

President &
Chief Investment Officer

H. MURRAY SAWYER, JR., ESQ.

Direct Dial
(302) 427-6988

WESTOVER CAPITAL ADVISORS, LLC

PRIVATE ASSET MANAGEMENT

1220 N. MARKET STREET
SUITE 800
WILMINGTON, DELAWARE 19801-2555

Phone
(302) 427-9600

Fax
(302) 427-8900

HMS@WestoverCapital.com

Sometimes Simple is Better

I just returned from an investment conference held in Chicago sponsored by Morningstar. Fifteen of the best investors in the United States offered their insights and investment philosophies. I came away with a strong belief that, in the investment world, simple is better. Warren Buffett has it right when he said in "*The Superinvestors of Graham-and-Doddsville*" that "There seems to be some perverse human characteristic that likes to make easy things complex."

Exhibit A of making easy things difficult can be found in a comparison of a 5-star Morningstar Bond Fund (complex) with the purchase of seven-day commercial paper at Merrill Lynch (easy). In the Morningstar universe of bond funds this particular fund's performance, relative to its peers, is superb. The fund, Loomis & Sayles Fund (NEFZX), is ranked in the second percentile for its asset class this year, in the first percentile over the last three years and in the second percentile over the last five years, making it the Tiger Woods of the bond fund world.

When we buy bonds or debt of any type for Westover clients, it's strictly for yield and portfolio stability. We hold the bonds until they mature when they will be sold at par with no loss of principal. We want only investment grade instruments.

The Morningstar speaker for this stellar fund was Dan Fuss, Vice Chairman of Loomis, Sayles and Company, L.P. Fuss is the co-manager of his firm's Strategic Income bond fund and an acknowledged leader in this realm of the market. As he waxed poetic about the necessary complexities of his fund's holdings, I found myself wondering if the emperor had no clothes.

The fund pays a nominal yield as of July 5th of 5.57%, but it also has a commission charge of 4.5% should you wish to purchase it. Subtracting the commission, the effective yield to an investor today is a paltry 1.07%.

And let's look at fund expenses too because they come right off the top, year after year. They're 1.18%. Adding that charge -- 1.18% -- to the sales charge -- 4.50% -- makes the effective yield on this 5-star fund negative from the get go.

In addition to cost issues, the investment quality of the fund's individual bonds is also less than superb. As Morningstar delicately explains: it has a "rather large weighting in unusual securities." Those unusual securities include structured notes, asset-backed notes, foreign corporate debt, foreign government debt, as well as a super-sized helping of "junk" bonds to the tune of 40.6%.

And when you dig further into the bond details some interesting data spills out. Like the average effective maturity of the bonds held is 8.64 years. Like it holds a little bit of everything from a little bit of everywhere. Like its largest holding, being 10.17% of the portfolio, is a 2.57% Canadian government bond. Like U.S. treasuries make up only 8.57% of the entire portfolio. It even holds 6.13% in equities, this 5-star **bond** fund does.

And, of course, because it's a mutual fund the price at which you buy this fund today and the price at which you sell it tomorrow will not necessarily be one and the same. Depending on the Fed, it could go up or it could go down. Simply put, that complexity -- a fund veritably twisting in knots in search of yield -- is not what I want when we buy bonds. We want to keep it simple.

Compare that expensive, difficult, convoluted product, which you will remember is *summa cum laude* for its class, with something much less complex, and much more straight-forward. On July 5th, I could go to Tracy McGuire at Merrill Lynch on behalf of a Westover client and purchase AAA-rated, investment grade commercial paper in lots of \$25k which pays 5.19%. There is neither a commission to purchase that paper nor any expense ratio associated therewith. I needn't worry about the return of 100 cents on the dollar of my principal either. And it matures in seven days, whereupon I roll it over. I ask you: What's not to like?

There are two elements as I see it to the employment of the KISS (Keep it Simple Stupid) philosophy in the investment world. If you really believe that simple is best, you must (1) "avoid the noise" of the so-called experts and analysts screaming all around you, and (2) have the courage of your convictions to do what's right even when others claim the emperor is wearing his clothes! Do not follow the herd including, for example, buying highly rated bond funds that give you *de minimus* returns with questionable quality, even

from mutual fund companies and managers with sterling reputations.

Here's a visual comparison:

Simple Works

	NEFZX	Commercial Paper
<i>Holdings</i>	Complex	Simple
<i>Commission</i>	4.5%	Nothing
<i>Expenses</i>	1.18%	Nothing
<i>Non-Investment Grade Instruments</i>	>40%	None
<i>Overall Investment Quality</i>	A	AAA
<i>Maturity Length</i>	>8 yrs.	7 days
<i>US Exposure</i>	<10%	100%
<i>Nominal Yield</i>	5.57%	5.19%
<i>Post-Commission and Expense Yield</i>	(0.11%)	5.19%

A Little of This and a Little of That*

The two stocks I will recommend this quarter are both large free-cash flow generators and have each experienced a 52-week lows within the last several weeks.

Medtronic (MDT) is a medical device provider. It's the world's largest medical equipment maker and has a greater than 50% share in its core heart device business. MDT develops and manufactures therapeutic devices for chronic diseases, making implantable products -- pacemakers, mechanical heart valves, stents, insulin pumps and artificial spinal discs. It also holds market-leading positions in the spinal products and insulin pump arenas. It expects to launch three artificial disc systems in the United States in 2007, including the first for cervical discs. Approximately 300,000 patients underwent spinal fusion surgery in 2004, so this is a large and growing

* 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.

market.

