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### THERE IS A RIGHT WAY AND A WRONG WAY.

The more I study individual companies and mutual funds as potential WCA investment options, the more I have observed they have personalities and characteristics just like humans. Some are true Eagle Scouts -- ethical, straight forward and honest -- while others come straight out of P. T. Barnum's School, apparently believing there's an investor fool born every minute.

Representing the good guys is the family-owned Markel Corporation. Markel is a specialty insurer, providing coverage for unusual risks that normal insurance companies decline to insure. This includes specialty products for summer camps, yachts, sport camps, as well as restaurants and bars. Markel's international business also covers difficult-to-insure risks like marine cargo.

Markel is one of those very few companies which place long term investors' interests first. In contrast to most publicly traded companies which provide quarterly earnings estimates to Wall Street analysts, Markel provides no earnings guidance to Wall Street. By so doing, it avoids the quarterly Beat-the-Number charade, which is a game played between the Wall Street analysts and many public companies, but which can also be a cruel trick played on many unsuspecting, naïve, short-term investors.

In addition to not playing the earnings game, Markel has also declined to join the Wall Street crowd when it comes to executive compensation plans. It uses no compensation consultants or phony benchmarking processes, which typically are only used to justify higher executive pay, thereby providing cover for CEO-friendly boards. Last year Markel's top three executives made about \$600,000 each in salary.

Only three of its top six executives even received restricted stock awards, all of which were modest, while the others received none. It is not uncommon today to see publicly traded companies paying a king's ransom to their executives. Before they were "retired" after public outrage at their compensation, CEO Terry Semel of Yahoo was awarded more than \$71 million dollars in compensation last year, thanks to his board and their compensation consultant's recommendation while

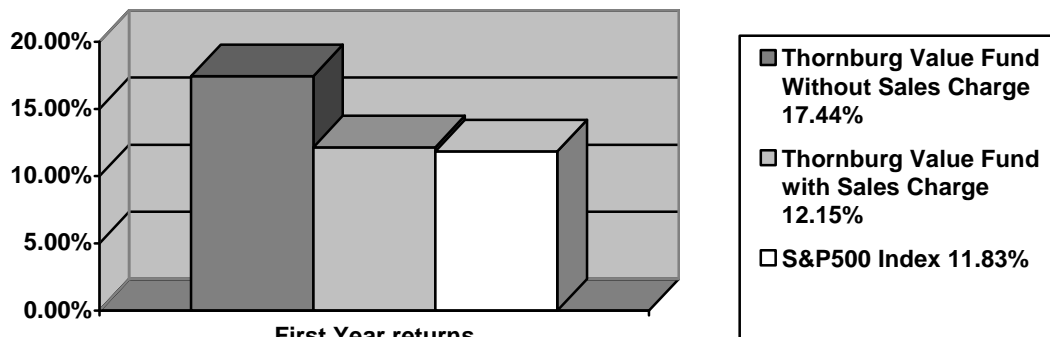
CEO Bob Nardelli topped \$250 million dollars for his last six years at Home Depot.

Neither do Markel's shareholders suffer from the stock options backdating scandal we have seen played out in the last six months. That's because Markel issues absolutely no options at all. "We did have some stock options in the late '80s but we discontinued them. We felt that a stock option was a gift that didn't really create an ownership mentality," Stephen A. Markel, the vice-chairman and grandson of the founder of Markel recently told the *New York Times*. Silicon Valley companies, take heed.

And how has Markel done for us long-term investors, you ask? Quite well, thank you. For twenty years, from 1986 to 2006, Markel's book value, which is a wonderful measure of wealth creation, has increased at a compound annual rate of 23%. Over the last ten years Markel's stock investment returns have averaged 14%. Its shares trade today at \$488 which is more than twice book value.

Markel has been an important holding for certain Westover clients for the last several years and will continue to be. Today, its price is not "fair enough", in their own words, for us to buy. However, Markel's management is one of the best around. Should the stock price drop closer to \$425, we'll load up the truck.

