# Expected Returns

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Results, Remarks and References Regarding Investment Initiatives

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## Warp of the Worlds

***I recently finished reading a book written by one of the most highly respected investment educators of all time. Lamenting recent stock market shock waves, in his own words, "In the field of common stocks, the necessity of taking price into account is more compelling, because the danger of paying the wrong price is almost as great as that of buying the wrong issue. We shall point out later that the new-era theory of investment left price out of the reckoning, and that this omission was productive of most disastrous consequences." The author was clearly disturbed about the behaviors observed during recent stock market (see accompanying graph) and disturbing trends in governance.***

### The Great Disillusionment

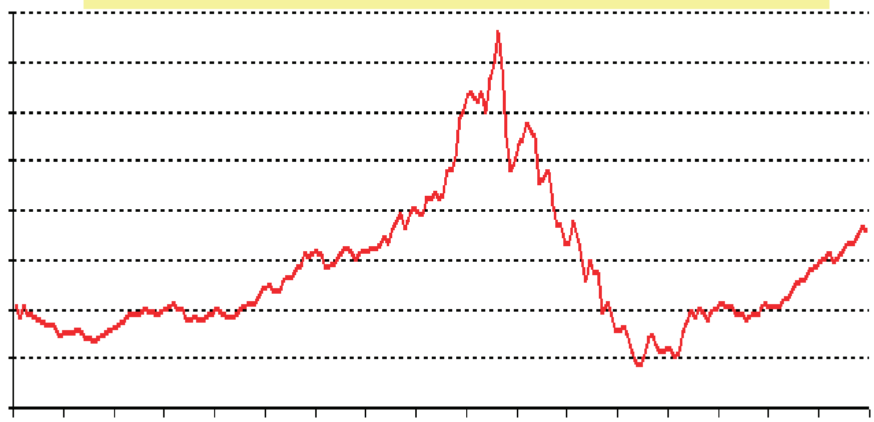
We know now that as the millenium ended the investing world was being watched closely by intelligences supposedly greater than average man. The experts proved to be fallible, again. We know now that as enterprises busied themselves about their various concerns they were scrutinized and studied, perhaps almost as narrowly as a man with a microscope might scrutinize the transient creatures that swarm and multiply in a drop of water.

With infinite complacence people went to and fro over the earth about their little affairs, serene in the assurance of their dominion over this small, spinning fragment of solar driftwood. In some circles, it became difficult to distinguish whether investing was something based on chance or design.

Yet across an immense ethereal gulf, minds that are to our minds as ours are to the beasts in the jungle, intellects vast, cool and unsympathetic, regarded this earth with greedy eyes and slowly and surely drew their plans against us.

In the early years of the 21st century came the Great Disillusionment. Although business was better following a recession, the market carnage was far from forgotten. Sales were picking up.

**16-Year Trend for General Stock Market**



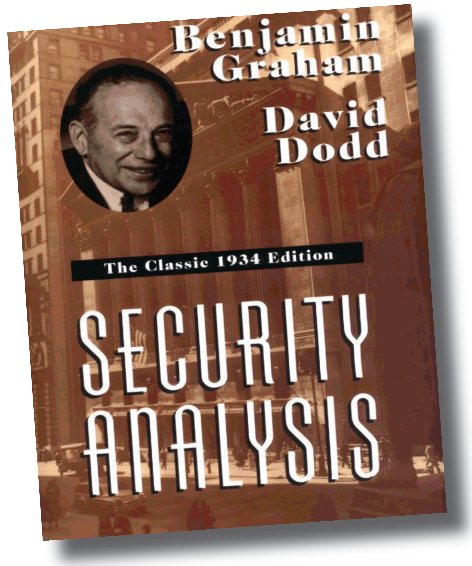
***"...experience [before and after the peak] inspires questions both new and disturbing. We called things 'investments' that covered the crassest and most unrestrained speculation. Heavy losses sustained by conservative investors warrant serious questions about whether there is such a thing as a sound and satisfactory investment. We return to firm ground in the [time-honored] wisdom that WHEN TO BUY AND SELL is as important as WHAT to buy."***

By virtue of retirement investment plans and the like, more people were involved than ever before.

No, the accompanying graphic does NOT chart the market of the late 1990s. The chart and quotes are from a text written by Benjamin Graham and David Dodd in 1934 entitled, "Security Analysis." Some of you also recognized these opening paragraphs as a slight paraphrase of the Orson Welles radio presentation of "War of the Worlds" from October 1938.

*... continued on page 2*

**In This Issue...**




***Benjamin Graham** was a seminal figure on Wall Street. He is considered the father of modern security analysis. As the founder of the value school of investing, Graham influenced such subsequent investment legends as Warren Buffett, Mario Gabelli, John Neff, Michael Price and John Bogle. Benjamin Graham grew up in New York City and graduated and went on to teach at Columbia University. **David Dodd** was a follower of Graham's theories and a fellow teacher at Columbia where he held the post of assistant professor of finance.*

## The More Things Change...

To the best of my knowledge, no Martians are on the rampage on the outskirts of Grovers Mill, New Jersey some 67 years later. But in some ways I feel like we've witnessed a bit of a time warp when looking at the stock market charts for 1920-1935 and how favorably they compare to the picture from 1990-2005. The scales and the names of the "guilty" have changed, but the magnitude and disruption witnessed seem pretty similar.

