Expected Returns

Editor: Mark Robertson, Manifest Investing LLC **Volume XIV, No. 6**
Results, Remarks and References Regarding Investment Initiatives **June 2006**

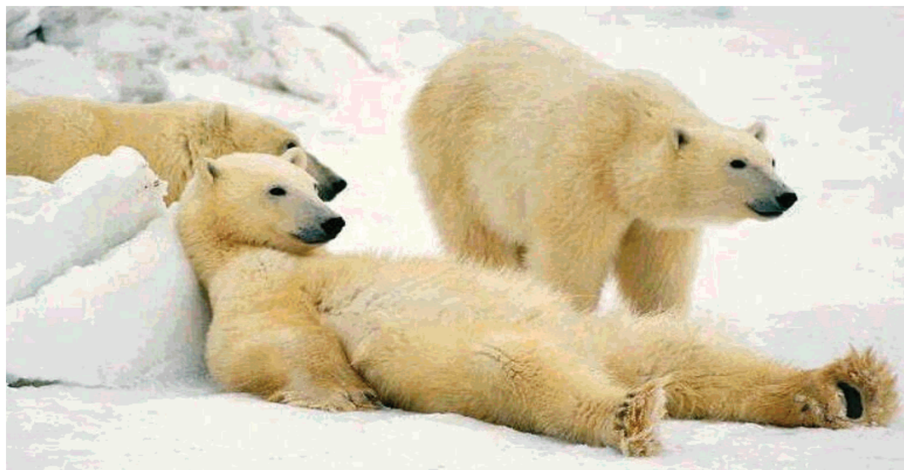
Unlocking The EPS Stability Code

Have you ever wondered how we might identify a group of companies that have been historically less susceptible to corrections? What makes one group of companies more recession proof while another group is badly damaged when economic conditions worsen? What companies achieved the best results during the last bear market? In this issue, we take a closer look a key component of quality and examine what actually happens during bear markets and recessions. Our EPS Stability ranking now includes all companies covered by MANIFEST. Here's how it's measured and why it matters.

FACT:

The Lair de Ursa is a secret society founded centuries ago for the purpose of enforcing rational capital markets.

This organization counts a number of prominent and powerful people among its members. It's possible that your friends and neighbors are secretly affliliated with this conspiracy. Inquire about their participation at your own risk. You have been warned.



In this rare footage, a **Guardian of the Lair de Ursa** *can be seen imitating a replica of Leonardo Da Vinci's* Vitruvian Man*. Their claws become quills as they scribe Fibonacci numerical sequences into the ice.*

Grisly and Grizzly Reminders

The Guardians had been busy during the months of April and May 2006. Despite some compelling evidence that expectations for EPS growth were strong, at least for the next couple of years, overall market prices seemed to be -- once again -- getting frothy. VLMAP, according to the high priests of the Value Line sect, was bobbing near historical lows and this new symbol, MIPAR, was also approaching relatively low values.

Not yet decided as to whether a "correction" would be sufficient to reign in recent stock market irrationality, the Guardians continued their woeful scratching of numerical series in the ice. 1-1-2-3-5-8-13-21...

We know that mathematician Leonardo Fibonacci created this sequence of numbers in the 13th century. Each number is the sum of the previous two. What comes next depends on what has come before. What are Da Vinci, Fibonacci and the Guardians trying to tell us? How common was the name Leonardo?

The Relevance of Trends to Fundamental Analysis

Pardon the digression but if Dan Brown has sold over 40,000,000 copies of *The Da Vinci Code*, most of you have either read the book or seen the movie by now. We also know that for many of us, investing is more exciting than we'd like from time to time and sometimes resembles a desperate pursuit of a mythical Grail. We know that examination of the larger (long-term) trends in sales, profitability

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and valuation can be most helpful in our efforts to successfully invest over the long term.

Corrections and bear markets are always a challenge. It's in our best interest to understand what happens and why during bear markets and recessions. In the accompanying graph #1, take a look at the sequential year-over-year EPS growth for the core Value Line universe of companies.

During a recession, aggregate demand declines or slows, leading to a reduction of sales forecasts for most companies. This often combines with the effect of reducing prices (hammering margins) in order to preserve market share, maintain minimal progress in total sales or to keep the production facilities running at sufficient capacities. The bottom line is when the deep cyclical companies (low EPS Stability) are forced to operate at reduced levels, annual earnings results approach zero and often go negative.

Since the inception of MANIFEST, we've relied on EPS Predictability as our measure of consistency. Effective immediately, we'll be converting to EPS Stability, a measure of the year-over-year variability in EPS growth. There are several reasons for pursuing this modification, including but not limited to:

(1) It eliminates any reliance on a non-transparent rating by Value Line (EPS Predictability) and provides an opportunity for comparison for VL subscribers.

(2) The coverage extends to all companies covered by MANIFEST, including over 1000 outside the core set of companies and those with no coverage by Value Line.

In Graph #2, we take a look at the best, the most predictable and consistent companies (top 20% of all EPS Stability rankings) versus the worst (bottom 20%) and see how they fared during the 2001 bear market. The bear market of 2001-02, when combined with an economic recession, probably generated one of the deepest EPS "troughs" seen in stock market history. In a sense, this is one way to visualize just how massive the "perfect storm" of 2001-02 was.

