Expected Returns

Editor: Mark Robertson, Manifest Investing LLC — Volume XIII, No. 5
Results, Remarks and References Regarding Investment Initiatives — May 2005

Introducing Our "Tin Cup" Portfolio

The mission of Manifest Investing is to dramatically simplify the world of investing and to transform the experience of individual investors into something less mysterious, less stressful and more successful.

In this issue, we introduce our "Tin Cup" model portfolio. The process of building this model portfolio ranks as one of the most exciting and intriguing things I've seen in my years of investing research. It's intriguing because it's a fairly simple implementation of the things we know are important in investing. It's exciting because the results are staggering, at least so far.

Tin Markets?

What was the premise behind the study? Simple. Can ordinary people identify buying (and selling) opportunities with widely-available information?

I have been greatly influenced by an article published in *Fortune* magazine on April 3, 1995 entitled, "YES! You can BEAT the Market!" The article explored the achievements of Warren Buffett and his colleague Charlie Munger at Berkshire Hathaway. It also examined the long-term success of Bill Ruane of the Sequoia fund and highly-successful money manager Walter Schloss.

The article was actually a follow up piece to a virtually identical discussion of long-term investing success that *Fortune* had published in 1983. In a nutshell, the song had remained the same.

One of the underlying themes of the article is the conventional advice that it's actually not possible to outperform the stock market over extended periods. "Like the shadows darkening the twisted canyons of Wall Street itself, one hard truth has hung over investors for more than a generation: You can not beat the stock market. No matter how smart you are or how hard you try or how well you do in the short run,

"If the stock market were truly efficient, I'd be a bum on the street corner with a tin cup." - Warren Buffett.

inevitably the market will pound your returns down to the average (and probably worse) before you get to the finish line."

"Don't believe it. As it turns out, that bedrock principle of investing may be one of the four great lies. The simple fairly astonishing truth is that you ***can*** beat the market," and Buffett, Munger, Ruane and Schloss are living proof.

According to the efficient market theory, the price of a stock always reflects the best estimate of its value. In other words, stock prices are always right and it's impossible to take advantage of buying opportunities.

Warren Buffett's conclusion about the theory is swift and decisive, "I'd be a bum on the street with a tin cup if the stock market were efficient."

Extraordinarily Ordinary

Walter Schloss has been beating the S&P 500 since before there was an S&P 500. In 1995, "over 39 years of investing had delivered annualized returns of slightly over 20%" to the clients of Walter Schloss. Perhaps one of the more intriguing aspects of his approach is how "ordinary" it is. "Described by someone who knows him well as a 'man of modest talent and light work habits' Schloss *practices investing in a way that any ordinary investor can.* Dressed in a well-worn traders smock, Schloss works entirely from public documents and a few publications like Value Line in one cramped,

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In This Issue...

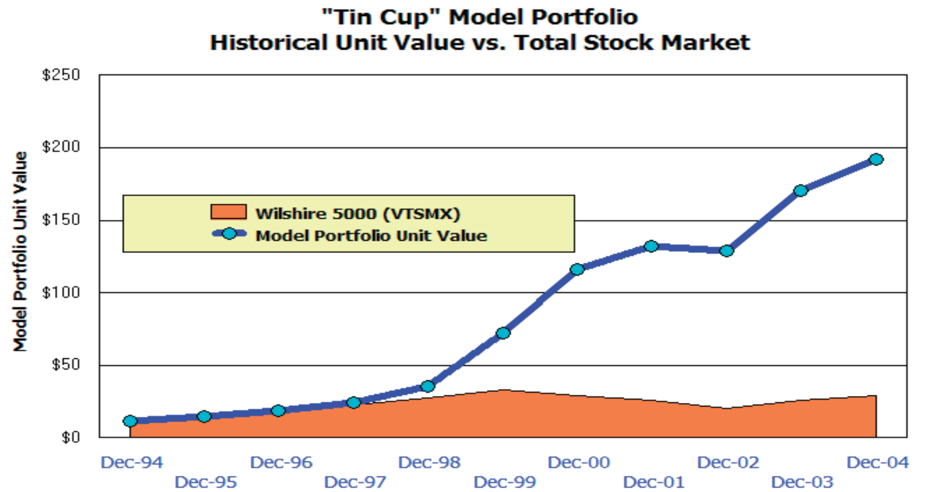
little office squirrelly with annual reports, 10-Ks, pictures of Babe Ruth, Lou Gehrig and Walter's children and grandchildren.

The words bear repeating with emphasis: *"practices investing in a way that any ordinary investor can."* People often believe that these successful investors leap tall buildings and dance on water.

