Expected Returns

Editor: Mark Robertson, Manifest Investing LLC
Results, Remarks and References Regarding Investment Initiatives

Volume XIII, No. 9
September 2005

Pendulums and Projections

In* The Intelligent Investor*, Benjamin Graham comments that "common stocks, even of [high quality] are subject to recurrent and wide fluctuations in price, the intelligent investor should be interested in the possibilities of profiting from these pendulum swings." There are two ways by which we may try to do this: by way of timing [and outguessing momentum trends] or by way of pricing [or effectively using projected returns to our advantage.] Our quest is to buy at the right prices, avoiding paying too much for our stocks. We achieve this by vigilant attention to the persistent variation in projected returns, seeking to buy when projected returns are sufficiently high and sell when projected returns are too low to support our objectives. Keep your eye on the pendulum.

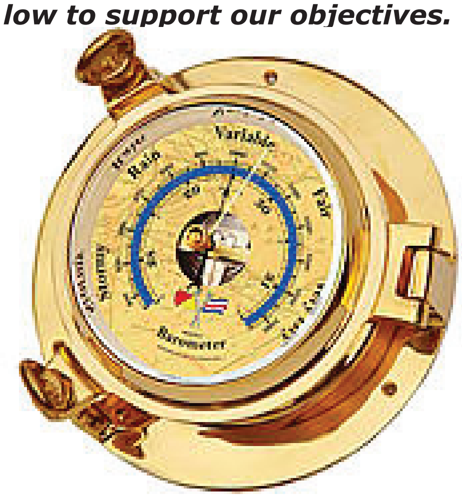
Stock prices fluctuate. Period.

Many of you know that I believe respecting this reality is Rule #1 in investing.

Seeing the pendulum and trusting "gravity" holds a powerful promise for the vigilant investor. "This materializes in either the form of long-term appreciation of a portfolio held relatively unchanged through successive rises and declines, or in the possibilities of buying near bear-market lows and selling not too far below bull-market highs." -- Ben Graham.

You may feel that Ben was getting a little idealistic with those aspirations, but I think we've experienced what he means. The actual annualized rate of return since inception for our family investment club has remained in a fairly narrow range (19-24%) for the last several years, despite the challenges of the 2000-02 bristling bear market. We've seen evidence of this very potential with the Tin Cup model portfolio and how it reacted to the same adverse market.

Vigilant attention to projected returns is the key to success in stock selection and it holds the elusive answer to the When/What-to-Sell question.



Echoing these words from last month's issue and Graham and Dodd's Security Analysis, "We return to firm ground in the [time-honored] wisdom that WHEN TO BUY AND SELL is as important as WHAT to buy." Projected Annual Returns are the barometer for decision-making.

PAR -- A Powerful Barometer

The successful long-term investor makes a focused effort to identify stocks that are undervalued. Although a simple effort on the surface, we know that relying exclusively on current P/Es as a gauge can be misleading and in some cases, even dangerous.

Relying on a comparison of current P/Es relative to some trailing average of historical P/Es can be equally uninformative. This strikes me as the act of driving one's car using only the rear view mirror for navigation.

I also question the wisdom of a fixed target (for example, 15% return) over the long term. If the overall expected return for stocks is 20%, targeting 15% as the criteria of selection is -- by definition -- settling for less and compromising returns. At other times, seeking 15% when overall returns are 8% can be a path to frustration or calamity.

Stock prices fluctuate. So do the projected returns of the stocks which make the market. The successful long-term investor recog-

... continued on page 2

In This Issue...

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nizes these realities and while we emphasize long-term holding of stocks with sufficient merit, regular stock selection and portfolio design and management must be done with "an essential minimum of attention to market levels."

Once again, those are Graham's words. He's suggesting that investing should be generally guided by overall market characteristics. National Association of Investors Corp (NAIC) co-founder George Nicholson, Jr. warned investors that "...results may be very erratic if investors go into lower-quality stocks as a bull market progresses."

The warning is extremely important to avoid the speculation and temptation of exorbitant projected returns. Those who bought lower-quality stocks in early 2000 probably suffered heavy casualties to their portfolios and long-term actual returns. It's too bad that very little guidance is offered as to what a bull or bear market actually looks like.

