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What Sergio Garcia Can Teach Us About the Stock Market

As has become increasingly common over the last ten years, the Europeans once again thrashed the Americans in golf's Ryder Cup this September. Leading the charge for the Europeans was a Spaniard, Sergio Garcia. His four wins were more than those of Phil Mickelson, David Toms and Chris DeMarco combined, and were more than any other player for either team.

Golf Digest had the foresight to place Sergio on its cover for its September issue which came out before the Ryder Cup. Under Sergio's cover picture was the headline "Score Better Now!"

-Watson: Bomb Your Drives -Tiger: Stick Your Wedges
-Sergio: Target Your Irons -McLean: Hit it Long & Straight

Flipping to the table of contents I realized there were ten discrete golf tips from the recognized gurus in that field. Tiger Woods told you how to hit a hook; Tom Watson how to find the sweet spot in your driver; Annika Sorenstam advised on how to control your tempo; Butch Harmon told us how top pros handle pressure, etc., etc., etc.

Hmm. . .*Golf Digest* is a monthly publication. If it has 10 hot tips per publication, that's 120 lessons per year. Any self-respecting golfer who read the magazine should significantly improve his game after getting so much free advice from such world renowned golf professionals and golf instructors, wouldn't you say? The reality, of course, is far different.

The same is true in the investment world. CNBC, Jim Cramer and many others offer their own version of "10 Hot Tips for the Month." In September *Smart Money* had one article "uncovering seven inexpensive stocks." It had another recommending three Internet stocks; a third pointed the investor toward ETFs; a fourth talked about five "hot green technology companies." A fifth recommended six small-cap picks. Yet another waxed eloquently about seven stocks that met a "little-known measure of profitability which looks beyond earnings." That's twenty-eight *Smart Money* stocks for September. Ah! If it were only that easy.

Whether you are playing golf or investing in the stock market, it just isn't quite as simple as the publications would have us believe. What I do for a living, I do professionally. I work at it diligently, systematically and always in a disciplined fashion. Just as there are different golf swings that work, they only work because of their consistency and repetition. For you golfers, think of Jim Furyk's swing as compared with Tiger Woods'. Likewise, in the investment world there are different but successful investment philosophies. Compare Warren Buffet's approach to long term value-oriented holdings with the disparate view of Peter Lynch. In the 1990s Lynch was the champion of an investment philosophy called "growth at a reasonable price" or GARP.

At Westover we have our own eclectic philosophy, one founded on the philosophy held dear by Warren Buffett, but also one sprinkled with "growth at a reasonable price" elements as well.

The next time you think you can't miss on a stock by buying that hot tip you've heard at a cocktail party, read in *Smart Money* or seen on CNBC, remember Sergio Garcia. He's a great individual golfer, especially in match play. However I'm not convinced that his golf tips will make you that much better with your golf game.

Was That Heads or Was That Tails?

Some of you may remember the story several years ago involving the flip of a coin in an National Football League division overtime championship game. As I recall, the Pittsburgh Steeler called "heads" when he meant "tails" and then reversed himself. The upshot of the confusion was the other team got the ball and promptly scored. Incidentally, that led to the practice today whereby the umpire lets the coin fall to the ground before he determines whether it's a head or a tail.

Sometimes our newspapers have a hard time telling us whether its heads or tails, too. Witness these two headlines one page apart in *The News Journal* on August 31st. Based on reading just these two headlines tell me what was going on with the economy:

Headline One	Headline Two
"Economic Growth Slows; Analysts Say More to Come."	"Sign of Growing Economy Boosts Dow."

The slowing economy article spoke of the economy's lost momentum since this past spring. It emphasized that the

second quarter's growth rate was the slowest "since the final quarter of 2005."

The second article, the one that emphasized the growing economy, pointed to a gross domestic product report showing the economy expanding at a faster pace than previously thought. It noted that oil prices had dropped to three-month lows and that the Dow Jones Industrial Average was rising.

At Westover we pay scant attention to how the economy or market moves. We try to find "good stocks at great prices" through our bottoms-up approach and analysis. We seek out good companies when the economy is up and when the economy is down. Heads or tails? We don't care; just give us the ball.

A Little of This and a Little of That*

The two stocks I think you should consider this quarter are both well-known, both leaders in their markets. They should be "rainy day" stocks by which I mean, once bought, we should be able to file and forget them. Remember, at Westover we don't buy companies simply because they are good companies. We only buy good companies when they put their stock price on sale.

The first is Johnson & Johnson (JNJ) and the second is Wal-Mart Stores (WMT). In the case of J&J, which is selling at \$64.94 per share, we believe it will reach \$100 per share before it's time to sell. This is a classic growth story in the healthcare industry. Its economic moat is wide and its product mix diverse. Seventy percent of its products are in the first or second position in their respective market categories (assuming its acquisition of Pfizer's consumer products business closes by year-end.) It has a strong pipeline of new drugs and expects to file for as many as ten new approvals in 2007 alone. Pharmaceuticals provide 40% of J&J's revenue. J&J has increased its dividend, which now stands at 2.17%, every year for the past forty-four years, or since John Kennedy was in the White House. That's a pretty strong and consistent track record.

If you've read the popular press, you know Wal-Mart has been taking some heat lately. We like to see that in stocks we buy because it causes their stock price to move south. That's what's happened with this big super-sized discounter. It's selling today at \$48.33 per share, but I believe it can move north of \$75 without too much trouble in the next several

* 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.

years. Its supercenter stores are principally in the South and Midwest which leaves plenty of room to expand where both the Patriots and the Raiders play football. Namely the Northeast and California. Wal-Mart has always been known as a low-cost provider which squeezes costs out of its suppliers. I believe it will start focusing on China as a significant provider of goods thereby driving costs lower still. Remember, this stock will probably do very little in the short-term, but long-term, when we come through its present stock price tunnel, we should be in bright sunlight.

Listen to the Music

Count 'em, we had three winners, in the music quiz of our last report. The singer-musician-musical genius we were looking for was Billy Preston. Nineteen people knew the answer and three replied at 9:00 AM on July 19th as requested. Coincidentally, the S's had it as (1) Pat Sweeney, a Wilmington dentist, (2) Peggy and Mike Snyder from Connecticut, and (3) Steve Siegel, a nationally-recognized tax and estate planning lawyer from New Jersey, all had the correct answer.

Last month Dave Holmes, Ph.D suggested that I occasionally offer a question outside the music realm for those who have interests in other areas. For this quarter's Report we will do just that. Also, in order that there be but one winner, we will change the rules. Now, you can give me your answer at any time. I will put all correct answers in a hat and blindly pick one winner.

This Report's question deals with Philadelphia and one of its sports teams. The Philadelphia Phillies have won a grand total of one world championship in 123 years of playing baseball. Identify the year, name six players and the Delaware-connected manager.

The winner will receive a \$100 gift certificate to the restaurant of his choice. As always, you're on scout's honor. You can use your own mind, that of your friends and colleagues but you can't use the Internet, any year books or other writings. This is strictly a memory quiz.

This one's for you, Doc. Good luck!

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