Close, no cigar. They hop over puddles and dance on tall buildings. It's all about common sense. Don't ever pay more for something than it's worth. In order to follow that sage advice, an investor has to understand the quality of a prospective investment and I believe, build expectations to know whether the current price is likely to experience sufficient price appreciation over the long term. So the theory and mission came clear: Might we be able to use Value Line and our notions of quality and expected returns to build and manage a portfolio starting in January 1995?

Rules of Engagement

I pulled out some piles of paper Value Line company reports as well as a stack of CDs to begin the quest. Using only the information available at the time of publication, I began building and maintaining a portfolio. The rules were strictly adhered to in order to avoid any bias. This was an ordinary "robot," drinking tea and following a well-grounded method of stock selection. Stocks were screened seeking a certain range of projected annual return (PAR), 5-10 percentage points higher than the Value Line Median Appreciation Projection (VLMAP) at the time. For example, VLMAP was 65% (13.3% annualized) on May 1, 1998. Only stocks with projected annual returns between 18.3-23.3% would be considered for purchase. I now think of this target range as a "sweet spot" to avoid the speculation of returns that are, quite simply, too good to be true.



"Tin Cup" Results. *The 10-year results for the model portfolio are displayed. Tin Cup handled the late-90s bull market well, but the ensuing bear market even better on the backs of companies like Wolverine Worldwide, AutoZone, Worthington Industries, Illinois Tool Works, Washington Mutual and Wendy's.*

To account for quality, financial strength was used as a screening proxy. I defined a discipline to assure that only the highest quality stocks would be purchased when projected annual returns were low. With VLMAP at 12% or less, only stocks with financial strength ratings of "A" or better were eligible for consideration. With VLMAP at 12-16%, stocks with a B++ financial strength or better were eligible. On those relatively rare occasions when VLMAP was greater than 20%, stocks with a financial strength rating of B+ were allowed into the mix.

The portfolio was limited to 12-20 stocks. How was selling accomplished? Stocks were sold if their projected annual return dropped below the returns available from 13-week treasury bills. Very few stocks actually reached this condition over the ten year period. The other condition for selling a stock was to restore the overall portfolio PAR to the target range. In these instances a stock with a PAR greater than 13-week T-bills could still be sold (using the Challenge process) to maintain portfolio PAR at sufficient levels. The replacement stock had to improve the portfolio projected return.

The resultant portfolio turnover was actually quite low. One stock was sold during 2002 and no stocks were sold during 2003. The average portfolio turnover for 2000-04 was 15.3%.

The Bottom Line...

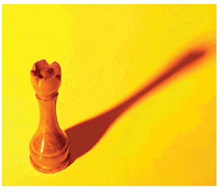
We'll be talking about these findings for a while, but here are some highlights. On average, the monthly deposits were $850. This results in a total of $103,700 invested since 1995. Investing this in the Vanguard Total Stock Market Index (VTSMX) would have attained a value of $138,377 on 3/31/05. The ending value of "Tin Cup" was $617,403 on 3/31/05, an annualized total return of 31.8% versus 9.1% for VTSMX.

I was extremely careful. Although mistakes could have been made along the way, I don't expect them to be substantial. Please consider these results at this point as preliminary. I have confidence that the outcome, after an "audit" of the results, will not be materially different.

Intrigued? I hope so. I look forward to exploring the possibilities and opportunities.

ManifestInvesting

Mark Robertson



Solomon's Select

Linear Technology

Not so long ago a bell went off and very few of us heard it. The bell celebrated the fact that worldwide semiconductor revenues for 2004 finally exceeded the levels attained during the technology bubble of 2000. The stock price of many semiconductor stocks is still roughly half of their 2000 price levels. Going forward, the companies that compete in the high-end analog, power management, and other chip categories will perform well. Linear Technology meets that description and has a solid track record of delivering effective results.

Applications for Linear Technology products include telecommunications, cellular telephones, networking products, notebook and desktop computers, video/multimedia, industrial instrumentation, automotive electronics, factory automation, process control, and military and space systems.

Overview & Quality

Linear Technology (LLTC) is one of the strongest and best-managed companies in its industry. With a financial strength rating of A, a relatively high measure of predictability and leading growth and profit characteristics compared to its peers, LLTC earns a quality rating of 68.8 (Excellent.)

Growth

Historical growth rates for this industry have been 16-17% for the last 20 years and analyst forecast project a slowing to approximately 10% in years ahead. LLTC has grown at higher rates but will also experience slowing. Value Line projects the long-term sales growth forecast at 17%.

Profitability

Linear Technology has a projected net margin of 44.2%. The average projected net margin for Semiconductors (Analog) is 27.6%. Linear Technology's strategy is to develop highly proprietary and complex analog integrated circuits that tend to have few direct competitors. After launch, the products tend to have a high-profit horizon that can reach 10-15 years.