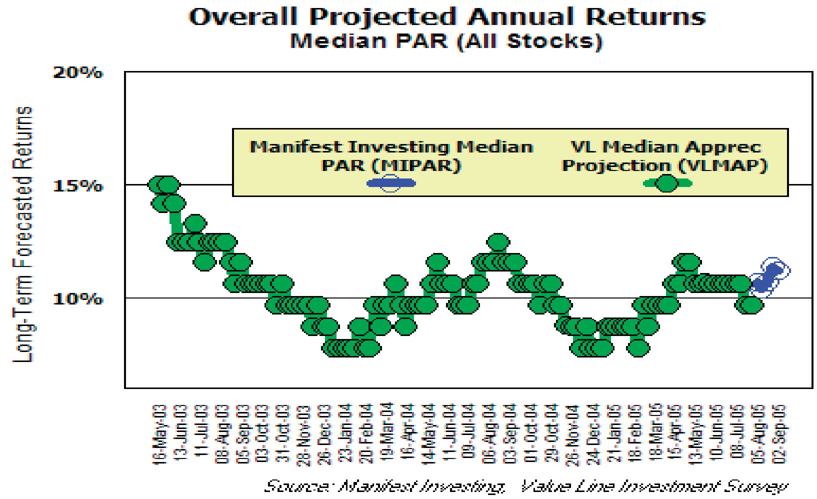
We define quality with the MANIFEST quality rating. But how might we define what a bull or bear market looks like? How might it guide our general research and stock selection efforts?

The answer lies in (1) projected annual returns (PAR) for individual stocks, and (2) the collective, median PAR for all stocks followed by Manifest Investing -- now over 2400 companies.

It's a natural extension of Rule #1.

It's a given: IF "Stock prices fluctuate," (and they do) THEN "Projected Annual Returns fluctuate."

We build PARs for all companies based on some core characteristics and forecasts. PAR is the combination of price appreciation and projected dividend yield for any company. Price appreciation is, quite simply, the annualized change between the current price and a projected price. (We use five years as the time horizon.) The future price is projected based on current sales, a sales growth forecast, projected net margins and average P/E ratios.



The Manifest Investing Median PAR (MIPAR) *replaces VLMAP in the methodology effective 9/1/2005. The long-term range has been 8-20%.*

By using these core projections (assumptions and judgments) we build an expectation for nominal conditions in the future.

If we believe that the individual projected returns have merit for decision-making, what might the collective projection of all stocks we follow tell us? How might this be used to implement Graham's insistence that "general attention to market conditions" matters. The big picture matters. It really does.

Introducing MIPAR ...

Manifest Investing tracks, on a daily basis, the median PAR for all stocks currently covered in the Solomon database. Although company fundamentals (forecasted sales growth, current sales, profitability forecasts, shares outstanding, projected dividend yield and projected average P/E ratio) only change every 91 days, 1/3rd of Solomon changes every month. With all other characteristics constant, when stock prices fluctuate, PARs fluctuate. You monitor these fluctuations with your Portfolio Dashboards and the PARs displayed by Fundamental Forecasts.

The "collective projection" matters too. Going forward, we'll routinely display the ***median PAR*** for all MANIFEST stocks, dubbing it MIPAR. It's function will replace our use of the Value Line Median Appreciation Projection (VLMAP) if for no other reason, VLMAP doesn't include the total return component from dividends. MIPAR will also be more dynamic, granular and timely.

How is this incorporated into the MANIFEST methodology for stock selection and portfolio design and management?

If stock prices fluctuate, and PARs fluctuate, THEN "Sweet Spots" fluctuate. We had defined the sweet spot as a 5-10% range greater than VLMAP. We'll now substitute MIPAR for VLMAP in the strategy, yet continue to seek the 5-10% incremental advantage. In practice, with MIPAR currently at 10.9% (9/1/2005) our purchase target range would be 15.9-20.9%. Assertive and risk-tolerant portfolios might target a minimum portfolio PAR of 15.9%. (Tin Cup is at 16.2% overall.) Our search for an "attentive measure of market levels" leads us to MIPAR, our market barometer.

Solomon's Select

Yankee Candle (YCC)

"It all started with a Christmas gift for Mom in 1969." 16-year-old Mike Kittredge, too broke to buy his mother a present, melted some crayons to make her a candle. A neighbor saw it and bought the candle from Mike. With that small stake, he bought enough to make two candles -- one for his Mom and another to sell. That was the birth of Yankee Candle.

From its growing base of retail stores and retailers, to new lines of candles, candle accessories and home fragrance products, Yankee Candle has come a long way since melting down crayons.

Disruptions in comparable sales and rising energy costs have dealt many retailers a stock price setback. YCC is not immune. But the long-term perspective burns fairly brightly for this leading provider of baby boomer favorite for upscale gifts. Yankee Candle has recently dropped in price from $34.6 to $27.47.

