

Redux and Revelations

It's an era of mortgage woes, hedge fund failures, and fear about high-flying emerging markets. One wonders what year it is, really. 2007 is 1998 redux.

Dateline 1998:

Long Term Capital Management, a leading hedge fund, crashes to the ground, despite the involvement of three Nobel Prize winners. The sub-prime mortgage crisis led to a precipitous drop in emerging markets, and currencies around Asia eventually collapsed. Market volatility was rampant.

Are we there again? The markets are often a self-fulfilling prophecy, as investors pull back due to fears. Pessimism alone can bring a market down. In times of uncertainty, there is little to keep it afloat. Mood swings, be they pessimism or euphoria, can only yield short-term outcomes. To see where the long term is going, we need to look beyond these emotional swings.

The reason for the significant market drop in 1998 was that risk capital dried up for the remainder of the year. Since the losses from sub-prime were followed up with losses from the hedge fund fiasco, there were few investors who had any excess risk capital to put toward risky ventures. International markets collapsed largely because there was no money left to put in. Is that going to

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happen again? Are the international markets as dependent on ours as they were in 1998? Are currencies of emerging markets going to collapse? In fact, if any currency is prime to fall apart, it isn't the Indonesian rupiah or the Thai baht this time, but instead the U.S. dollar. If we were to predict a collapse, perhaps the collapse of the U.S. market would be a good guess. We don't predict such a fate, although the continued decline of the dollar seems likely, barring some radical change in economic policy.

In 1998, the biggest problem was that liquidity dried up across all markets. This had a strong effect on risk-oriented markets, and hit emerging markets hard. Consequently, if today's market follows the 1998 outcome, we can expect further "closings" among risk-oriented financial firms, and short-term weakness – perhaps great weakness – among less liquid, more lightly traded investments. This would include small company U.S. stocks, holdings in small, emerging nations, high-yield bonds, etc. It would most certainly include private equity deals, and the multitude of "new financial technologies" that typically spring up in a time of over-liquidity. There is still conjecture that credit availability remains high. An analyst on CNBC recently reported, to much agreement, that we've simply gone from "ample" credit availability to "adequate", a statement that was well-received by those who wanted to put a happy face on the current situation. While I, too, wish to believe that, I'm concerned that the truth may be more serious. Still, the reality is that none of us really know how much "bad paper" there is out there. We're facing a situation where the size of the financial market shake-out is unknown. We also don't know how badly the bigger picture could become.

This risky situation we find ourselves in is a result of purely bad economic policy. I've often argued that there's no way that a government can give us a good economy, but they can give us a bad one. There are many manipulations that a government can offer to muck things up, while there are few things it can do to make

things better. A government primarily uses fiscal policy and monetary policy to influence the economy. Fiscal policy is the taxing and spending that it does, while monetary policy encompasses all the manipulation of the value and volume of currency in circulation.

The current government in the U.S.A. has increased spending without accounting for any way to pay for it. The government has increased borrowing to unheard of levels. One might be inclined to think this is our biggest problem, and I would never argue that such policies are anything but foolish and harmful. The key to our situation today is the very clear implications of a loose monetary policy. Over the past decade, the Federal Reserve has pumped unprecedented amounts of money into the economy. While former Fed Chair Alan Greenspan would attempt to be conservative from time to time, he still used the spigots of money supply to boost the economy whenever weakness seemed to be looming. Greenspan utilized monetary policy as a quick and easy fix to the troubles of the day. In the short-term this can feel quite welcome, but the problem is that the more "pumping" that's done, the more risk there is for a liquidity crisis later on. Unfortunately current Chair Ben Bernanke's lesser experience and knowledge cannot cope with the high levels of risk that he inherited. Further, while he talks about wanting to control inflation, there's no evidence yet that he has a clear understanding of what causes this phenomenon. As the late great Nobel Prize winning economist Milton Friedman was fond of saying, "Inflation is always and everywhere a monetary phenomenon." Apparently, the current leaders don't get it.

When too much money is pumped into an economy, all the excess money causes prices to rise (inflation), but also causes investors to invest in projects that would not be practical in a less liquid environment. Economists from the