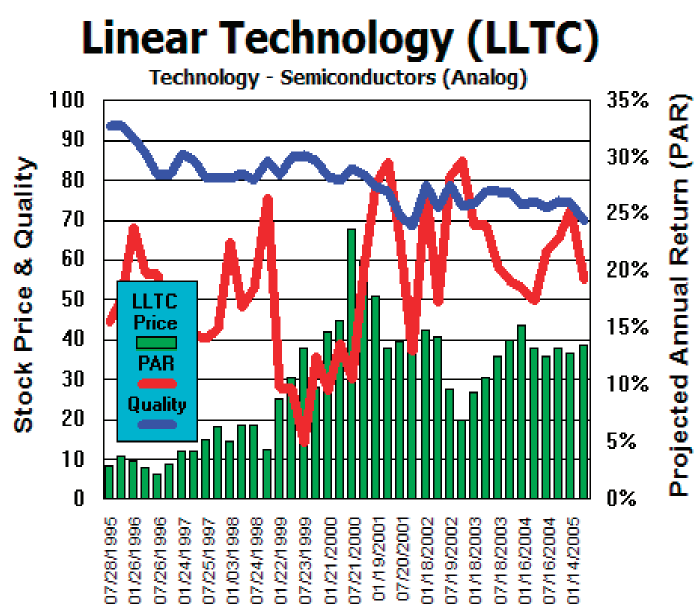
Valuation

The industry average projected P/E is 24.6x and LLTC has a projected annual P/E ratio of 30x, out of respect for its market-leading position. Although 30x may seem high, the P/E for LLTC has been consistently in the 30-40x range during a particularly troubling period of over-extended inventories and disruptions in industry-wide growth patterns. LLTC's achievements during this period merit the respect accorded by the higher P/E.

Expected Returns

Based on a price at the time of the study of $35.60, the projected annual return was 21.2%.

Linear Technology is one of the largest holdings in the "Tin Cup" model portfolio. The first shares were purchased on January 26, 1996 and now represent nearly 7% of total assets. Watching LLTC's price bob and weave over ten years reminded me how volatile a stock price can be. We can become preoccupied with fluctuating stock prices. The fluctuations deliver buying and selling opportunities. The price chart below shows LLTC has ranged from single digits to nearly $70/share. Despite gut-wrenching turbulence, the long-term annualized price appreciation delivered by LLTC has been 11.3%. Part of conquering the mystery is building expectations. Expect turbulence.



Mutual Fund Manifest

Fidelity Blue Chip Growth (FBGRX)

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. This column will be a regular feature for Expected Returns and the mutual fund manifest on page 5 will be a standing feature. This list is ranked by projected annual return to enable us to identify mutual funds that are well-positioned going forward.

This Month's Fund Finding

The list was culled for mutual funds with the following characteristics: Projected Annual Return (PAR) greater than the total stock market (10.4%) and a quality rating greater than 65. The result is Fidelity Blue Chip Growth (FBGRX). This fund is probably a poster child for truth-in-advertising. The holdings are blue chip with better than average growth relative to other high-quality stocks.

A Glance in the Rearview Mirror

The annualized total return for FBGRX for the ten years ended 3/31/2005 was 7.9%, lagging the total stock market result of 10.6%. The fund has underperformed the total stock market over the trailing five years also, contributing to a lower rating from Morningstar.

As we've seen in recent months as we select funds for a closer look, our emphasis is *not on where the fund has been, but where it seems to be going*.

Historical turnover has always been quite low. Annual turnover for 2004 was 23%, ranking among the lowest of all mutual funds.

Knowing What You Own

The holdings of Fidelity Blue Chip Growth are profiled below. A quick look reveals a stable of very high quality stocks generating a portfolio quality rating of 73.7, or excellent. The average sales growth of the group is 8.1%. For comparison purposes, the median projected sales growth for all companies ranked with a financial strength of "A" or better by Value Line is 7.6%.

The financial strength of the FBGRX companies is quite strong at 95% (A++) and the EPS predictability (85.8) is relatively high also. FBGRX has the highest average financial strength of any fund currently followed by Manifest Investing.

