Expected Returns

Editor: Mark Robertson, Manifest Investing LLC — **Volume XIV, No. 9**
Results, Remarks and References Regarding Investment Initiatives — **September 2006**

Snakes in our Portfolios!

Snakes? Do you hate/fear snakes? When it comes to the cold-blooded species that are best observed in zoos or still photos, I have to admit that I don't like them either. It may have something to do with a search for firewood as a boy when I happened to grab the tail end of a timber rattlesnake by mistake. As you probably know, rattlesnakes have no eyelids -- so they can't blink. You may be sure that I wasn't blinking either as I returned to the camp-fire. This month's featured fund is the Muhlenkamp Fund. What also captures our attention are Ron Muhlenkamp's outlook and educational efforts at www.muhlenkamp.com.

We'll Take "Up and Squiggly"

"Snakes on a Plane!" was already headed for cult status well before the premiere ever got close to the projector light bulb. I've not seen the movie, but that won't stop me from paraphrasing one of my favorite actors, Samuel L. Jackson. In the center point scene of all audience previews, Samuel is seen screaming, "I'm tired of all these gosh-darned snakes on this gosh-darned plane!" OK, he used language substantially stronger than "gosh-darned" but we're keeping this newsletter PG-13ish. We like to believe that the only 4-letter words welcome here are NASDAQ ticker symbols.

We've discussed the definition of risk on these pages before, suggesting that this is certainly one area where the Wall Street Rhinos simply don't get it. Our definition? *"Risk is not knowing what you're doing in investing." -- W. Buffett*

The Rhino definition? Risk is short-term price volatility.

A Muhlenkamp Moment on Risk. *What's riskier? A stuffed mattress that loses pricing power to inflation (bottom line), a security with no price fluctuations (middle line) or a fluctuating stock price that increases over time? By the way, the top red line doesn't exist.*

Ron Muhlenkamp's definition? Risk is the loss of purchasing power. Real risk is failing to keep up with inflation and taxes to the extent that our lifestyle will not be compromised at the point when we need our money in the future.

If the Rhinos are right, then the "best" (most risk-free) investment is depicted by the middle red line in the accompanying figure. If stocks are gambling and banks are scary, is risk avoided by jamming our dollar bills into a mattress? How does that fare versus inflation? (See the bottom line in the graph.) By Ron's definition, mattress stuffing would be the riskiest choice of them all.

I think we'd all prefer to invest in the upper red (and straight) line right? The problem is that it doesn't exist.

Rule #1: Stock prices fluctuate.

If real risk is the loss of future purchasing power, which of the alternatives shown in the graph works best for you? That's right. We need "snakes" in our portfolios because "up and squiggly" is better than stuffing mattresses. If you're like me, you like to think that stocks price squiggle, rather than slither. No matter how we label the motion, stock prices meander and for this we're actually thankful. Why? Because we know that squiggles deliver opportunity.

In This Issue...

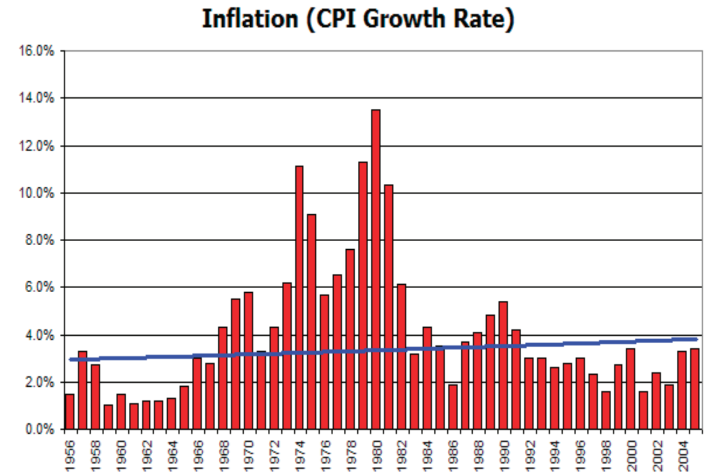
www.manifestinvesting.com

A Tale of Two Snakes

Inflation is public enemy number one for common stock investors. As the accompanying graph shows, there have been times when inflation was unusually high. Remember the 1970s. That ought to be the battle cry for investors AND the Federal Reserve. Did you know that the average P/E for the "average stock" was 10.8x during the 1970s? The average P/E for stocks during 1979 was 6.8x!

Imagine the impact if the P/E for your favorite blue chip holding dropped fairly suddenly from 20x to 6x.

The average inflation rate since 1956 has been 4.1%. That time frame covers several recessions and economic cycles no matter how we keep score. The average inflation rate for the last 25 years or so has been 3.1% and most pundits feel that 3% is a reasonable expectation for long-term rates of inflation. The blue line in the graph is an exponential trend line suggesting that 3-4% is a pretty good estimate.