Graham was deeply troubled by the events of 1929-1933. Twenty years of experience on Wall Street had taught Graham that an overemphasis on the superficial and the temporary is at once the delusion, nemesis and demise for the typical investor. He lamented that "some matters of vital significance, e.g. the determination of the future prospects of an enterprise, actually received little attention in the book," focusing instead on opportunities of fairly extreme undervaluation.

## Vital Future Prospects

At Manifest Investing, the vital future prospect for any investment is the projected annual return (PAR). We make an evaluation of the growth and profitability characteristics for the companies that we study. The result, when combined with a projected average P/E ratio, generates a nominal price expectation for five years from now. We combine the annualized price appreciation with the forecasted average dividend yield to produce the projected annual return expectation.

This approach is quite similar to the thinking of Graham's star student, Warren Buffett. Buffett's advice: When investing in a company, study it, learn all you can about it, and understand where the company will be in 5-10 years and if you buy the stock, hold it. What if the stock market were going to be "closed" for the next five years? Think in terms of how the business operates. How are sales increased? How profitable is the business? How likely is it that the business will remain or increase its profitability? Buffett says, "Don't lose focus on the quality of individual companies." Build a vision as to where you expect your company to be in 5-10 years and cast that vision over your portfolio.

Graham wrote *Security Analysis* to explore "concepts, methods, standards, principles and, above all, logical reasoning." To this day, practitioners of fundamental analysis use what's called a discounted cash flow (DCF) analysis in an attempt to determine the fair value of a stock. The quest is for stocks that are selling at a price lower than their fair value.

DCF is a little complicated for anybody with a math phobia, but let me make an attempt to describe what it is. The value of a business can be broken down into two components. The first component is the value of current assets (after paying all liabilities.) This is the book value, or equity, for the enterprise. One way to visualize this is to think of your residence. Your house has a "street value" that you could sell it for. Most of us also have a mortgage. The book value is the market value of your house minus the balance owed to the bank.

The second component is the sum of future cash flows from the business, corrected for the time value of money. In other words, a forecast of future annual profits is made and adjusted to present day dollars, using a figure for the time value of money.

DCF analysis takes the sum of book value and the discounted cash flows and estimates a current value for the stock. This is how the majority of professional investors attempt to evaluate which stocks are on sale.

Now, think about Buffett's encouragement to close our eyes and imagine a stock market closed for five years. Then, think about the method used to establish our projected annual return (PAR) and our "expected income statement." Building the vision of a price, five years out, and measuring the expected return allows us to identify which stocks are on sale at any given time.

I don't know about you, but I take great comfort in knowing we're thinking about investing, on the wings of Graham and Buffett, all the time.

*Solomon's Select*

# Bed Bath & Beyond (BBBY)

***I can still remember being "bailed out" by Bed Bath & Beyond (BBBY) a few years ago when I started my holiday shopping on Christmas Eve. The stock has bolstered the Tin Cup Model Portfolio for the last five years, providing high returns relative to the general stock market since the bear awakened in 2000. BBBY receives the highest quality rating among the stocks followed by Manifest Investing. When is it time to shop and accumulate more? When the quality is steady and the price is right.***

## Overview & Quality

The company was founded in 1971 in New York and adopted the larger "superstore" format in 1987. The stores sell a broad range of competitively-priced brand domestics and home furnishings (bed linens, towels, cookware and housewares.) 640 stores operate in 44 states. Company management feels there is room for expansion to 1000-1100 stores within the next five years.

BBBY has no long-term debt and operates at industry-leading profit margins. With a financial strength rating of A++ and strong growth and profit characteristics, BBBY earns a quality rating of 95.5 (Excellent.)

## Growth

Growth rates for specialty home retailers in the same category as BBBY have slowed to 10%. The top line growth rates closer to 20% are a thing of the past for the company, although same-store sales and growth of new stores should enable BBBY to continue to generate 15% sales growth going forward. Value Line projects the long-term sales growth forecast at 18%. Morningstar projects growth at 13% over the next five years. We've used a sales growth forecast of approximately 16%.

## Profitability

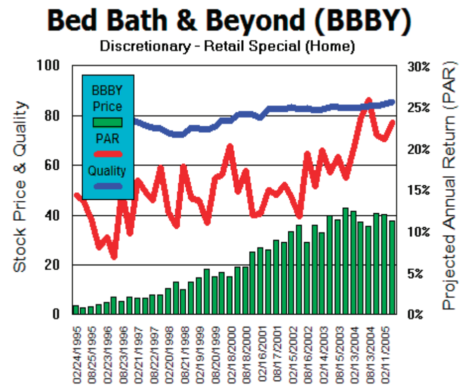
BBBY ranks among the most profitable of all retailers and has a projected net margin of 11.5%. This is ambitious. BBBY's average actual net margin for the trailing 5-year period is 8.3% The average projected net margin for Retail Special (Home) is 5.1%.