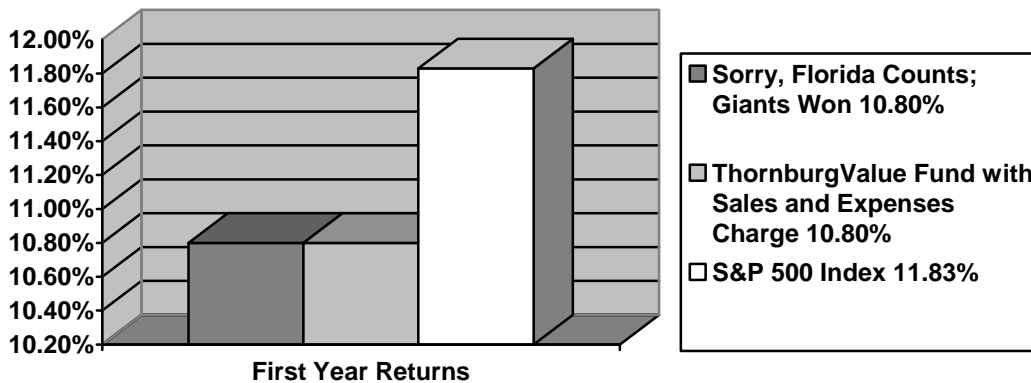
If the actions by Markel are examples of the right way to treat retail investors, then an example of the wrong way may be found with the Thornburg Value mutual fund, at least as advertised in *Financial Advisor* magazine. Those folks, or their ad agency, must truly believe that we are P.T. Barnum fools. In bar graph form they present a comparison of one-year returns as of March 31, 2007. It looks like this:



Were you to look quickly at that chart as you flipped the magazine's pages, you might conclude that the fund did pretty well. It's not quite as it seems, however. For starters, you can't buy the class A shares of this fund without a sales charge. Just as you can't become a client of Westover without paying for our service, so too you can't buy Thornburg's mutual fund shares without paying a 4.5% commission. So, comparing the first year return for Thornburg without its sales charges is like counting national electoral votes in the 2000 presidential campaign without counting Florida. It can't be done.

These folks then compounded their error by excluding annual operating expense charges in the second bar graph. In the footnote to the ad, Thornburg disclosed that its annual fund operating expenses for its A shares are 1.35%. Yet the returns it cited in the bar graphs were gross returns. Put otherwise, they were before operating expenses were deducted. Not counting expenses is like saying the 1951 Dodgers beat the Giants for the National League pennant if you don't count Bobby Thompson's walk-off home run in the bottom of the ninth inning. Baseball games are nine innings long; mutual fund returns are net of expenses. Nobody in their right mind measures mutual funds by gross returns, or who won baseball games before the last pitch is thrown.

The graph really should have looked like the following, but then if it was reported as such it might not have been all that attractive to potential retail investors:



Citing returns in the Thornburg fashion is both misleading and, in my judgment, dishonest. P.T. Barnum might be proud of Thornburg's ad, but for my money I'll take the approach as expressed by the men from Markel Corporation. Interestingly, while I've bought Markel, I've never bought Thornburg Value for any WCA clients, and I don't think I ever will.

### A Little of This and a Little of That\*

This time we are recommending one small-cap as well as one mid-cap stock for your consideration. They are both considerably more growth and momentum driven than are our traditional value selections. Both have hit 52-week highs in the last thirty days. The first is in the legal services insurance arena while the second is in the electrical equipment sector.

Prepaid Legal Services, Inc. (PPD) is an Oklahoma-based insurance underwriter of legal expense plans. The service reimburses the legal fees of its members in a manner which is similar to medical reimbursement plans. As we know, the idea of third-party reimbursement plans has been around for many years in the healthcare context. But it has been difficult securing traction for that same concept in the legal field.

Prepaid Legal seems to have found the key that unlocks that door. It provides closed panel contracts allowing members to gain access to legal services through a network of independent attorneys, each of whom is under contract to PPD. PPD has plans sponsored by national labor unions as well as by AARP and the military services.

This stock is unlike recommendations we generally make. While its present PE of 18.1 is within normal range, its forward PE certainly is not, sitting at a breathtaking 44.1. For another example, Prepaid Legal Services hit its 52 week high on June 4<sup>th</sup> and we don't generally favor momentum plays. It is trading at \$62.20. If purchased, you should intend to hold it for a shorter period than our traditional 3-to-5 years, probably for only 12 to 18 months unless it really surprises on the upside. Just as every dish needs some spice to bring it to life, so this value investor believes that a dash of growth can often times provide the perfect seasoning to our investment stew. As Emeril Lagasse might say were he to purchase Prepaid Legal, "BAM!"