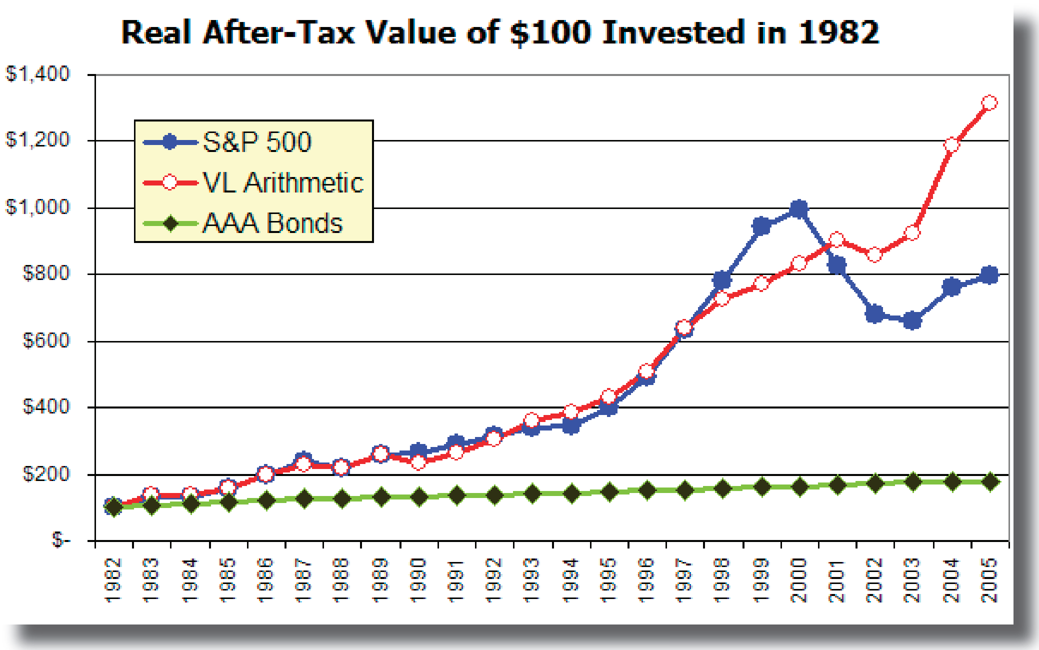


A Long-Term Perspective on Inflation (1956-2005). *Inflation has averaged 4.1% since 1956 and the current trend approaches 4%. Low inflation contributed to strong stock market performance for the last 25 years.*

If we believe that staying ahead of inflation is our objective, what choices do we have? We're told that bonds are "safe." Do you believe it?

Of course investing in bonds is a good idea under the right conditions. There's a difference between buying and holding a bond versus trading bonds in the hope to outsmart interest rate trends. For an investor seeking to preserve capital (hopefully after reaching critical mass) bonds can be a steadying influence in any portfolio. But what about building a long-term advantage?

As the accompanying chart shows, the value of $100 invested in AAA corporate bonds at year-end 1982 has outpaced inflation and been fairly steady. The real rate of return (accounting for inflation and taxes) has been 2.5% since 1982.



A Tale of Two Snakes. *How do the returns on bonds and stocks compare since 1982? Even more importantly, what about two different species of "snakes?" The blue line charts the progress of investing $100 in 1982 in the S&P 500 -- after inflation and taxes on dividends. The red line displays $100 invested in the VL arithmetic average -- a combination of small. medium and large companies. At MANIFEST, we believe that maintaining a healthy overall portfolio sales growth is the recipe for effective size diversification. This picture tells the story that size diversification matters and has generated less meandering over the last few years.* *Source: Manifest Investing*

The real advantage is delivered by owning stocks. We charted the results for investing our $100 in the S&P 500 (predominantly large companies) and the Value Line Arithmetic Composite.

The VL Arithmetic Composite is an equally-weighted price index of all stocks covered in the *Value Line Investment Survey*. By definition, the collection of stocks includes a mix of smaller and larger companies -- and the arithmetic approach reduces the bias caused when weighting an index by market cap. In a nutshell, it provides a look at diversified investing versus investing exclusively in large companies.

Much of the reason that Tin Cup performed so well during 2000-2002 is because of the inclusion of a number of small and medium-sized companies. While the S&P dropped 12.7% per year during 2000-2002, the VL Arithmetic composite increased 3.6% per year.

We agree with Mr. Muhlenkamp, "Up-and-Squiggly is good." Risk is avoiding the loss of purchasing power -- and we're happy that our selection methods lead us to the right kinds.

Solomon's Select: Williams-Sonoma (WSM)

Williams-Sonoma is a specialty retailer of products for the home. The retail segment sells its products through its four retail concepts: Williams-Sonoma, Pottery Barn, Pottery Barn Kids and Hold Everything. WSM also has a direct-to-consumer segment.

The catalogs seem to come with increasing regularity and we've used WSM to shop for wedding gifts on a number of occasions. The story here is one of a stumble and a shuffle. The stumble stems from weak operating results of late. The shuffle is about restoring a former CEO (Howard Lester, 1979-2001) and remaking the executive suite. Some pundits expect seamless, smooth sailing, ahead. While the industry reels a bit, it's possible that the recent price swoon is overdoing it a bit -- as WSM has delivered fairly well in recent years.

Growth

The sales growth forecast for WSM is still strong and double-digit growth still seems to be in order. Actual sales growth for 2005 was 12.8%.

Value Line projects long-term sales growth at 11%. Morningstar assumes that "top-line growth will average 10% over the next five years."