## Valuation

The industry average projected P/E is 18.1x and BBBY has a projected annual P/E ratio of 22.5x. We believe this is conservative and has been rapidly reduced in recent months by Value Line, retreating from 30x late last year. With an industry PELT of 1.81, BBBY merits at least 22.5x and probably as much as 26-28x.

## Expected Returns

Based on a price at the time of the study of $42.41, the projected annual return was 19.6%. We've included a snapshot of a 60-Second Equity Analysis spreadsheet for BBBY so you can review all of the assumptions (and calculations if you wish.) BBBY is worth a closer look for accumulation or new positions in portfolios. Sleeping, eating and cleansing rank pretty high on Maslow's hierachy of needs. BBBY has all of these covered.




*Bed Bath & Beyond has consistently earned a high quality rating based on its financial strength, steady results and relatively high growth rates and profitability. The stock price has languished for a couple of years and the projected annual returns are now higher than any time in recent memory.*

| 60-SECOND EQUITY ANALYSIS | | | | | BBBY |
|---|---|---|---|---|---|
| **Bed Bath & Beyond**<br>**Discretionary - Retail Special (Home)** | | | | 29-Jun-05 | $42.41 |
| **Sales Growth Determination** | | | | | |
| Estimated Sales - End of Current Year | | | | 6000.0 | |
| Long-Term Sales Forecast | | | | 11000.0 | |
| **Sales Growth Estimate - Judgment** | | | | 16.4% | 16.4% |
| **Expected Income Statement** | | | | | |
| Current Sales | 1250.0 | 1467.0 | 1305.0 | 1400.0 | 5422 |
| Sales - Five Year Forecast | | | | | 11586 |
| **Net Profit Margin** | | | | 11.5% | 11.5% |
| Shares Outstanding | | 1270 | $4.30 | 295.3 | 295.3 |
| EPS - Five Year Forecast | | | | | $4.51 |
| **Average P/E Ratio - (PELT) Selection** | 1.81 | 29.7 | | 22.5 | 22.5 |
| Projected Average Price | | | | | 101.52 |
| Price Appreciation (Annualized) | | | | | 19.1% |
| Annual Dividend Yield | | | | 0.5% | |
| **Projected Annual Return** | | | | | **19.6%** |
| Financial Strength | | | | A++ | 25.0 |
| EPS Predictability | | | | 100 | 25.0 |
| Industry P/E & Sales Growth Rate | 18.1 | | | 10.0% | 20.5 |
| Industry Net Profit Margins | | | | 5.1% | 25.0 |
| **Quality Rating** | | | | | **95.5** |

*Mutual Fund Manifest*

# NASDAQ-100 (QQQQ)

***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 (11%) and a quality rating greater than 65. The result is an exchange traded fund (ETF), NASDAQ-100 (QQQQ).

What is an ETF? Exchange traded funds are investment products that hold a pool of securities and are designed to generally correspond with a specific index. QQQQ is designed to follow the NASDAQ-100 index composed of 100 of the fastest growing technology and non-financial services companies listed on the NASDAQ Stock Market.

## A Glance in the Rearview Mirror

The annualized total return for QQQQ for the five years ended 6/29/2005 was -16.4%, trailing the total stock market result of -1.1%. QQQQ has no star 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 ranks among the lowest of pooled funds. Annual turnover for 2004 was 7%. The companies in the NASDAQ-100 do not change very often.

## Knowing What You Own

The holdings of QQQQ are profiled below. A quick look reveals a diverse spread of high and lesser quality stocks that generates a portfolio quality rating of 66.4, or excellent. The average sales growth of the group is 12.1%, and this is the primary reason that it's featured here. Compare the overall sales growth forecast for QQQQ versus all of the projected return leaders in the accompanying table and you'll see that it ranks among the highest of all funds.

