

# Value View 2004

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



**GOING AGAINST THE MAINSTREAM**

a major downward shift, investors must be able to think for themselves and adapt. Those who cannot are left holding the bag. Just as important is the ability to recognize an upturn when everyone else believes there is no hope. Last April, those who stayed on the sidelines missed great opportunities. Luckily, our readers were able to achieve excellent gains. Of course, no one can perfectly time the market, but it is helpful to recognize when turns are possible, or even likely.

Similarly, when picking stocks, it is important to see past the opinions of "experts" and recognize real value. In recent years, "Wall Street" has become more of a marketing machine than a center for careful analysis..

TOO OFTEN, INVESTORS SIMPLY CHOOSE TO follow the crowd. This strategy works in the short-term, but can lead to difficulty in the longer haul. It also prevents investors from finding the great opportunities that experts have missed.

Most of the time, when the market is rising merrily, following the crowd can be profitable, even if gains are only average. For those who are less adept at making market decisions, following the right crowd may even demonstrate wisdom. But eventually, one's lack of independence takes dominance.

The real problem arises at the turning points. When the market has been moving up, and suddenly takes a major downward shift, investors must be able to think for themselves and adapt. Those who cannot are left holding the bag. Just as important is the ability to recognize an upturn when everyone else believes there is no hope. Last April, those who stayed on the sidelines missed great opportunities. Luckily, our readers were able to achieve excellent gains. Of course, no one can perfectly time the market, but it is helpful to recognize when turns are possible, or even likely.

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Popular, Inc. is a financial holding company with \$36.4 billion in assets and a complete financial services provider to the U.S., Puerto Rico, the Caribbean and Latin America. The company offers full retail and commercial banking services through its main subsidiary, Banco Popular as well as a host of other services including investment banking, equipment leasing, loans, and insurance. The company also owns Equity One, a subprime lender based in New Jersey. The Puerto Rican-based bank is expanding rapidly in California, Florida, Texas, and the New York and Chicago areas, primarily among Hispanic customers. We've observed solidly positive results from a number of ethnic-focused banks in the U.S., and Banco Popular appears to have strong presence in the cities where it has set up shop. Popular, Inc. has performed well with strong growth in residential mortgages and commercial loans, and the company is also seeing positive trends in credit quality. The company is also developing a presence in the electronic transaction processing business, mostly through acquisition. Acquisitions have also been used in expansion plans, like the recent buyout of Whittier, California-based Quaker City Bank, with 27 branches and \$1.8 billion in assets. Popular, Inc. recently announced that the company will increase its quarterly dividend and will split two-for-one. Overall, we rate this company highly. BPOP has increased earnings steadily for the past decade, and has been a stable performer for much longer. Buy for stable growth, income, and appreciation.

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Over time, we can learn who the few viable analysts are, but in the meantime, most of us are almost better off ignoring the salesmen in the media.

Let's look at how following the crowd works. Quite recently, an election surprise in India led to a market crash. The crowds who couldn't understand the results exited India's markets in droves, driving them down significantly.

This is a clear opportunity for investors. India has tremendous potential. Yet, those who simply follow, without looking beyond the immediate news, will miss that reality. Our analysis of India's politics is that everyone is now on board for free markets. There is no longer a great impetus for socialism. Therefore, a victory by the Congress Party doesn't foretell an effort to disrupt the strong economy. It merely indicates that many are satisfied with life, but probably more secular than the previous ruling party. The reaction by investors here is confused. Clearly, the fact that the Com-

munist Party's support for the new government may cause some concern, but the leading parties in the new government have long-since abandoned any socialist leanings. Among the first meetings after the new election was a summit where it was decided that Congress would continue on the path, despite objections from the left. No party that wishes to be re-elected will discard a successful economic strategy. Thus, we strongly believe that the success of the Indian economy is safe.

Investing in India is still not easy. A limited number of shares of Indian companies are available on U.S. exchanges, each carrying relatively high P/E's. Countless smaller companies, likely with better prospects are available on local exchanges, but purchasing those is costly for the small investor; we must look for more practical ways to approach these markets. One useful method is to invest through diversified closed end funds selling at discounts, such as the Morgan Stanley India Investment Fund (IIF). These fund man-

agers have better access to local research and markets, and have people on the ground to evaluate the situation on a daily basis. A similar method is to buy Exchange Traded Funds (ETF's), which may be available for some nations or regions.

At the same time India's market fell, the Brazilian market took a heavy hit. While we are still optimistic about the Brazilian economy, we believe the risk factors there may be stronger. Firstly, the leader of the government is unabashedly socialist, despite the fact that they have recognized the importance of foregoing socialism to keep the economy strong. However, once the economy strengthens, it remains unknown if Lula da Silva will pursue foolhardy anti-economic policies. Secondly, there is some uncertainty regarding Argentina's ability to maintain stability, and another collapse in Argentina would again draw Brazil into the slump. Thus, while we are willing to invest small amounts in Brazil, we feel the situation in India is more

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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. =====

**L-3 Communications**, a leader in defense systems, acquired BEAMHIT LLC., a leading developer and supplier of laser marksmanship training systems. BEAMHIT adds a series of new products to L-3's expanding readiness training and simulation products and services. LLL was awarded a \$30 million contract to provide deployable Satellite Communications Systems and support to the Space and Naval Warfare System Center. The company also won a five-year, \$179 million deal from the U.S. Army to provide software engineering support for Fire Support Systems. Amidst this good news, L-3 reported a strong improvement in first-quarter earnings.