Profitability

Value Line projects that WSM with achieve long-term net margins of 6.4%. WSM's average actual net margin for the trailing 10-year period is 4.9% with a high of 6.3% in 2005.

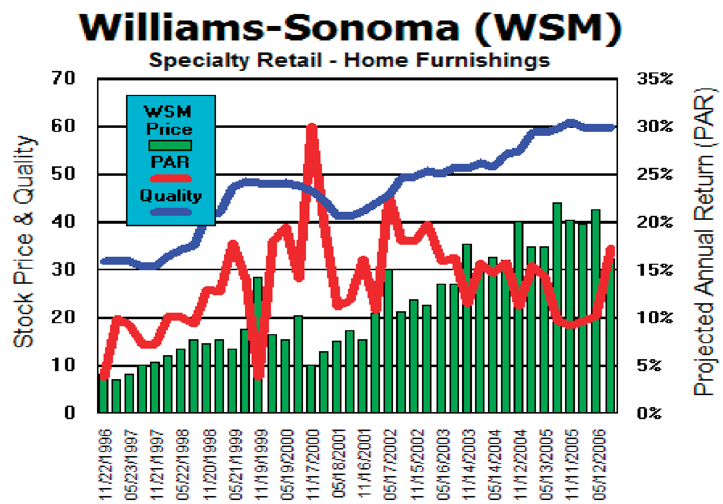
Valuation

The industry average projected P/E is 19x. WSM has a projected annual P/E ratio of 20x. At Morningstar's fair value estimate of $39 (8/31/2006) they've used an implied "fair" P/E of 22x for WSM. As the accompanying P/E history (trend) suggests, the P/E multiple for WSM has declined from the mid-20s and is now at 5-year lows.

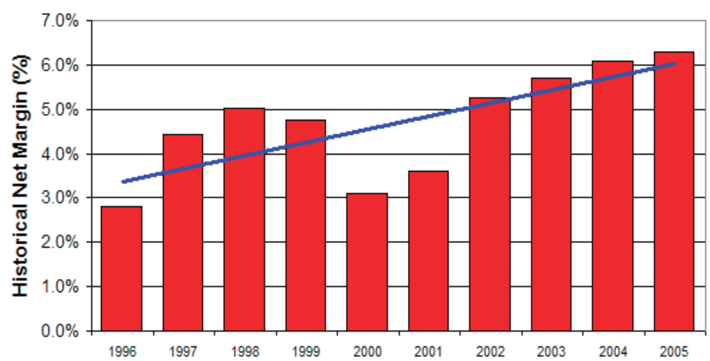
Expected Returns, Quality & Conclusions

Based on a price at the time of the study of $29.36, the projected annual return was 19.4%.

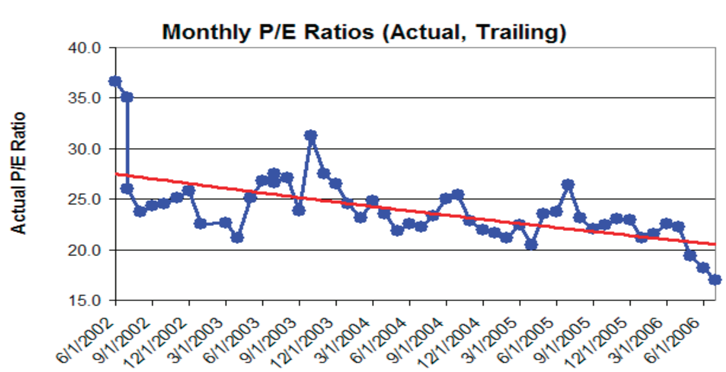
Williams-Sonoma is a quality company (73.5) in a challenging industry, Specialty Retail (Home) that includes MANIFEST favorite Bed Bath & Beyond. Smooth sailing? What do your instincts suggest?



Williams-Sonoma (WSM) -- Going "On Sale" Again? *A shuffle in the executive suite, combined with some weak recent results has driven the stock price from $42 to $29. But the new CEO is the same guy who led from 1979-2001. WSM recently suggested that 10-12% top-line growth is achievable. Note the quality trend.*



Williams-Sonoma (WSM) -- Profitability Track Record. *The impact of the 2001-02 recession can be seen in this look back at net margins for WSM over the last ten years. The average net margin has been increasing in recent years. The forecast is 6.4%.*



Williams-Sonoma (WSM) -- P/E Track Record. *Might the P/E stabilize around 18-20x going forward?*

Fund Manifest

Muhlenkamp Fund (MUHLX)

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

All mutual funds covered by MANIFEST were screened for those with Projected Annual Return (PAR) greater than the total stock market (10.8%) and a quality rating (QR) greater than 60. The result is Muhlenkamp Fund (MUHLX).

A Glance in the Rearview Mirror

The annualized total return for MUHLX from 7/31/96 through 7/31/06 was 14.47%, soundly beating the broad stock indices. Morningstar rates the fund at 4 stars.

Expected Returns

MUHLX's 14.1% portfolio PAR ranks sixth among mutual fund's meeting our screening criteria this month and is 3.3 percentage points above the projected return for the general stock market (10.8%). The fund's expense ratio has fallen steadily over recent years and currently is 1.06%, well below average for managed mutual funds. After deducting expenses, MUHLX's potential return is a healthy 13.0%, which MUHLX's potential return at the top of diversified funds covered by MANIFEST after expenses are taken into account.