| **NASDAQ-100** | **QQQQ** | % of | 5/31/2005 | **Quality** | **PAR** | Sales Growth | Yield | P/E | Finl Strength | EPS Pred |
|---|---|---|---|---|---|---|---|---|---|---|
| Microsoft | MSFT | 7.48% | Computer Software (Systems) | 80.2 | 17.4% | 9.5% | 1.3% | 25.0 | 100% | 85 |
| QUALCOMM | QCOM | 5.73% | Telecom. Equipment | 72.1 | 18.2% | 12.1% | 0.8% | 33.5 | 80% | 55 |
| Intel Corp. | INTC | 4.55% | Semiconductor | 61.3 | 14.5% | 6.5% | 1.2% | 25.0 | 100% | 50 |
| Apple Computer | AAPL | 3.50% | Computers/Peripherals | 63.2 | 6.9% | 16.6% | 0.0% | 25.0 | 80% | 20 |
| Cisco Systems | CSCO | 3.48% | Telecom. Equipment | 71.0 | 20.2% | 12.1% | 0.0% | 25.0 | 100% | 35 |
| Nextel Communications | NXTL | 3.27% | Telecom. Services | 48.3 | 10.2% | 4.6% | 0.0% | 19.0 | 50% | 20 |
| Ebay Inc. | EBAY | 2.95% | Internet | 85.8 | 27.6% | 29.5% | 0.0% | 40.0 | 90% | 65 |
| Amgen | AMGN | 2.84% | Biotechnology | 73.1 | 13.2% | 13.3% | 0.0% | 20.0 | 100% | 95 |
| Dell Inc. | DELL | 2.79% | Computers/Peripherals | 71.8 | 12.6% | 9.1% | 0.0% | 28.0 | 100% | 75 |
| Comcast | CMCSK | 2.37% | Cable TV | 38.4 | 9.0% | 7.3% | 0.0% | 30.0 | 30% | 15 |
| Starbucks | SBUX | 2.36% | Restaurant (Fast) | 82.7 | 11.2% | 20.7% | 0.0% | 30.0 | 80% | 100 |
| Oracle Corp. | ORCL | 2.33% | Computer Software (Systems) | 77.3 | 20.4% | 12.2% | 0.0% | 25.0 | 90% | 75 |
| Biogen IDEC | BIIB | 1.87% | Drug | 32.6 | 6.8% | 4.4% | 0.0% | 28.0 | 50% | 5 |
| Yahoo! | YHOO | 1.84% | Internet | 54.3 | 4.7% | 17.9% | 0.0% | 35.0 | 50% | 40 |
| Electronic Arts | ERTS | 1.57% | Entertainment Tech | 66.8 | 13.6% | 14.5% | 0.0% | 27.0 | 90% | 30 |
| Genzyme Corp. | GENZ | 1.44% | Drug | 37.4 | 2.6% | 4.9% | 0.0% | 26.0 | 50% | 25 |
| Maxim Integrated Products | MXIM | 1.41% | Semiconductor (Analog) | 63.7 | 23.6% | 18.5% | 1.0% | 30.0 | 80% | 60 |
| IAC/InterActiveCorp | IACI | 1.38% | Entertainment | 32.3 | 10.1% | 4.4% | 0.0% | 24.0 | 30% | 25 |
| Symantec | SYMC | 1.36% | Computer Software (Security) | 64.9 | 11.0% | 10.7% | 0.0% | 25.0 | 70% | 80 |
| Bed Bath & Beyond | BBBY | 1.29% | Retail Special (Home) | 95.5 | 19.6% | 16.4% | 0.0% | 22.5 | 100% | 100 |
| Linear Technology | LLTC | 1.23% | Semiconductor (Analog) | 68.8 | 20.4% | 17.0% | 1.1% | 30.0 | 80% | 60 |
| Apollo Group | APOL | 1.16% | Educational Services | 73.7 | 13.5% | 10.9% | 0.0% | 32.0 | 80% | 95 |
| Biomet | BMET | 1.15% | Medical Supplies (Orthopedic) | 70.4 | 17.4% | 12.1% | 0.6% | 25.0 | 80% | 100 |
| Gilead Sciences | GILD | 1.12% | Drug | 50.9 | 9.9% | 14.9% | 0.0% | 28.0 | 30% | 30 |
| Applied Materials | AMAT | 1.11% | Semiconductor Equip | 64.7 | 19.1% | 11.9% | 0.7% | 20.0 | 80% | 35 |
| | QQQQ | 75.5% | | 66.4 | **14.2%** | **12.1%** | **0.5%** | **27.2** | **80%** | **56.0** |