**Priceline.com** launched a new vacation package service, offering a one-stop solution to booking flights, hotels, and rental cars, giving customers many more options. Propelled by additional choice offerings, as well as a new advertising campaign, Priceline.com recorded an increase in first-quarter profits. Furthermore, if gas prices hold, it may be cheaper for summer travelers to fly rather than drive. This will further strengthen sales for Priceline.com.

**Ariba** has completed or announced several acquisitions related to its core Spend Management offerings. Through these deals, Ariba continues to see successes regarding its popular Spend Management software and may be an ideal buy at a lower price.

**NexTel Communications** is partnering with NII Holdings to provide under-a-second digital walkie-talkie service between the United States, Canada, Brazil, Argentina and Peru. This deal will be the first service of its kind in the mobile communications industry. NexTel also reported strong revenue and earnings growth, driven by its expanding service coverage and partnership with NASCAR.

**ChoicePoint Inc.** acquired ADREM Profiles, a pre-employment screening provider, which serves Fortune 500 companies. This deal further strengthens ChoicePoint's domination as the industry's best provider of pre-employment screening products and services. The company reported an increase in first-quarter profits backed by strong improvements by many of ChoicePoint's businesses.

**Compudyne**, a leader in sophisticated security products, won several new contracts in April and May totaling over \$20 million. The company reported a first-quarter net loss attributed to weak performance by

its Institutional Security Systems business and delays in awards to its Attack Protection business. This is largely a result of state and local government budget deficits, which have sharply slowed new prison construction awards. As a result of continued disappointing reports, we will cease coverage of this company until further notice.

**Engineered Support Systems** posted significantly higher second-quarter earnings. Profits were boosted by strong performances of recently acquired segments like Technical and Management Services Corporation, Engineered Environments, and Pivotal Power. Engineered Support Systems won numerous contracts totaling over \$30 million for engineering and logistics services for the U.S. Military.

**1-800-Flowers** posted an increase in third-quarter earnings. Profits were driven by increased revenue and cost efficient marketing and operating programs. The company showed strength in online channels and attracted customers with unmatched selections of floral gifts and a 100 percent satisfaction guarantee.

**Jakks Pacific** secured many deals to produce a broad range of toys including video games and action figures for titles like Star Wars, World Wrestling Entertainment, and Universal Pictures' Van Helsing. Jakks has also reached an agreement to acquire Play

Along companies, a group of privately held toy companies with licenses for such toys as Teletubbies, Care Bears, and Cabbage Patch Kids. Jakks Pacific has shown strong first quarter performance and posted a modest increase in profits.

**Cytc** posted record revenues and a slight increase in first-quarter profits compared to one year ago. The company has achieved great success in expanding its women's health franchise. Cytc completed its acquisition of Novacept and has begun marketing the NovaSure® System for endometrial ablation. The company is also ahead of schedule in marketing its ThinPrep® Imaging System, which tests for cancer. Cytc may prove to be a bargain if the stock drops to a somewhat lower price.

**Intuit** reported record third-quarter revenues and an increase in operating profits. The company saw a strong boost for its QuickBooks software program and also great performance by its Turbo Tax program.

**Nautilus Group** continues to try turning the company around. Despite this, Nautilus posted a significant decrease in first-quarter earnings. Nautilus has also consistently under-performed our expectations as a "Dynamic Insurgent" stock. The company has not yet shown substantial benefits from its turnaround plan and continues to report weak profits. Investor's Value

*Please see Dynamics, page 7*

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Recommendation
America Movil	AMX	\$34.49	\$2.11	16.3	20%	Buy Aggressively
Ariba	ARBA	\$2.19	\$0.06	36.5	35%	Speculative Buy
ChoicePoint Inc	CPS	\$43.60	\$1.24	35.2	20%	Harvest
Compudyne	CDCY	\$9.75	\$0.40	24.4	18%	Avoid
Cytc	CYTC	\$22.90	\$0.66	34.7	35%	Hold Loosely
Engin'r'd Sup't Syst	EASI	\$52.76	\$2.94	17.9	18%	Buy
Intuit	INTU	\$39.51	\$1.62	24.4	20%	Hold Tightly
JAKKS Pacific	JAKK	\$18.18	\$1.68	10.8	15%	Buy
L-3 Comm.	LLL	\$64.65	\$2.52	25.7	25%	Hold Tightly
LeapFrog	LF	\$21.27	\$1.00	21.3	22%	Inconclusive
Nautilus Group	NLS	\$15.50	\$1.01	15.3	15%	Avoid
NexTel	NXTL	\$23.23	\$1.73	13.4	25%	Buy Aggressively
Nvidia	NVDA	\$23.25	\$0.36	64.6	30%	Hold Loosely
Priceline.com	PCLN	\$26.50	\$0.79	33.5	30%	Buy Aggressively
1-800-Flowers	FLWS	\$9.95	\$0.27	36.9	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 undertainty 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.

**Headwaters** is the ultimate in excitingly boring stocks. The company makes coal-related products. How boring can you get? Yet, they have developed unique technologies, and found uses for waste products, turning them into profit centers. The company uses coal waste to make fuel, a cement substitute, and artificial stone and cinderblocks. Surprisingly, the ash-based cement product is stronger than traditional cement and cheaper to produce. These products hold great potential for the future, but most of current income is still tied to synthetic fuel production, which is only viable due to government subsidies that expire in 2007. We anticipate acquisitions and new products will compensate by then, should the measures not be renewed. A small 2001 acquisition, Hydrocarbon Technologies, focuses on nanotechnology. While the real opportunity for this industry is far in the future, we anticipate some crazed bubble-like buying in the field, which might yield a quick profit for those who bought these shares right. Meanwhile, profits continue well into the black, and the outlook remains solid. We'd buy.