The second spicy stock is Anixter International, Inc (AXE). Anixter is a leading global distributor of cables, wires and connectors used in video, voice and data networks. The

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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. Any security highlighted in this newsletter may or may not be held in an individual client account. Westover Capital Advisors, LLC will provide a list of recommendations made during the past one year upon written request. 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.

company also recently acquired several fastener distributors which sell to original-equipment manufacturers. AXE provides one-stop shopping for more than 300,000 products to customers around the world. North American sales comprise 75% of its revenue, with Europe and the emerging economies contributing the balance. On June 20<sup>th</sup>, AXE hit a 52-week high, and is selling now at \$74.54. This company is certainly not a value play, but growth guru Jim Cramer would love it. Boo-Yah, Anixter!

Its dominance in the wire and cable global distribution business should continue to make it a significant player in years to come. Both its return on assets as well its return on earnings of 8.6% and 26.9% respectively are well above industry averages of 4.6% and 17.7%. Its PEs, both present and forward, are 12.9% and 13.5% respectively. Anixter's earnings trend the last five years has been consistently up, year-over-year. Earnings in 2003 were \$1.13 per share and 2007 projections are for \$5.17. The forward earnings yield of AXE is \$7.19, which compares nicely with an industry average of \$5.93, and yet that forward PE of 13.5 is less than the industry average of 17.6. Like PPD, Anixter is a nice stock to add as a counterpart to our traditional value plays. Let's hope this "AXE" plays as sweetly as B.B. King's, Jimi Hendrix's or Eric Clapton's.

### Listen to the Music

In early May Randy and I had the pleasure of attending a jazz night club, Jazz at the Lincoln Center, in New York. There we heard students from the Julliard School of Music jazz band play pieces made famous by Duke Ellington. Those young people were spectacular. They were clearly the collegiate All-Americans of jazz music. Randy said my fingers tapped the table in rhythm to their music for a full three hours, and I didn't even realize it!

Here is your quiz for the summer. Remember, you can give me the answer at any time. You can guess once, twice or six times. (Hint: there are only six possible results). If I have more than one correct answer, I'll put them all in a hat and let Cat, my assistant, (not Dr. Seuss) pick the winner. You'll get a \$100 gift certificate good for the restaurant of your choice.

Duke Ellington, Count Basie, Dizzy Gillespie were three giants of the American jazz scene from FDR's era thru Ike's. What were their given names? Before you guess, here's a little background on them, their jazz styles and the performers with whom they were associated.

Ellington was best known as jazz composer, pianist and bandleader. Revered for his music worldwide, he was awarded the highest civilian award from the United States, the Presidential Medal of Freedom, as well as from France the Legion of Honor. "Take the 'A' Train" and "Satin Doll" were two of his famous compositions. Two of his more famous orchestral members were Johnny Hodges, who played the alto sax, and Louis Belson, who played the drums. Ella Fitzgerald often sang his scat compositions.

Basie was a pianist, bandleader and composer whose music was characterized as "jumping", with a contrapuntal, idiosyncratic piano beat. "One O'clock Jump" was perhaps his most well known work. Drummer Buddy Rich and trumpet player Clark Terry were members of his band. Billie Holiday, Joe Turner and Frank Sinatra all sang his "Kansas City" jazz compositions.

Gillespie was a Beret-hatted jazz trumpeter and composer, noted for playing a trumpet whose bell was bent at a 45 degree angle with his cheeks puffed out like a blowfish. Before starting his own band, he played in Cab Calloway's band. One of his famous sideman was the saxophonist Charlie Parker. Gillespie was a leading proponent of the "Be-Bop" school of jazz, whose other major proponents included Thelonius Monk and Miles Davis.

Here are the names with which they were born. Place the correct Christian names with each these three jazz giants:

- William James
- Edward Kennedy
- John Birks

Jon Hickey won our last quiz. Jon is a commercial realtor with Emory Hill Realty, the biggest West Virginia Mountaineer fan in the state of Delaware and Dick Hadfield's son-in-law. He properly identified John Swofford as the Atlantic Coast Conference Commissioner. He also identified the deceased singer of "Jean" and "Good Morning Starshine" as Oliver. Oliver's real name was William Oliver Swofford. These two UNC alumni were brothers, classes of '70 and '67 respectively. In accordance with Jon's request, a check for \$100 will be mailed to the Urban Youth Golf Program.

Have a great summer, and hit 'em straight.

July 1, 2007