Note the year-in and year-out consistency of the highest EPS Stability companies. We also note that EPS growth forecasts for 2006-07 have higher expectations for the lowest Stability Rating companies, reaching levels that exceed the most stable. Might this explain the "sluggishness" of the blue chip larger companies as we wait so patiently for prices to resume their upward march?

A Quick Comparison

The accompanying table displays the EPS predictability rating versus the EPS Stability ranking for the ten most widely held companies by MANIFEST subscribers.

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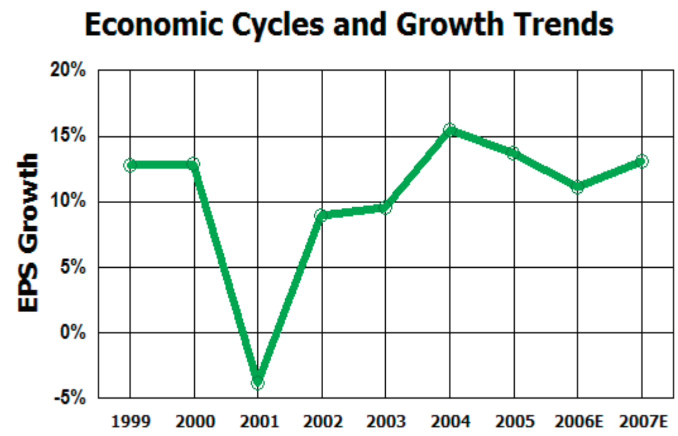
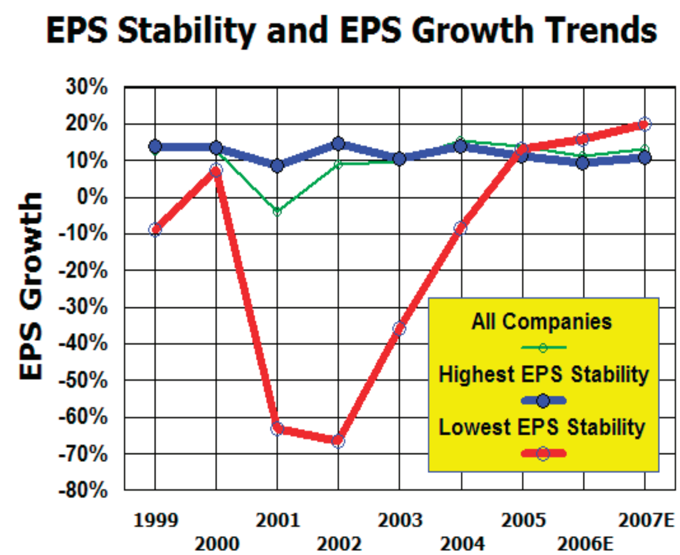


Graph #1: Anatomy of a Recession. *As the chart shows, overall earnings actually declined during 2001. The 2004 results probably provide some explanation of why 2003 was such a good year. Current expectations are for "fairly normal" levels for 2006 and 2007.*

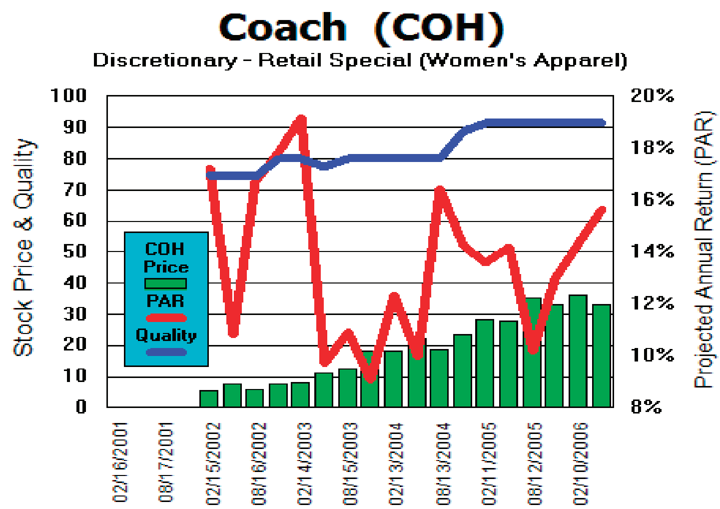


Graph #2: EPS Stability and Quality -- An Antidote for Bear Markets and Corrections? *Despite the 2001 bear market, the group of companies with the highest EPS Stability rating still managed an 8.4% EPS growth for 2000-2001. The results for the low-quality and deep cyclical companies exhibiting the lowest EPS Stability ratings provides a sharp contrast.*

MANIFEST Most Widely Held	EPS Pred	EPS Stability
Home Depot	95	93.9
Bed Bath & Beyond	100	92.5
Johnson & Johnson	100	98.7
Pfizer	95	84.8
Lowe's	95	90.9
Microsoft	95	80.8
Stryker	100	92.1
Biomet	100	95.7
Walgreen	100	99.5
General Electric	95	95.2

Solomon's Select: Coach (COH)

Founded in 1941, Coach is a designer and marketer of high-quality, modern American classic accessories including handbags, business cases, outerwear and weekend and travel accessories. Purses and handbags account for over 60% of revenues. How many high-quality (read expensive) purses are enough? The mystery eludes most males of our species although the answer apparently has something to do with shoes??