Growth

The sales growth ***forecast*** for YCC has slowed from 18-19% in 2001 to 10-12% in the last year or so. Value Line projects the long-term sales growth forecast at 11.0%. Morningstar observes that "revenue growth has been 16% annually for the trailing five years... and that growth will continue, although at a slightly slower pace than the past five years." We've used a sales growth forecast of approximately 11.0%.

Profitability

Yankee Candles ranks as the most profitable of all household products companies and has a projected net margin of 15.7%. YCC's average actual net margin for the trailing 5-year period is 14.3%. Although we've stuck with the 15.7% forecast in the accompany equity analysis, reducing this to 14% during a stock study reduces the PAR to 15.5%.

Valuation

The industry average projected P/E is 17x and YCC has a projected annual P/E ratio of 17.0x. We believe this is slightly conservative, the industry PELT is 2.62, YCC probably merits a higher projected long-term average P/E. YCC has a trailing 5-year average P/E of 18.3x.

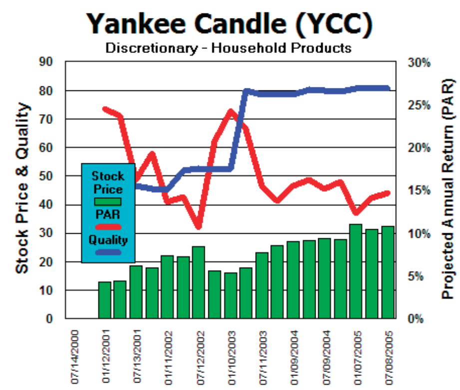
Expected Returns

Based on a price at the time of the study of $27.47, the projected annual return was 18.1%. See the accompanying snapshot of a 60-Second Equity Analysis.

Quality & Conclusions

YCC has long-term debt at 44% of total capital with a long-term debt/capital forecast of 30%. The average forecasted long-term debt characteristic for household products companies is 30%. With a financial strength rating of A and strong growth and profit characteristics, YCC earns a quality rating of 84.2 (Excellent.)

Hold this candle up to your crystal ball. How does it look from a long-term perspective?



Yankee Candle has provided buying opportunities in the past (see early 2001 and early 2003.) The apparent quality upgrade in early 2003 reflects the Value Line financial strength upgrade from B+ to A and the initiation of an EPS predictability rating. The current 18% PAR would rank as one of the higher expected returns on the historical chart.

EQUITY ANALYSIS GUIDE					**YCC**
Yankee Candle (YCC) **Discretionary - Household Products**				31-Aug-05	$27.47
Sales Growth Determination					
Estimated Sales - End of Current Year				610.0	
Long-Term Sales Forecast				925.0	
Sales Growth Estimate - Judgment				11.0%	11.0%
Current Sales	140.0	110.0	119.3	218.9	588.2
Sales - Five Year Forecast					991
Net Profit Margin				15.7%	15.7%
Forecasted Shares Outstanding		145	$3.40	42.6	
Shares Outstanding				41.0	42.6
EPS - Five Year Forecast					$3.65
Average P/E Ratio - (PELT) Selection		3.00	33.0	17.0	17.0
Projected Average Price					$62.10
Price Appreciation (Annualized)					17.7%
Annual Dividend Yield				0.4%	
Projected Annual Return					**18.1%**
Financial Strength				A	20.0
EPS Predictability				85	21.3
Industry P/E & Sales Growth			19.5	6.5%	21.2
Industry Net Profit Margins				9.0%	21.8
Quality Rating					**84.2**

Mutual Fund Manifest

Federated Capital Appreciation (FEDEX)

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. Our emphasis in the study of mutual funds is not on where the fund has been, but where it seems to be going.

This Month's Fund Finding

The list was culled for mutual funds with the following characteristics: Projected Annual Return (PAR) greater than the total stock market (11.2%), a quality rating greater than 65 and a financial strength rating of 80 or better. The result is Federated Capital Appreciation (FEDEX).

A Glance in the Rearview Mirror

The annualized total return for FEDEX for the 10 years ended 7/31/2005 was 11.4%, leading the total stock market result of 9.8%. This is enough to earn a 3-star rating from Morningstar.

Knowing What You Own

The holdings of FEDEX are profiled below. The list includes a number of widely-held stocks by long-term investors. The portfolio quality rating is 70.2, or excellent. This quality ranking is among the highest for all covered funds. *(See accompanying Mutual Fund Manifest)* The average sales growth of the FEDEX holdings is 8.0%. Note that the overall average expected P/E is 18.8, the second lowest among the top 20 funds. This delivers a favorable P/E to forecasted sales growth ratio (PELT) relative to the comparison funds.

The financial strength (89.2%) and EPS predictability (71.0) of the FEDEX holdings are both strong. With the median PAR for all stocks covered by Manifest Investing at 11.2%, we still think financial strength ratings of A (80%) or more are a pretty good idea. Federated Capital Appreciation has one of the highest financial strength ratings.