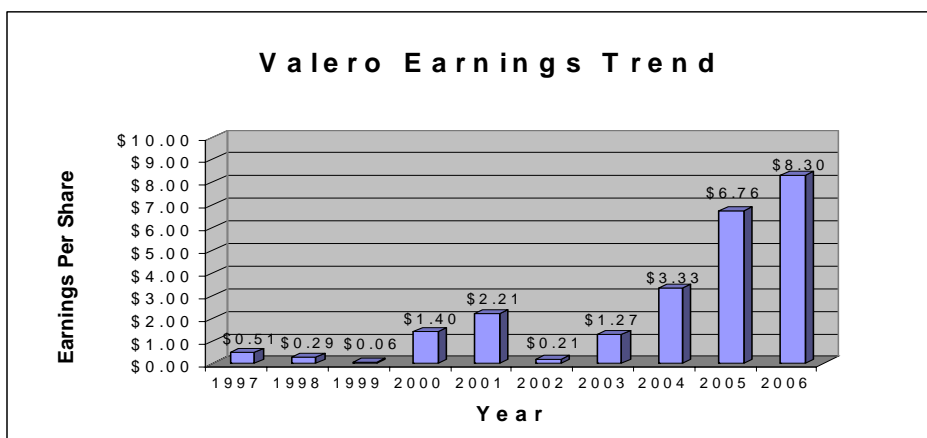
"Austrian" school of economic thought explain this scenario as "malinvestment" - the result of over-liquidity in the markets. We can see signs of this all around us: companies investing in things that they have no knowledge or expertise in, doing buyouts that wouldn't be feasible in less liquid days, and granting credit to highly speculative projects. It has shown itself in the past in the high P/E of tech stocks of the late 1990's, and in the speculative housing prices of 2005. The problem is that such over-liquidity always leads to bubbles, and eventually to collapses. Austrians also explain the business-cycle as an outcome of monetary policy moves. As credit dries up in times like these, we see interest rates rise, and the economy tank.

Let's be clear. This market, like the market of 2000, is a market built on froth. That isn't to say that there isn't substance out there, but the underpinnings of the market today are not strong and stable. They are imaginary. Thus, risk levels are higher than normal. There's no reason to believe that we're facing an ultimate collapse. It is entirely possible that all this money may serve to boost business in the long-term, but the short-term result is normally a correction of sorts. So, we suspect that, as in 1998, liquidity will dry up. This provides the knowledgeable investor with both problems and opportunities. The problem is to figure out where to put your money as you wait out the rough patch. The opportunity is to buy in strongly to those investments that are hit hardest after the shake-out.

A smart investor will be cautiously examining the landscape, and taking the opportunities to buy in to the great stocks of the next period, when the prices are low. Of course, there's always a risk that prices will go lower before they go higher, but the big picture is where we must focus. The long-term is still a positive thing. We just need to be prepared for volatility in the near term. The great stocks of the future are still great, even if their prices shift unexpectedly.

In future issues: a look at the economic agendas of the various U.S. presidential candidates. (Do they have economic agendas? They sure aren't talking about it.)

Our Top Stock Pick: VLO



Valero Energy (VLO) again rates as our top stock pick. The petroleum refiner is the largest in the U.S., operating 17 refineries in North America. The company also operates over 5800 retail and wholesale

outlets. The company has recently sold off a few plants that don't meet the company's ideal, and has worked to expand other facilities. Earnings have expanded rapidly due to growing price spreads for refining.

These expanding spreads are partially due to lower output among refiners worldwide, many of which are undergoing repair projects. New refineries are not being built, due to high regulatory hurdles, costs, and wait times. But some plants may be expanded to meet higher demand. Rumor has it that these profit margins may be declining, which would explain the recent price decline, if it were true. We don't believe the modest declines that may be coming would justify a stock price decline as wide as we've seen in recent weeks. Instead, we see this as an overreaction on the part of investors. The company is in the midst of a large share buyback (\$2 billion), which should support the share price in the long term. Moreover, resource and mining stocks are the ideal place to be invested in times of financial weakness. In today's market, we shouldn't run away from these stocks, we should be buying them with aplomb.

THE YOUNG INVESTOR *by Austin Murphy*

THINK OF IT AS INVESTMENTS 101! THESE BASIC HINTS AND TIPS ARE USEFUL FOR ALL INVESTORS.

Earning Season Benefits

For the young investor, quick money may sometimes be more important than long term gains. Although a smart investor considers both, there are many unique financial problems that a young investor must consider. Credit cards, college loans, eating out, etc. create a need for fast gains. Why am I stating this obvious fact? Because earnings season is here again.

For the young investor who makes responsible decisions and chooses good companies, earnings reports equal instant gains. Depending on the market and the company chosen, it is not uncommon to see good earnings accompany a rise in stock price of over five percent. Is five percent really worth all this trouble? If you invest \$1000 and make five percent, you now have \$1050. Fifty dollars in one day is not something I would turn down. Obviously the amount you invest and the percentage increase will be varied, but my point should be obvious.

The answer is to find the stocks with earnings reports that will be positive and strong, and buy them before they report. That will give the short-term holder a quick gain on their money.

How to select these? First, buy stocks that have a history of beating expectations. If they aren't prone to negative surprises, the odds are in your favor. Second, read the news and see which companies and which industries are seeing positive results. Those are most likely to offer good numbers. For example, a retailer that has reported good same-store sales over the past month is more likely to have a good quarterly earnings report than one which has not; or a company whose competitors in the industry are seeing good reports will more likely offer a good report itself. Finally, buy stocks that you wouldn't mind holding anyway. A good company, even if it disappoints a little, isn't too bad to hold onto for a bit.