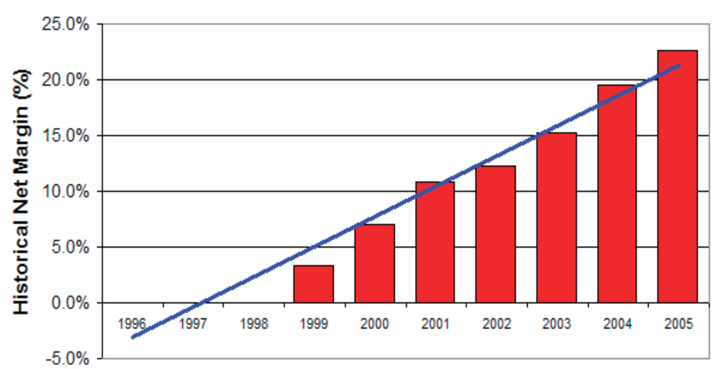


Coach (COH) -- Tote Sweet. *Specialty retailers are generally a pretty volatile bunch when it comes to stock price. Coach's stock price stability is ranked at 35 versus an EPS Stability of 68. The earnings trend has been steadier than the price trend. If stock prices fluctuate, the stock prices of specialty retailers fluctuate more, in general. Be even more vigilant for buying and selling opportunities when dealing with companies with lower EPS Stability ratings.*

Growth

The sales growth forecast for COH is still quite strong at 17%. The historical sales growth for the last five years has been 29.5%. Actual sales growth for 2005 was 29.4%.

Value Line projects long-term sales growth at 19.5%. According to Morningstar: "Coach has chalked up average annual growth of 26% over the past five years, driven by new domestic stores as well as expansion into the Japanese market. While we don't anticipate that historical growth rates will continue, we expect continued organic growth at a respectable pace over the next five years."



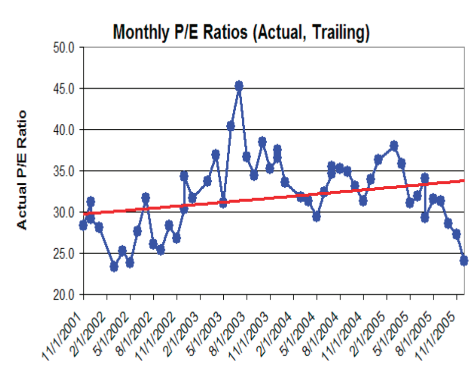
Coach (COH) -- Profit Margin Track Record. *Very few companies in the S&P 500 can point to a track record this solid when it comes to profitability. As Morningstar points out, this can't continue forever and is destined to slow -- but is still expected to expand slightly in the coming years.*

Profitability

Margins are projected to reach 23.3% in 2006. Value Line projects that long-term net margins will achieve higher levels near 24.4%. COH's average actual net margin for the trailing 7-year period is 13.1% with a high of 22.7% in 2005. Morningstar "expects margins to grow slightly over the next five years as the company continues to expand its top line."

Valuation

The industry average projected P/E is 17x. COH has a projected annual P/E ratio of 24x. At Morningstar's fair value estimate of $38 (5/31/2006) they've used an implied "fair" P/E of 29x for Coach. S&P uses a "P/E of 29x for calendar 2006 estimates" and justifies a premium P/E (relative to specialty apparel retailers) reflecting their outlook for market share gains and greater profitability.



Expected Returns, Quality & Conclusions

Based on a price at the time of the study of $29.08, the projected annual return was 18.8%. The profitability trend is impressive and speaks volumes about Coach management. Coach has virtually no debt, a financial strength rating of A and a quality rating of 84.7. Might the price pullback from $37 to $29 be a shopping opportunity?

American Century Ultra (TWCUX)

by Cy Lynch, Contributing Analyst

The MANIFEST methodology is unique because of its forward-looking emphasis. The projected returns for the individual holdings of mutual funds are analyzed and used to compile a projected return for a universe of mutual funds. Our emphasis in the study of mutual funds is not on where the fund has been, but where it seems to be going.

This Month's Fund Finding

The list of mutual funds covered by MANIFEST were culled for funds with: Projected Annual Return (PAR) greater than the total stock market (11.3%), a quality rating (QR) greater than 65 and a financial strength rating of 70 or better. The result is American Century Ultra (TWCUX), the first previously featured fund to make a return visit.

A Glance in the Rearview Mirror

The annualized total return for TWCUX from 4/30/96 through 4/28/06 was 6.4%, lagging the broad stock indices, a trend that has continued during the 15 months since it was first featured in March 2005. Morningstar rates the fund at 3 stars, down from 4 stars in March 2005.

Expected Returns

TWCUX's 13.5% portfolio PAR is 2.2 percentage points above the projected return for the general stock market (11.3%), just below the 2.4 percentage point advantage threshold that it held over the market when featured in March 2005. The fund's expense ratio is 0.99%, below average for managed mutual funds. After deducting expenses, TWCUX's potential return is 12.51%.