Knowing What You Own

MUHLX's holdings are profiled in its portfolio dashboard below. Portfolio average QR is good (61.9) and average financial strength is relatively strong at 71.3. Projected sales growth is 8.5%, below our goal of 10-14% but about the average for all stocks in the Solomon database. Average projected P/E is 13.2x, in part reflecting the low sales growth expectations. Nevertheless, it is about 75% of the average P/E ratio for all MANIFEST-covered stocks indicating that MUHLX is "buying" about market average sales growth at a significant discount. Average EPS Stability is 63.4, reflecting some potential volatility (see below for management's view that volatility a positive, not a negative).

MUHLX is a relatively concentrated fund holding just 69 stocks. The largest three holdings as of 3/31/06, Allstate (7.1% PAR, 61.5 QR), Merrill Lynch (10.9% PAR, 62.9 QR) and Citigroup (9.5% PAR, 68.5 QR), make up over 11% of the portfolio. The top 10 and top 25 holdings constitute about 38% and 75% of the portfolio, respectively.

Six of the fund's top 10 holdings have potential returns above the market as a whole. Four of the top 10 holdings, and 7 of the top 25 holdings, have PARs at or above our suggested advantage threshold of 5 percentage points above MIPAR. Ten of the top 25 holdings, however, have potential returns below the market as a whole and three others are right at market returns.

Name		Industry	Qlty	PAR	Sales Grth	Yield	P/E	Finl Str	EPS Pred
Allstate Insurance	ALL	Insurance (Prop/Cas.)	61.5	7.1%	11.8%	2.8%	10.0	80.0	46.7
Merrill Lynch	MER	Securities Brokerage	62.9	10.9%	13.3%	0.9%	13.5	90.0	63.3
Citigroup	C	Bank (Money Center)	68.5	9.5%	9.1%	4.3%	10.0	80.0	81
American Intl Group	AIG	Financial Svcs (Div)	64.0	24.6%	12.4%	0.5%	23.0	80.0	68.8
Countrywide Financial	CFC	Financial Svcs (Div)	62.7	19.1%	16.5%	1.1%	11.5	70.0	51.9
ConocoPhillips**	COP	Petroleum (Integrated)	66.4	20.9%	4.2%	1.8%	15.0	80.0	37.5
Capital One Financial	COF	Financial Svcs (Div)	74.7	15.2%	15.6%	0.1%	11.5	90.0	88.1
Altria Group	MO	Tobacco	72.2	8.9%	8.3%	4.7%	12.0	70.0	87.2
Fannie Mae	FNM	Financial Svcs (Div)	58.3	16.3%	16.4%	2.2%	12.0	30.0	78.9
Centex	CTX	Homebuilding	55.6	4.5%	2.8%	0.4%	6.5	70.0	75.6
UnitedHealth Group	UNH	Medical Services (Managed Care)	66.7	10.9%	7.3%	0.0%	16.5	90.0	88.7
Devon Energy	DVN	Natural Gas (Div.)	61.8	9.3%	3.8%	0.4%	11.0	70.0	39.3
Johnson & Johnson	JNJ	Drug (Diversified)	78.2	10.8%	5.0%	2.0%	19.0	100.0	99.3
Pfizer	PFE	Drug (Major)	69.8	14.2%	2.4%	2.9%	17.0	100.0	87.5
Patterson-UTI Energy*	PTEN	Petroleum (Producing)	70.5	68.9%	31.2%	0.5%	19.5	70.0	18.8
NVR Inc.	NVR	Homebuilding	71.8	16.6%	5.7%	0.0%	8.0	80.0	66
Telefonos de Mexico	TMX	Foreign Telecom.	60.9	12.3%	2.6%	3.0%	12.0	50.0	71.4
Cemex SA de CV	CX	Cement & Aggregates	55.5	6.1%	5.4%	2.3%	8.0	70.0	57.1
Fidelity National	FNF	Insurance (Prop/Cas.)	60.1	17.0%	14.0%	1.9%	13.0	50.0	49.4
Thor Inds.	THO	Manuf Hsng/Rec Vehicle	58.8	7.7%	7.8%	0.4%	14.0	70.0	65.1
Anadarko Petroleum	APC	Petroleum (Producing)	42.4	5.4%	-0.5%	0.8%	15.0	80.0	45.6
Nabors Inds.	NBR	Oilfield Svcs/Equip	42.2	8.6%	3.7%	0.0%	17.5	70.0	31.7
Black & Decker	BDK	Home Appliance	58.1	13.6%	4.3%	1.1%	14.0	50.0	69.2
Washington Mutual	WM	Thrift	64.5	10.8%	6.8%	4.3%	10.0	80.0	75.5
Toll Brothers	TOL	Homebuilding	62.2	4.4%	2.6%	0.0%	7.0	80.0	63.5
Muhlenkamp	MUHLX	Averages	61.9	14.1%	8.5%	1.5%	13.2	71.3	63.4

Management Decisions

Ron Muhlenkamp has managed the fund since inception in November 1988 and looks for companies with above average profitability (measured by return on equity (ROE)) and below average prices (measured by P/E). His long-term perspective is borne out by MUHLX's nearly microscopic turnover of 6-7% over the last two years. Turnover has been consistently below 20%, making MUHLX one of the most tax efficient actively managed funds around, ranking in the top 1% of its category over the past 10 years according to Morningstar.