By combining a long term strategy with a short term strategy, the young investor can create a nice balance between future and present. As there is always risk with any investment, it should be noted that even great companies sometimes have bad earnings. However, with thorough research and selection, earnings season is a gold mine of sorts. Unless something unexpected happens, you cannot expect such returns anytime else during the year. Be careful, but have fun, earnings season is Christmas season for investors.



VALUE VIEWFINDER

THESE STOCKS APPEAR TO BE BELOW REASONABLE VALUATIONS, BASED ON EXPECTED FUTURE GROWTH. BUT UNLIKE MANY STOCK-PICKERS WHO DIVIDE STOCKS INTO "GROWTH" OR "VALUE" PICKS, WE BELIEVE GROWTH OUTLOOK IS A PRIME FACTOR FOR DETERMINING VALUE. THEY MAY NOT ALWAYS SHOW IMMEDIATE RESULTS, BUT SHOULD PROVIDE OUTSTANDING RETURNS IN THE LONG-RUN.

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Recommend
Aetna Inc.	AET	\$49.31	\$2.99	14.9	12%	Buy
Alpha Nat. Res., Inc.	ANR	\$16.52	\$1.70	9.7	10%	Long-term Buy
American Eagle	AEO	\$23.50	\$1.81	13.4	15%	Buy Aggressively
Amerigroup Corp.	AGP	\$29.12	\$2.03	14.3	15%	Buy
Asta Funding, Inc.	ASFI	\$33.08	\$3.58	9.9	15%	Buy Aggressively
Cabela's Incorporated	CAB	\$23.00	\$1.25	18.4	14%	Buy
Carrols Rest. Group	TAST	\$10.91	\$0.84	13.0	14%	Buy
Cisco Systems, Inc.	CSCO	\$29.46	\$1.11	26.5	15%	Buy
Coach Inc.	COH	\$45.96	\$1.76	26.1	25%	Buy
Diamond Offshore	DO	\$96.00	\$6.54	15.4	15%	Buy Aggressively
Ensko International	ESV	\$56.45	\$6.07	9.3	15%	Buy Aggressively
First Cash Fin'l Svcs.	FCFS	\$20.83	\$1.04	20.0	20%	Buy
Mesa Laboratories	MLAB	\$24.33	\$1.22	19.9	20%	Buy
Tata Motors Limited	TTM	\$16.16	\$0.96	16.8	15%	Buy Aggressively
Telefonica S.A.	TEF	\$71.61	\$3.99	17.9	15%	Buy
Valero Energy	VLO	\$61.92	\$10.40	6.1	12%	Buy Aggressively

Aetna Inc. reported a 16% jump in 2nd quarter profits and completed the acquisition of Schaller Anderson. With recent expansion efforts and the constant demand for their services, the company should continue to do well.

Alpha Natural Resources fared better than their competitors during the recent market breather. They recently acquired the Mingo Logan Ben Creek assets from Arch Coal.

American Eagle has continued its stay in the bargain basement, despite a broadening market share and increases in sales. Their 27 million share buyback plan has recently increased their dividend. At such a low price, investors can bet on a great return.

Amerigroup Corp. is a multistate managed healthcare company that focuses on Medicaid-based programs. The company racked in record revenues and profits for a fantastic 2nd quarter. Profits nearly doubled and the company raised its outlook.

Asta Funding took a big hit when they missed estimates. But the company still improved revenues and net income. Stock up while the price is low.

Cabela's Inc., is a leading retailer and direct merchandiser of outdoors equipment and apparel. The company reported a terrific 2nd quarter, with revenues up over 30%. They are optimistic about future prospects as well.

Carrols Restaurant Group, a leading Burger King franchisor, and owner of the Taco Cabana and Pollo Tropical chains, is seeking to expand its Hispanic fast food chains outside of their respective Texas and Florida homes. We see solid growth for this undervalued stock.

Cisco Systems, Inc. recently announced a \$5 billion share buyback plan and a \$150 million investment in VMware. The company has reached and broken through its all time high from 2001 but the market downturn still provides investors with a great discount.

Coach Inc. recently bagged a quarter of high growth. The company saw

huge gains across the top and bottom lines with earnings increasing by 37%. The recent market downturn has made these shares even more appealing.

Diamond Offshore reported phenomenal 2nd quarter earnings of \$1.81 per share and a 27% increase in revenue to \$648.9 million. Any long term investor should see the value in this inexpensive and potential packed oil driller.

Ensko International is another oil driller in the bargain bin. Profits grew 31% and day rates for their jackup rigs were up 25%. The company continues to perform well despite worries over their presence in the Gulf of Mexico and Nigeria.

First Cash Financial Services saw revenues rise 66.1% and net income rise 37%. Twenty six straight quarters of double digit growth should put any investors mind to ease.