Name		Industry	Qlty	PAR	Sales Grth	Yield	P/E	Finl Str	EPS Pred
Wal-Mart	WMT	Retail Store	78.7	12.8%	9.4%	1.2%	18.0	100.0	93
First Data Corp	FDC	Software (Data Processing)	74.1	10.7%	6.5%	0.5%	21.0	90.0	93
Ebay Inc.	EBAY	Internet	66.2	17.0%	20.6%	0.0%	40.0	90.0	30
Intl Game Technology	IGT	Hotel/Gaming	65.4	9.5%	10.7%	1.5%	22.0	50.0	73
Teva Pharma	TEVA	Drug (Generic)	68.5	13.0%	11.1%	0.6%	22.0	80.0	67
Medtronic	MDT	Medical Supplies (Devices)	87.7	16.4%	12.2%	0.7%	24.0	100.0	100
Yahoo!	YHOO	Internet	50.4	9.3%	16.9%	0.0%	35.0	50.0	34
SLM Corp.	SLM	Financial Svcs (Div)	84.9	14.7%	14.8%	1.4%	20.0	90.0	88
Apollo Group	APOL	Educational Services	69.5	17.5%	10.2%	0.0%	25.0	80.0	74
Dell Inc.	DELL	Computer Systems	66.0	19.7%	8.6%	0.0%	25.0	100.0	75
United Health Group	UNH	Medical Services (Managed Care)	70.6	19.8%	9.8%	0.0%	19.0	90.0	86
QUALCOMM	QCOM	Communications Equip	70.3	12.8%	13.2%	0.8%	33.5	80.0	41
Electronic Arts	ERTS	Entertainment Tech	61.2	14.1%	12.7%	0.0%	30.0	90.0	35
Amazon.com	AMZN	Internet	27.6	17.2%	14.1%	0.0%	35.0	30.0	16
Paychex	PAYX	Software (Data Processing)	81.7	19.7%	13.1%	1.2%	40.0	80.0	81
Lowe's	LOW	Retail Building Supply	74.8	15.0%	9.8%	0.3%	21.0	90.0	90
Amgen	AMGN	Biotechnology	77.4	14.2%	13.6%	0.0%	20.0	100.0	92
Berkshire Hathaway B	BRK.B	Insurance (Prop/Cas.)	60.4	9.0%	8.2%	0.0%	20.0	90.0	62
Carnival Corp.	CCL	Recreation	70.5	15.2%	6.6%	1.8%	17.5	50.0	80
Berkshire Hathaway A	BRK.A	Insurance (Prop/Cas.)	60.4	9.0%	8.2%	0.0%	20.0	90.0	62
United Parcel Service	UPS	Air Transport (Freight)	67.1	9.9%	4.8%	1.4%	25.0	90.0	87
Bed Bath & Beyond	BBBY	Retail Special (Home)	88.1	16.6%	12.0%	0.6%	19.0	100.0	92
Exxon Mobil	XOM	Petroleum (Integrated)	68.8	7.1%	1.7%	1.9%	13.0	100.0	55
CarMax	KMX	Retail Automotive	55.6	19.1%	16.1%	0.0%	20.0	50.0	62
Checkfree Corp.	CKFR	Internet	30.0	3.7%	9.9%	0.0%	25.0	30.0	2
American Century Ultra	TWCUX	Averages	68.7	13.5%	11.9%	0.7%	24.0	81.4	68.0

Knowing What You Own

TWCUX's holdings are profiled in its portfolio dashboard below. Portfolio QR remains excellent at 68.7 while average financial strength remains strong at 81.4, both essentially the same as last year. Average EPS predictability, 68.0, is down from 76.6 in March 2005, although it's still relatively strong. Average projected sales growth of fund holdings is 11.9%, up from 10.9% last year, and ranks in the top 10% of all funds covered by MANIFEST. Average projected P/E is 24.0x, essentially unchanged since last featured and still relatively high reflecting the fund's growth orientation.

TWCUX holds just 90, mostly large-cap, stocks. The largest three holdings, Wal-Mart (12.8% PAR, 78.7 QR), First Data Corporation (10.7% PAR, 74.1 QR) and Ebay (17.0% PAR, 66.2 QR) make up just over 10% of the portfolio. The top 10 holdings constitute 28.5% of the portfolio. TWCUX's holdings include a higher percentage of companies in the consumer discretionary sector than the typical growth fund and the market as a whole. The same is true for its Internet holdings with Ebay, Yahoo (9.3% PAR, 50.4 QR) and Amazon (17.2% PAR, 27.6 QR) ranking 3rd, 7th and 14th, respectively.

Seven of the top 10 holdings (down from eight in March 2005) have projected returns above the market as a whole. Four of the top 10 holdings (compared to two in 2005), and nine of the top 25 (versus just four last year) holdings, have PARs at or above our suggested advantage threshold of 5 percentage points above MIPAR. At the other end of the continuum, eight of the top 25 holdings (up from seven in March 2005) have potential returns below the market as a whole.