Recent Decisions

The fund manager has recently (late 2004, early 2005) accumulated Johnson & Johnson, Intel, Wal-Mart, Procter & Gamble, IBM, Pepsi, Wyeth, Bank of

Fidelity Blue Chip	FBGRX	% of	1/31/2005	Quality	PAR	Sales Growth	Yield	P/E	Finl Strength	EPS Pred
Microsoft	MSFT	4.29%	Computer Software/	84.1	17.3%	9.8%	1.3%	25.0	100%	85
General Electric	GE	3.99%	Electrical Equipment	67.0	14.1%	5.5%	2.4%	24.0	100%	95
Johnson & Johnson	JNJ	2.70%	Drug (Diversified)	82.3	9.9%	6.6%	1.7%	20.0	100%	100
Pfizer	PFE	2.44%	Drug (Major)	75.3	17.4%	3.1%	2.8%	18.0	100%	100
Intel Corp.	INTC	2.33%	Semiconductor	59.7	17.0%	6.5%	1.4%	25.0	100%	50
American Intl Group	AIG	2.17%	Financial Svcs (Div)	67.3	27.5%	14.7%	1.0%	23.0	80%	85
Wal-Mart	WMT	1.97%	Retail Store	76.9	19.4%	10.8%	1.1%	24.0	100%	100
Dell Inc.	DELL	1.96%	Computers/Peripher	71.8	15.6%	9.1%	0.0%	28.0	100%	75
Procter & Gamble	PG	1.93%	Household Products	76.7	12.8%	5.1%	1.9%	22.0	100%	100
Cisco Systems	CSCO	1.79%	Telecom. Equipment	71.0	22.9%	12.1%	0.0%	25.0	100%	35
Home Depot	HD	1.77%	Retail Building Suppl	72.4	22.9%	7.3%	1.1%	28.0	100%	90
Intl Business Machines	IBM	1.74%	Computers/Peripher	72.2	17.2%	4.7%	0.9%	19.0	100%	90
Pepsi	PEP	1.56%	Beverage (Soft Drin	82.9	12.1%	7.7%	1.8%	24.0	100%	95
Gillette	G	1.53%	Toiletries/Cosmetics	77.3	10.1%	6.0%	1.3%	27.5	90%	85
United Health Group	UNH	1.43%	Medical Services	66.5	10.4%	7.7%	0.0%	19.0	90%	95
Fannie Mae	FNM	1.31%	Financial Svcs (Div)	59.7	9.7%	4.6%	3.4%	12.0	50%	100
Citigroup	C	1.31%	Financial Svcs (Div)	66.0	10.3%	9.3%	3.7%	10.5	80%	80
Medtronic	MDT	1.30%	Medical Supplies	88.0	11.0%	10.9%	0.6%	24.0	90%	100
Wyeth	WYE	1.26%	Drug (Major)	75.7	8.8%	7.5%	2.1%	15.0	90%	95
American Express	AXP	1.22%	Financial Svcs (Div)	70.0	7.3%	11.7%	0.9%	14.0	90%	70
Bank of America	BAC	1.14%	Bank	68.2	13.5%	8.6%	4.0%	12.5	90%	85
3M Company	MMM	1.08%	Chemical (Diversifie	75.9	8.8%	6.2%	1.9%	20.0	100%	70
Abbott Labs	ABT	1.02%	Drug (Diversified)	82.3	8.7%	6.9%	2.1%	19.5	100%	100
QUALCOMM	QCOM	1.01%	Telecom. Equipment	72.1	16.7%	12.1%	0.8%	33.5	80%	55
Amgen	AMGN	0.98%	Biotechnology	74.6	13.6%	13.3%	0.0%	20.0	100%	95
Cash-on-Hand		0.6%			2.8%		2.8%			
		45.8%		**73.7**	**15.0%**	**8.1%**	**1.6%**	**22.0**	**95%**	**85.8**

