

WESTOVER CAPITAL ADVISORS, LLC
PRIVATE ASSET MANAGEMENT

President &
Chief Investment Officer
H. MURRAY SAWYER, JR.

1220 N. MARKET STREET
SUITE 608
WILMINGTON, DELAWARE 19801-2555

Direct Dial
(302) 427-6988

Fax
(302) 472-1455

E-Mail
hms@westovercapital.com

Independent and Objective Investment Strategies

If you live in the Wilmington community and read *The Greenville News*, *The Hunt Magazine* or the playbill at the DuPont Theatre you may recall seeing our advertisement. The catch line for Westover in all those ads is this: "Independent and Objective Investment Strategies for Preserving and Enhancing Wealth through Separately Managed Accounts."

This quarter's Report deals with the first part of our philosophy, the "Independent and Objective Investment Strategy" part.

Over the last several months the individual investor has seen mutual fund companies, brokerage houses and the leaders of both being anything but independent and objective.

EXHIBIT A: Raymond James Financial settled an enforcement action brought by the Securities and Exchange Commission and by the National Association of Securities Dealers within the last several months, admitting it consistently overcharged its customers who made large purchases of mutual funds.

EXHIBIT B: This news was followed by the revelation that Edward Jones & Co., the Main Street broker of Wall Street, really isn't looking out for its clients' best interests all the time. Nancy Wessels, an 80 year-old widow, invested in the Putnam Vista fund in April 2000 at the recommendation of her Jones broker. What she never knew was that Jones brokers had an especially strong incentive to sell Putnam funds.

You see, in addition to their commissions for the sale of mutual funds in general, they also received more than \$100MM from Putnam and six other fund companies in exchange for recommending those seven companies' funds to their customers rather than competing funds. This common but undisclosed practice is known

in the industry as "pay to play." Tamar Frankel, a law professor at Boston University specializing in mutual fund regulation, says of the practice "The deception is that the broker seems to give objective advice. In fact, he is paid more for pushing only certain funds."

EXHIBIT C: Speaking of Putnam Investments, on March 23rd, its board concluded an internal investigation and disclosed that its general counsel as well as other officers knew about ongoing improper trading by fund managers but failed to report same to the board of trustees.

EXHIBIT D: This past Fall the SEC and the Massachusetts Securities Division charged Putnam with allowing fund managers to skim profits from long term shareholders through rapid market-timing trades by selected clients, including hedge funds. Improper and rapid mutual fund trading after the 4:00pm close is harmful to long term fund shareholders because it depresses the value of their holdings. For example, after hours trading of Putnam international funds by 10 members of a New York-based boilermakers union permitted it to make \$4 million in profits over three years, all to the detriment of remaining fund shareholders.

EXHIBIT E: Bank of America agreed to a \$675MM settlement with the SEC and New York State Attorney General Eliot Spitzer recently for improper mutual fund trading. To put the magnitude of that fine in perspective, it's greater even than the \$613MM fine that the European Union trustbusters are seeking to impose on Microsoft, which if successful would be the largest fine ever assessed by the EU.

In addition, BOA agreed to remove eight directors from the board of its wholly-owned family of mutual funds called Nations Funds. What was even more shocking was that the eight canned directors were so-called outside directors whose very responsibility was to be independent of management, was to be the voice of the fund shareholders!

EXHIBIT F: Think financial plans are objective? Think again. American Express Financial Advisors prepared a financial plan for John Haritos in July 2000 for which he paid a handsome fee. The advice Mr. Haritos received was to transfer all of his assets to American Express and to buy a laundry list of American Express-specific products as well as American Express-recommended mutual funds and annuities, all of which performed poorly.

In the law suit filed by Mr. Haritos this is how American

Express defended itself: it asserted that its written disclosures to clients "are more than enough to constitute 'storm warnings' that [its] Financial Plans might not be as 'objective' or as 'unbiased' as supposedly represented." And this is the defense? Caveat Emptor indeed.

EXHIBIT G: Finally, are you now comforted that the stock research miasma has been cleaned up? Think again. The *Wall Street Journal* reported on March 5th in a front page headline that "increasingly, stock research serves the pros, not the little guy." The article concluded that large institutional clients receive specialized research which is not made available to the investor-in-the-street. Ann Davis, the *Journal* reporter, concluded: "Wall Street analysts have no doubt who it is they need to please: the firms' largest trading clients."

So end the Exhibits. At Westover we pick mutual funds because they meet our client's needs. We don't pick them because we are paid commissions. We certainly don't pick them because anybody pays us to play. So too with our equity research. We don't have large blocks of stock to trade and so we don't get specialized Wall Street research. That's not a problem for us because we do our own. We think we do it quite well thank you, both with respect to mutual fund recommendations as well as with respect to equity choices.