Recent Decisions

The fund managers have recently added to the Microsoft (16.1%, 80.4), Wells Fargo (16.1%, 69.7), Morgan Stanley (16.2%, 64.0) and Home Depot (19.9%, 74.4) positions. All of these decisions seem consistent with our outlook for the individual stocks.

Federated Cap Apprec	**FEDEX**	4/30/2005	**Quality**	**PAR**	Sales Growth	Yield	P/E	Finl Strength	EPS Pred
Exxon Mobil	XOM	Petroleum (Integrated)	74.4	5.8%	2.9%	1.9%	14.0	100%	55
General Electric	GE	Electrical Equipment	76.3	15.7%	5.7%	1.8%	24.0	100%	95
Applied Materials	AMAT	Semiconductor Equip	64.8	14.4%	13.0%	0.0%	20.0	80%	35
Altria Group	MO	Tobacco	69.9	12.8%	8.8%	4.5%	13.0	70%	90
Microsoft	MSFT	Computer Software (System)	80.4	16.1%	9.4%	1.5%	25.0	100%	85
Citigroup	C	Financial Services (Div)	61.5	12.0%	8.1%	3.9%	11.0	80%	80
Intel Corp	INTC	Semiconductor	65.7	14.3%	6.9%	0.9%	20.0	100%	50
Gillette	G	Toiletries/Cosmetics	76.5	8.4%	5.5%	0.9%	27.5	90%	85
Cisco Systems	CSCO	Telecom Equipment	70.2	20.5%	11.4%	0.0%	25.0	100%	35
Wal-Mart	WMT	Retail Store	85.0	15.4%	10.5%	1.1%	19.0	100%	100
Medtronic	MDT	Medical Supplies (Devices)	79.1	9.9%	10.9%	0.8%	24.0	90%	100
Wyeth	WYE	Drug (Major)	80.6	8.8%	8.3%	1.8%	15.0	90%	95
Goldman Sachs	GS	Securities Brokerage	58.0	11.8%	10.6%	0.8%	17.0	90%	60
Morgan Stanley	MWD	Securities Brokerage	64.0	16.2%	13.5%	1.4%	15.5	90%	65
Merrill Lynch	MER	Securities Brokerage	61.4	14.8%	11.3%	0.9%	13.5	90%	60
Disney (Walt)	DIS	Entertainment	58.0	18.4%	6.3%	0.5%	25.0	80%	60
Home Depot	HD	Retail Building Supply	74.4	19.9%	8.3%	0.7%	24.0	100%	90
Pfizer	PFE	Drug (Major)	76.7	19.0%	3.1%	2.0%	18.0	100%	100
SBC Communications	SBC	Telecom Services	63.5	10.6%	1.2%	4.5%	16.0	90%	85
Bank of America	BAC	Bank	68.8	14.3%	8.9%	3.9%	12.0	90%	85
J.P. Morgan Chase	JPM	Bank	41.7	16.5%	7.5%	2.7%	14.0	50%	40
EMC Corp	EMC	Computer Storage	55.6	14.1%	12.6%	0.0%	26.0	80%	25
Tyco Intl	TYC	Diversified	55.4	17.4%	5.3%	0.8%	15.0	30%	55
Wells Fargo	WFC	Bank	69.7	16.1%	9.9%	2.1%	16.0	90%	75
Pepsi Co	PEP	Beverage (Soft Drink)	91.3	12.1%	8.0%	1.8%	22.0	100%	95
	FEDEX		**70.2**	**13.3%**	**8.0%**	**1.7%**	**18.8**	**89.2%**	**71.0**