Mutual Fund MANIFEST Ranked by Proj Ann Return	4/29/2005	Morningstar Rating	Quality	Proj Ann Return	Sales Growth	Yield	P/E	Finl Strength	EPS Pred
Fidelity Dividend Growth	FDGFX	★★★★	65.4	16.0%	7.5%	2.0%	20.0	83%	79.4
American Growth	AMRAX	★	55.9	15.6%	9.0%	0.7%	23.2	78%	46.8
Fidelity Adv Dividend Growth	FDGTX	★★★	65.0	15.5%	7.4%	2.2%	20.0	83%	79.1
Fidelity Equity Growth	FAEGX	★★★	69.8	15.4%	8.8%	1.3%	24.1	92%	74.0
Fidelity Blue Chip	FBGRX	★★★	73.7	15.0%	8.1%	1.6%	22.0	95%	85.8
White Oak Growth	WOGSX	★★	69.7	14.9%	11.6%	1.0%	23.1	85%	62.3
Fidelity Magellan	FMAGX	★★	66.4	14.9%	8.1%	1.8%	20.7	86%	72.4
BlackRock Large Cap Growth	PGIAX	★★	71.1	14.7%	7.5%	1.4%	22.2	94%	82.1
Federated Large Cap Growth	FLGAX	★★	67.8	14.6%	7.7%	1.5%	22.1	86%	71.4
Vanguard 500	VFINX	★★★★	70.4	14.6%	7.0%	2.2%	20.0	93%	78.4
NASDAQ-100	QQQQ		68.0	14.5%	12.4%	0.5%	27.3	80%	56.3
Janus Fund	JANSX	★★★	61.3	14.5%	9.7%	0.9%	25.5	76%	53.3
Fidelity Growth Opportunities	FAGOX	★★	67.0	14.2%	9.3%	1.4%	23.3	84%	70.0
Federated Capital Appreciation	FEDEX	★★★	67.4	14.2%	7.3%	1.9%	20.1	88%	70.9
Oppenheimer Growth A	OPPSX	★★	66.1	14.1%	10.8%	0.7%	23.7	80%	62.4
Thompson Plumb Growth	THPGX	★★★★	64.8	14.0%	6.8%	1.7%	19.7	81%	74.0
T. Rowe Price Growth	PRGFX	★★★★★	65.1	13.7%	10.0%	1.2%	20.8	80%	73.0
Vanguard Growth Equity	VGEQX	★★	65.7	13.7%	11.1%	0.7%	25.6	83%	58.0
American Century Ultra	TWCUX	★★★	69.7	13.6%	10.8%	0.7%	24.0	80%	76.2
Dreyfus Founders Growth	FRGRX	★★	65.9	13.3%	8.6%	1.2%	22.8	83%	69.2

April 29, 2005. *Listing of equity mutual funds ranked by Projected Annual Return. Ticker symbols in red represent funds that are closed to new investors. The Morningstar star rating is influenced by long-term past performance. Quality: Average quality rating of the holdings. (0-to-100, Greater than 65 = Excellent) Projected Annual Return: Average forecast return for holdings based on growth forecast, profitability, and projected annual P/E ratio. Sales Growth: Average sales growth forecast for holdings. Yield: Average current annual dividend yield for holdings. P/E: Average projected annual P/E. Financial Strength: Value Line rating. (A++=100%, B++=70%) EPS Pred: Average EPS predictability for holdings. Sources: Manifest Investing, Value Line, Morningstar.*

America, Abbott Labs and QUALCOMM. The average PAR of these new additions is 13.6%. Positions have been trimmed in General Electric, Pfizer, Cisco Systems, Gillette, CitiGroup and 3M Company. The average PAR of the reduced positions is 13.9%.

Why do we care? Because it's comforting to see portfolio decisions being made that are consistent with our long-term perspective on investing. In this case, the decisions still appear a little suspect, but better than funds we've covered in recent months. We like to observe buy and sell decisions that seem consistent with our portfolio management strategies.

Expected Returns

We note the continued presence of the large-cap funds on this month's roll call. The S&P 500 index and Nasdaq-100 both continue to rank among the funds with the highest return expectations. Fidelity Blue Chip Growth has been managed by John McDowell for the last nine years. During this period, Mr. McDowell has shown discipline and has consistently identified opportunity among solid companies. While the fund has unperformed the S&P 500 during seven of the last nine years, FBGRX's best days were during 1998-99 when the blue chips made solid advances. Judging by the number of large-cap funds highlighted above, this may well be the time for Fidelity Blue Chip Growth to shine again.

McDowell's general investment philosophy is to focus the portfolio on larger, higher-quality growth stocks. He believes companies with above-average long-term earnings growth ultimately will lead to superior returns. Despite the recent strong performance of smaller, lower-quality companies, there has been no change in philosophy. In recent months, the fund has added to selected technology-related stocks, cut exposure to pharmaceuticals, and taken profits in various consumer products stocks.

The 15.0% projected annual return is superior to the projected return for the general stock market. Blue chips are a good idea when overall projected returns are lower, as they seem to be now. Go Blue.

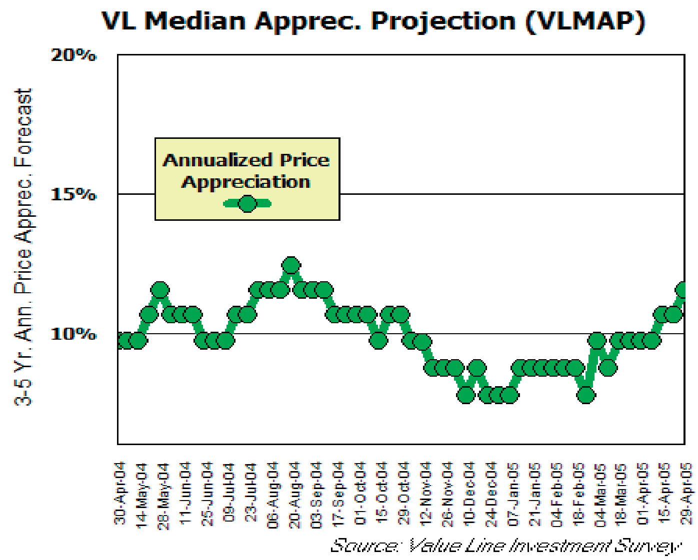
Sweet Sixteen Screen - May 2005

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 growth rates greater than the general stock market (8%) and financial strength ratings of "A" or better.