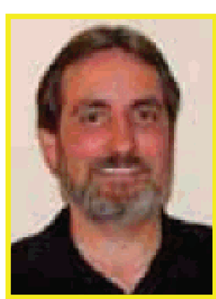
Portfolio Analysis 8/30/2006		Proj Ann Return	Quality	Sales Growth	Yield	P/E	Finl Strength	EPS Stability
T. Rowe Price Science & Technology (4)	PRSCX	**16.1%**	**62.2**	12.7%	0.5%	26.6	69.5%	46.8
VIPERs Vanguard Technology (6)	VGT	**15.7%**	**65.7**	11.2%	0.6%	24.2	81.9%	55.9
Legg Mason Growth (9)	LMGTX	**14.9%**	**60.5**	12.2%	0.9%	23.1	70.4%	51.8
Federated LargeCap Growth (10)	FLGAX	**14.9%**	**71.9**	10.9%	0.9%	21.5	87.6%	70.0
NASDAQ-100 (15)	QQQQ	**14.7%**	**65.2**	13.3%	0.4%	26.5	75.5%	52.1
Muhlenkamp (*)	MUHLX	**14.2%**	**61.9**	8.5%	1.5%	13.2	71.3%	63.3
AIM Technology (7)	FTCHX	**14.2%**	**62.3**	13.1%	0.5%	24.5	64.4%	48.9
White Oak Growth (*)	WOGSX	**14.0%**	**66.8**	14.0%	0.5%	23.1	82.0%	56.8
American Century Ultra (*)	TWCUX	**13.9%**	**69.0**	11.9%	0.7%	23.5	81.8%	69.8
VIPERs Vanguard Discretionary (13)	VCR	**13.9%**	**61.4**	7.1%	1.0%	20.4	70.0%	66.4
VIPERs Vanguard Growth (19)	VUG	**13.9%**	**71.5**	9.3%	1.0%	21.8	90.0%	74.0
Vanguard Growth Index (14)	VIGRX	**13.8%**	**70.0**	9.6%	0.9%	21.7	88.4%	70.7
iShares DJ Consumer Services (12)	IYC	**13.8%**	**64.9**	8.3%	0.8%	21.5	74.7%	71.5
Putnam Voyager (18)	PVOYX	**13.8%**	**68.5**	11.5%	0.7%	21.6	80.5%	66.8
Thompson Plumb Growth (*)	THPGX	**13.8%**	**65.4**	7.9%	1.6%	18.7	79.6%	71.3
Fidelity Dividend Growth (*)	FDGFX	**13.7%**	**67.2**	7.5%	1.6%	18.6	84.2%	76.9
Fidelity Adv Growth Opp (*)	FAGOX	**13.7%**	**64.1**	14.4%	0.6%	24.8	78.5%	50.8
Harbor Capital Appreciation (*)	HACAX	**13.6%**	**69.0**	11.7%	0.8%	23.1	84.4%	61.8
Oppenheimer Growth A (20)	OPPSX	**13.5%**	**66.1**	12.2%	0.5%	24.1	76.5%	58.0
T.Rowe Price Blue Chip Growth (10)	TRBCX	**13.5%**	**69.0**	10.5%	1.0%	21.0	82.3%	72.4

August 30, 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, Minimum = 60)* ***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*

Muhlenkamp eschews Rhino orthodoxy placing little importance on market capitalization and along with that, Morningstar's style boxes. MUHLX is currently categorized as a large-cap, value fund having changed from mid-cap, value most recently on May 31, 2006. Over the last few years, MUHLX has bounced around the four boxes in the top left corner of the Morningstar style grid. The fund's "Ownership Zone" reflecting the top 75% of holdings touches eight of the nine styles, missing only the "small-cap, growth" box in the lower right corner. Muhlenkamp, consistent with our view here at MANIFEST, doesn't subscribe to the usual view that volatility is risk stating in his latest semi-annual report, "Many think that volatility is a bad thing. We think it is a good thing, allowing us to buy cheap or sell dear." This month's cover article discusses Muhlenkamp's view of risk in more detail.

Since December 2005, Muhlenkamp has made transactions in only 22 of about 75 stocks held during that time, initiating new positions in six companies and totally liquidating positions in five others. The three largest accumulations/initiations over the past six months were Capital One (15.2% PAR, 74.7 QR), YRC Worldwide (17.9% PAR, 42.0 QR) and Citigroup. While Citigroup's PAR of 9.5% is a below market return, the net effect of these three largest decisions positively impacted the fund's long-term potential return.

