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Less Than One in a Million

March Madness is upon us and as I write this Report LSU, UCLA, Florida and George Mason, the Cinderella of all Cinderellas, are poised to play for the NCAA college basketball championship. For the first time in 26 years no number-one seeded team made the Final Four; and for only the second time in NCAA history, an eleventh seed -- George Mason -- is "going to the dance." Six million bracket sheets were filled out on CBS Sportline.com, ESPN.com and the Yahoo Sports pool. Exactly five people -- that's right, just 5 -- have correctly predicted these Final Four participants. That's less than one in a million.

Of those five, my favorite is Russell Pleasant of Omaha, Nebraska, Warren Buffett's hometown. (There must be something about Omaha that attracts good prognosticators, as Buffet's stock picking ability is the stuff of legends.) Mr. Pleasant is a 46 year-old software engineer who, when filling out his bracket, made a lucky mistake. When he completed his bracket for ESPN.com's 2006 tournament challenge, he thought he was picking George Washington University to reach the Final Four. Instead he mistakenly picked George Mason, round after round. "Man, all those Georges. I knew they were all from D.C. I like Georgetown, too," Mr. Pleasant was recently quoted as saying in *The New York Times*.

Well, I guess this just proves the old adage that my squash buddy Eric Martin likes to say when I hit a lucky winning shot off the frame of my racket instead of off the strings: - "It's better to be lucky than good." But while that may be true in office pools seeking to pick the Final Four contestants, it most certainly is NOT true in picking stocks. In a stock picker's market it is better to be good than lucky. Just ask Mr. Buffett.

Mr. Pleasant's good fortune in picking the wrong George to make it to the Final Four reminds me that first names, as well as last names, can often get confused. If we didn't know Mr.

Pleasant's "system" for picking George Mason to go to the Final Four, we might be inclined to call him a genius. Joe Theismann, ESPN football commentator and former NFL quarterback, defined genius this way: "Nobody in football should be called a genius. A genius is a guy like Norman Einstein." Let's hear it for Joe T. and Norman Einstein and while we're at it, for Russell P. and George Mason too!

Brick by Brick

While it's important to build a portfolio stock by stock, or brick by brick, you sure don't want to shoot them during March Madness. Let's hope your box score in this regard for sure is nicer than the box score for J.J. Redick, Duke's All-American basketball player, and national Player of the Year candidate.

Redick was a member of Duke's 2002 much ballyhooed basketball class. Many consider Redick's class the single best recruited class of all time. That group featured five high school McDonald's All Americans. It was the first, and still only, time so much pubescent basketball talent had committed to one university in one year.

Redick is the all-time leading scorer in Atlantic Coast Conference history. Yet each time Duke played in the NCAA tourney, its star laid an egg. That happened not once, not twice, not three times, but every year the Blue Devils were in the tournament! Redick came up small in each of the four NCAA games Duke lost. A career 43% field goal shooter, he managed exactly half of that, 21.6%, in those NCAA games.

Specifically, he shot 2 for 16 in Duke's regional semifinal loss to Kansas in 2003; 4 for 12 in its Final Four semifinal loss to Connecticut the following year; 4 for 14 in its regional semifinal loss to Michigan State in 2005; and 3 for 18 in Duke's regional semifinal defeat at the hands of LSU this year. That's 13 for 60 in the Duke NCAA tourney losses. Watching Duke last week against LSU, I sensed confusion and fear in Redick's eyes in the second half as shot after shot clanked off the rim. Pardon me for saying this, but he had the look of Jessica Simpson taking the SATs.

That's significant because it shows a pattern: J.J. could score prolifically during the season and early NCAA rounds against weak opponents, but in crunch time when his teammates needed his scoring ability against worthy opponents on a big stage, J.J. got stage fright. Kind of reminds me of Barbra Streisand's fear of live concert performances.

At Westover we constantly look for patterns for our stock picks. Our screens admit very few companies to our "Buy

List." Less than one in a hundred make it each month. We believe every company has a face. We believe the historical numbers of every company show a personality. We try to find stocks which will come up big when we put them in clients' portfolios. And, as you will shortly see, if they come up small, we don't hesitate to dump them.

Duke Coach Mike Krzyzewski is one of the most highly-respected and successful basketball coaches in the nation. One of his patterns is that he does not suffer fools lightly. To actually play for Coach K., it's survival of the fittest. Put in basketball terms, if a McDonald's high school All-American can't live up to his hype, he doesn't play for Duke. Duke typically has what's called a short bench, playing seven or eight men at most. The result is that many of its highly recruited players get "cut" from Duke's actual playing lineup. This year, for example, one 2006 Mickey D high schooler, Eric Boateng from St. Andrews School in Middletown, Delaware, never got off the bench in Durham. And two McDonald's All-Americans from that the 2002 class -- Shavlik Randolph and Michael Thompson -- left Duke early because of lack of playing time.

Speaking of Duke and J.J. Redick, in his final collegiate game he scored a season-low eleven points. The number eleven has humbling significance in another context as well. In a recent National Geographic survey, the percentage of Americans aged 18-24 who could not find the U.S. on a map of the world was eleven. Ouch! Let's hope that U.S. pattern will change going forward. Now you know why we have to watch out for the kids from China, India and the rest of the world.

