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**What'd He Say?**

**The Lesson Ray Charles Left Westover Capital**

It was the Spring of 1962 and I was in the small New England town of Exeter, New Hampshire attending one of the nation's so-called elite boarding schools, Phillips Exeter Academy. I was 16 years old, a junior and living in a prep school with all white male students. (Both gender co-education as well as ethnic and racial diversity were ideas not yet adopted as the norm.) A.J. Lonian, a fellow junior from Enid, Oklahoma, was my only friend of the African-American race and was one of only 5 black students in a school of 2,000.

A.J. turned to me in English class one day and said, "Have you ever heard Ray Charles?" I hadn't. That night I listened enraptured as The Genius sang *I've Got a Woman*, *Night Time is the Right Time*, *Georgia on My Mind*, *Hit the Road Jack*, *I Can't Stop Loving You* and most importantly, *What'd I Say*. From that moment on until he passed, Ray Charles and his music informed and influenced me like no other artist.

Ray Charles Robinson died on Thursday, June 10<sup>th</sup>, 2004 at age 73. His musical career spanned fifty years. His music inspired fellow musicians of all milieus, including Quincy Jones, Bruce Hornsby, Diana Krall, Willie Nelson, Van Morrison and Tony Bennett. Ray refused to limit his music to any one genre. There was not one group but rather a spectrum of fans from all musical avenues who loved and admired his work. He was comfortable with jazz, rhythm and blues, soul, country, easy listening and rock-n-roll. And therein lies The Lesson.

Our investment philosophy at Westover is likewise eclectic and all encompassing. We select investment instruments that will play well with any investment style -- large-cap growth, small-cap value, mid-cap blend, stocks, bonds, mutual funds, rising markets, falling markets . . . you name it.

As you've heard us say many times there is no one church that has all the answers in the investment world. If there were, we would all be True Believers and I'd be in the first pew. My gospel is that I need, as an investment advisor, to be able to find tunes to play in all investment environments, because if I can only croon country, my audience will be limited, and my music will likely be out of favor for a long, long time.

Ray was an inspiration to me as a 16-year old. He continues to be an inspiration to me as a 58-year old. His rendition of *America the Beautiful* will forever be enshrined in our country's culture. His body of work including *You Are My Sunshine*, the instrumental *Hard Times*, *Drown in My Own Tears*, *One Mint Julep*, *Unchain My Heart*, *Crying Time* and *Let's Go Get Stoned* are all classics and for all the ages. Ray, you will be sorely missed but *The Lesson* never forgotten.

#### "It's Not Going to be Peaches and Gravy All the Time"

An NBA All-Star, Brad Miller of the Sacramento Kings, mixed those metaphors in response to a reporter's question last season about his performance. He could just as well have been talking about the stock market. Indeed, neither is the market going to be peaches and gravy all the time.

As June came to a close, the stock market gains we enjoyed in 2003 were nowhere to be found in the first half of 2004. While we did not suffer from the endemic losses of 2000-2002, what we did see was a market that was fundamentally flat. On June 30<sup>th</sup> the Dow Jones year-to-date was down 0.18% while the ten-year Treasury note was down 0.47%. The Dow Jones Corporate Bond Index was down 0.35%.

Investors seemed to hold back because of rising interest rate concerns. Commodity prices, particularly oil, prompted concerns about inflation. While it's true that jobs have continued to return to the economy, the most recent month saw a significantly lower number in job growth than anticipated. The real test of a sustainable recovery in the second half of the year will lie with bottom-line corporate profits. Given the normal uncertainty of an election year, continued threats of terrorism, political uncertainty in Iraq as well as other areas of the world, today's markets are presented with a series of hurdles that may prove difficult to jump successfully in the next six months.

Nevertheless, those pointy-headed economists of ours are telling us that the economy is primed for rapid growth and that we will see a 4.6% growth in GDP this year. If true, that would be the

fastest GDP annual growth in two decades.

So, will the last six months of this year be all peaches and gravy all the time for the stock market? I think not. Maybe gravy or peaches but not both. I think we will see a slow but gradual increase in the market indices, provided no uncertain geopolitical shocks hit our system.

And what does this mean for the election? I offer this historical observation. Since 1928 the S&P 500-stock index has had an average return of 16.5% in election years where the incumbent party kept the White House. In contrast, the average return in years when the incumbent party lost the election, the S&P return was but 9.6%. In either case, with the S&P at a meager 0.22% as of July 12<sup>th</sup>, it's got a long way to go to reach either norm. If I were George W. I'd be worried.

#### Stocks to Consider\*

We will be discussing two stocks this quarter. One is Centex (CTX), a mid-cap home builder. The second is a bit of a stretch and a real sleeper: RC2 Corp. (RCRC). It is a small-cap toy and hobby company.

Centex is a one-stop homebuilder. It will sell you a house, loan the mortgage financing, provide title insurance and even provide termite protection once you move in. Typically, it grows internally rather than through acquisitions. It has enjoyed earnings growth of 30% over the past five years. Centex has more than 160,000 lots under control and a strong base for expansion. This provides a nice cushion against future land supply constraints. It "builds where the people are," to paraphrase a famous Depression Era bank robber, Willie Sutton. CTX has more than 80% of the nation's housing starts concentrated in its company markets. Right now it sells for \$43.66, has a market cap of 5,355(\$MIL) and a yield of 0.27%. It wouldn't surprise me to see it reach \$80.00 over the next five years. I would buy it at anything under \$60.00.

RC2 Corp. is a leading designer, producer and marketer of high-quality innovative collectibles and toys targeted at adult collectors as well as children. Its product offerings include automotive, high performance, racing, agricultural, construction

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\* 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.

and outdoor sports vehicle replicas. It markets through multiple channels including retailers, specialty and hobby wholesalers and retailer-dealer networks for original equipment manufacturers such as the John Deere dealer network. It also sells its collectible miniatures through more than 25,000 retail outlets located in North America, Europe, Australia and Asia Pacific. It has a earnings yield forward of 6.62% which is double that of it's toys and hobby industry and is extremely healthy in absolute terms. It should earn \$2.20 per share this year and \$2.50 next. I think it has a 3-to 5-year appreciation potential of approximately 60%-120% above its present price of \$33.59. This sleeper is one to file away in our sock drawer although, because of its risk, I would put a stop loss order on it at \$30.00.

Patience will be a virtue with both of these recommendations. Remember, investing is a long-term proposition.

#### Another "Listen to the Music" Quiz

Last quarter I asked the question: In what Stevie Wonder song can you hear a background musician loudly whisper, "What key, what key?" My college fraternity brother, John Strickland of Bedminster, New Jersey, was the first person on the WCA block to correctly identify Stevie's first hit as the answer, when as a 12 year-old Stevie sang *Fingertips Part II*. Congratulations, John!

My esteemed readers, your question for this quarter is this: Look at the following song titles, think of the lyrics and tell me what it is that they have in common. The first to correctly guess will get an all-expenses paid vacation to 1220 North Market Street, Suite 608, where you will be able to review WCA's Portfolio Analysis of your investments absolutely free of charge! What better incentive could there be than that? Good luck!

<i>Suite: Judy Blue Eyes</i>	Crosby, Stills, Nash & Young
<i>Annie's Song</i>	Kenny Loggins/John Denver
<i>For What It's Worth</i>	Buffalo Springfield
<i>Unchained Melody</i>	The Righteous Brothers

(Hint: It's not the artists. I just offered their names to remind you of the songs.)