| Portfolio Analysis | 6/30/2005 | Morningstar Rating | Quality | Proj Ann Return | Sales Growth | Yield | P/E | Finl Strength | EPS Pred |
|---|---|---|---|---|---|---|---|---|---|
| **Fidelity Dividend Growth** | FDGFX | ★★★★ | 66.7 | 15.5% | 7.9% | 2.0% | 19.9 | 83% | 79.2 |
| Fidelity Adv Dividend Growth | FDGTX | ★★★ | 66.9 | 15.3% | 8.1% | 2.0% | 20.0 | 84% | 78.3 |
| Fidelity Equity Growth | FAEGX | ★★★ | 70.3 | 14.4% | 9.1% | 1.2% | 23.7 | 93% | 75.1 |
| **Fidelity Blue Chip** | FBGRX | ★★★ | 73.8 | 14.4% | 7.9% | 1.6% | 21.7 | 95% | 86.0 |
| American Growth | AMRAX | ★ | 55.9 | 14.3% | 9.0% | 0.6% | 23.1 | 78% | 46.8 |
| Fidelity Magellan | FMAGX | ★★ | 65.7 | 14.3% | 7.9% | 1.8% | 20.3 | 86% | 72.4 |
| **NASDAQ-100** | QQQQ | | 66.4 | 14.2% | 12.1% | 0.6% | 27.2 | 80% | 56.0 |
| Janus Fund | JANSX | ★★★ | 59.9 | 14.2% | 9.4% | 0.9% | 25.1 | 76% | 53.3 |
| BlackRock Large Cap Growth | PGIAX | ★★ | 71.7 | 14.1% | 7.3% | 1.4% | 21.9 | 94% | 82.3 |
| Vanguard 500 | VFINX | ★★★★ | 69.6 | 14.1% | 6.8% | 2.2% | 19.7 | 93% | 78.5 |
| Thompson Plumb Growth | THPGX | ★★★★ | 64.4 | 14.0% | 6.9% | 1.8% | 19.1 | 81% | 74.0 |
| **White Oak Growth** | WOGSX | ★★ | 68.6 | 13.9% | 12.0% | 0.9% | 23.1 | 85% | 62.3 |
| Federated Capital Appreciation | FEDEX | ★★★★ | 67.9 | 13.8% | 7.8% | 2.0% | 19.6 | 88% | 70.9 |
| Federated Large Cap Growth | FLGAX | ★★ | 70.2 | 13.7% | 8.7% | 1.3% | 22.4 | 89% | 70.5 |
| Vanguard Growth Equity | VGEQX | ★★ | 66.7 | 13.5% | 11.5% | 0.7% | 25.3 | 83% | 59.8 |
| Dow 30 (Diamonds) | DIA | | 66.6 | 13.4% | 6.1% | 2.4% | 17.6 | 89% | 75.1 |
| Fidelity Growth Opportunities | FAGOX | ★★ | 66.5 | 13.4% | 9.2% | 1.4% | 22.5 | 84% | 70.0 |
| Dreyfus Founders Growth | FRGRX | ★★ | 65.9 | 13.3% | 9.0% | 1.3% | 22.5 | 83% | 68.8 |
| T. Rowe Price Growth | PRGFX | ★★★★★ | 65.8 | 13.2% | 9.6% | 1.2% | 20.4 | 80% | 73.7 |
| **American Century Ultra** | TWCUX | ★★★★ | 69.9 | 13.1% | 10.4% | 0.8% | 23.7 | 80% | 76.2 |

**June 30, 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.*

The financial strength of the QQQQ companies is strong at 80% (A) but the EPS predictability (56.0) is rather dicey. This is due to the earnings volatility of many of the NASDAQ companies. Our interpretation? Some roller coaster moments (good and bad) lie ahead. If that thought haunts you or will cause you to lay awake in a cold sweat at 3 AM, invest in something else. It'd be nice if the PAR were 17-18%, but as you can see, it ranks among the highest of the alternatives reviewed here.

## Recent Decisions

There are no "decisions." The actual companies held by QQQQ will change as there are changes to the 100 companies in the NASDAQ-100 Index. With a portfolio turnover rate of 7% for 2004, changes are relatively rare.

## Expected Returns

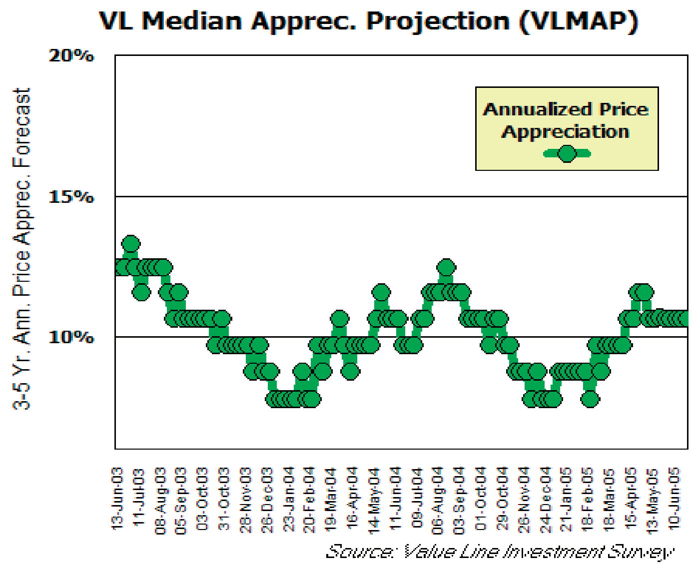
The Nasdaq-100 has ranked among the leading funds listed in this profile for the last several months. There has been recent institutional interest in companies such as Microsoft and Cisco Systems and some of the bruised and battered mutual fund managers may finally be willing to "selectively forgive" some of the technology high flyers for their post-bubble price behavior. QQQQ includes companies from a variety of industries, including computer and office equipment, computer and software services, telecommunications, retail and biotechnology.

The fund has very low expenses (0.18%) and could be used in a portfolio as a balancing component. In other words, if your portfolio needs a little boost to maintain the overall sales growth at sufficient levels, QQQQ could help with that task. Monitor the overall portfolio P/E ratio, too, because this ETF has a fairly high projected average P/E (27.2x). The position is probably best used in combination with blue chip investments with lower growth rates and lower P/Es.

The 14.2% projected annual return is superior to the projected return for the general stock market.

# Sweet Sixteen Screen - July 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 projected annual returns between 16-21% and financial strength ratings of "A" or better.***




### Steeling Away

Home improvement, shopping, a dash of "relatively mature" technology and steel top the list this month. The median projected return for all stocks followed by Manifest Investing (Solomon database) is approximately 11% (6/30/2005.) The Value Line Median Appreciation Projection (VLMAP) as shown in the accompanying graphic is 10.7%. As you can see, VLMAP has been "stuck" at the same level for some time now. We believe that this overall outlook for stocks suggests an emphasis on higher quality and financial strength. This is the reason that the minimum financial strength for the screening setting is for a VL rating of "A" (80%) at this time.