Mesa Laboratories, Inc. recently declared a dividend and reported record sales and profits. Sales increased 49% and net income rose 41%.

Tata Motors Limited saw 1st Quarter profit rise 23%. They recently invested in the Thailand automobile industry and are looking at the possibility of acquiring Land Rover and Jaguar.

Telefonica S.A reported a 66.4% increase in net profit.

Valero is our top stock pick. Please see page 3.

Glossary of Terms

What does our stock recommendation jargon mean in the charts?

Buy Aggressively	Best buys at the best prices. Does not indicate momentum.
Buy	Not as exciting or certain as "buy aggressively", but still a good buy.
Speculative Buy	Great potential; may not be great values. Higher risk.
Nibble	Buy a little at a time as prices become more favorable.
Hold Tightly	An attractive stock, probably too high to buy. Don't sell yet.
Hold Loosely	Approaching excess valuation. Trade out selectively.
Harvest	Quality stock, inflated in price. Sell it. No impending problems. Hold if you can't afford to take profits, but risk of holding is greater. Selling a portion is often a good strategy.
Inconclusive	Similar to sell. When news creates uncertainty, or action appears negative, uncertainty can create outstanding valuation, even with no news. Still, most people prefer not to hold uncertain stocks.

DYNAMIC INSURGENTS

DYNAMIC INSURGENTS ENJOY A STRONG POSITION IN THEIR CHANGING FIELDS. POTENTIAL BLUE CHIPS OF THE FUTURE, THEY ARE RELATIVELY UNPROVEN AND OPERATE IN FAST-PACED INDUSTRIES. THESE ARE MOST APPROPRIATE FOR RISK-ORIENTED INVESTORS. CONSERVATIVE INVESTORS MAY WANT TO HOLD A SMALL POSITION IN SOME OF THESE POTENTIAL WORLD-BEATERS AS WELL.

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Recommendation
Apollo Group	APOL	\$58.50	\$2.16	27.1	19%	Hold Loosely
Aspreva Pharm.	ASPV	\$17.24	\$3.54	4.9	18%	Speculative Buy
Buffalo Wild Wings	BWLD	\$33.71	\$1.13	29.8	24%	Nibble
Cephalon	CEPH	\$69.30	\$4.46	15.5	20%	Buy
Crocs Inc.	CROX	\$58.62	\$1.40	41.9	22%	Harvest
Digital River	DRIV	\$44.20	\$1.83	24.2	20%	Hold Loosely
First Advantage	FADV	\$19.40	\$1.13	17.2	20%	Hold Loosely
Heely's	HLYS	\$20.67	\$1.32	15.7	22%	Buy Aggressively
J-2 Global Commun.	JCOM	\$32.45	\$1.36	23.9	18%	Hold
Landec Corp.	LNDC	\$10.02	\$1.05	9.5	40%	Inconclusive
Millicomm Int'l Cell.	MICC	\$76.86	\$3.56	21.6	25%	Buy Aggressively
Net 1 UEPS Tech.	UEPS	\$21.71	\$1.07	20.3	19%	Buy
NetGear Inc.	NTGR	\$27.15	\$1.39	19.5	19%	Nibble
NutriSystem	NTRI	\$55.05	\$3.16	17.4	22%	Buy Aggressively
PetMed Express	PETS	\$14.68	\$0.64	22.9	21%	Buy
Priceline.com	PCLN	\$61.56	\$2.30	26.8	22%	Hold Loosely
Research In Motion	RIMM	\$218.50	\$3.80	57.5	23%	Harvest
Silicon Motion	SIMO	\$18.82	\$1.17	16.1	20%	Buy Aggressively
Syntax-Brilliant Corp.	BRLC	\$6.35	\$0.32	19.8	27%	Speculative Buy
Tempur-Pedic	TPX	\$29.66	\$1.56	19.0	18%	Buy

America Movil reported a second quarter net income of \$1.4 billion on revenue of \$7 billion. This is up 30.6% from the previous year. This strong growth is the result of AMX gaining another 6 million subscribers.

Apollo Group has seen student enrollment rise and financial reporting improve due to new advertising strategies.

Aspreva Pharmaceutical will cut 33 jobs and replace its chief scientific officer as part of a restructuring plan. Dr. Usman Azam, the company's chief medical officer, will be filling the position of Dr. Richard Jones.

Buffalo Wild Wings company owned restaurant sales grew 8.1 percent; while franchised restaurant sales grew 4 percent. In July the original company owned restaurant closed its door to be replaced by a new two story flagship store two blocks away. The new restaurant may be the model for future locations.

Cephalon suffered a second quarter loss after reserving \$56 million for an expected settlement of a government investigation into the company's promotional practices.

Crocs announced that it has entered into a definitive agreement to acquire the Bite Footwear brand for \$1.75 million in cash, with a potential earn-out of up to \$1.75 million. This is contingent on Bite meeting certain earnings targets over a three-year period.

