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JIMMY AND WARREN

A NOT SO ODD COUPLE AFTER ALL

Readers of this Report know that music plays an important part in my life. Hence it will come as no surprise that the singer, Jimmy Buffett, is an entertainer I much enjoy. In the '70's "Wasting away in Margaritaville" became the anthem for a group of so-called Parrotheads who believed that dropping out of the rat race and living in swimming trunks, T-shirts and Tevas was the only way to go.

Warren Buffett would appear to be Jimmy's antithesis. Warren was born in 1930 in Omaha, Nebraska where he still lives. He graduated from the University of Nebraska and received an MBA from Columbia University. He is the world's second richest man and our most famous American investor. His net worth has been placed by *Forbes* magazine at \$41 billion. To put that number in perspective, should Governor Ruth Ann Minner so request, Mr. Buffett could pay the operating budget for the entire state of Delaware for the next 15 years by himself! If we spread \$41 billion over the Eagles' football field we would not be able to see much of the game. Donovan, T.O. and teammates would be buried in more than 25 feet of dollar bills! Say Warren, can you spare me a dime?

Jimmy Buffett was born on Christmas Day 1946 in Pascagoula, Mississippi. Raised in the Deep South, he dropped out of both Southern Mississippi and Auburn University. His first album, *Down to Earth*, sold a grand total of 324 copies. Having failed as a singer/songwriter in Nashville, Jimmy used an expired credit card to book a flight to Tampa. He ultimately sang his way south to Key West, all the while developing his drunken-sailor persona. His breakthrough came in 1977 with his only top-ten hit single, *Margaritaville*.

So how are the Beach Bum and Iconic Investor similar? Well Jimmy knows a good thing when he sings it. He has used *Margaritaville* as his personal spring board to enormous financial success. He owns a radio station called Radio Margaritaville. He owns Margaritaville Cafes in Las Vegas, Myrtle Beach, Orlando, New Orleans, Jamaica and Cancun.

He sells Margaritaville clothes online. There's Margaritaville Tequila, food recipes, drink mix and recipes. He knows enough about marketing that he still tours. Indeed, in just this month of April he will be in Santa Barbara, Anaheim, San Jose, Las Vegas, Phoenix and Honolulu. Jimmy ain't wastin' away.

Jimmy must have been listening to the wisdom from the Oracle of Omaha, when Mr. Buffett said "Wide diversification is only required when investors do not understand what they are doing." Jimmy has stuck assiduously to his Margaritaville knitting with rousing artistic and financial success.

The Investor also knows how to knit one, pearl two. Warren bought interests in such companies as Coca-Cola, The Washington Post, Gillette, American Express and GEICO before *Margaritaville* was recorded. He still owns them.

His \$11MM investment in The Washington Post Company in 1974 is now worth \$1.7 billion. That 15,300% return is enough to blow one's mind. It certainly looks a tad more attractive than the S&P 500's 1,700% gain over the same period of time. But how many of us would realistically invest in a stock and then simply hold it for more than 30 years? Therein lies the magic. The next time you contemplate selling a good thing, stop and compare that to the benefits of simply holding on.

Nevertheless, a buy-and-hold mindset should never substitute for independent and constructively critical analysis. While holding stocks for the long term is wonderful as a general rule, as with all rules there are exceptions. The exception here is that one should not hold over-valued stocks. Buffett's Coca-Cola offers a good example. In 1999 the share price exceeded \$70 on several occasions. Today it trades in the low 40s. I estimate its fair value at \$55-\$60. This means that over the last five years Warren's return on his Coke (not Jimmy's) has been negative 40%.

These may be times that test men's souls when it comes to stocks which take significant and unexpected dives, but it is also a time for calmness and steadfastness. I believe both Buffets would agree.

WCA's Recommendations*

As I look at the landscape in the years to come I foresee at least two mega-trends. One is the fact that the Baby Boomers are aging and that as we get older we will need more healthcare and related services. The second is that our population is under-educated. Seventy-five percent of all adults lack a college degree.

A health-related company, Dentrte International, (DRTE) is our first suggestion this quarter. It provides CRM software to the pharmaceutical industry. Its sales force and marketing effectiveness solutions improve how pharmaceutical sales forces influence physician's drug-prescribing behavior. It enjoys strong relationships with nearly all the top twenty global players in the pharmaceutical industry. It is strong financially. It is profitable and it has high-growth expectations. It's price-to-earnings, price-to-book, price-to-sales and price-to-cash flow are all less than industry averages and its cash return is a robust 4.35%. It's selling for \$14.97 as we speak while I think I wouldn't consider selling it for less than \$30.

Apollo Group provides post-secondary education to working adults through the University of Phoenix, UOP online and the Institute for Professional Development. It has approximately 240 campuses and learning centers throughout the country. At the end of its most recent quarter it had enrolled 283,000 students. Online students made up more than half of that total. As with Dentrte, APOL shows a very strong balance sheet and historically strong growth. Online enrollments have recently gone up an impressive 45%. Apollo is a cash machine. Operating margins exceed 30%. Its focus on regional accreditation and working adults produces high quality students. The average student is 35 years of age. Half of them receive tuition assistance from their employers. I think this field is only going to get larger, much larger, in the years to come. It's selling for \$76.02 now and I expect it will double in five years.

* 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.

Hopefully, we'll be playing that tune, "Buy-and-Hold My Stocks, Honey" for as long as Jimmy has been singing *Margaritaville* and for as long as Warren has been holding *The Washington Post*. (For those not counting, that's 25 plus years for each).

Listen to the Music

In my last Report I asked you to tell me which 1980's rocker graduated from an Eastern boarding school, scored a perfect 800 on his math SAT and attended an Ivy League school before he started "Working for a Living". Thorpe Moeckel, Managing Principal of Moeckel Carbonell Architects here in Wilmington, was the first person to correctly identify Huey Lewis of Huey Lewis and the News as the guy.

Huey attended Lawrenceville Academy and was accepted at Cornell. He postponed his freshman year to hitchhike around Europe for a year. While on the Continent he learned to play his harmonica and became an accomplished blues player. Although he returned to Cornell with the intention of studying engineering, he dropped out in December 1969 before the end of his first semester and moved back to his San Francisco/Marin County home. There he played in area bar bands for ten years before forming Huey Lewis and the News in 1979.

My hint and reference to one of his songs, "Workin' for a Livin'" was the band's second moderately successful hit. In March 1982 Lewis came to Wilmington to play it at the former Tally-Ho Lounge which was located at the corner of Concord Pike and Naaman's Road. Little did Lewis know that lightning was about to strike.

Within the next four years his group's simple, straightforward rock-n-roll rhythms and words would rocket them to such success that they would play three times to sold out Philly Spectrum crowds and to similarly filled arenas around the world. Harken back to these mid-'80s Huey Lewis & the News songs -- "I Want a New Drug", "The Heart of Rock & Roll", "The Power of Love" and my favorite, "Hip to be Square".

I don't know about you but at age 59 I'm convinced it's still Hip to be Square. And I think both Jimmy, age 58, and Warren, age 74, would agree.