Portfolio Analysis	8/31/2005	Morningstar Rating	Quality	Proj Ann Return	Sales Growth	Yield	P/E	Finl Strength	EPS Pred
Fidelity Dividend Growth	FDGFX	★★★★	67.8	16.0%	7.8%	1.5%	19.6	84.5%	77.0
Fidelity Magellan	FMAGX	★★	68.2	14.3%	8.0%	1.5%	20.2	85.8%	74.0
American Century Ultra	TWCUX	★★★	71.8	14.2%	11.1%	0.8%	23.7	83.4%	75.0
Thompson Plumb Growth	THPGX	★★★★★	64.9	14.2%	7.1%	1.4%	19.1	80.6%	72.0
NASDAQ-100	QQQQ		67.1	14.0%	12.6%	0.5%	26.6	78.4%	58.0
Fidelity Adv Equity Growth	FAEGX	★★★	72.8	14.0%	10.5%	1.0%	23.2	91.8%	74.0
White Oak Growth	WOGSX	★★	68.1	13.9%	13.0%	0.6%	24.1	84.1%	59.0
Federated Capital Appreciation	FEDEX	★★★	70.2	13.3%	8.0%	1.7%	18.8	89.2%	71.0
Fidelity Blue Chip Growth	FBGRX	★★★	71.8	13.2%	8.8%	1.3%	22.1	91.2%	77.0
BlackRock LargeCap Growth	PGIAX	★★	69.3	13.1%	7.9%	1.1%	21.1	87.9%	76.0
Vanguard 500 Index	VFINX	★★★★	68.5	13.1%	6.5%	1.9%	18.9	91.6%	77.0
Jensen Fund	JENSX	★★★★	75.4	12.8%	7.6%	1.4%	21.8	89.2%	93.0
Janus Fund	JANSX	★★★	61.0	12.8%	8.8%	0.8%	24.7	77.2%	57.0
Legg Mason Value Trust	LMVTX	★★★★★	50.2	12.8%	10.2%	0.7%	20.8	56.3%	43.0
T.Rowe Price Growth	PRGFX	★★★★	65.7	12.7%	9.8%	0.9%	22.2	79.3%	66.0
Fidelity Adv Growth Opp	FAGOX	★★	66.3	12.7%	9.1%	1.3%	21.5	80.8%	67.0
Federated LargeCap Growth	FLGAX	★★	68.0	12.7%	9.3%	1.0%	21.4	82.4%	67.0
Vanguard Growth Equity	VGEQX	★★	67.3	12.6%	11.3%	0.5%	23.9	84.6%	66.0
Dow 30 (Diamonds)	DIA	★★★	67.4	12.5%	6.2%	2.0%	17.6	89.3%	76.0
American Growth	AMRAX	★	56.7	12.5%	9.2%	0.5%	22.0	80.8%	49.0

August 31, 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%) EPS Pred: Average EPS predictability fo holdings.*
Sources: Manifest Investing, Value Line, Morningstar

Reduced positions: Exxon Mobil (5.8%, 74.4), General Electric (15.7%, 76.3), Altria (12.8%, 69.9) and Citigroup (12.0%, 61.5.) These moves -- although a little more mixed -- still reflect reductions in some of the lower projected annual return companies within the portfolio. Exxon Mobil has experienced a strong period of price appreciation and the trimming was definitely in order from the perspective of prudent portfolio management.

Acquisition activity will prompt more portfolio decisions in coming months as Procter & Gambles completes its acquistion of Gillette. MBNA *(not in top 25)* also becomes part of Bank of America.

Expected Returns

The 13.3% projected annual return is superior to the projected return for the general stock market.

This fund was one of several funds caught up in the closed-market trading incident a couple of years ago and has been somewhat tarnished by the association. The holdings are broadly diversified and turnover is a little brisk at 45%. Fund manager David Gilmore (since 2001) concentrates on undervalued large and mid-cap companies and this could bode well for the fund, noting the presence of the Dow 30, Nasdaq-100 and S&P 500 on this month's fund manifest. Some commentary on the "contribution of sector rotation being superior to stock selection" is a bit troubling. The fund performed well during 1995-2001 by sticking to core undervalued opportunities and taking overweighted positions. Recent performance has been more questionable as the fund has aligned more closely with the benchmark index.

The slightly higher expense ratio (1.27%) provides an additional drag on performance.

FEDEX appears to have the potential to return to its favorable historical performance when it ranked in the top decile of all large-cap growth funds. The decisions made in the wake of the Gillette and MBNA transactions will probably tell a lot about what can be expected going forward.

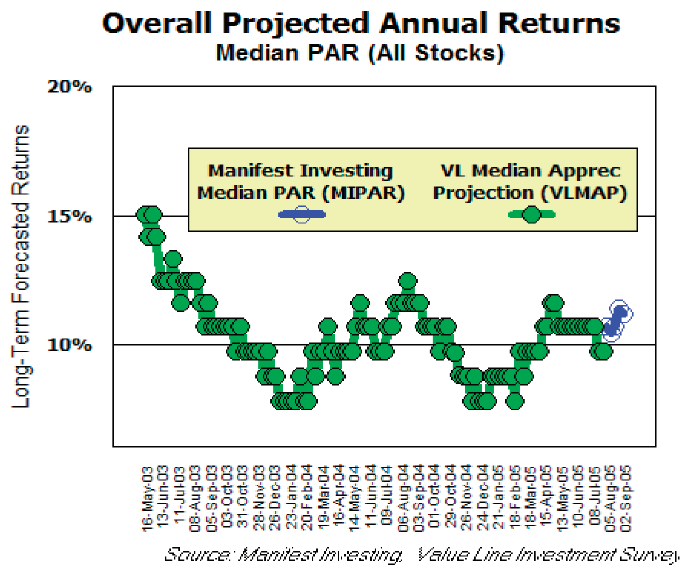
Sweet Sixteen Screen - September 2005

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 16.2-21.2% and financial strength ratings of "A" or better.