The Sweet Spot

It's not a myth. Anybody who's ever played tennis, baseball or golf knows that striking the ball in the sweet spot provides maximum results with less effort and in some cases, less pain. The joys of finding a sweet spot in investing became evident during the development of the "Tin Cup" model portfolio.

We're often tempted by situations that are quite simply, too good to be true. We know better, but that 40% return sure sounded good, didn't it? Next thing we know we're asking our broker for a piece of paper to certify that the stock is worthless for our tax return. The following list was built using the same criteria implemented during the "Tin Cup" model portfolio development. The stocks listed below have projected annual returns 5-10 percentage points higher than VLMAP (see figure.) With VLMAP currently at 11.6%, the sweet spot ranges from 16.6% to 21.6% and all of these stocks meet that criteria and exhibit financial strength ratings of "A" or better.



Worth a Closer Look Now

New companies include: Bank of New York, Cardinal Health, CDW Computer, Federated Investors, Masco Corp., MBNA, Medimmune, Novellus Systems, Oracle, Robert Half and Varian Medical Systems.

Sweet Sixteen 4/29/2005	Symbol	Price 4/29/2005	TTM Sales	Growth Forecast	Net Margin	P/E Avg	Current Yield	Proj Ann Ret	Quality
Linear Technology	LLTC	$ 35.60	991	17.0%	44.2%	30.0	1.1%	21.2%	74.3
Cardinal Health	CAH	$ 55.16	72023	9.0%	2.5%	22.0	0.2%	20.9%	60.2
CDW Computer	CDWC	$ 54.47	5851	11.9%	4.4%	25.0	0.7%	20.8%	63.3
Novellus Systems	NVLS	$ 23.43	1360	12.8%	11.9%	27.0	0.0%	20.3%	51.6
Paychex	PAYX	$ 30.51	1392	14.7%	25.4%	40.0	1.7%	20.3%	84.3
Oracle Corp.	ORCL	$ 11.48	10948	14.4%	26.8%	25.0	0.0%	20.2%	84.0
Medimmune	MEDI	$ 25.39	1182	13.2%	21.0%	33.0	0.0%	19.7%	57.5
Robert Half	RHI	$ 24.82	2868	11.0%	7.7%	27.0	1.1%	19.6%	56.5
Wal-Mart	WMT	$ 47.05	285900	10.8%	3.7%	24.0	1.1%	19.5%	76.9
Masco Corp.	MAS	$ 31.50	12288	9.9%	9.0%	16.5	2.5%	19.4%	73.6
Bank of New York *	BK	$ 27.94	12.25	12.2%	16.0%	18.0	2.9%	19.4%	66.6
MBNA *	KRB	$ 19.74	10.84	12.0%	19.5%	11.5	2.8%	18.9%	76.1
Federated Investors *	FII	$ 28.45	6.09	16.8%	29.5%	16.0	1.8%	18.8%	84.1
Varian Medical Sys.	VAR	$ 33.74	1302	13.2%	14.8%	30.0	0.0%	18.7%	65.1
Fifth Third Bancorp *	FITB	$ 43.08	16.39	12.0%	16.0%	20.0	3.2%	18.6%	75.2
Lowe's	LOW	$ 51.91	37748	12.0%	6.5%	21.0	0.3%	18.2%	75.9

Sweet 16 Screening Result for May 2005. *Companies shown in bold are new since last month. Screening parameters: Financial Strength "A" or better. Projected Annual Return between 16.6-21.6% Long-Term Sales Growth Forecast greater than 8.0%. 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. * - Financial firms use Book Value and Return-on-Equity (ROE) instead of sales and net margin.*

Sources: Manifest Investing, Value Line Investment Survey.

Model Portfolio

Tin Cup: Accumulate Linear Technology

This month we introduce the "Tin Cup" model portfolio. This column will be a standing feature. We'll use it to demonstrate the MANIFEST portfolio design and management approach. Our mission will be to maintain the portfolio within the portfolio design characteristics and deliver superior long-term returns.All buying and selling decisions will be detailed here.