Management Decisions

TWCUX's year-to-date (YTD) performance in 2006 has been negatively

Portfolio Analysis 5/31/2006		Proj Ann Return	Quality	Sales Growth	Yield	P/E	Finl Strength	EPS Stability
Oberweis Micro-Cap (1)	OBMCX	**17.8%**	55.2	16.8%	0.5%	26.1	45.4%	39.0
HOLDRs Semiconductor (4)	SMH	**16.9%**	56.3	11.2%	0.5%	23.0	73.6%	34.0
T. Rowe Price Science & Technology (2)	PRSCX	**16.3%**	63.8	11.1%	0.6%	25.6	77.7%	52.0
Wasatch Micro Cap (*)	WMICX	**15.8%**	53.3	13.0%	0.2%	22.4	44.3%	47.0
VIPERs Vanguard Technology (6)	VGT	**15.6%**	63.6	10.8%	0.5%	24.5	81.5%	51.0
VIPERs Vanguard Growth (3)	VUG	**15.1%**	73.0	9.5%	1.0%	22.5	92.6%	72.0
Dreyfus Founders Growth (16)	FRGRX	**14.8%**	70.9	8.5%	1.4%	21.7	87.1%	68.0
Bridgeway Ultra-Small Company (5)	BRUSX	**14.6%**	56.2	15.2%	0.3%	23.1	44.5%	32.0
Putnam Voyager (20)	PVOYX	**14.5%**	66.8	9.8%	0.9%	20.8	84.9%	66.0
T.Rowe Price Blue Chip Growth (13)	TRBCX	**14.5%**	70.7	10.4%	1.0%	20.9	86.0%	76.0
Vanguard Growth Index (9)	VIGRX	**14.5%**	71.5	9.1%	1.0%	22.0	90.9%	71.0
Fidelity Adv Dividend Growth (7)	FDGTX	**14.5%**	68.1	7.6%	1.7%	19.0	86.7%	74.0
Fidelity Adv Equity Growth (11)	FAEGX	**14.5%**	72.0	9.6%	1.1%	22.6	92.7%	70.0
American Century Select (10)	TWCIX	**14.3%**	71.8	9.6%	1.1%	21.5	82.9%	81.0
AIM Technology (*)	FTCHX	**14.2%**	59.3	12.6%	0.4%	26.7	70.0%	38.0
Fidelity Dividend Growth (14)	FDGFX	**14.1%**	65.8	7.5%	1.6%	18.8	83.0%	69.0
Thrivent Large Cap (15)	AALGX	**14.1%**	68.9	7.8%	1.7%	18.5	88.4%	71.0
Federated LargeCap Growth (18)	FLGAX	**14.0%**	68.8	9.5%	1.0%	21.5	86.7%	67.0
American Growth (*)	AMRAX	**14.0%**	56.1	9.4%	0.6%	21.6	79.4%	47.0
American Century Ultra (12)	TWCUX	**13.5%**	68.7	11.9%	0.7%	24.0	81.4%	68.0

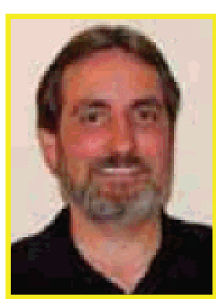
May 31, 2006. *Listing of equity funds ranked by Projected Annual Return.* ***Projected Annual Return:*** *Average forecast return for holdings based on growth forecast, profitability, and projected annual P/E ratio.* ***Quality:*** *Average quality rating of the holdings. (0-to-100, Greater than 65 = Excellent)* ***Sales Growth:*** *Average sales growth forecast for holdings.* ***Yield:*** *Average projected annual dividend yield for holdings.* ***P/E:*** *Average projected annual P/E.* ***Financial Strength:*** *Value Line rating (A++=100%)* ***EPS Stability:*** *Ranking based on variation in annual change of EPS growth for companies held. Figures in parentheses denote prior month rank. (*) denotes new to list. Funds listed in bold have been previously featured.*
Sources: Manifest Investing, Value Line

impacted by large price declines for Amazon (down 25% YTD), Ebay (down 20%), United Health ([19.8% PAR, 70.6 QR] also down 20%) and Yahoo (down 16%). Management stuck to their guns despite the price declines, maintaining its position in Amazon and significantly accumulating the other three stocks. Yahoo's potential return trails that of the market, but the other three have PARs in our suggested "Sweet Spot" of between 5 and 10 percentage points above MIPAR so holding and accumulating them was a positive management decision.

Other decisions between 6/30/05 and 3/31/06 were mixed, however. TWCUX liquidated holdings in eight companies: American International Group, Citigroup, GE, Harley-Davidson, Coca-Cola, Pfizer, Sysco Corp. and Tyco Intl (average PAR of 15.4% and average growth of 6.5%). Management significantly accumulated six companies: Wal-Mart, Ebay, United Health, Electronic Arts, QUALCOMM and Yahoo (average PAR of 15.9% and average growth of 13.8%). While these averages don't take into account timing of the decisions or weight of holdings, overall impact on portfolio PAR is not clear. On the other hand, they did significantly increase the portfolio projected sales growth rate consistent with management's stated focus on companies with above average growth prospects. Turnover continued to decline since March 2005 to 33.0%, less than half the typical fund.

TWCUX appears well-positioned to out-perform the market as a whole, even considering expenses, particularly when the technology and consumer discretionary sectors return to favor. TWCUX's relatively high projected sales growth rate is particularly attractive for a large-cap fund. On the other hand, large-cap index funds currently tend to have better portfolio PARs, and have lower costs, although they also have lower projected growth rates.

Have the fund managers "given up" on some of the blue chip stocks in a case of bad timing? Time will tell.