Digital River announced a second quarter profit increase of 9 percent as income tax expenses and amortization costs fell.

Heely's is a maker of gimmicky footwear for kids. The company's athletic shoes are equipped with wheels in the heels that can be mobilized easily and offer a skateboard-like appeal. Recently the company has focused on lawsuits to contain "knockoffs". These "knockoffs" have caused safety concerns which has sent their stock downward. We believe these fears to be overblown. Meanwhile, earnings are growing quickly, and the recent share price weakness offer investors a great opportunity to buy at bargain prices.

J-2 Global Communications named Kathleen M. Griggs as chief financial officer. Griggs will replace Scott Turicchi, who will remain as co-president.

Landec Corp expects revenue to grow by 10%-15% percent and net income to grow 30%-40% percent in 2008.

Millicom International Cellular reported strongly higher earnings for the 2nd quarter, yet disappointed analysts with the result. The company operates cellphone networks throughout the developing world, Latin America, Africa, and Southeast Asia. We find the current price to be a bargain, and recommend these shares as a great buy for emerging growth.

NetGear Inc reported a Q2 profit decrease of 38 percent due to higher research and development costs and several special items.

NutriSystem provides pre-packaged meals as part of a national weight-control program. Earnings growth has been the norm since the company closed down its weight-loss centers and began to focus on its more lucrative and more popular meal plans. In the 2nd quarter, the company reported powerful earnings growth, ahead of estimates, and 61% revenue growth. Shares are currently a bargain.

PetMed Express first-quarter profits jumped 30% due to new sales, an increase in repeat buyers and internet revenue.

Research In Motion continues to release new products in order to compete with the over popular Apple iPhone.

“To think that the new economy is over is like somebody in London in 1830 saying the entire industrial revolution is over because some textile manufacturers in Manchester went broke.”

-Alvin Toffler

EVERY MONTH WE FOLLOW LEGITIMATE "BLUE CHIPS" THAT CAN GENERALLY BE HELD LONG TERM WITHOUT GREAT CONCERN FOR MARKET CHANGES. WE RATE THEM FOR VALUATION ONLY. WHILE IT MAY PAY TO MOVE FROM AN OVERVALUED MEMBER OF THIS LIST TO A BARGAIN-PRICED CHOICE, MOST OF THESE STOCKS CAN BE HELD EVEN WHEN OVERVALUED WITHOUT SIGNIFICANT LONG-TERM RISK.

Stock	Symbol	Price	Earnings	P/E	Gr. Est.	Yld.	Recommendation
Abercrombie & Fitch	ANF	\$69.00	\$4.62	14.9	15%	1.0%	Buy
AFLAC	AFL	\$51.38	\$3.02	17.0	15%	1.0%	Hold
AutoZone	AZO	\$122.04	\$8.40	14.5	13%	0.0%	Hold
Bank of America	BAC	\$47.00	\$4.78	9.8	11%	4.8%	Avoid
Bank of Nova Scotia	BNS	\$45.80	\$3.07	14.9	10%	3.9%	Hold
Bed Bath & Beyond	BBBY	\$34.23	\$2.18	15.7	15%	0.0%	Buy
Canon	CAJ	\$53.67	\$3.07	17.5	16%	3.1%	Hold
Capital One	COF	\$67.34	\$6.54	10.3	15%	0.2%	Avoid
Constellation Brands	STZ	\$22.05	\$1.58	14.0	15%	0.0%	Buy
CRH	CRH	\$45.85	\$2.47	18.6	12%	0.7%	Hold Loosely
DRS Technologies	DRS	\$51.85	\$3.12	16.6	14%	0.2%	Hold Tightly
FedEx Corporation	FDX	\$108.56	\$6.67	16.3	13%	0.0%	Nibble
Fortune Brands	FO	\$82.45	\$5.03	16.4	13%	1.9%	Hold
General Electric	GE	\$38.06	\$2.09	18.2	14%	2.2%	Hold
Harley Davidson	HOG	\$55.20	\$4.05	13.6	14%	1.8%	Nibble
Home Depot	HD	\$36.19	\$2.62	13.8	13%	2.5%	Hold Loosely
L-3 Communications	LLL	\$98.68	\$5.46	18.1	14%	1.0%	Hold Loosely
Marshall & Ilsley	MI	\$40.41	\$3.31	12.2	10%	3.1%	Avoid
Medtronic	MDT	\$51.66	\$2.47	20.9	15%	0.9%	Hold
PepsiCo, Inc.	PEP	\$66.47	\$3.19	20.8	10%	2.3%	Nibble
Pfizer	PFE	\$23.51	\$2.07	11.4	15%	4.9%	Nibble
Staples, Inc.	SPLS	\$23.24	\$1.32	17.6	16%	1.2%	Nibble
Walgreen Company	WAG	\$44.09	\$2.05	21.5	15%	0.7%	Nibble
Wal-Mart	WMT	\$45.52	\$2.96	15.4	10%	1.9%	Nibble
Walt Disney	DIS	\$33.90	\$1.87	18.1	12%	0.9%	Nibble
Western Union	WU	\$19.51	\$1.12	17.4	14%	0.2%	Hold

Abercrombie & Fitch has continued to expand its stores into Europe; however, investors have little faith in this expansion. They believe Europe does not have the right market for this type of retailer. Abercrombie & Fitch stores, as well as Hollister stores, have also opened in Canada and are expected to open in Tokyo by 2009.