**Conexant Systems** has completed its acquisition of GlobespanVirata. The combined company produces semiconductors for broadband, DSL, set-top box, and wireless uses. The company's leadership in this up-and-coming industry bodes well for future growth. Conexant also owns over 20% of newly-public Sifir Technology, which can provide extra liquidity. At current prices, Conexant is one of the most attractive opportunities for aggressive investors in today's market. The recent price drop provides a perfect buy point.

**Carrier Access** is a leading producer of broadband communications equipment. The company is still fighting to recover from mistakes made by its customers, who overbuilt and then were unable to sustain growth. Three years ago, we said that CACS was one of the companies that would survive the downturn, due to its debt-free status and conservative management and the company's earnings are beginning to recover. In the first quarter, the company reported 23% revenue growth and a substantial return to profitability. We believe the company is past the worst, and would advise readers to begin considering getting back in at these prices. This is traditionally a fast-growth leader, and barring another industry disaster, we believe Carrier Access will provide above average returns.

**Korea Electric Power** is South Korea's top power producer, and the nation's 5th largest company. Despite a strong economy, KEP shares have fallen more than 10% for the year, due to concerns about increasing fuel costs. However, the most recent report had earnings more than doubling. While the gains were due to positive foreign exchange, they should help the company weather short-term fuel cost issues. The long-term outlook for Korea remains strong, which bodes well for power usage. The company has delayed its planned IPO of the Korea South-East Power subsidiary until the end of the year. These shares are dramatically underpriced, and we see a tremendous value here, coupled with a good international diversification opportunity.

**ITLA Capital** saw a slight increase in profits, despite the weakening mortgage market. We anticipate the company's film finance business will help offset weakening mortgage business, but a drop in earnings may be anticipated at some point. Still, at current prices, ITLA shares are bargain priced, and we're willing to tolerate some small negative surprises. Like ITLA, NetBank struggled with a falloff in mortgage activity. The company is moving to diversify operations, but sees weaker earnings this year. The company has expanded financial planning offerings, and is rumored to be considering the purchase of E-Trade's network of over 15,000 ATM's nationwide. NetBank has also decided to begin paying dividends. Overall, we believe shares are a great buy for the long-term, but the immediate future looks unexciting.

**E\*Trade** is one of the world's leading online stock brokerage firms, and also provides banking and mortgage services. The company's Telebanc subsidiary is one of NetBank's leading competitors. The company has been growing strongly since before the market's recovery. Earlier, this was due to an innovative presence in the mortgage market, a line that is now slowing. Recently, brokerage commissions are driving the bottom line. While the company still is expanding, competition in the brokerage business has reduced their ability to gain new accounts. Still, shares sell at an affordable price and have great long-term potential.

**Countrywide Financial** continues to report earnings far above expectations. Unlike competitors, the company's mortgage business continues to experience high volume, possibly due to innovative products and targeted flexible lending techniques. The company also increased projections, despite our common fears that the mortgage market will continue to weaken. Still, shares are cheap, and efforts to diversify from mort-

gages have been relatively successful. We rate Countrywide highly.

**National City Corp** remains strong, despite continued weakness in mortgage lines. Earnings continue to grow nicely. The company also announced plans to sell its corporate trust bond administration business to U.S. Bancorp, and is also contemplating a significant dividend increase, making these shares even more attractive to income investors.

**Intervest Bancshares** has bucked the trend among lenders by reporting outstanding quarterly earnings. The company's loan portfolio is still growing, as new multifamily and commercial real estate loans exceeded repayments, and CD's and money market deposits also expanded. Shares remain attractively priced.

**Bancolumbia** also showed solid growth, due to fast growth in credit card operations, strong increases in traditional lending in Colombia, which more than offset declines in the smaller Panamanian operation. While the political situation in Colombia remains a risk factor, we believe the large price discount and the high growth rate of this security more than compensate investors for the uncertainty.

**Converium Holdings**, a global reinsurer, continues to provide outstanding earnings reports. Moreover, Converium is seeking opportunities to grow by mergers and acquisition if they locate a viable target without inappropriate risk. The share price hasn't yet moved as we might expect, but we believe it is only a matter of time before the market recognizes the value here.

On June 16th, **Atlantic Coast Airlines** will launch its new Independence Air low-fare airline. The company plans 35 destinations out of its Washington Dulles hub, battling United in that market. Shares of

*Please see Viewfinders, Page 6*

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Yld.	Recommendation
Atlantic Coast Air.	ACAI	\$6.00	\$1.86	3.2	N/A	0.0%	Speculative Buy
Bancolumbia, SA	CIB	\$6.87	\$0.93	7.4	11%	2.6%	Speculative Buy
Barnes & Noble	BKS	\$30.64	\$2.14	14.3	14%	0.0%	Buy Aggressively
Beazer Homes	BZH	\$99.24	\$14.14	7.0	12%	0.4%	Buy Aggressively
Canon Inc.	CAJ	\$49.76	\$2.90	17.2	16%	0.9%	Buy
Carrier Access	CACS	\$11.60	\$0.17	68.2	30%	0.0%	Speculative Buy
Conexant Systems	CNXT	\$4.79	\$0.11	43.5	22%	0.0%	Speculative Buy
Converium Hldgs.	CHR	\$25.75	\$5.88	4.4	12%	0.0%	Buy Aggressively
Countrywide Fin.	CFC	\$62.92	\$9.30	6.8	16%	1.4%	Buy Aggressively
E*Trade	ET	\$11.15	\$0.71	15.7	14%	0.0%	Buy
Headwaters	HDWR	\$21.29	\$1.42	15.0	20%	0.0%	Buy
Intervest Bancshares	IBCA	\$17.10	\$1.62	10.6	14%	0.0%	Buy
ITLA Capital	ITLA	\$40.71	\$4.60	8.9	10%	0.0%	Buy
Korea Electric Power	KEP	\$8.83	\$2.00	4.4	10%	3.7%	Buy Aggressively
National City Corp	NCC	\$35.02	\$3.54	9.9	10%	3.7%	Buy Aggressively
NetBank	NTBK	\$11.01	\$1.11	9.9	13%	0.7%	Speculative Buy
Nokia	NOK	\$13.63	\$0.96	14.2	15%	2.2%	Buy
Sandisk	SNDK	\$23.90	\$1.40	17.1	28%	0.0%	Speculative Buy
Sea Containers A	SCR.A	\$15.83	\$2.19	7.2	12%	0.3%	Buy Aggressively