### Worth a Closer Look Now

Recent Solomon Select features Linear Technology, Fifth Third and Oracle continue on the list. They have our permission now to "leave." (This would best be the result of a rising price causing a lower PAR.) You may assume that Bed Bath & Beyond has our permission to join them too. Paychex is a quality company, but does the P/E of 40x seem reasonable for a 14.8% growth rate? Stay tuned for more on the subject of conditioning expectations. New companies include: Nucor Corp, Robert Half, Paychex, Stryker and QUALCOMM.

| Sweet Sixteen 6/30/2005 | Symbol | Current Price | TTM Sales | Growth Forecast | Net Margin | P/E Avg | Fin Strgth | Proj Ann Ret | Quality |
|---|---|---|---|---|---|---|---|---|---|
| Home Depot | HD | $ 38.80 | 74574 | 7.3% | 7.2% | 28.0 | 100% | 21.1% | 72.4 |
| Dollar Tree Stores | DLTR | $ 24.29 | 3165 | 13.4% | 5.8% | 19.0 | 90% | 20.7% | 73.8 |
| **Nucor Corp** | NUE | $ 47.75 | 12852 | 8.0% | 6.8% | 15.0 | 90% | 20.6% | 59.3 |
| Linear Technology | LLTC | $ 36.75 | 991 | 17.0% | 44.2% | 30.0 | 80% | 20.4% | 68.8 |
| Oracle Corp. | ORCL | $ 13.57 | 12000 | 12.2% | 30.8% | 25.0 | 90% | 19.9% | 77.3 |
| Bed Bath & Beyond | BBBY | $ 42.24 | 5422 | 16.4% | 11.5% | 22.5 | 100% | 19.6% | 95.5 |
| Affiliated Computer Serv. | ACS | $ 50.79 | 4300 | 14.0% | 9.2% | 22.0 | 80% | 19.6% | 71.1 |
| **Robert Half** | RHI | $ 24.95 | 2868 | 11.0% | 7.7% | 27.0 | 80% | 19.5% | 56.5 |
| Applied Materials | AMAT | $ 16.20 | 7400 | 11.9% | 23.0% | 20.0 | 80% | 19.0% | 64.7 |
| Masco Corp. | MAS | $ 32.03 | 12288 | 9.9% | 9.0% | 16.5 | 80% | 19.0% | 73.6 |
| Fifth Third Bancorp* | FITB | $ 41.76 | 16.59 | 13.0% | 15.5% | 19.0 | 90% | 19.0% | 75.2 |
| **Paychex** | PAYX | $ 32.85 | 1440 | 14.8% | 26.0% | 40.0 | 80% | 18.8% | 85.7 |
| Cardinal Health | CAH | $ 57.41 | 74650 | 8.9% | 2.5% | 20.0 | 80% | 18.4% | 72.8 |
| Cisco Systems | CSCO | $ 19.36 | 24800 | 11.4% | 24.3% | 25.0 | 100% | 18.1% | 70.1 |
| **Stryker** | SYK | $ 47.80 | 4589 | 12.0% | 17.7% | 28.0 | 80% | 18.0% | 67.8 |
| **QUALCOMM** | QCOM | $ 33.54 | 5374 | 17.8% | 32.8% | 33.5 | 80% | 17.9% | 78.5 |

***Sweet 16 Screening Result for June 2005.*** *Companies shown in bold are new since last month. Screening parameters: Financial Strength "A" (80%) or better. Projected Annual Return between 16-21%. Long-Term Sales Growth Forecast greater than 7.0%. 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 More BBBY

***Our "Tin Cup" model portfolio is a standing feature intended 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.***

***$1,000,000 Rendezvous: 1/11/2009 (+62 days)***

### Design & Performance

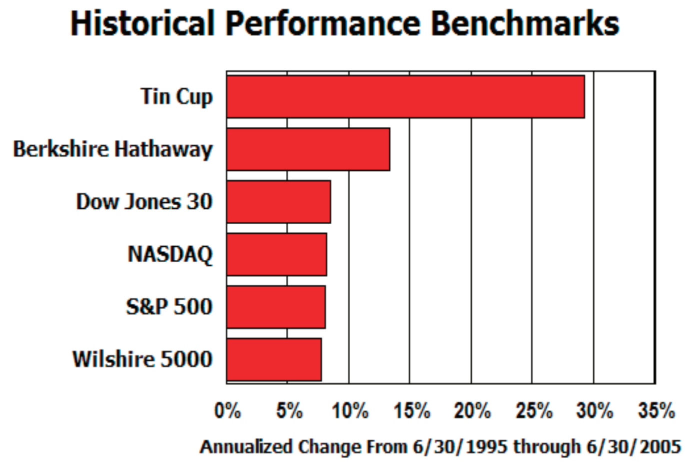
With an average projected annual return of 16.4%, a quality rating of 72.9 and an overall sales growth forecast of 9.8%, all three portfolio design parameters are acceptable. As we mentioned last month, we'd like to use the SDS pending sale as an opportunity to bolster the overall sales growth. (SDS is being acquired and taken private.) Total assets are $584,651 (6/30/05) and the net asset value is $162.99. As the benchmark graph illustrates, the model portfolio has performed at an exceptional level during the trailing ten year period.