Get 'Em While They're Hot*

As many of you should know by now, our "magic formula" for investing is to buy good companies when they are cheap. (We sometimes refer to this as the "Jos. A. Banks School of Investing.") Good companies are those which earn high returns on their investments but sport share prices which are low when based on past earnings. We look for a healthy return on capital (operating profit as a percentage of net working capital and net fixed assets), and earnings yield (pretax operating earnings compared with enterprise value, which is market value plus net debt). Given my obsession with identifying good, financially healthy stocks which have been mispriced by the market, I feel as much at home studying

* 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.

income statements and balance sheets as I do sitting in the Dean Dome or Kenan Stadium in Chapel Hill, NC watching my beloved Tar Heel basketball and football teams.

Two McDonald's All-American companies we'd like to recruit for our Hypothetical Portfolio for this quarter are United Parcel Service and a company called Southern Copper.

Southern Copper (PCU) is one of the world's largest copper producers ranking in the top ten in copper production and second in copper reserves. It's both a copper miner as well as a refiner, which enables it to control some of the world's most prized copper assets, including low-cost, long-life mines in Mexico and Peru. It presently has a yield of 9.72% at a price of \$81.75. This means that if it doesn't appreciate one penny, we're still getting a 10% return on capital. Its P/E today is 8.2 while its average P/E is 16.8. Its forward P/E is 7.7 compared to an industry average of 12.6. Its earnings yield is more than twice the S&P earnings yield while its dividend yield is more than 6 times the S&P 500 dividend yield. The industrial materials sector of the market, where Southern Copper resides, is the leading YTD sector at 10.37%. That sector should stay strong the rest of the year. I'm excited about PCU.

United Parcel Service (UPS) is the world's largest express carrier. The firm delivers in excess of 14 million packages per day to customers in the United States and around the world. Its "What can Brown do for You?" ad campaign has effectively emphasized its domestic ground delivery network. It possesses a very wide economic moat with minimal business risk. Its dividend yield is presently at 1.74% on a price that's at \$78.84. I think it's worth somewhere around \$120 or more a share. Looking at UPS's "face," its present P/E, price/book, price/sales and price/cash flow are all lower than its 5 year averages. Simply put, UPS has put itself on sale and I intend to back up the WCA truck. What can Brown do for Westover? We'll find out.

Listen to the Music

We all have heard of and perhaps read books written by a famous personality but in fact ghost written by someone else. One of the best recent examples of this was the book *It Takes a Village and Other Lessons Children Teach Us* by Hilary Clinton which was actually ghostwritten by Barbara Feinman.

The quiz for this report deals with "Ghost Singers." I am going to give you the names of certain rock groups, and in one instance, the name of one singer. In each instance the person who sings lead vocals is not the named singer or named leader

of the band.

Match the ghost singer to his group:

- The Spencer Davis Group (Hint: It was not Spencer Davis)
- Van Halen
- Harold Melvin and the Blue Notes
- The Jeff Beck Group

(Thanks go to my son, Chip, and to last quarter's winner, Doug Stewart, for helping me with this question.)

A \$50 restaurant gift certificate goes to the person who comes up with the most correct answers to the four groups named above. Remember, you play by the Westover Honor System -- family and friends can help, but not the Internet.

Here are some hints. (1) One of the singers is an English-born mega-star of Scottish descent who has been popular since the '60's and who has 27 top ten hit singles worldwide to his credit. (2) Another was an English teenage musical prodigy who at fifteen sang and played the piano for this group with the techniques and poise of a man twice his age. He later played in the group, Traffic. He also enjoyed a number one hit single which won the Grammy Record of the Year in 1987. (3) This Indiana-born singer was a flamboyant, larger-than-life stage presence with a party hearty/surfer dude persona, a long mane of blond hair and skin tight spandex outfits. (4) This singer started his music career by singing gospel music in mid-Atlantic churches and became an ordained minister at age ten. A 1982 car accident left him paralyzed from the waist down.

My favorite ghost singer, however, is not fronting a group but an individual. Elvin Bishop, a guitarist of some renown, had a wonderful one-hit wonder in 1977 that made it to #3 on the pop charts called "Fooled Around and Fell in Love." Bishop is a Chicago blues guitarist who met and teamed up with Paul Butterfield in the early '60's to form the core of the The Paul Butterfield Blues Band. He created and played on several of the first Butterfield albums.

With Bishop on guitar, the song began, "I must have been through about a million girls. I'd love 'em then I'd leave 'em alone. . . But then I fooled around and fell in love. I fooled around and fell in love." There's that number, again -- one million. This song was a million seller but, curiously, Elvin didn't sing a word.

Westover will provide a \$50 restaurant gift certificate to the

first person who, on his or her own and without help from the Internet, can tell me who in fact sang Elvin Bishop's song.

The actual ghost singer for "Fooled Around and Fell in Love" went on to make his mark with the group Jefferson Starship as its lead vocalist. He took that position after the departure of Marty Balin. They later renamed themselves simply Starship. "We Built This City" and "Nothin's Gonna Stop Us Now" are two of the group's subsequent hits with this man singing lead vocals.

We had many correct answers to last quarter's quiz and thank you for playing. The winner was Doug Stewart of Denver, Colorado. Doug is the son of Wilmington's former premier portrait photographer, the late Willard Stewart. Doug was the first to timely identify Aaron Neville as the New Orleans-based Grammy-award winning singer I was looking for.

Good luck. Don't brick it.

If you win either of Westover's quizzes, you might think yourself a genius. You're not. But, Norman Einstein is. Just ask Joe Theismann.

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And if you believe in Cinderella, by the time you're reading this, George Mason may be trying on the March Madness glass slipper. I wonder if Roger Pleasant had them going all the way?

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