WCA Picks*

Randy took me to Jos. A. Bank Clothiers in Greenville this past weekend. We bought an overcoat which was not on sale but still a great bargain and also bought a pair of pants, two shirts and two sweaters all of which were on sale.

You know that Westover subscribes to the Jos. A. Bank Clothiers investment philosophy, which is to say that we never buy any stock at full retail price. Instead we buy stocks either (1) at bargain prices, such as the price of my top coat or (2) at super-bargain prices, such as when Bank's is holding a sale on shirts.

This quarter's recommendations contain both types of stocks.

SLM is a wide-moat stock focusing on student loans. Those loans

* It should not be assumed that the recommendations made herein will be profitable or will equal or exceed the performance of securities not discussed herein. Securities highlighted in this newsletter may or may not be held in an individual client account. The performance of these stocks, as well as those previously discussed, is not a guarantee or predictor of future stock performance results under any circumstances.

grew 14% to \$88 billion last year with fee income up 28%. It's recently shifted toward the more profitable direct lending and away from buying loans. SLM and partners, J.P. Morgan and Bank One, occupy three of the top four spots for federally backed education loan origination. 92% of its loans are federally guaranteed. It sells today at \$40.96. I would buy this large-cap growth company at anything under \$46. I think this stock is worth \$55 and I expect to hold it until I can sell it somewhere around \$70 per share.

We've talked now about one great Jos. A. Bank stock buy. Let's turn to one good stock to buy. If Westover were managing your account, we would dollar-cost-average this good company over the next thirteen months, buying 20% of its shares for each of these five quarters.

Anheuser-Busch Companies (BUD) is known by one and all. It's a large-cap blend company focusing on beer. The company has 50% of the domestic beer market with its nearest competitors, Miller and Coors, holding 19% and 11% respectively. It has a superb distribution system. The recently introduced low-carb Michelob Ultra was a big contributor to the company's performance last year. While international sales is still a modest contributor to beer volume, it outpaced domestic volume growth by a 5-to-1 margin. There is a significant growing beer market in China. Try Tsingtao the next time you are at a restaurant with a Pan Pacific ambiance. BUD's a minority owner. It's a wide-moat company selling at \$50.32 as I dictate this. I would buy it at anything under \$53, and wouldn't sell it until it pushes \$80.

We're From the Department of Justice and We're Here to Help

In early February a shiver went through my spine as I opened a letter addressed to Westover from the Securities Division of Delaware Department of Justice.

The letter advised me that an Investment Advisor Audit would be conducted on February 26th. An intimidating, two-page list of 40 separate items was to be examined. Included in that list were such things as my most recent Form ADV Parts I and II; the firm's written supervisory policies and procedures; the firm's standard contracts and agreements; promotional brochures, pamphlets and other materials furnished to clients or prospective clients within the last twelve months; any and all performance reports, data or graphs; documents giving WCA authority over client assets; a list of all broker-dealers used by us during the past two years; all order memoranda (which were in the thousands), etc.

The list was endless and intimidating. Nevertheless Jenn and I, with good help from our accountant Geoff Langdon and from our advisors at National Regulatory Services in Connecticut, set about assembling all the requested information. Geoff advised me that notwithstanding my attempts to run the business the way it should be run, that I should certainly expect the audit to reveal business practices upon which improvement could be made.

Two auditors arrived at our door that Thursday. In addition to the items mentioned, they spent the better part of the day going through WCA records. They examined check books, check registers, client accounts, correspondence, Westover's privacy policy, our Blum Shapiro letters, on and on and on. When they left they took several client files and called with various follow up questions.

On March 9th I received the verdict:

"Dear Mr. Sawyer:

As a result of the Investment Advisory examination conducted on February 26th, 2004, the Delaware Securities Division has determined that no violations, deficiencies or areas of concern regarding the business practices of Westover Capital Advisors, LLC were found."

A one hundred percent clean bill of health. I could not be happier. Hallelujah!

A "Listen to the Music" Quiz

The Doobie Brothers (now there's a '70's band!) sang the song "Listen to the Music." It was written by their pre-Michael McDonald lead vocalist, Tom Johnston. I think from now on it will serve as an anthem for Westover, both with respect to music about which I write as well as with respect to what's going on in the markets. Now here is WCA's quiz with real value.

Stevland Judkins, better known as Stevie Wonder, is immensely and multi-talented as a musician, singer, arranger and producer. In my judgment he is one of a handful of musical geniuses of the rock and roll era. On what mega-hit song of his can you hear a back up musician frantically whispering, "What key? What key?" as the instrumental bridge in the song is about to end? To the first person correctly answering this quiz, you will receive Westover's Investment Audit without charge.

And remember, if you want independent and objective investment advice for preserving and enhancing wealth, you know where to come. We won't give you a song and dance.

I hope to talk to you soon.

April 2004