorism is always a threat, but the idea that we're currently facing a dramatically increased threat is pure election year gamesmanship. Yet, people seem to buy into much of this, and the market follows popular sentiment. Most likely, the recent market drop may simply be a result of earnings disappointments. Most recently, earnings reports have been anything but upbeat, with many companies reporting unexciting results.

With bad earnings already beginning to hit, future economic troubles seem even more ominous. We've been saying all along that the current year should produce good results, but the future was uncertain. We now say that the future is beginning to look less exciting, and may hit sooner than anticipated. This suggests a more defensive strategy.

A defensive strategy is a two-part approach. First, it requires us to get our personal finances in order. This is no time to be carrying unnecessary debt. In the same way, it may be wise to delay those new car loans and leases. Make sure expenses are in tune with income levels, and that ample savings are being put aside as part of the mix. If the future economy is weak, income levels may be constrained, and preparing for the worst is vital. Overlooking this component can make all our good investment choices meaningless.

We mustn't focus only on the downside of the weak economy. Wise investors will look in three different directions for investment success. First, anytime an economy faces weakness, we know to consider stocks that are considered "defensive" - those which will not experience serious downturns from a poor economy. These stocks often pay dividends, which helps to stabilize the share price. This includes food, drug, alcohol, tobacco, and utility firms. Such companies may experience modest downturns in a weak economy, but people still need to eat, still need to use electricity, and still take drugs needed to maintain their well-being. Thus, these stocks generally experience less pressure than other types of firms. We might choose to delay buying a new car in a weak economy, but we won't really delay buying necessities.

A second type of stocks to consider in an economic downturn may be surprising to some - turnarounds. We've found that times like these may create good opportunities to buy troubled companies. One would think that such "bottom-fishing" would be risky in a weak economy, but this is the time when stocks tend to get hit hard when they report weaker than expected results. This creates great buys. Already, we are

beginning to see select technology companies selling below book value while maintaining profitability. In a weak economy, such opportunities present themselves, and the upside potential is great. We expect more of these opportunities next year, but some are already beginning to become available. This type of equity can't be expected to provide immediate results. Often they take months or years to turn fully around, so a great deal of patience is required. A different level of investing discipline will be required in these times.

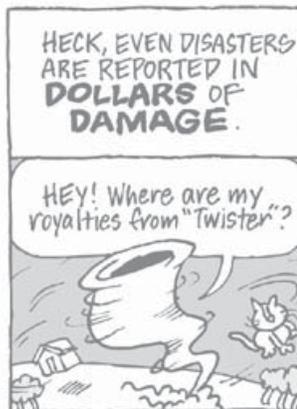
Finally, in an inflationary economy, commodity goods can provide good gains. Thus, stocks such as gold and

other mining stocks, oil producers, timber producers, and other natural resource developers may hold promise. While we are inclined to like these stocks generally, many of them have already risen to levels that seem pricey. Overpaying for stocks in this kind of market may prove to be a big mistake, so we're forced to be patient and seek out the few good opportunities in this sector.

Investing in the coming period will not be simple. But opportunities will continue to exist. In such times, selecting stocks carefully and maintaining discipline will be the keys to success.

Small World

by Tom Briscoe



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**STOCKS TICK**

Keeping A Finger On The Pulse Of Your Investments, Based On Our Recommendations.==