Cy Lynch *is an Atlanta Braves fanatic, a respected and experienced long-term investor and contributor to educational efforts for the National Association of Investors Corp (NAIC.) Cy serves on the NAIC national board of advisors. He is a registered investment advisor and can be reached at: CELynch@att.net*

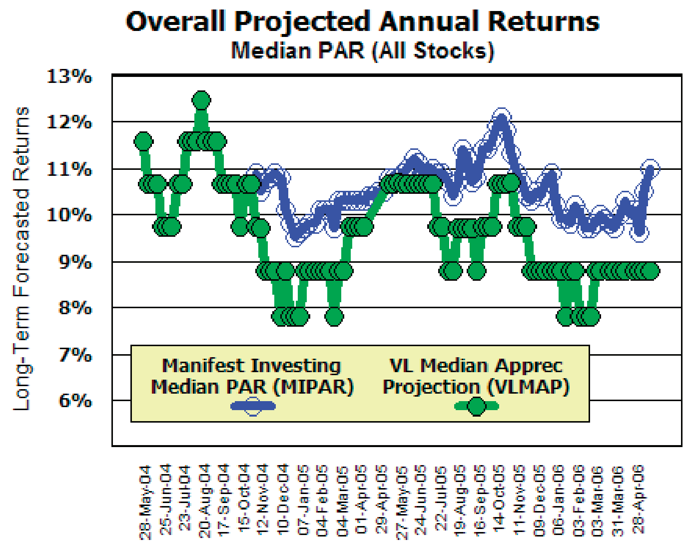
Sweet Sixteen Screen - June 2006

The screening results shown here deliver a group of high quality companies with fairly high return expectations. The list is ranked by projected annual return (descending) and includes companies with projected annual returns between 16.3-21.3% and financial strength ratings of "A" or better.

Overall Market Expectations

The median projected annual return (MIPAR) for all 2500+ stocks followed by Manifest Investing (Solomon database) is 11.3% (5/30/2006.) The multi-decade range for the Value Line Median Appreciation Projection (VLMAP) has been 8-20%. The difference between MIPAR and VLMAP is that MIPAR includes all companies covered by MANIFEST and the calculation includes projected dividend yield.

The current correction has driven MIPAR from 9.5% to 11.3% in a relatively short time frame. Continue to shop for high financial strength (at least "A") but begin increasing your "shopping" to include some B++ companies. If MIPAR continues to increase to levels greater than 12%, stocks with financial strength ratings of B++ will qualify for this screen. It could become a time of opportunity to search for some faster-growing companies.



Source: Manifest Investing, Value Line Investment Survey

Worth a Closer Look Now

New/Returning companies include: Abercrombie & Fitch, Bed Bath & Beyond, Coach, CVS, Fred's, Microsoft, Old Second Bancorp and Paychex.

The highest rated companies based on a combination including PAR and quality rating are Microsoft, Coach, Walgreen and Bed Bath & Beyond.

Sweet Sixteen 5/30/2006	Symbol	Current Price	TTM Sales	Growth Forecast	Net Margin	P/E Avg	Fin Strgth	Proj Ann Ret	Quality
Microsoft	MSFT	$ 23.15	44100	9.3%	32.6%	25.0	100%	21.2%	79.5
Walgreen	WAG	$ 40.20	44525	13.6%	4.4%	26.5	100%	20.0%	86.7
United Health Group	UNH	$ 43.33	57617	9.8%	7.0%	19.0	90%	19.8%	70.6
Paychex	PAYX	$ 36.78	1650	13.1%	28.9%	40.0	80%	19.7%	81.7
Dell Inc.	DELL	$ 25.02	56922	8.6%	6.0%	25.0	100%	19.7%	66.0
Fred's Inc.	FRED	$ 14.28	1623	12.0%	2.1%	20.0	80%	19.6%	66.9
Stryker	SYK	$ 43.89	5004	11.6%	17.1%	26.0	80%	19.0%	67.0
Biomet	BMET	$ 34.99	1993	11.7%	22.2%	25.0	80%	18.9%	71.5
Coach Inc.	COH	$ 29.00	2100	17.1%	24.4%	24.0	80%	18.9%	84.7
Abercrombie & Fitch	ANF	$ 58.14	2895	11.7%	12.8%	18.0	90%	18.5%	82.3
Lincare Holdings	LNCR	$ 37.17	1297	15.2%	20.0%	15.0	80%	18.2%	80.5
Old Second Bancorp*	OSBC	$ 29.84	157	11.6%	19.0%	18.3	80%	17.9%	73.1
Apollo Group	APOL	$ 51.86	2451	10.2%	20.2%	25.0	80%	17.5%	69.5
CVS Corp	CVS	$ 27.69	37774	8.1%	4.0%	22.5	90%	17.2%	71.8
Dollar Tree Stores	DLTR	$ 25.97	3502	11.8%	5.0%	19.0	90%	17.1%	70.3
Bed Bath & Beyond	BBBY	$ 34.74	5955	12.0%	10.6%	19.0	100%	16.6%	88.1

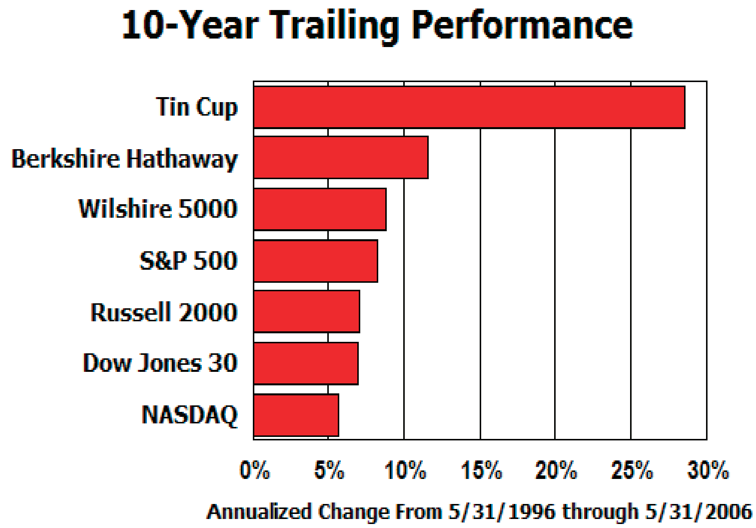
Sweet 16 Screening Result for June 2006. *Companies shown in bold are new since last month. Screening parameters: Projected Annual Return between 16.3-21.3%. Financial Strength "A" (80%) or better. Quality higher than 65.0. Sales Growth greater than 8%.* ***Definitions: TTM Sales:*** *Revenues for trailing 12 months.* ***Net Margin:*** *Projected net margin (profitability) forecast in 3-5 years.* ***P/E Avg:*** *Projected average annual price-to-earnings ratio in 3-5 years. * - Expanded Coverage. Note: Financial firms use Shareholder Equity and Return-on-Equity (ROE) instead of sales and net margin.* *Sources: Manifest Investing, Value Line Investment Survey.*