... 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.

**Equifax** recently announced the release of its InterConnect component-based product group. InterConnect is an outsourced, application service provider that combines data integration with decision making capabilities. This technology will allow businesses to simultaneously process applications, make credit decisions, and open new accounts at the point of sale and is expected to greatly reduce the processing time currently associated with creating new credit accounts. Increases in first quarter income have prompted the company to raise its dividends payable in mid June.

Citing strong performance from its Consumer and Softwares Tools divisions, **Fair, Isaac & Co.** has reported significant increases in second-quarter earnings. The company also announced the acquisition of London Bridge, a UK software company specializing in debt recovery and collections. This deal will round out Fair, Isaac's customer offerings, strengthening the company's European presence.

**FedEx** has re-branded its recently acquired Kinko's chain. Each store will now be known as the FedEx Kinko's Office and Print Center. The newly branded stores will offer greater integration of FedEx services with current Kinko's offerings. These stores will offer complete "pack-and-ship" capabilities to customers in the near future. FedEx has also increased its quarterly dividend payable at the beginning of July.

**First Data** announced the finalization of the company's acquisition of Concord. The company also announced that it has completed its merger with Cashcard Australia Limited, a leading electronic payments service provider. This combination will process over 1 billion electronic payment transactions per year. First Data has undergone significant restructuring and is currently undertaking a comprehensive review of TeleCheck, providing significant improvements.

**General Electric's** Commercial Finance agreed to purchase approximately \$2 billion in assets from Boeing Capital Corporation. The acquisition includes secured loans as well as financing and operating leases on various kinds of equipment. The deal will bring over 170 new customers to GE Commercial Finance. General Electric also completed the acquisition of Amersham, Plc, a world leader in diagnostic imaging agents and life sciences. Amersham, Plc will merge with GE Medical Systems to form a combined business, GE Healthcare, which is expected to generate \$16 billion in revenues in 2005.

**Home Depot** reported a significant boost in first-quarter earnings, largely based on increased sales driven by recent enhancements made to Home Depot stores. Home Depot also announced an agreement to acquire Home Mart, the second largest Mexican home improvement retailer. This deal will add new locations for Home Depot with prominence in Mexico City and other new markets.

**Merck** announced increases in first-quarter earnings. These results were backed by the Merck's acquisitions of Aton Pharma and Banyu Pharmaceutical. Merck also secured several licensing agreements, which

further boosted sales. In 2003, the company began a cost-cutting program that will eliminate a substantial number of jobs. The program is scheduled for completion by the end of 2004, and may mark the revitalization of Merck.

**Microsoft** released a new version of its Windows Media Digital Rights Management Software. The company also made improvements to several of its software products including Microsoft Commerce Server 2002 and the Office Solution Accelerator for Six Sigma package, which is designed to help companies cut costs and improve quality. However, due to expenses related to the Sun Microsystems Inc. litigation, Microsoft reported a decrease in third-quarter earnings. The company is consistently named in monopoly lawsuits. While we do not believe that these suits will have any impact on the company in the short term, we are uncertain of the future impacts that may occur. With less-than-impressive performance, it is Value View's opinion that Microsoft has been a fairly unattractive stock for some time now. We will no longer be reporting on this company until Microsoft becomes a much better bargain.

**Pfizer** sold 60 European over-the-counter and personal care brands to Omega Pharma for approximately \$163 million. Most of these brands are in skincare, hair care and women's health. Pfizer also announced the sale of its manufacturing facility in Fajardo, Puerto Rico to Galen Holdings, Plc. The Company said it has completed the sale of its in-vitro allergy and autoimmune diagnostic testing business to Triton, a European private equity firm, and PPM Ventures, the private equity arm of Prudential Corp.

**Constellation Brands** is an international leader in the production and marketing of alcoholic beverages and is the world's largest wine company. Con-

stellation reported a slight decrease in fourth-quarter profits, which was offset by an unusual gain on a sale in 2003. Therefore, 2004 profits from operations were actually an improvement, which is promising news to investors. Because Constellation Brands has consistently shown solid performance, we have decided to move this stock from the Viewfinders to True Blues.

**SBC Communications** and Communications Workers of America have tentatively agreed to terms on a new five-year contract, which will cover 100,000 SBC employees. The agreement came as SBC workers concluded their four-day-long strike. SBC also reported a slight decrease in first-quarter earnings compared to one year ago. However, the company remains optimistic that it will see strong growth from Cingular, a joint venture with Bell South.

**South Trust** completed the acquisition of FloridaFirst Bancorp, Inc. which operates 19 branches in Central Florida. South Trust reported a first-quarter boost in earnings which was driven by the company's strong credit quality screening, which helped reduce losses from bad loans.