Overall Market Expectations

The median projected annual return (MIPAR) for all stocks followed by Manifest Investing (Solomon database) is approximately 11.2% (7/31/2005.) We'll start mapping MIPAR as shown in the accompanying graphic. The difference between MIPAR and VLMAP as shown is simply the amount of projected dividend yield. Our shopping list will always display a set of companies (when available) that have PARs 5-10 percentage points (500-1000 basis points) greater than the median for all stocks.

We believe that this overall outlook for stocks continues to suggest 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

New companies include: Fred's, Bank of New York and Better Homes & Garden publisher Meredith.

Recent Solomon Select features Bed Bath & Beyond, Linear Technology, Fifth Third and Oracle continue on the list.

Sweet Sixteen 8/31/2005	Symbol	Current Price	TTM Sales	Growth Forecast	Net Margin	P/E Avg	Fin Strgth	Proj Ann Ret	Quality
Cisco Systems	CSCO	$ 17.51	24800	11.4%	24.3%	25.0	100%	**20.5%**	**70.2**
Fred's	FRED	$ 13.96	1518	14.1%	2.4%	20.0	80%	**20.3%**	**73.3**
Linear Technology	LLTC	$ 37.62	1050	16.0%	43.7%	30.0	80%	**20.0%**	**67.6**
Home Depot	HD	$ 39.75	76757	8.3%	7.5%	24.0	100%	**19.9%**	**74.4**
Paychex	PAYX	$ 34.13	1490	14.1%	26.5%	40.0	80%	**19.5%**	**84.8**
Fifth Third Bancorp *	FITB	$ 41.41	16.59	13.0%	15.5%	19.0	90%	**19.2%**	**76.0**
Pfizer	PFE	$ 25.48	52604	3.1%	33.0%	18.0	100%	**18.7%**	**76.7**
Yankee Candle	YCC	$ 27.47	576	11.0%	15.7%	17.0	80%	**18.5%**	**84.2**
TJX Companies	TJX	$ 20.91	15498	10.0%	4.9%	16.0	90%	**18.5%**	**68.5**
Bed Bath & Beyond	BBBY	$ 40.55	5391	14.1%	11.0%	22.5	100%	**17.9%**	**91.8**
Lexmark	LXK	$ 62.98	5515	8.4%	10.3%	20.0	90%	**17.8%**	**80.7**
Bank of New York *	BK	$ 30.57	12.75	11.7%	16.0%	18.0	80%	**17.7%**	**66.0**
Cardinal Health	CAH	$ 59.61	74650	8.9%	2.5%	20.0	80%	**17.5%**	**72.8**
Meredith	MDP	$ 49.10	1298	10.2%	10.6%	22.0	80%	**17.1%**	**79.1**
Gallagher Arthur J. *	AJG	$ 28.56	8.85	12.2%	19.5%	18.0	90%	**16.7%**	**74.6**
Pacific Sunwear	PSUN	$ 23.86	1301	12.0%	9.0%	18.0	80%	**16.6%**	**74.7**

Sweet 16 Screening Result for September 2005. *Companies shown in bold are new since last month. Screening parameters: Projected Annual Return between 16.2-21.2%. Financial Strength "A" (80%) or better. Quality higher than 65.0. 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 Masco Corp (MAS)

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.