Aflac Incorporated recently opened its first of three phases on a \$100 million project. This construction project will add 300,000 square feet to Aflac headquarters and 2,000 more jobs. In other news, Tohru Tonoki, current Deputy President, has been promoted to President and Chief Operation Officer of Aflac Japan.

Alltel Corp. agreed to be acquired by TPG Capital and GSCP for \$71.50 cash per share. Hence we will cease coverage of Alltel.

Bank of America reported a 5% increase in over all profits for the quarter; but the loan portfolio showed severe losses. Stronger investment banking helped compensate for these losses.

Capital One Corp. recently released plans to remove 2,000 jobs, more than 6% of its workforce, as part of a cost-cutting program. This cut is expected to save the company \$700 million by 2009.

Constellation Brands Inc., the world's largest winemaker, released news of a 64% drop in first quarter profits compared to last year. This result beat analysts' expectations. The drop was caused by a reduction in wine shipments to U.S. wholesalers and British competitors.

CRH PLC, and Ireland-based building materials supplier, expects a 25% increase in first-half pretax profit. In other news, CEO Liam O'Mahony announced plans to retire at the end of January 2008.

DRS Technologies lowered year-end earnings from \$3.10 - \$3.20 to \$3.00 - \$3.10 as a result of the cost of buying new material for design modifications for their thermal weapon program and inventory that can't be used. The company said it would take a charge of about \$23 million after tax; this related to the delayed weapon project.

FedEx Corporation, along with its subsidiaries, provides customers with e-commerce, business, and personal package transportation services. The company provides all services worldwide. Founded in 1971, the company quickly became one of the leading companies to offer these services, along with main competitor UPS.

Fortune Brands released a 6% fall in second quarter profits. This drop was due to significant weakness in the home products business, affected by the major downturn in the U.S. housing market. Rising sales in their spirits & wine and golf divisions helped offset the weakness.

General Electric Co. recently named CFO Keith Sherin as vice chairman of the company. With this additional title of vice chairman, Sherin will act as an adviser to General Electric's board.

Harley-Davidson reports growth in their second quarter profits after ending the factory strike in Pennsylvania. This strike caused a major drop in sales, preventing goals from being met. The company expects to ship between 91,000 to 95,000 motorcycles during the third quarter.

Home Depot, along with most other housing retailers, suffered a significant fall in annual earnings. Home Depot warned on July 10th that earnings will decline more than expected as a result of housing market conditions. The private equity sale of the HD Supply wholesale distribution arm will also impede results, but will bring in \$10.3 billion cash, to be used to buy back stock.

L-3 Communications reported profit comparisons that looked better than reality. The prior year's results were weighed down by two one-time charges of \$78 million and \$26 million. The company boosted its expectations of an annual profit slightly to about \$13.5 billion.

Marshall & Ilsley Corp. saw a 16% increase in second quarter profit as the bank managed to attract more client deposits. These deposits were later used to issue more loans. The company recently agreed to sell three Tulsa, Oklahoma branches to Arvest Bank in order to focus

Please see True Blues, page 7

CLOSED-END FUNDS THAT ARE SELLING AT A SIGNIFICANT DISCOUNT AND WORTH LOOKING INTO.

Switzerland is the epitome of a well-run economy with a stable currency. It's also home to many companies that operate in defensive industries like healthcare and staple foods. That's why the **Swiss Helvetia Fund (SWZ)** is such an ideal holding in times of uncertainty. The Fund shares sell at a sizeable discount to the net asset value (NAV) of the underlying share holdings, making the shares more attractive. Another smart place to plant your money in inflationary times is mining and energy stocks, such as those that the **DWS Global Commodities Fund (GCS)** selects. These shares sell at a large discount to the value of their holdings, offering an easy bargain. Despite the worldwide volatility that may be coming, we still believe that the long term prospects of many developing economies will be strong. A broad-based emerging markets fund such as **First Trust/Aberdeen Emerging Opportunities Fund (FEO)** or a regional play like **Morgan Stanley Asia-Pacific Fund (APF)** may provide good

diversification while still allowing one to maintain a position in emerging markets. As with all recommendations in this section, they sport high discounts to NAV. We also like the **India Fund (IFN)** and the **Mexico Fund (MXF)**, two country funds in nations that have particularly strong economies and good future prospects. These two also have the highest discounts to NAV, and despite risk to concentrating in a particular nation, we believe that these two nations offer well-diversified economies, and strong growth opportunities. The only downside is that both nations are particularly exposed to any weakness that may show in the U.S. economy.