MDT frequently finds novel ways to apply its technologies. As an example, it uses the implantable electronic stimulation technology found in its pacemakers to assist people who have overactive bladders or chronic pain. Through its acquisition of Transneuronix, it is leading the way to using implantable gastric devices to induce weight loss. There are more than 250 million overweight adults throughout the world. Obesity is a growing public health concern with few effective drugs available, so this market holds much potential.

Medtronic generates extremely strong cash flows and returns on invested capital in the high teens. It's selling for \$46.73 as I write this Report. On June 30th it hit a new 52-week low and because of that I think it's a perfect time to buy. Don't listen to the noise; have the courage of your convictions. Two years from now we should be sitting pretty.

The next company is a gigantic dividend play offering reasonable growth possibilities too. Telecom Corporation of New Zealand (NZT) is effectively the only telecom service provider in that country, a nation of about four million people. The firm claims 95% of the fixed-line phone business, serving 1.4 million residential and 300,000 business customers. It also serves 1.7 million wireless customers which comprises 46% of New Zealand's wireless market. NZT has a bigger position in New Zealand telephony than Microsoft does in the software world. Warren Buffett says that if you can buy a wide moat company at a good price, to go for it. At 95% of one market and 46% of another it's got a near monopoly in two markets. And legally too!

NZT is trading at \$19.73 per share and offering a mind blowing 10.36% yield. It announced recently that its earnings per share estimate this year would fall by 5 cents from \$2.13 to \$2.08. It also announced that next year its earnings per share would fall from \$2.24 to \$2.01. That short-term noise is what caused it to reach a 52-week low on June 28th. For the next year I expect to sit back and collect a nice 10% or so dividend while the stock meanders around its present price. However, in year two I think that stock will start moving upwards and then we'll have the best of both worlds.

Where Are They Now?

In my last Report I talked about J.J. Redick, Duke's basketball All-American; recommended United Parcel Service (UPS); and mentioned that Middletown, DE St. Andrews grad, Eric Boateng, a McDonald's basketball high school All-American, never left the pine his freshman year in Durham.

Since that Report I'm happy to bring you up to date on the

following: (1) J.J. was named the collegiate Player of the Year and was drafted with the 11th pick in the 2006 NBA draft by the Orlando Magic. (2) Berkshire Hathaway, Warren Buffett's flagship company, recently announced in filings with the SEC that it had recently acquired an interest in UPS. Specifically, he bought 1.43 million shares for \$113.5 million. I'm happy to see Warren is following in Westover's footsteps. (Just joking, Mr. B.). (3) Apparently seeing the light, young Master Boateng left Duke to try to get some playing time and enrolled at Arizona State University.

Listen to the Music

Dr. Mandell Much, a good friend, a highly regarded psychologist here in Wilmington and the best listener I know, was the winner of our music quiz last quarter. He correctly named the lead ghost singers for the following groups:

<i>GROUP</i>	<i>LEAD (GHOST) SINGER</i>
The Jeff Beck Group	Rod Stewart
Van Halen	David Lee Roth
Harold Melvin & the Bluenotes	Teddy Pendergrass
Spencer Davis Group	Stevie Winwood

No one was able to come up with the name for the singer of "Fooled Around and Fell in Love." This song was written and produced by Elvin Bishop, who was also credited with its singing. But actually the ghost singer was Mickey Thomas. Mickey later made his mark with Jefferson Starship leading them on the songs "We Built This City" and "Nothin's Gonna Stop Us Now."

The quiz for this quarter is much easier. You don't need to know anything about music. All you need to know is current events, so truly anyone can win.

Here you go: This American died at age 59 in June of this year in Scottsdale, Arizona from complications arising from a stroke he suffered in November.

He was referred to as the "fifth Beatle". He first encountered the Beatles when they were an unknown band playing in pubs in Germany. He backed them on the albums *Let It Be*, *Abbey Road* and the *White Album*. He was credited by George Harrison with keeping the group together for their last twelve months. And he performed with the Beatles on their legendary "rooftop concert," which was the last time the Beatles ever played live.

Known for his big smile and towering afro, he was a childhood prodigy on the piano and organ. At age 10 he played keyboards for gospel giant Mahalia Jackson. Two years later he

portrayed young blues pianist W.C. Handy in "St. Louis Blues."

He was a session musician for Sam Cooke, Quincy Jones, Sammy Davis, Jr., Aretha Franklin, Bob Dylan, Barbra Streisand and Sly & the Family Stone, and toured with Ray Charles and Little Richard.

As a solo artist he won a 1973 Grammy for best instrumental, "Outta' Space." Mr. X also was known for writing, singing and performing such songs as "Will It Go Round in Circles," "Nothin' from Nothin'" and "With You I'm Born Again." He wrote Joe Cocker's million seller, "You Are So Beautiful." And he lent his gospel-tinged organ to such classics as the Beatles "Get Back" and the Rolling Stones "Can You Hear Me Knockin'".

This Report is mailed all over the U.S., so to make sure every one has an equal chance, call me or e-mail me **on or after 9:00 AM, Wednesday, July 19th** with your answer. The winner will receive a \$75 gift certificate to the restaurant of his or her choice. We're looking here for "noggin" knowledge. That means you can use your mind and the memories of your friends but you can't use the Internet.

As always, good luck and have fun. And remember, when it comes to investing, sometimes simple is better!

July 2006