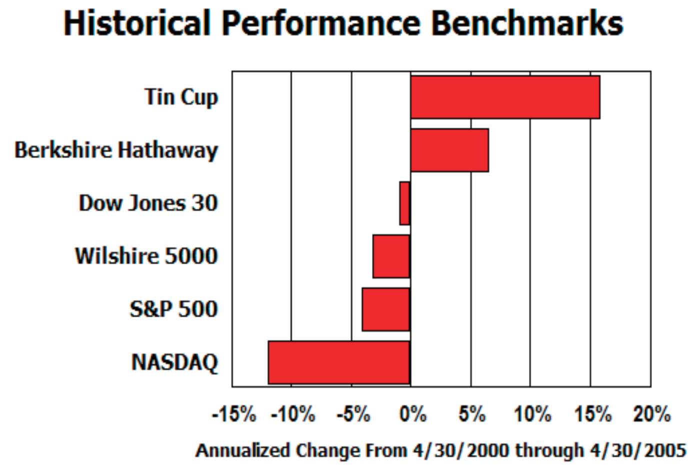
Design & Performance

With an average projected annual return of 17.6%, a quality rating of 71.9 and an overall sales growth forecast of 11.1%, all three portfolio design parameters are acceptable. We'd like to restore the overall sales growth to slightly higher levels (12-15%) and we'll pay attention to this in months to follow. Total assets are $601,678 (4/29/05) and the net asset value is $187.69. As the benchmark graph illustrates, the model portfolio has performed at an exceptional level since the bull market ended during 2000.

Projected Annual Return

With the Value Line Median Appreciation Projection (VLMAP) at 55% (11.6% annualized) our target range for the average projected annual return would be 16.6-21.6%. At 17.6%, the portfolio is comfortably above the lower threshold.

Sell decisions should be made in the context of impact on the total portfolio. In this case, no sell decisions are necessary. An exception is made when the PAR for any holding drops below 13-Week T-Bill rates. The 13-week T-Bill is currently yielding 2.84%. No current holding has a PAR close to this selling decision threshold. No stocks have been sold during 2005.



Quality

Quality and financial strength are sufficient the current level of 71.6 (Excellent) and 77% ("A".)

Sales Growth Forecast

Tin Cup holding Linear Technology is this month's stock selection and is highly ranked on the screening results. With suitable quality and projected annual return, additional shares of LLTC were accumulated with the monthly deposit of $1150.

With a sales growth forecast of 17%, the additional shares of LLTC help to restore the overall sales growth forecast for the portfolio to slightly higher levels. Paychex, Cardinal Health and Masco Corp also appeared on this month's screen but have lower sales growth forecasts. The dashboard for the "Tin Cup" portfolio is summarized below.

Tin Cup Model Portfolio		% of Assets		Quality	Proj Ann Return	Sales Growth	Yield	P/E	Finl Strength	EPS Pred
Wendy's	WEN	8.9%	Restaurant (Fast)	69.5	12.5%	8.3%	1.1%	18.0	80%	95
Bed Bath & Beyond	BBBY	8.3%	Retail (Special Lines	92.2	22.8%	16.5%	0.0%	25.0	100%	100
Cardinal Health	CAH	7.4%	Medical Supplies	60.2	20.7%	9.0%	0.2%	22.0	80%	95
Fair Isaac	FIC	7.2%	Computer Software/	72.9	19.9%	13.0%	0.2%	22.0	70%	85
Health Mgmt Assoc	HMA	7.1%	Medical Services	67.0	18.3%	10.1%	0.6%	22.5	50%	100
Altria Group	MO	7.0%	Tobacco	66.4	10.3%	8.7%	4.5%	13.0	50%	85
Linear Technology	LLTC	6.9%	Semiconductor (Ana	68.8	21.1%	17.0%	1.1%	30.0	80%	60
Lowe's	LOW	6.9%	Retail Building Suppl	75.9	18.1%	12.0%	0.3%	21.0	90%	95
SunGard Data Systems	SDS	6.6%	Computer Software/	70.6	13.3%	10.0%	0.0%	24.0	80%	100
New Plan Excel	NXL	5.8%	REIT	77.8	11.9%	4.2%	6.6%	15.0	80%	75
United Health Group	UNH	5.2%	Medical Services	66.5	10.4%	7.7%	0.0%	19.0	90%	95
Career Education	CECO	4.8%	Educational Services	65.3	34.9%	21.0%	0.0%	29.0	50%	90
Masco Corp.	MAS	4.7%	Building Materials	73.6	19.4%	9.9%	2.5%	16.5	80%	75
CVS Corporation	CVS	4.7%	Pharmacy Services	71.0	16.2%	10.1%	0.6%	22.5	90%	80
Synovus Financial	SNV	4.1%	Bank	67.9	14.3%	5.6%	2.5%	20.0	70%	100
Paychex	PAYX	3.8%	Computer Software/	84.3	20.2%	14.7%	1.7%	40.0	80%	85
Stryker	SYK	0.5%	Medical Supplies	81.3	16.8%	12.1%	0.2%	28.0	80%	100
		100.0%		71.9	17.6%	11.1%	1.3%	22.1	77%	89.0