### Projected Annual Return

With the Value Line Median Appreciation Projection (VLMAP) at 50% (10.7% annualized) our target range for the projected annual return would be 16-21%. At 16.4%, the portfolio is above the lower threshold. No stocks have been sold during 2005. The 5-Year Treasury is currently yielding 3.75%. No current holding has a PAR close to this selling threshold.

### Quality

Quality and financial strength are sufficient at the current levels of 72.9 (Excellent) and 80% ("A".)




### Decisions

This month's deposit ($1200) was used to accumulate more shares of Solomon Selection Bed Bath & Beyond (BBBY.)

The challenge stock (lowest PAR) for the portfolio continues to be UnitedHealth. UNH's projected annual return is 9.5% after its update this month and this is comfortably above the 3.75% yield for 5-year Treasuries. With the overall portfolio PAR at 16.4% (5.7% greater than VLMAP) no selling evaluations are necessary.

BBBY was selected over other purchase candidates Worthington Industries (PAR = 21.6%), Linear Technology, Paychex and Home Depot. Adding WOR would slightly exacerbate the low overall sales growth and reduce overall quality. Among the remaining candidates with leading PARs, BBBY has the strongest sales growth forecast, a low P/E to sales growth ratio and delivers a small boost to the overall sales growth for the "Tin Cup" portfolio this month.

| Tin Cup Model Portfolio | | % of | 6/30/2005 | Quality | PAR | Sales Growth | Yield | P/E | Finl Strength | EPS Pred |
|---|---|---|---|---|---|---|---|---|---|---|
| Wendy's | WEN | 9.4% | Restaurant (Fast) | 71.0 | 10.9% | 8.4% | 1.1% | 18.0 | 80% | 100 |
| Bed Bath & Beyond | BBBY | 8.4% | Retail Special (Home) | 95.5 | 20.8% | 16.4% | 0.0% | 22.5 | 100% | 100 |
| Health Mgmt Assoc | HMA | 7.9% | Medical Services | 64.3 | 17.9% | 10.1% | 0.6% | 22.5 | 50% | 100 |
| Linear Technology | LLTC | 7.7% | Semiconductor (Analog) | 68.8 | 20.2% | 17.0% | 1.1% | 30.0 | 80% | 60 |
| Home Depot | HD | 7.2% | Retail Building Supply | 72.4 | 20.8% | 7.3% | 1.0% | 28.0 | 100% | 90 |
| Cardinal Health | CAH | 6.8% | Medical Supplies (Distributo | 72.8 | 18.6% | 8.9% | 0.2% | 20.0 | 80% | 90 |
| United Health Group | UNH | 6.8% | Medical Services (Managed | 76.2 | 9.5% | 8.3% | 0.1% | 19.0 | 90% | 95 |
| Masco Corp. | MAS | 6.5% | Building Materials | 73.6 | 18.6% | 9.9% | 2.5% | 16.5 | 80% | 75 |
| Altria Group | MO | 6.4% | Tobacco | 67.8 | 14.0% | 8.9% | 4.5% | 13.0 | 50% | 85 |
| SunGard Data Systems | SDS | 6.3% | Computer Software (Data F | 71.8 | 11.6% | 9.2% | 0.0% | 24.0 | 80% | 100 |
| Synovus Financial | SNV | 6.1% | Bank | 67.1 | 14.2% | 4.3% | 2.5% | 20.0 | 70% | 100 |
| CVS Corporation | CVS | 6.0% | Pharmacy Services | 71.0 | 13.2% | 10.1% | 1.0% | 22.5 | 90% | 80 |
| Paychex | PAYX | 5.7% | Computer Software (Data F | 85.7 | 19.7% | 14.8% | 1.6% | 40.0 | 80% | 85 |
| Worthington Inds | WOR | 4.2% | Steel (General) | 50.6 | 21.6% | 5.6% | 4.3% | 14.0 | 70% | 45 |
| Pfizer | PFE | 3.5% | Drug (Major) | 75.3 | 16.6% | 3.1% | 2.7% | 18.0 | 100% | 100 |
| New Plan Excel | NXL | 1.4% | REIT (Commercial) | 76.6 | 9.9% | 4.2% | 6.0% | 15.0 | 80% | 75 |
| Cash Equivalents | | 0.0% | | | 3.0% | | 3.0% | | | |
| | | 100.0% | | **72.9** | **16.4%** | **9.8%** | **1.4%** | **22.0** | **80%** | **87.9** |