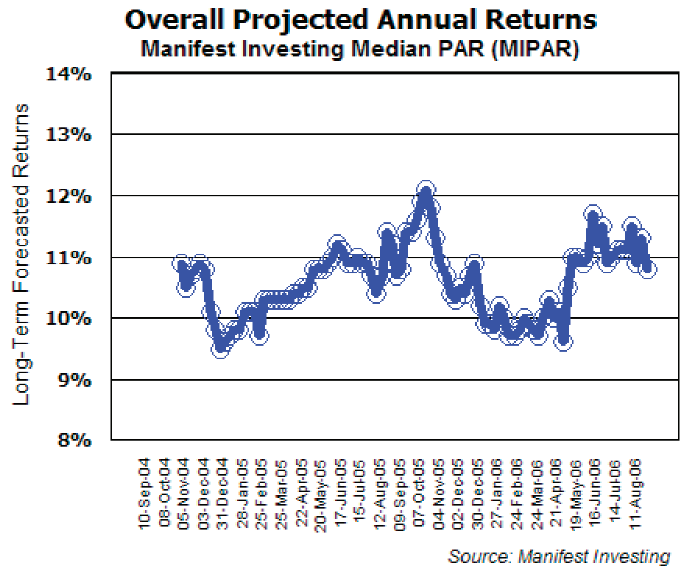
MUHLX is the quintessential example of a mutual fund selected for its solid management. Its only manager (in almost 18 years of existence) has an easily understood and clearly communicated investment approach clearly based on company fundamentals with a long-term perspective. He has followed it consistently with excellent results shown by a glance in the rear-view mirror. Particularly telling is that the majority of Muhlenkamp's personal long-term assets are invested in MUHLX. While I am troubled a little by the fact that nearly 18% of assets are currently invested in energy stocks, it's hard to argue with Muhlenkamp's stock picking over the last 10 years in a wide variety of markets and economic environments. MUHLX is a strong choice for any portfolio and is an especially good one for investors looking for a fund with excellent potential returns without significant exposure to the technology sector.



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 - September 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 15.8-20.8% and financial strength ratings of "A" or better.



Overall Market Expectations

The median projected annual return (MIPAR) for all 2500+ stocks followed by MANIFEST (Solomon database) is 10.8% (8/31/2006.) 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 MIPAR calculation includes projected dividend yield.

Worth a Closer Look Now

New/Returning companies include: Goldman Sachs, Google, Linear Technology, Medtronic, Morgan Stanley, Oracle, Paychex, Tractor Supply, Williams-Sonoma and Zimmer Holdings.

The highest rated companies based on a combination including PAR and quality rating are Bed Bath & Beyond, Medtronic, Oracle and Williams-Sonoma.

I don't know when I last saw a list quite as eclectic as this list of candidates for study. When Goldman Sachs is listed next to Tractor Supply, the net has been cast wide. Seriously, Tractor Supply has been firing on all cylinders for quite a while and under the radar screen of most Rhinos. Morningstar has a STRONG SELL on Google, once again illustrating that markets are where differences of opinion thrive.

Sweet Sixteen 8/31/2006	Symbol	Current Price	TTM Sales	Growth Forecast	Net Margin	P/E Avg	Fin Strgth	Proj Ann Ret	Quality
Paychex	PAYX	$ 36.32	1731	12.7%	27.8%	40.0	80%	20.7%	81.5
Linear Technology	LLTC	$ 33.85	1095	15.9%	39.6%	30.0	80%	20.7%	75.0
Zimmer Holdings	ZMH	$ 68.14	3361	13.5%	26.7%	27.0	80%	20.6%	70.0
Lowe's	LOW	$ 27.25	46536	10.2%	6.5%	21.0	90%	19.7%	75.2
Williams-Sonoma	WSM	$ 29.38	3666	11.0%	6.4%	20.0	80%	19.4%	73.5
Oracle	ORCL	$ 15.76	15340	10.2%	32.0%	22.0	80%	19.1%	76.1
Google	GOOG	$ 380.75	9319	32.0%	25.9%	35.0	80%	18.9%	72.4
Lincare Holdings	LNCR	$ 36.16	1325	15.0%	20.0%	15.0	80%	18.8%	80.6
Coach Inc.	COH	$ 30.31	2197	16.9%	24.3%	24.0	80%	18.7%	85.5
Medtronic	MDT	$ 46.55	11642	12.2%	23.6%	24.0	100%	18.4%	81.8
Morgan Stanley	MS	$ 65.50	32196	11.7%	17.0%	15.0	90%	18.3%	65.1
Bed Bath & Beyond	BBBY	$ 33.58	6130	12.0%	10.6%	19.0	100%	18.0%	88.5
Tractor Supply	TSCO	$ 42.72	2259	14.2%	4.8%	20.0	90%	17.9%	71.7
Goldman Sachs	GS	$ 147.06	29239	14.9%	14.5%	15.0	100%	17.5%	65.8
Stryker	SYK	$ 48.10	5110	11.8%	17.1%	26.0	80%	17.5%	67.6
QUALCOMM	QCOM	$ 37.91	7070	14.1%	32.1%	33.5	80%	17.2%	72.4

Sweet 16 Screening Result for September 2006. *Companies shown in bold are new since last month. Screening parameters: Projected Annual Return between 15.8-20.8%. Financial Strength "A" (80%) or better. Quality higher than 65.0. Sales Growth greater than 10%.* ***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.*

Tin Cup Model Portfolio

Accumulate More Microsoft (MSFT)

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 design characteristics within defined ranges and deliver superior long-term returns. All buying and selling decisions will be detailed here.