FUND	NAV	PRICE	DISCOUNT
SWZ	20.46	17.61	-13.93%
GCS	21.22	18.44	-13.10%
MXF	49.88	42.77	-14.25%
IFN	53.40	45.75	-14.33%
APF	24.30	20.93	-13.87%
FEO	21.54	18.56	-13.83%

True Blues, from page 6

its capital and expansion plans on other markets.

Medtronic recently announced plans to purchase Kyphon for \$3.9 billion, or \$71 for each Kyphon share.

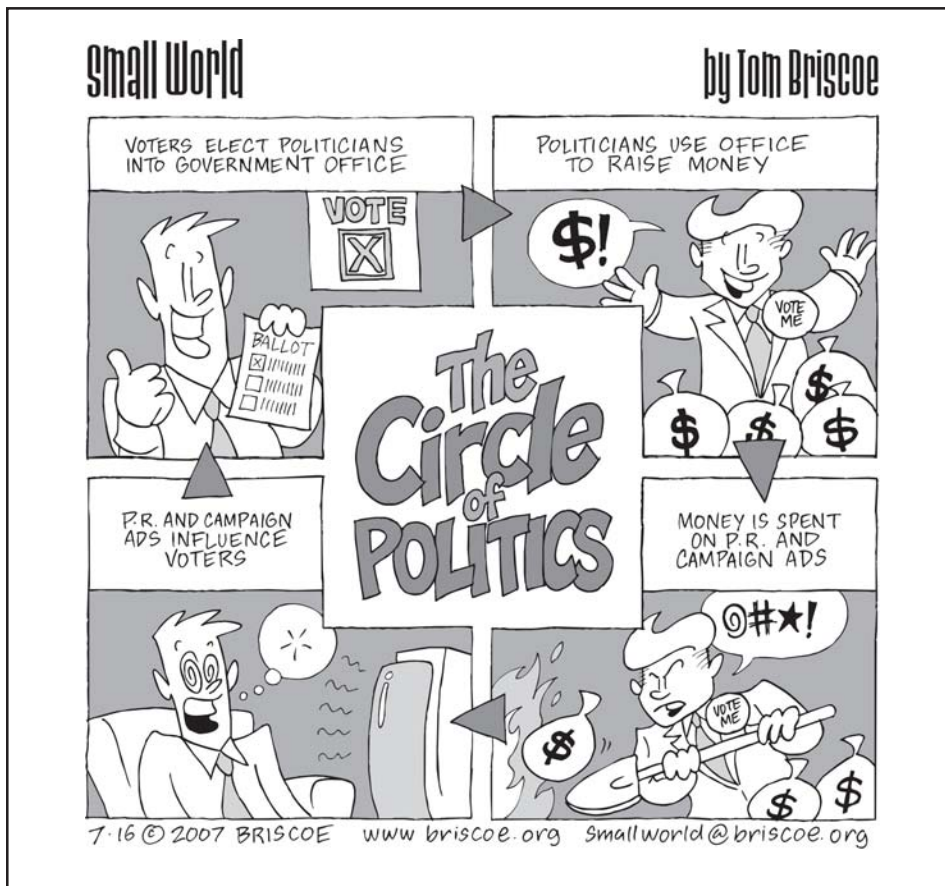
PepsiCo Inc. is a snack and beverage company that produces and distributes most of the soft drinks, chips, and other snacks that America is familiar with. PepsiCo's second quarter profit rose 13% mostly due to sales in its Frito-Lay snacks business and international division.

Pfizer Inc. released news of a 48% drop in profits for the second quarter. This drop was a result of lagging sales of the cholesterol drug Lipitor and the competition for Zoloft and Norvasc. Both Zoloft and Norvasc lost patent exclusivity last year.

Western Union Co. recently reported second-quarter profits fell 7% due to higher expenses. In other news, the company has made plans to create and offer a cell phone capable of handling money transfers and microlending programs.

Walgreens drugstores were founded in 1901 in Illinois. Over the past century, this drugstore has become the leader in the U.S. As of November 2006, there were 5,580 stores nationwide, selling prescription and non-prescription drugs, as well as general merchandise. The company reported solid earnings for the quarter and recently announced the purchase of specialty pharmacy services provider Option Care for \$760 million. Third quarter earnings were up due to strong drug sales.

Walt Disney Co. is a well-diversified company, famous for the classic movies and shows. Disney has its own television network, movie production wing, as well as a Parks and Resorts segment. Disney has gone worldwide with parks and cruise lines. Disney acquired the Club Penguin website; a social networking site for kids. CEO Iger states their media networks grew 23% for the quarter. Theme parks saw double digit growth, while movie studios grew more slowly.