Company Name	Ticker	Shares	Price	Value	% of Portfolio	Growth	P/E	Yield	Qlty	PAR
Strayer Education	STRA	562.29	$100.92	$56,746	9.5%	15.8%	29.0	0.4%	81.4	12.4%
Wendy's	WEN	1163.42	$47.14	$54,843	9.1%	8.4%	18.0	1.1%	74.6	10.9%
Bed Bath & Beyond	BBBY	1153.53	$40.55	$46,775	7.8%	14.1%	22.5	0.5%	91.8	17.9%
Linear Technology	LLTC	1220.31	$37.93	$46,286	7.7%	16.0%	30.0	0.9%	67.6	19.8%
Home Depot	HD	1066.89	$40.32	$43,017	7.2%	8.3%	24.0	0.7%	74.4	19.6%
Health Mgmt Assoc	HMA	1763.18	$24.32	$42,880	7.2%	10.1%	22.5	0.4%	64.3	19.5%
Cardinal Health	CAH	698.01	$59.61	$41,608	6.9%	8.9%	20.0	0.1%	72.8	17.5%
Altria Group	MO	569.66	$70.70	$40,274	6.7%	8.8%	13.0	4.5%	69.9	12.6%
United Health Group	UNH	749.71	$51.50	$38,610	6.4%	8.3%	19.0	0.0%	76.2	10.0%
Masco Corp.	MAS	1203.48	$30.68	$36,922	6.2%	10.4%	16.5	1.6%	74.7	20.9%
Synovus Financial	SNV	1234.63	$28.77	$35,520	5.9%	4.3%	20.0	2.4%	67.8	14.7%
CVS Corporation	CVS	1186.03	$29.37	$34,833	5.8%	8.6%	22.5	0.3%	69.2	12.9%
Paychex	PAYX	1007.61	$34.13	$34,389	5.7%	14.1%	40.0	1.3%	84.8	19.5%
Worthington Inds	WOR	1554.48	$18.10	$28,136	4.7%	5.6%	14.0	2.6%	50.6	18.1%
Pfizer	PFE	732.64	$25.48	$18,667	3.1%	3.1%	18.0	2.0%	76.7	18.7%
Totals & Averages				$599,513	100.0%	10.2%	22.3	1.3%	73.8	16.1%

Design & Performance

With a portfolio PAR of 16.1%, a quality rating of 73.8 and an overall sales growth forecast of 10.2%, all three portfolio design parameters are acceptable after the changes to the portfolio.

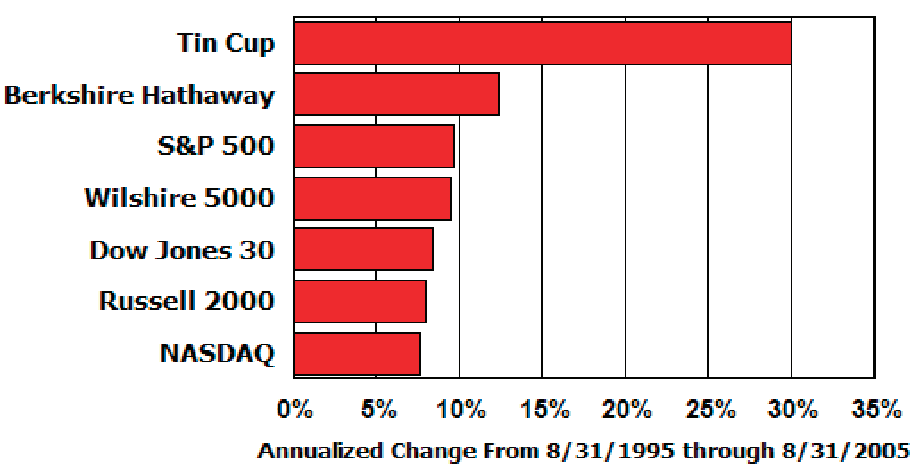
Total assets are $599,513 (8/31/05) and the net asset value is $166.67. After a scorching performance during July, the model portfolio lost 3.0% during August 2005 and is up 21.7% over the trailing 52 weeks vs. 15.5% for the Wilshire 5000. As the benchmark graph illustrates, the model portfolio has performed at an exceptional level during the trailing ten year period.

Projected Annual Return

With MIPAR at 10.9% (9/1/05) our target range for the projected annual return would be 15.9-20.9%. At 16.1%, the portfolio is narrowly above the lower threshold.

If the overall portfolio were to drop to a portfolio PAR less than 5% above MIPAR after this month's updates for the individual holdings (which generally raises PAR expectations) we'd have to challenge the holding with the lowest PAR -- in this case, United Health Group.

Historical Performance Benchmarks



Quality

Quality and financial strength are sufficient at the current levels of 73.8 (Excellent) and 80.0% ("A".)