**Tetra-Tech** won a \$200 million Comprehensive Environmental Contract from the U.S. Army Corps of Engineers. which involves scientific investigation, design, and time-critical response activities. Tetra-Tech was also awarded over \$17 million in new contracts from the U.S. EPA Office of Water.

**Johnson & Johnson** announced a boost in first-quarter earnings, driven by increased sales. The company also benefited from favorable currency exchange rates.

**Radian** showed an increase in first-quarter profits over the previous year backed by its strong mort-

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Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Yld.	Recommendation
Biomet	BMET	\$41.10	\$1.28	32.1	18%	0.2%	Hold Loosely
ConAgra	CAG	\$27.84	\$1.71	16.3	12%	3.6%	Hold Tightly
Constellation Brand	STZ	\$36.90	\$2.48	14.9	15%	0.0%	Buy
Equifax	EFX	\$24.49	\$1.26	19.4	15%	0.5%	Buy
Fair, Isaac & Co.	FIC	\$35.10	\$1.70	20.6	20%	0.2%	Buy
FedEx	FDX	\$73.77	\$2.89	25.5	16%	0.4%	Hold Loosely
First Data Corp.	FDC	\$43.74	\$1.96	22.3	14%	0.2%	Hold
General Electric	GE	\$31.10	\$1.66	18.7	14%	2.4%	Hold Tightly
Heinz	HNZ	\$37.36	\$2.18	17.1	12%	3.1%	Nibble
Home Depot	HD	\$35.67	\$1.97	18.1	12%	1.0%	Buy
Johnson & Johnson	JNJ	\$56.20	\$2.61	21.5	14%	2.0%	Hold
MBIA	MBI	\$55.30	\$5.40	10.2	14%	1.2%	Long-Term Buy
Merck	MRK	\$47.83	\$3.13	15.3	15%	3.0%	Hold Tightly
Microsoft	MSFT	\$26.13	\$0.80	32.7	20%	0.0%	Harvest
Pfizer	PFE	\$35.74	\$1.63	21.9	15%	1.7%	Nibble
Popular, Inc.	BPOP	\$42.73	\$3.88	11.0	11%	3.0%	Buy Aggressively
Radian	RDN	\$46.07	\$4.03	11.4	13%	0.2%	Hold Tightly
SBC Communic.	SBC	\$23.87	\$1.92	12.4	12%	4.5%	Nibble
SouthTrust Bank	SOTR	\$33.98	\$1.99	17.1	12%	2.8%	Hold Loosely
Tetra-Tech	TTEK	\$17.46	\$1.18	14.8	22%	0.0%	Buy
UniLever PLC	UL	\$38.33	\$2.69	14.2	11%	2.7%	Buy



**Fads and Fashions**

Young investors, like those who are more experienced, can be led astray by the latest trends. Trends are important to investing, but we've got to be aware of their real place in investing, and not get caught up in emotional choices.

In this month's lead story, we allude to the dangers of following the crowd. Alas, this is something that even the most experienced of investors are sometimes guilty of.

But there's one aspect of "crowd-following" of which new investors are especially likely to fall prey. One of the great risks of investing is the danger of falling in love with the latest fad. Newer investors tend to be particularly attracted to fads and fashions in investing. This is why so many lost money in the internet bubble, buying in at the end of the cycle. Of course, those who bought in early made great profits, but these investors often bought in on fundamentals, not hype.

As investors, we are always looking toward the "next big thing", but sometimes this motivation can lead us astray. The internet bubble of the late 1990's is only one example of a tale as old as time. We can look back as far as the Tulip Craze in 17th century Holland. Bubbles are nothing more than examples of crowds following each other over a cliff like lemmings. But, even overlooking such spectacular errors of judgment, chasing after the latest attractive fashion can be dangerous.

Fashions, for example, are a primary consideration in the clothing industry. History has shown us, however, that the "latest" trend lasts only a short time, and therefore investing in trendy clothing stores can prove to be a short-lived success, followed by often-colossal failure. Remember, by the time we learn about a trend, there's a fairly good chance that it has already worn itself out.

We can even get hurt in fashions trends that are relatively unobservable. For example, you might think that athletic shoes are every bit as popular as they've ever been. However, over the past 4 or 5 years, there has been a noticeable shift away from "sneaks" to more "outdoorsy" types of shoes, such as hiking wear. Rather than suggesting this as a reason to buy Timberland (maker of hiking boots and shoes), this is simply a reason to reconsider the idea of Nike as a long-term stable investment. We're probably too late to the party to buy Timberland now. The fashion trend has already had its day. We ought to expect new footwear trends to show up – very

likely after its too late to adapt. It is nearly impossible to keep up, and by the time we figure out where the trend is headed, we've probably missed the stock price rise. This is why we may prefer to steer clear of companies whose success depends on fashion trends.

This is also why sound investment strategy tends to value companies that appear uninteresting – the "boring company factor". Investing in companies that may appear boring can actually be beneficial because we are fairly certain the share price hasn't been puffed up by moodswings and faddishness. We know we are simply buying an income stream, which is the most affordable way to invest. We might also be more secure in the company's future prospects, because they aren't at risk of missing a major shift. Sure, it's not as "cool" to tell people that you own an industrial firm in Ohio that makes industrial fasteners as it would to discuss your ownership of Tiffany's or the latest nanotechnology play, but it will tend to be more dependable and probably provide a better return on your money. After all, that is the purpose.

This is not to say that one should avoid trends altogether. Trends are important to investing. In fact, if one is able to get in ahead of the curve, there are great short-term opportunities buying in to fads. But here, we're usually playing the "greater fool theory", assuming that someone else will pay more for some stock than we did, even when we know it isn't worth it. Surely, many of us made money in the internet days playing this strategy. But it isn't the wisest use of our money if we chase fads that someone else saw first.