KEEPING A FINGER ON THE PULSE OF YOUR INVESTMENTS, BASED ON OUR RECOMMENDATIONS.

EARNINGS REPORTS

Stock Name	Earning Period	Current Earning	1 Year Ago	Percent Change	Current Recommendation
Crocs	Q2	\$0.58	\$0.19	205.3%	Harvest
Syntax-Brilliant Corp.	Q3	\$0.09	-\$0.26	134.6%	Speculative Buy
Amerigroup Corp.	Q2	\$0.61	\$0.29	110.3%	Buy
Research In Motion	Q1	\$1.17	\$0.68	72.1%	Harvest
Buffalo Wild Wings	Q2	\$0.22	\$0.14	57.1%	Nibble
Cephalon	Q1	\$1.14	\$0.76	50.0%	Buy
Telefonica S.A.	Q2	\$1.10	\$0.74	48.0%	Buy
Coach Inc.	Q4	\$0.42	\$0.29	44.8%	Buy
Diamond Offshore	Q2	\$1.81	\$1.27	42.5%	Buy Aggressively
American Movil	Q4	\$0.78	\$0.56	39.3%	Buy Aggressively
Silicon Motion	Q2	\$0.25	\$0.18	38.9%	Buy Aggressively
Aspreva Pharma.	Q2	\$1.08	\$0.78	38.5%	Buy Aggressively
Enso Int'l	Q2	\$1.72	\$1.27	35.4%	Buy Aggressively
First Cash Fin'l Svcs.	Q2	\$0.27	\$0.20	35.0%	Buy
Mesa Labs	Q4	\$1.22	\$0.92	32.6%	Buy
NetGear	Q2	\$0.38	\$0.29	31.0%	Nibble
Cabela's Inc.	Q1	\$0.17	\$0.13	30.8%	Buy
Valero Energy	Q2	\$3.89	\$2.98	30.5%	Buy Aggressively
Tempur-Pedic	Q2	\$0.39	\$0.30	30.0%	Buy
Aetna Inc.	Q2	\$0.85	\$0.67	26.9%	Buy
Harley Davidson	Q2	\$1.14	\$0.91	25.3%	Nibble
PetMed Express	Q1	\$0.25	\$0.20	25.0%	Buy
Walgreens	Q3	\$0.56	\$0.46	21.7%	Nibble
L-3 Communications	Q2	\$1.49	\$1.24	20.2%	Hold Loosely
PepsiCo	Q2	\$0.94	\$0.81	16.0%	Nibble
General Electric	Q2	\$0.52	\$0.46	13.0%	Hold
Marshall & Ilsley	Q2	\$0.83	\$0.74	12.2%	Avoid
Medtronic	Q3	\$0.61	\$0.55	10.9%	Hold
AFLAC	Q2	\$0.82	\$0.75	9.3%	Hold
Bank of America	Q2	\$1.28	\$1.19	7.6%	Avoid
Disney	Q2	\$0.57	\$0.53	7.5%	Buy
First Advantage	Q2	\$0.31	\$0.29	6.9%	Hold Loosely
Capital One	Q2	\$1.89	\$1.78	6.2%	Avoid
FedEx Corp.	Q4	\$1.90	\$1.82	4.4%	Buy
Apollo Group	Q3	\$0.75	\$0.75	0.0%	Hold Loosely
Digital River	Q2	\$0.39	\$0.41	-4.9%	Hold Loosely
Fortune Brands	Q2	\$1.53	\$1.63	-6.1%	Hold
Western Union	Q2	\$0.26	\$0.29	-10.3%	Hold
Pfizer	Q2	\$0.42	\$0.50	-16.0%	Nibble
Constellation Brands	Q1	\$0.21	\$0.31	-32.3%	Buy
Landec Corp.	Q4	\$0.16	\$0.24	-33.3%	Inconclusive
Alltel	Q2	\$0.56	\$1.10	-49.1%	Sell

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DIVIDEND CHANGES

Stock	From	To	%Change
Bank of America	\$2.24	\$2.56	14.2%
Walgreens	\$0.31	\$0.38	22.5%

STOCK SPLIT

Stock	Amount	Payable
BW3's	2-for-1	June 18th

BREAKTHROUGH STOCKS

Name	Symbol	Price	Prev.Price	Increase	Recommendation
Crocs	CROX	40.52	58.58	44.57%	Harvest
PetMed Express	PETS	13.01	14.74	13.30%	Buy
Syntax-Brilliant	BRLC	6.05	6.56	8.43%	Speculative Buy
Tempur-Pedic	TPX	26.04	31.88	22.43%	Buy
General Electric	GE	35.36	38.95	10.15%	Hold

“Credit buying is much like
being drunk. The buzz
happens immediately, and it
gives you a lift. The hangover
comes the day after.”

- Dr. Joyce Brothers