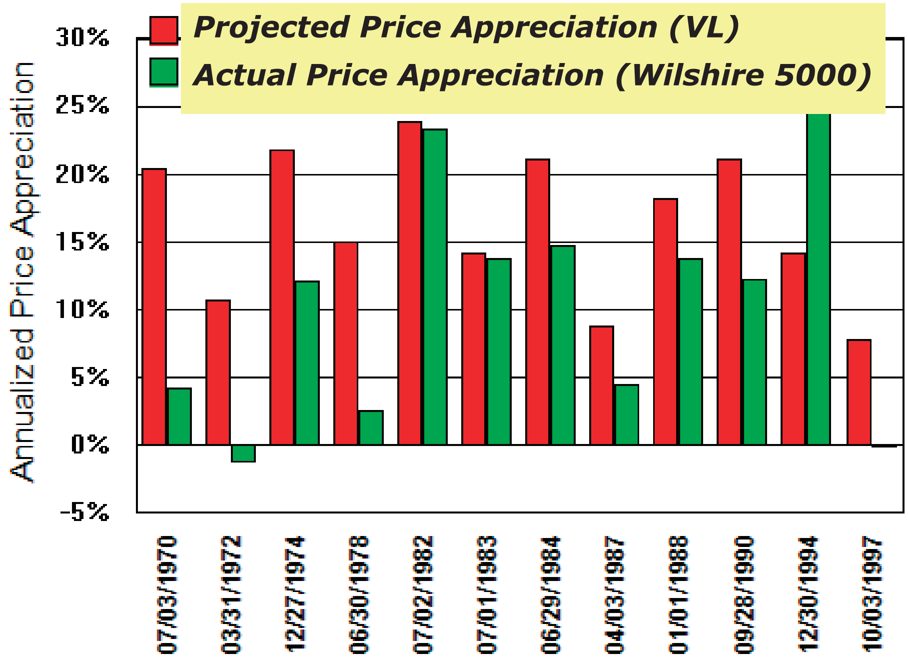
Decisions

This month's $1200 contribution will be invested in Masco Corp with a PAR of 20.9% and quality rating of 74.7. This transaction boosted the portfolio PAR from 15.9% (before) to 16.1%. This raises our stake in MAS to 6.2% of total assets. We now hold approximately 1200 shares of MAS with a cost basis of $21.79 and an average purchase date of 4/10/2001. Our annualized actual price appreciation on the MAS stake is 8.1%.

Upcoming fundamental updates include: UNH and HMA (9/23/05), CAH (9/2/05), WEN (9/9/05) and CVS (9/30/05).

A quick look at an Equity Analysis Guide for UnitedHealth Group displays a PAR of 9.8% using 8.3% sales growth, 7.6% net margin, 1150 for projected shares outstanding and a P/E of 19x.

Peerless Forecasts?



Efficacy of Long-Term Projections. *The projected returns, according to Value Line and their VLMAP indicator, are shown for a number of milestone moments during the last 35 years. The actual returns for the ensuing 4-year period are shown for comparison purposes. The 1972 bear market prognistication came to fruition as did the launch of the bull market in 1982.*
Sources: Manifest Investing, Value Line Investment Survey

Why does Mark Hulbert break out in hives every time that the Value Line Median Appreciation Projection (VLMAP) drops below 10%?

The accompanying graphic provides some some insight. We've chosen some milestone moments over the last 35 years to illustrate the relative levels of VLMAP and to display actual results four years later. We'll start the tour with the heydays of the Nifty 50 back on 3/31/1972. VLMAP was on the decline and had reached a relatively low 3-5 year price appreciation projection of 10%. Disruptions in the national economy, high inflation and sagging P/E ratios four years later led to negative price appreciation as shown.

Sticking with the theme, skip over to 4/3/1987 as the stock market was buzzing during the first half of the year. VLMAP dropped to 7.8% (historical lows) and the 4-year actual return on 4/3/1991 was less than 5%. We see the same story ten years later (10/3/97) as VLMAP reached historical lows. Actual post-bubble returns four years later were negative.

Following Black Friday of October 1987, stocks continued lower into the winter. Note the price appreciation forecast on 1/1/1988 on the heels of the infamous stock market correction. The following 4-year period witnessed one of the higher annualized price appreciation results as returns approached 15%. Flash back to 7/2/1982 and try to remember the sluggish stock market of the prior ten years and the historically high inflation rates at the time. The price appreciation forecast approached 20% (with handsome dividend yields too at the time.) Actual price appreciation four years later reached levels of nearly 24%. This four year period was virtually unprecedented until 12/30/94. After a year of massive interest rate increases and a stock market that lost ground for the year, the price appreciation forecast once again approached 15%. Four years later as 1998 drew to a close, the actual annualized price appreciation approached 25%.

So are the projections 100% reliable and perfect? No, but there's some consistency and intriguing comparisons.

For one thing, with some notable exceptions, the forecasts seem to be fairly consistently optimistic. Over the long term, the forecasts tend to exceed actual by an average of 4-6%. This is commonly manifested in the VL net margin and average P/E projections, in our opinion.

These characteristics are part of the reason we like VLMAP and now, MIPAR, as our stock market barometer. Invest in high quality stocks when MIPAR is low and maintain your portfolio PARs. When MIPAR is historically low, we'll get the heebie jeebies right along with Mark Hulbert.

Contact Us

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