Model Portfolio

Tin Cup: Accumulate Bed Bath & Beyond (BBBY)

Our "Tin Cup" model portfolio is a standing feature intended to demonstrate the MANIFEST portfolio design and management approach. Our mission is to maintain the portfolio within the portfolio design characteristics and deliver superior long-term returns. All buying and selling decisions will be detailed here.

Total assets are $609,924 (5/31/06) and the net asset value is $166.71. The model portfolio lost 4.3% during May 2006 and has generated a 4.5% rate of return over the trailing year vs. 10.4% for the Wilshire 5000.



Projected Annual Return & Quality

With MIPAR at 11.1% (5/31/06) our target range for the projected annual return is 16.1-21.1%. At 17.5%, the portfolio PAR ended the month suitably greater than the lower threshold.

Quality and financial strength are sufficient at the current levels of 74.0 (Excellent) and 83% ("A".) EPS Stability is 85.0 for the portfolio.

Tin Cup Model Portfolio	Quality	PAR	Combo Rating
Home Depot (HD)	76.5	23.4%	85.0
Microsoft (MSFT)	79.5	21.7%	83.2
Paychex (PAYX)	81.7	19.8%	80.4
Bed Bath & Beyond (BBBY)	88.2	16.3%	76.6
Health Mgmt Assoc (HMA)	60.4	23.2%	76.6
Linear Technology (LLTC)	70.6	19.9%	75.1
UnitedHealth Group (UNH)	70.6	19.4%	74.1
Pfizer (PFE)	70.7	19.1%	73.5
Masco Corp (MAS)	71.2	18.6%	72.7

Decisions

April and May have been very unkind to the likes of portfolio holdings Home Depot, Bed Bath & Beyond, Wrigley, Microsoft and UnitedHealth. The result has been one of the weakest monthly results since inception of the portfolio.

As the accompanying combo scorecard shows, MSFT and HD were again "disqualified" due to their PARs being outside the sweet spot (greater than 21.1%.) Paychex was also declined on the basis of its 40x P/E from Value Line vs. a P/E based on the analyst consensus of 33.2x. If a P/E of 30x were used, the resultant PAR would be approximately 13%. With overall portfolio sales growth at 9.8%, we'd like to see a candidate with decent growth -- and despite the disruption in the BBBY track record -- it is chosen.

The $1250 monthly contribution was added to quarterly dividends and invested in Bed Bath & Beyond (BBBY) as an additional 114.3 shares were accumulated. The overall portfolio projected annual return is 17.6% and the quality rating is 74.1.

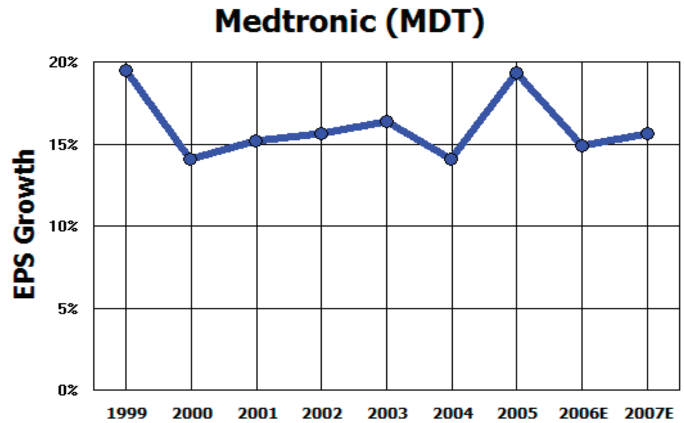
Company Name	Ticker	Shares	Price	Value	% of Portfolio	Growth	P/E	Proj Yield	Qlty	PAR
Home Depot	HD	1566.62	$38.12	$59,719	9.8%	8.7%	24.0	0.9%	76.5	23.4%
Linear Technology	LLTC	1687.1	$33.75	$56,939	9.3%	15.9%	30.0	1.0%	70.7	19.9%
Strayer Education	STRA	562.29	$99.70	$56,060	9.2%	15.4%	29.0	0.7%	78.4	14.7%
Cardinal Health	CAH	698.01	$66.91	$46,703	7.7%	7.7%	20.0	0.1%	67.6	11.5%
Bed Bath & Beyond	BBBY	1183.9	$35.17	$41,637	6.8%	12.0%	19.0	0.6%	88.1	16.3%
Altria Group	MO	569.66	$72.35	$41,214	6.8%	8.3%	12.0	4.7%	68.6	11.3%
Masco Corp.	MAS	1312.38	$31.02	$40,710	6.7%	7.4%	16.5	1.8%	71.2	18.6%
Pfizer	PFE	1709.34	$23.66	$40,442	6.6%	3.0%	18.0	2.7%	70.7	19.1%
Paychex	PAYX	1007.61	$36.71	$36,989	6.1%	13.1%	40.0	1.2%	81.7	19.8%
Health Mgmt Assoc	HMA	1763.18	$20.85	$36,762	6.0%	7.8%	22.5	0.7%	60.4	23.2%
Wrigley (Wm.)	WWY	743.72	$45.72	$34,002	5.6%	6.8%	28.0	1.5%	82.0	14.0%
Synovus Financial	SNV	1279.8	$26.31	$33,671	5.5%	8.3%	18.0	2.4%	70.3	13.7%
CVS Corporation	CVS	1186.03	$27.90	$33,090	5.4%	8.1%	22.5	0.3%	71.8	17.1%
Microsoft	MSFT	1350	$22.65	$30,577	5.0%	9.3%	25.0	1.3%	79.5	21.7%
United Health Group	UNH	423.84	$43.96	$18,632	3.1%	9.8%	19.0	0.0%	70.6	19.4%
Cash				$2,770	0.5%			4.7%		4.7%
Totals & Averages				$609,924	100.0%	9.8%	23.2	1.3%	74.0	17.5%