There's no harm in buying stocks that might become "popular" in the future, if you are able to predict future fads, and then sell them after they become overpriced. However, if you wish to remain sane and safe, I'd recommend sticking to those companies that have solid fundamentals: earnings, stable growth, strong balance sheet, etc. In other words, only buy companies that are good values with good prospects. If they also carry some potential attraction for fad-followers, so much the better. But don't pay extra for it. The one thing you should always recognize is that fads and fashions are unpredictable. Don't buy the stock unless you'd want to own it even if your fashion prediction falls flat. If it still looks good, even if your guesses about tastes are wrong, then maybe it's a worthy holding.

The key to successful investing is not just finding profit opportunities, but keeping the losses to a minimum. Don't buy stocks which have no substance.

*Viewfinders, from page 3*

Atlantic have fallen on the uncertainty surrounding the launch, but we're not worried about their ability to overtake weakened United. In fact, this may be United's death knell, unless the government steps in to help them. We are more concerned by what happens after the initial success. If United and U.S. Airways both go under, and regional carriers like Mesa, Atlantic Coast, JetBlue, and Southwest begin to compete for their markets, will the competition become too cutthroat? We don't know how the long term will play out. However, United is already running scared, and the short-term appears positive. Plus, ACAI shares have dropped below book value; investing at this level is not as risky as it looks. If all goes well, these shares will double in no time. If not, we don't see a large downside risk from here.

**Barnes & Noble** reported strong earnings for the 1st quarter, and completed the re-takeover of the barnesandnoble.com subsidiary. The internet arm lost money again this quarter, but losses are dropping. The company's B. Dalton chain also performed poorly, but represents a miniscule part of the company, so the results are immaterial. It is the primary chain, with sales growth of 13% in the most recent quarter that is driving earnings. While 2nd quarter earnings are expected to be below last year's Harry Potter-driven results, we feel the longer term is still promising. These shares are worth owning for the long-term.

**SanDisk** is a leading maker of flash-memory

data storage products. The company's products are selling so well that it is having a hard time keeping up with demand. Earnings doubled in the most recent quarter, and we anticipate a continuation of solid results. Investors should recognize the cyclical nature of the company's business, however. As SanDisk and competitors build capacity to meet demand, prices may begin to drop, and eventually a glut may develop. We've seen this trend in the past. These shares are seen as primarily a short-term investment. Buy it for the good times, and sell it when the profit is made.

**Canon** is a leading maker of copiers, computer accessories, and digital cameras, headquartered in Japan. With the Japanese economy finally beginning to recover, and share prices depressed, we are beginning to see some value in buying there. This is our first Japanese recommendation in at least a decade, but may be herald a new range of considerations. Canon's digital camera business is growing by leaps and bounds, despite lacking firm leadership in the market. The company also plans to build its copier line into the market share leader, building on its strength in color-capable machines. The company is making aggressive cost cuts too, further improving profits. First quarter results beat expectations. We look for years of solid growth ahead, and price appreciation to match it.

We still like **Sea Containers** for value investors, who can see past the immediate shortfall in quarterly earnings. 1st quarter results were lower than normal, but this is a low point for the company every year,

due to the seasonality of the company's hotel and ferry services. The firm's core cargo leasing business actually demonstrated strong growth during the quarter; this bodes well for the rest of the year. More importantly, shares are selling at a fraction of book value, and will eventually recover, barring some unforeseen disaster. For those with patience, these shares are a great buy.

**Nokia** has been losing market share to competitors like Motorola and Samsung, which is impacting earnings, causing analysts to lower expectations. Share prices have been decimated as a result. The company is addressing this problem: extending its product line, including adding a new low-end picture phone. We don't expect an immediate turnaround, but recognize that Nokia remains the market leader. Historically, this company has bounced back strongly from short-term drops. This price drop is a rare bargain buying opportunity for this top-notch company, and we recommend a buy. Still, the fact that the company is delaying its share repurchases suggests that it isn't sure that the worst has yet hit. Patience may be rewarded here.

**Beazer Homes** continues to power forward, despite fears of an eventual falloff in new home sales. Thus far, the company's results remain astounding. We anticipate an eventual drop-off, but share prices have already taken that into account. Meanwhile, the company's strong financial position and regional diversity make it well-positioned to weather a downturn. We still rate these shares a buy.



Empowering Others

Many potential leaders in business sabotage themselves and their organizations out of fear of empowering others. In 21st Century Leadership: Dialogues with 100 Top Leaders, Lynne McFarland, Larry Senn and John Childress assert, "the empowerment leadership model shifts away from 'position power' where all people are given leadership roles so they can contribute to their fullest capacity." John Maxwell confirms this in his work on leadership, The 21 Irrefutable Laws of Leadership. He states, "only empowered people can reach their potential," and that barriers within the organization are created when empowerment is not present. Maxwell observed that the most common barriers to a leader's empowerment of others are:

1. Desire for Job Security  
 This is perhaps the leading enemy of empowerment. A person with this issue asks, "why should I help others beneath me when they'll just rise to take my place and ultimately displace me?" In fact, when one has the ability to lead others, and to make oneself "dispensable," then one truly becomes "indispensable" in the organization. Maxwell calls this the "Paradox of Empowerment."

*Blues, from Page 5*  
 gage insurance business and improving credit. However, Radian experienced a decline in financial guaranty premiums written and earned as the result of one of the primary insurers exercising its right to recapture financial guaranty reinsurance. Radian seems to have recovered well from this news and looks to be improving.