Total assets are $634,410 (8/31/06) and the net asset value is $172.34. The model portfolio gained 1.9% during August 2006 and has generated a 3.4% rate of return over the trailing year vs. 9.9% for the Wilshire 5000.

PAR & Quality

With MIPAR at 10.8%, our target range for the projected annual return is 15.8-20.8%. At 17.2%, the portfolio PAR ended the month suitably greater than the lower threshold. Quality and financial strength are sufficient at the current levels of 75.1 (Excellent) and 83.7% ("A".) EPS Stability is 88.0 for the portfolio.

Decisions

The chronicle for Altria Group (MO) has been included here because the PAR is within striking distance of the 5-year T-bill yield (4.7%).

For the September purchase decision, Home Depot again had the highest combination rating but was passed over because of the high PAR.

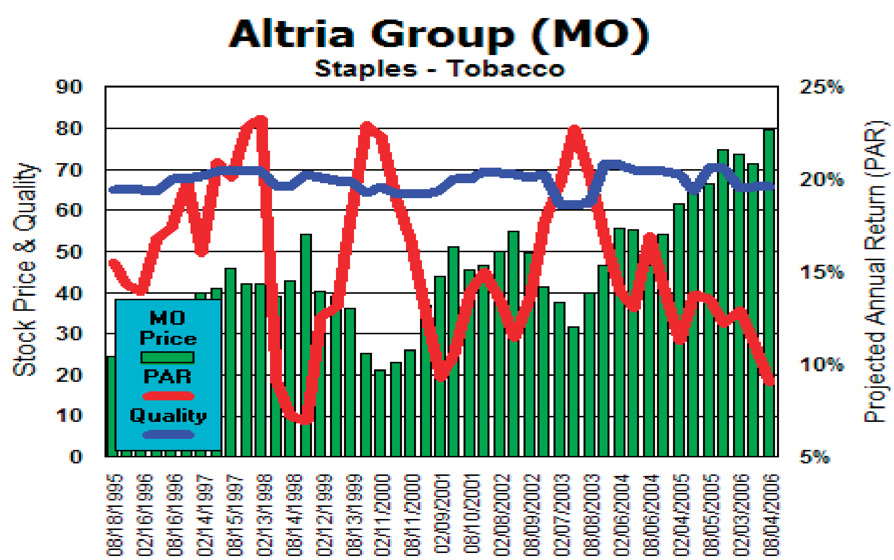
The $3844 monthly contribution (including quarterly dividends) was used to accumulate more shares of Microsoft (PAR=20.9%, quality rating of 82.5.)

After the MSFT transaction, the sales growth for the portfolio is 10.2%. The target range is 10-14% and we need to do some more thinking about whether 10% is too low for these purposes. We'll tackle this subject in this month's wrapup on the next page.

Company Name	Ticker	Shares	Price	Value	% of Portfolio	Growth	P/E	Proj Yield	Qlty	PAR
Strayer Education	STRA	562.29	$105.40	$59,265	9.3%	15.4%	29.0	0.7%	79.4	15.1%
Linear Technology	LLTC	1687.1	$34.01	$57,378	9.0%	15.9%	30.0	1.0%	75.0	20.6%
Home Depot	HD	1566.62	$34.29	$53,719	8.5%	9.2%	23.0	1.0%	78.4	28.2%
Altria Group	MO	569.66	$83.53	$47,583	7.5%	8.3%	12.0	4.7%	72.2	8.9%
Cardinal Health	CAH	698.01	$67.42	$47,059	7.4%	7.7%	20.0	0.1%	68.3	11.8%
Bed Bath & Beyond	BBBY	1335.88	$33.73	$45,059	7.1%	12.0%	19.0	0.6%	88.5	17.9%
CVS Corporation	CVS	1186.03	$33.55	$39,791	6.3%	8.5%	22.5	0.3%	71.1	12.1%
Synovus Financial	SNV	1279.8	$29.08	$37,216	5.9%	10.8%	17.0	2.4%	71.5	11.6%
Health Mgmt Assoc	HMA	1763.18	$20.91	$36,868	5.8%	7.8%	22.5	0.8%	59.8	23.2%
Paychex	PAYX	1007.61	$35.95	$36,223	5.7%	12.7%	40.0	1.2%	81.5	21.0%
Microsoft	MSFT	1401.55	$25.70	$36,019	5.7%	10.1%	25.0	1.3%	82.5	21.0%
Masco Corp.	MAS	1312.38	$27.41	$35,972	5.7%	7.3%	16.5	1.8%	67.7	21.8%
Wrigley (Wm.)	WWY	743.72	$46.42	$34,523	5.4%	6.5%	28.0	1.5%	80.8	14.0%
Medtronic	MDT	488.79	$46.90	$22,924	3.6%	12.2%	24.0	0.8%	81.8	18.3%
UnitedHealth Group	UNH	423.84	$51.95	$22,018	3.5%	7.3%	16.5	0.0%	66.7	10.9%
Pfizer	PFE	732.64	$27.56	$20,191	3.2%	2.4%	17.0	2.9%	69.8	14.2%
Cash				$2,594	0.4%			4.9%		4.9%
Totals & Averages				$634,409	100.0%	10.2%	23.1	1.3%	75.1	17.2%