EPS Stability Ranking (continued from p. 2)

Current EPS Stability Leader & The Method

Which company is #1 from the approximately 2600 companies covered by MANIFEST? The answer is Medtronic (MDT) with its EPS Stability of 100.

We examine the annual EPS results from 1998-2005 and include two years of estimated EPS for the determination of the EPS Stability ranking. As shown in the accompanying graphic, Medtronic has averaged 16.1% EPS growth with a high of 19.5% and a low of 14.1%. Although we use statistics (standard deviations) to measure the variations, think of the result as a measure of the plus/minus for annual EPS growth. At 1.5%, Medtronic currently has the lowest variations and hence, the highest EPS Stability ranking when compared versus the other 2500+ companies in the Solomon database. A company with an EPS Stability ranking of 50.0 (e.g. Handleman) has an average variation of 32%. Handleman has averaged 18.6% EPS growth with a high of 100% and a low of (-51%).



Medtronic (MDT)	1998	1999	2000	2001	2002	2203	2004	2005	2006E	2007E	Avg Var
Earnings Per Sh (EPS)	$0.77	$0.92	$1.05	$1.21	$1.40	$1.63	$1.86	$2.22	$2.55	$2.95	
Yr/Yr EPS Growth		19.5%	14.1%	15.2%	15.7%	16.4%	14.1%	19.4%	14.9%	15.7%	1.5%

Medtronic (MDT) - EPS Growth Trend. *The EPS Stability ranking is generated by calculating the average variation in annual EPS growth and then ranking the result versus the other 2500+ companies. In this case, 1.5% is the lowest average variation among all companies at this time.*
Source: Manifest Investing

Bear Market and Correction-Resistant Stocks

Part of the quest was to seek stocks that weathered the bear market the best. The accompanying table of EPS Stability Leaders was obtained by screening on the following criteria:

(1) EPS Stability greater than 80.
(2) Average EPS Growth (1998-Present) greater than 15%.
(3) Minimum of 10% EPS Growth for the entire period for each individual year. 2001 knocked out a whole bunch of companies with this criterion.

The annualized total return displayed is for the period from 12/31/1998 through 12/31/2005. The average for this group of companies was 20.4% and can be compared with an annualized total return of approximately 2.0% for the Wilshire 5000 over the same time frame.

This collection of companies merits consideration for our pounce piles and watch lists, particularly for investors who prefer to avoid roller coasters. What about that search for the Grail? Could this be it? Probably not, but Leonardo was right, sequences of numbers can tell a powerful story. I doubt that we've seen our last bear market or significant correction and I'd like to own a few of these when I need them. I'm pretty sure that Mona Lisa already does.

EPS Stability Leaders	EPS Stability	Average EPS Growth	Annualized Tot Return
Medtronic (MDT)	100.0	16.1%	7.0%
Walgreen (WAG)	99.6	16.3%	6.6%
AFLAC (AFL)	97.6	17.3%	12.1%
Biomet (BMET)	96.1	16.7%	11.2%
Starbucks (SBUX)	95.1	25.7%	23.1%
Home Depot (HD)	94.3	19.5%	0.4%
Bed Bath & Beyond (BBBY)	92.8	25.6%	11.3%
Stryker (SYK)	92.4	23.0%	18.4%
Lowe's (LOW)	91.2	24.2%	15.0%
CH Robinson (CHRW)	91.0	22.7%	29.3%
Golden West Finl (GDW)	90.2	19.5%	23.7%
Harley-Davidson (HDI)	88.7	22.5%	12.2%
Techne (TECH)	88.3	21.5%	26.9%
ResMed (RMD)	87.3	26.9%	19.0%
United Health Group (UNH)	86.6	30.0%	41.8%
Express Scripts (ESRX)	85.3	31.8%	25.8%
L-3 Communications (LLL)	83.8	28.0%	18.2%
Cognizant Technology (CTSH)	80.8	46.9%	53.3%
Brown & Brown (BRO)	80.4	23.9%	32.9%
Averages		24.1%	20.4%

Contact Us
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