MBIA reported a decrease in first-quarter profits from the previous year. The company was dis-secure, and better prepared for long-term growth.

Diversification is, as always, a good strategy to help protect against uncertainty. Being diversified across countries is also wise, even though international diversification has lost some of its impact in these days of globalization. Still, if some money is placed in markets that are less dependent on our own, we stand a better chance of being protected in times of U.S. weakness. "The crowd" seems to feel more comfortable investing "at home" regardless of where the real opportunities are, and where the risks may be. Instead, we should look worldwide, seeking to reduce risk and increase returns. If, for example, it is momentarily safer to invest in Australia than in the U.S., that's where we should put our dollars. The U.S. remains attractive at

*Please see Mainstream, page 8*  
*Dynamics, from page 2*  
 View will no longer publish Nautilus Group until significant improvement is made to make the stock more attractive.

**Nvidia**, a worldwide leader in visual processing solutions, announced the arrival of the Nvidia Personal Cinema FX 5700 series. The Personal Cinema system offers customers an easy and affordable way to transform their desktop PCs into entertainment centers. The system integrates full digital video functionality and video editing software with Nvidia's GeForce FX 5700 graphics processing units.

**LeapFrog**, a producer of children's toys, reported a significant net loss in the first-quarter due to weak sales of its LeapPad family products. The company is undertaking several projects to strengthen its core business and remains optimistic about future performance, but recent reports have called such statements into question.

2. Resistance to Change  
 In these times, the hallmark of business and life is change. According to Maxwell, empowerment mandates that others grow and change. This is essential, and must be sought out and embraced instead of shunned and avoided.

3. Lack of Self-Worth  
 Some people derive self-worth, esteem and viability from work or position. When either of these is threatened, then the worth or esteem is also subject to question. In reality, true leaders recognize the value of change and realize that inherent worth is not related to title or work.

Maxwell further notes that two main attributes follow all great and true leaders. The first of these is the ability to lead by lifting up others. To do this effectively, one must not be overly concerned with who gets credit for accomplishments. The other attribute is the ability to gain authority by giving it away. This is another paradox of leadership by empowerment.

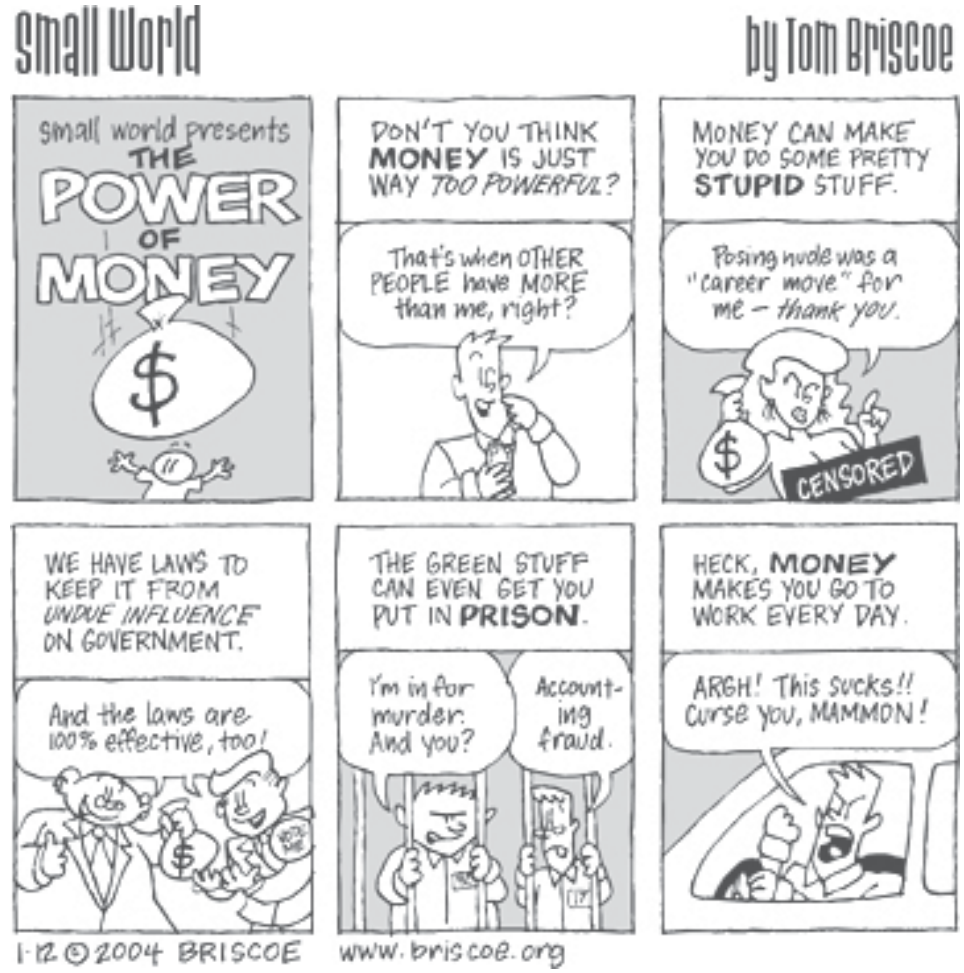
Giving away leadership and authority necessitates choosing qualified people. This is a cultivated skill. Ask: where is empowerment missing? Look for opportunities to select quality individuals who can handle the gifts of authority and leadership. For any project, this is a path to success.

appointed by lower new business production and believes that the weak first quarter will make it difficult to match 2003's record new business production. However, management remains confident in MBIA's opportunity for new business growth.

**Heinz** reported a significant increase in fourth-quarter earnings due to increased ketchup sales and a 20% reduction in SKUs. As a result of this good news, the company has announced a dividend increase effective in July 2004.