EARNINGS REPORTS						
Stock Name	Earning Quarter	Current Earning	1 Year Ago	Percent. Change	Current Recommendation	
E-Trade	2	0.31	0.03	933.33%	Buy	
Noranda	2	0.34	-0.08	525.00%	Buy Aggressively	
Paincare Holdings	2	0.05	0.02	150.00%	Speculative Buy	
NexTel	2	0.47	0.27	74.07%	Buy Aggressively	
Countrywide Fin.	2	2.24	1.37	63.50%	Buy	
Finish Line	1	0.43	0.28	53.57%	Buy Aggressively	
LLL Communic.	2	0.81	0.53	52.83%	Buy Aggressively	
JAKKS	2	0.38	0.25	52.00%	Buy	
FedEx	4	1.36	0.92	47.83%	Hold Loosely	
Sandisk	2	0.38	0.26	46.15%	Speculative Buy	
ConAgra	4	0.40	0.28	42.86%	Buy	
Biomet	4	0.37	0.30	23.33%	Hold Loosely	
Cytec	2	0.19	0.16	18.75%	Hold Loosely	
Ruby Tuesday	4	0.46	0.39	17.95%	Buy	
Johnson & Johnson	2	0.82	0.70	17.14%	Hold	
Equifax	2	0.41	0.36	13.89%	Buy	
SouthTrust Bank	2	0.58	0.51	13.73%	Harvest	
First Data	2	0.53	0.47	12.77%	Hold	
Constellation Brands	1	0.45	0.41	9.76%	Buy	
ChoicePoint	2	0.40	0.37	8.11%	Harvest	
Radian	2	1.27	1.18	7.63%	Hold Tightly	
SBC Communic.	2	0.42	0.40	5.00%	Hold Tightly	
General Electric	2	0.38	0.38	0.00%	Hold Tightly	
Merck	2	0.79	0.79	0.00%	Nibble	
Popular Inc.	2	0.47	0.50	-6.00%	Buy	
Donegal Group	2	0.50	0.56	-10.71%	Buy	
Intervest Bancshares	2	0.37	0.45	-17.78%	Buy	
Tetra-Tech	3	0.16	0.25	-36.00%	Nibble	
LeapFrog	2	-0.12	-0.07	-71.43%	Inconclusive	
Ariba	3	-0.17	-0.08	-112.50%	Inconclusive	

BREAKTHROUGH STOCKS						
LAST MONTH'S STOCK PICKS THAT HAVE SHOWN OUTSTANDING SHORT TERM RESULTS.						
Stock Name	Stock Symbol	Today's Price	Last Issue	% Increase	Current Recommendation	
Ariba	ARBAD	\$8.81	\$2.19	302.3%	Inconclusive	
Headwaters	HDWR	\$27.04	\$21.29	27.0%	Hold Tightly	
Countrywide Fin.	CFC	\$71.58	\$62.92	13.8%	Buy	
Barnes & Noble	BKS	\$34.62	\$30.64	13.0%	Buy	
Jakks Pacific	JAKK	\$19.99	\$18.18	10.0%	Buy	

Dividend Changes			
Stock	From	To	%Change
SOTR	\$0.21	\$0.24	14.3
CFC	\$0.15	\$0.20	33.3
FINL	\$0.00	\$0.05	Initial Div.

Stock Splits	
Ariba	1-for-6 Reverse
Countrywide Fin.	2-for-1

True Blues, from page 5

been approved by Quaker City's stockholders and is awaiting regulatory approval.

**Radian** announced the merger of its financial guaranty subsidiaries, Radian Asset Assurance and Radian Reinsurance. The newly combined company will use the name Radian Asset Assurance and will support an insured portfolio topping \$60 billion. Radian also posted a respectable increase in second-quarter profits

from 2003 due to the successes of the company's financial guaranty, financial services and mortgage insurance businesses.

**SBC Communications** reported a slight decrease in second-quarter earnings from the same period in the previous year. However, the company did post an increase in revenues and seems to be recovering well from the costs of the recent strike and labor settlement. Cingular Wireless, a 60 percent owned subsidiary of SBC Communications, announced that it intends to develop and deliver the infrastructure for services using G3 technology. G3 technology will allow Cingular to offer enhanced services such as high-speed internet access, wireless video, high-resolution images, and full-motion video. SBC has also committed to over \$150 million worth of expansion to its South Carolina, North Carolina, and Kansas/Missouri networks.

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reported a decrease in third-quarter earnings. This is largely a result of pre-tax charges taken by the company in an effort to consolidate operations. However, the company was awarded several new contracts including a \$42 million deal with the U.S. department of Energy, a \$39 million award for the Iowa Army Ammunition Plant Environmental Program, and a \$27 million contract from the Qingdao Iron & Steel Group to manage the relocation of a steel plant from the United States to China.

**General Electric** reported the largest sales gain in almost four years driven by an increased demand for plastics, engine parts and loans. Earnings per share did not change due to an increase in total number of outstanding shares as a result of the acquisition of Amersham.

**Home Depot** recalled 2.2 million oscillating floor fans due to a problem with the power cords. There is no word yet on how much of an impact this will have on the company's bottom line.