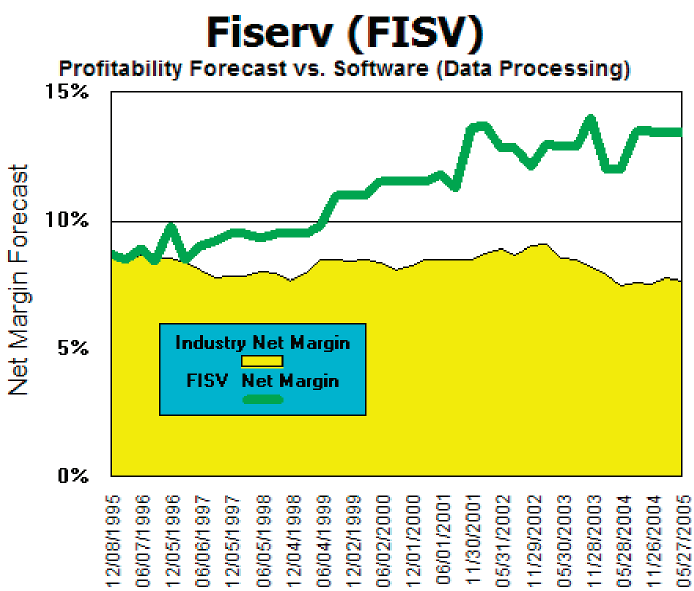
*Subscriber Correspondence*

# Questions & Comments

*The following letter and questions were received from subscribers recently. We'll make every effort to share the most common questions that seem to be of general interest to readers.*

**Bill Thompson:** The June 17, 2005 Fiserv Fervor news brief included a Fiserv (FISV) Profitability Forecast vs Software (Data Processing) chart that shows FISV net margin at 13.5% and the Industry Net Margin at 8 to 9%.

The Computer Software (Data Processing) Industry table shows the average Net Margin of 11.3% (updated 5/27/2005). *(See accompanying charts.)*




**Industry: Computer Software (Data Processing)**

| Company | Ticker | Price | Growth | Net Margin | Quality | PAR |
|---|---|---|---|---|---|---|
| Affiliated Computer Serv. | ACS | $51.79 | 14.0% | 9.2% | 71.1 | 21.9% |
| Auto Data Proc | ADP | $42.28 | 6.6% | 14.5% | 72.2 | 10.9% |
| Ceridian Corp. | CEN | $19.49 | 8.9% | 11.7% | 53.3 | 14.0% |
| Computer Science | CSC | $44.28 | 9.2% | 4.3% | 54.4 | 18.4% |
| Convergys | CVG | $14.40 | 6.8% | 6.8% | 53.9 | 17.7% |
| DST Systems | DST | $46.95 | 8.2% | 12.1% | 64.2 | 7.7% |
| Electronic Data Systems | EDS | $19.42 | 2.0% | 3.4% | 23.9 | 11.4% |
| Fiserv | FISV | $43.14 | 9.4% | 13.5% | 69.8 | 18.4% |
| Paychex | PAYX | $32.73 | 14.8% | 26.0% | 85.7 | 19.9% |
| SunGard Data Systems | SDS | $35.25 | 9.2% | 13.3% | 71.8 | 11.5% |
| Average | | | 9.5% | 11.3% | | |

Does your Software Industry Net Margin include more industries than just Computer Software (Data Processing)? Thanks for the information.

**Manifest Investing:** You're on the right track. It does come down to the companies included in the sample. I thought the companies included in the historical data were listed in the title block? We'll fix that going forward. The companies included in the historical data are: ADP, Affiliated Computer, Computer Science, EDS, Fiserv, Paychex and SunGard Data Systems. Solomon's historical profiles do not include all companies (yet). But the bigger impact in this situation is that we've used a weighted-average for the fundamental characteristics in the historical data. Because of the size (annual sales) of EDS, it reduces the overall average. We're evaluating which makes the most sense during an industry analysis. Any thoughts?

**Bill Thompson:** When you were with NAIC, you provided a Value Line weekly screening of twenty stocks with high PAR and high Quality Ratings. Do you plan to provide that data with Manifest Investing? I do not need this information for investing, however, I do find it interesting to see the PAR movement of quality stocks.

**Manifest Investing:** Of course, the monthly version of this is provided with the e-newsletter. Our intent is to provide a screening capability that would generate that list on demand, any time that you'd want to check it. This resource will be available soon.

**Bill Thompson:** When looking at Computer Software (Data Processing) industry, Paychex PAR is driven by the average P/E ratio of 40x, the highest in the industry. DST Systems has the lowest PAR of 7.7% which is driven by the projected average P/E ratio of 16x. I know Paychex has maintained high P/E ratio over the years, but sales growth rate has decreased with the job growth rates. Do you always use the Value Line average P/E ratio to calculate PAR?

**Manifest Investing:** Great question, Bill. We'll generally display the VL average P/E as the "default" setting. Watch for an article which will illustrate the use of PELT to condition judgments on those P/Es of 40x.

**Contact Us**

*You can write us at Manifest Investing LLC, P.O. Box 81120, Rochester MI 48308. If you prefer e-mail, contact us at manifest@manifestinvesting.com. Every effort will be made to answer your questions individually. Your inquiries, comments and recommendations tell us what you want to see and we'll do our best to provide it.*