**ConAgra** realized an increase in third-quarter earnings attributed to stronger sales of its core brands such as Butterball, Banquet, and Hunt's, and a significant reduction in selling, general, and administration costs.

**UniLever PLC** posted disappointing sales performance in the first quarter. However, earnings increased slightly from last year thanks to cost savings programs and an improved product mix that has boosted operating margins.





**EARNINGS REPORTS**

Stock Name	Earning Period	Current Price	1 Year Ago	% Change	Current Recommendation
Conexant Systems	Q2	0.06	(0.01)	700.0%	Speculative Buy
Barnes & Noble	Q1	0.17	(0.03)	666.7%	Buy Aggressively
Converium Holdings	Q1	1.62	0.32	406.3%	Buy Aggressively
E-Trade	Q1	0.23	0.06	283.3%	Buy
Priceline.com	Q1	0.13	(0.20)	165.0%	Buy Aggressively
NexTel	Q1	0.53	0.21	152.4%	Buy Aggressively
Engin'rd Sup't Syst	Q2	0.66	0.33	100.0%	Buy
Atlantic Coast Air	Q1	0.08	0.04	100.0%	Speculative Buy
SanDisk	Q1	0.34	0.17	100.0%	Speculative Buy
Countrywide Fin.	Q1	2.22	1.23	80.5%	Buy Aggressively
Bancolumbia	Q1	0.32	0.19	68.4%	Speculative Buy
1-800-Flowers	Q3	0.03	0.02	50.0%	Buy
L-3 Communications	Q1	0.67	0.50	34.0%	Hold Tightly
Intervest Bancshares	Q1	0.41	0.32	28.1%	Buy
ConAgra	Q3	0.38	0.30	26.7%	Hold Tightly
UniLever	Q1	0.63	0.50	26.0%	Buy
Home Depot	Q1	0.49	0.39	25.6%	Buy
Constellation Brands	Q4	0.55	0.44	25.0%	Buy
Headwaters	Q2	0.30	0.24	25.0%	Buy
Beazer Homes	Q2	3.52	2.83	24.4%	Buy Aggressively
Fair, Issac & Co.	Q2	0.42	0.34	23.5%	Buy
Johnson & Johnson	Q1	0.83	0.69	20.3%	Hold
Equifax	Q1	0.38	0.32	18.8%	Buy
Popular, Inc.	Q1	0.87	0.74	17.6%	Buy Aggressively
Pfizer	Q1	0.52	0.45	15.6%	Nibble
Intuit	Q3	1.20	1.05	14.3%	Hold Tightly
Radian	Q1	1.26	1.11	13.5%	Hold Tightly
South Trust Bank	Q1	0.55	0.49	12.2%	Hold Loosely
National City Corp	Q1	1.16	1.05	10.5%	Buy Aggressively
Tetra-Tech	Q2	0.23	0.21	9.5%	Buy
Jakks Pacific	Q1	0.23	0.21	9.5%	Buy
Merck	Q1	0.73	0.68	7.4%	Hold Tightly
Cytec	Q1	0.18	0.17	5.9%	Hold Loosely
Heinz	Q4	0.55	0.52	5.8%	Nibble
Choice Point	Q1	0.37	0.35	5.7%	Harvest
First Data Corp.	Q1	0.40	0.38	5.3%	Hold
ITLA Capital	Q1	2.07	2.02	2.5%	Buy
Ariba	Q2	0.00	(0.01)	N/A	Speculative Buy
General Electric	Q1	0.32	0.32	0.0%	Hold Tightly
Nvidia	Q1	0.12	0.12	0.0%	Hold Loosely
Nokia	Q1	0.21	0.22	-4.5%	Buy
MBIA	Q1	1.42	1.54	-7.8%	Long-Term Buy
NetBank	Q1	0.20	0.22	-9.1%	Speculative Buy
SBC Commun.	Q1	0.37	0.42	-11.9%	Nibble
Microsoft	Q3	0.12	0.20	-40.0%	Harvest
Sea Containers	Q1	(0.73)	(0.49)	-49.0%	Buy Aggressively
Nautilus Group	Q1	0.19	0.42	-54.8%	Avoid
Compudyne	Q1	(0.04)	0.12	-133.3%	Avoid
LeapFrog	Q1	(0.20)	(0.02)	-900.0%	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
Jakks Pacific	JAKK	\$17.89	\$14.99	19.3%	Buy
Constellation Brands	STZ	\$37.16	\$32.10	15.8%	Buy
LeapFrog	LF	\$21.26	\$19.35	9.9%	Inconclusive
Merck	MRK	\$48.29	\$44.19	9.3%	Hold Tightly
Engin'd Sup Sys	EASI	\$51.95	\$48.81	6.4%	Buy

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**Dividend Changes**

Stock	From	To	% Chang
EFX	\$0.02	\$0.03	50.00%
FDX	\$0.06	\$0.07	16.67%
HNZ	\$0.27	\$0.285	5.56%
HD	\$0.07	\$0.085	21.43%
JNJ	\$0.24	\$0.285	18.75%
BPOP	\$0.27	\$0.32	18.52%
SOTR	\$0.21	\$0.24	14.29%
NTBK	\$0.00	\$0.02	N/A

**Stock Splits and Stock Dividends**

Popular, Inc. 2-for-1 sp

*Mainstream, from page 7*

the moment, and we continue to advise putting a fair amount of investment dollars in that large powerhouse economy, but are less excited about 2005 there.

Keep investing, and keep alert. In times like these, changes may take place more unexpectedly than normal, but we can adapt if we remain vigilant and avoid following the crowd.