Sweet Spot Speculation

by Mark Robertson, Manifest Investing

The development of the Tin Cup model portfolio included a discipline of staying within a specified target range for stock selections. In a sense, this provided a protective barrier from temptation, those times when we buy stocks with huge expected returns, only to be disappointed with subsequent underperformance. Stocks have a "Sweet Spot" and those who disregard it often awaken the humility gods for a reminder that "when things seem to be too-good-to-be-true, they're generally too good to be true."

Well-Struck by Roy "Tin Cup" McAvoy

One of my favorite movies is Tin Cup starring Kevin Costner, Rene Russo, Don Johnson and Cheech Marin. Costner stars as a washed up golf pro working at a driving range who tries to qualify for the U.S. Open in order to win the heart of his arch rival's girlfriend. In this scene, Costner is giving a golf lesson to Rene Russo while his friends, including Cheech Marin, spy from inside the diner.

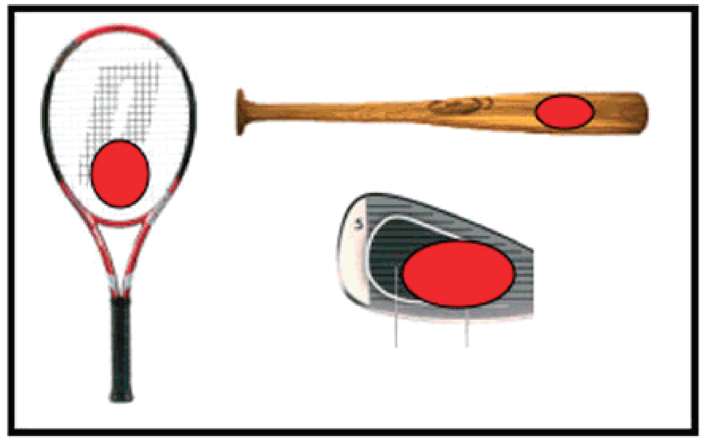
Kevin Costner: Something like that.

Rene Russo: You know...look... I tend to process things verbally, so do you think you could break down into words how you just did that?

Costner: *(chuckling)* You mean, "What is the golf swing by Roy McAvoy?" I tend to think of the golf swing as a poem.

Cheech Marin: *(peeking through window blinds)* Oh... he's doing that poetry thing again!

Costner: The critical opening phrase of this poem will always be the grip... as the hands unite to form a single unit by the simple overlap of the — pinky finger. Lowly and slowly the club head is led back and pulled into position not by the hands, but by the body which turns away from the target, shifting weight to the right side without shifting balance. Tempo is everything, perfection unattainable as the body coils now to the top of the swing, there's a slight hesitation — a little nod to the gods...



The "Sweet Spot" is where the maximum power is generated with the least vibration when striking another object. The red areas represent the "Sweet Spot" of the objects shown.

Russo: Uh, a nod to the gods???

Costner: Yeah... to the gods. That he is fallible. Perfection is unattainable and now the weight begins shifting back to the left pulled by the powers inside the earth. It's alive — this swing — a living sculpture and down through contact, always down, striking the ball crisply with character. A tuning fork goes off in your heart. Such a pure feeling as the well-struck golf shot.

Convergence with Reality

While conducting the Tin Cup study and building the model portfolio, I was impressed by the number of times that the method selected stocks that were actually chosen in one of my investment clubs or personal portfolios. The results of our family investment club mirrored the results of the Tin Cup portfolio from 1995-2000.

In hindsight, the portfolios would have benefitted from the selling — and buying — discipline. Avoiding the temptation of seemingly high-return stocks, like ADC Telecommunications after it had dropped from $49 to $11, would have been even more prudent. ADCT is now at $2 or so. I can still recall the elevated projected annual returns for ADCT at the time of purchase with stars in my eyes. The stars I see now are from the opportunity-to-learn-something lumps I received instead.

By limiting the target range to 10 percentage points above VLMAP, I believe that temptation can be subdued. The "Sweet Spot" is that point, or *range* within which a particular object functions at its maximum level of efficiency and output. In the case of stock selection, it just might be the place where heartbreak is avoided and pure feeling attained.