Tin Cup Dashboard - August 31, 2006. *The total portfolio value hasn't quite made it back to the all-time high ($652,044) but the last couple months have been a pretty solid recovery. The challenge stock (lowest PAR) is Altria Group and would be the first stock nominated for selling if the portfolio overall PAR were too low. (It isn't at this time at 17.2%.)*

Source: Manifest Investing



Chronicle for Altria Group (MO). *Altria has an average total return of 32.3% for the last three years while the S&P 500 has sagged -2.9%. Altria is a stock that has been owned twice by Tin Cup. The first purchase was 6/99 at $25.54 and was sold during 5/2002 at $57.25. MO was repurchased during 3/2003 for $29.96. Take a look at the PAR "spikes" in the chronicle and notice the conditions when MO was bought and sold. Buying and holding (1999-present) would generate an annualized return of 24%. Buying/Selling/Buying? Approximately 35%/year. Selling opportunities matter.*

A Grab for Growth Guidelines

The Tin Cup model portfolio uses a design range of 10-14% for portfolio sales growth forecast. With the portfolio running at "historical lows" for sales growth, should the minimum sales growth target be increased?

This question is intended to prompt discussion and we'll carry on the conversation in the MANIFEST Forum. I'm not sure what I think. I'd always believed that 10-14% for the sales growth design factor would be sufficient to cover the pursuit of a suitable mix of large and small companies.

I've also believed that the strong sales growth during the go-go 1990s did contribute to the performance results around the end of the decade. We've included a longer-term look at the sales growth forecast for Tin Cup (by month, since 2000) and you can see the long-term decline. There are number of reasons for this, including the slow-downs at Home Depot, Bed Bath & Beyond and in a large way, Pfizer. We were forced to reduce the Tin Cup position in Pfizer a couple of months ago to restore the portfolio growth rate to the minimum of 10%.

Large Company Laggards

Is the situation something of temporary nature? That is, might the total return slump in large companies (DELL, BBBY, HD, GE, etc.) be fleeting? As the profile from the Solomon dashboard shows, the large blue chips have delivered weaker results.

The median sales growth for all of the companies in the MANIFEST database is 8.6%. Is a lower limit of 10% high enough compared to the median?

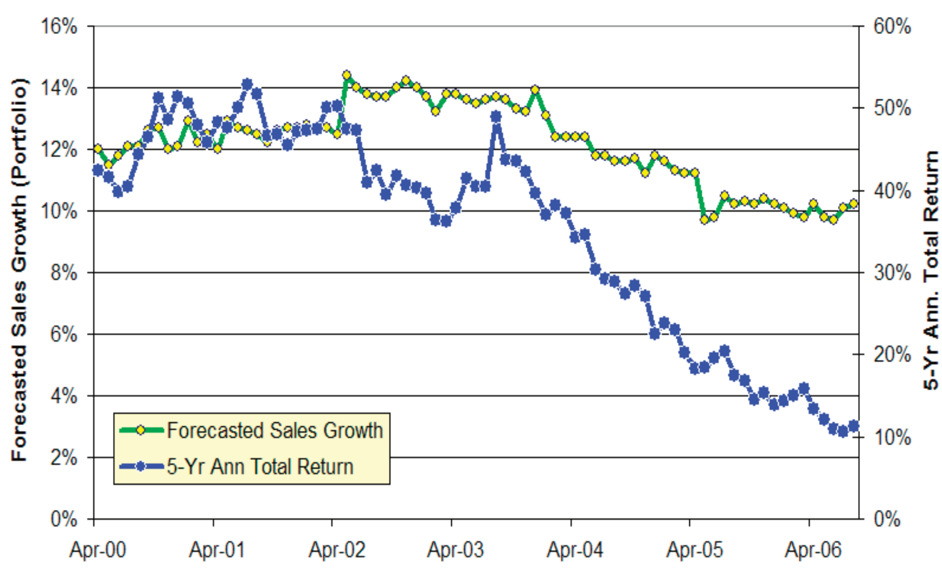
It should be interesting to see where the discussions lead on the Forum, but I think it's clear that perhaps it's been somewhat unfortunate to end up with higher large-company concentration (low overall forecasted sales growth) at a time when the larger companies have been quite sluggish.

Yes, it's one model portfolio and we're talking about one specific period in stock market history but I think we can learn a lot by taking a closer look.

Abercrombie & Fitch	11.7%
Kohl's	12.0%
Cisco Systems	12.5%
Strayer Education	15.4%
Oracle	10.2%
Walgreen	13.6%
Stryker	11.8%
Ruby Tuesday	10.2%
Coach	16.9%
Microsoft	10.1%
Medtronic	12.2%
Fifth Third Bank	7.1%
Linear Technology	15.9%
Yankee Candle	5.9%
Wrigley	6.5%
Home Depot	9.2%
Bed Bath & Beyond	12.0%
Dell	7.7%

Solomon's Select Best Performers. *This list of monthly stock selections is listed from best-to-worst since selection. The figure shown is the forecasted sales growth. Is it my imagination or do the slower-growing companies seem to be "nesting" at the bottom of this list?*

Tin Cup - Portfolio Sales Growth vs. Performance



Contact Us

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