



Financial Resource 2007

Investment & Financial Planning Insights

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Value and Valuation Focused Investing

In the search for superior returns, investors have tried many approaches. Most have been disappointing because they fail to deliver expected higher returns or only work for brief periods or under special circumstances. On the other hand, the value approach to investing has produced better than market results over many decades in both academic tests and professional use.

What is the value approach? In the classic form it involves selecting stocks for investment from those selling at low prices versus some observable metric such as book value. This concept is at the core of the approach made famous

by Benjamin Graham many years ago and continues to be used by many investors today.

A simple price/book value approach has obvious limitations because a significant amount of a business' value may reside in intellectual capital, trademarks or other assets that do not appear on the balance sheet. So the next logical step is to incorporate additional measures of value into a multi-factor model to more realistically assess potential investment opportunity.

Many attractive, growing companies are excluded from consideration by an absolute valuation process, whether single or multi-factor in

nature. Because of higher historic or prospective growth rates, most growth companies seldom reach necessary absolute discounts to the broad market. A further refinement is to move from an absolute value concept to one that incorporates relative value. This approach greatly broadens the potential field of investment, to include growth as well as value stocks.

Utilizing relative value concepts in a multi-factor model has resulted in portfolios with solid long-term performance and low volatility, compared to the general stock market. These portfolios are well diversified by investment style and market capitalization with excellent long-term absolute and risk-adjusted returns.

To read the full report, go to www.financial-resource.com/cardinal.asp



Cardinal Capital Management is an independent, fee-based SEC-registered investment advisor with an outstanding 15-year history. Cardinal Capital relies on a disciplined, relatively conservative investment model based on our own research. We are dedicated to matching our process with specific client goals, with a major emphasis on the risk-adjusted rate of return. Cardinal Capital Management is located at 2301 Rexwoods Drive, Suite 102, Raleigh, N.C. 27607 Tel: (800) 625-2335, (919) 532-7500 • Fax: (919) 532-7501 • www.cardinalcapitalmanagement.com.

Do Dividends Matter?

There has been a dramatic reduction in the percentage of companies paying dividends. In 1960, two Nobel prize winners suggested that dividends were irrelevant. Since that time, the trend of dividend paying companies began a downward spiral falling from 60% of companies paying dividends down to 20% today. Why would these intellectuals draw such a conclusion? Their work determined that investors should not care whether they receive their investment returns in the form of dividends or capital gains.

With this premise in hand, senior managements of corporations decided they could put the com-

pany's cash to better use than the shareholder would by receiving the dividends. They determined, for the shareholder, that a rising share price was better than income to the shareholder. This conventional wisdom in the investment community remains, companies who retain their earnings will have a higher growth rate. There's good news for the disbelievers out there! Recent research is disproving this concept.

Dividend paying companies are disciplined users of capital and will therefore give investors higher returns with less risk over the long term. Corporate executives have four choices for their

available cash. They can sit on it, invest it, buy back shares or pay dividends. Dividends are the only way to truly give owners a return on their capital. The key for shareholder value is the company's ability to move toward the best combination of these four choices. Payment of dividends imposes some discipline on management who otherwise are predisposed to empire build or buy back shares to help their own option-based compensation plans. To pay dividends displays financial honesty, transparency and confidence in the future...which in the post-Enron era is paramount.

Find out more about what dividends can do for the total return of your portfolio in the full report.

To read the full report, go to www.financial-resource.com/wilson.asp



Wilson/Bennett Capital Management Inc. is a 20 year old large cap concentrated value manager. Wilson/Bennett focuses its portfolio management on identifying intrinsically undervalued companies and acquiring the stocks of those companies as if buying the underlying business. The portfolio is invested with a focus on low turn over, tax efficiency and dividends. Wilson/Bennett manages with a keen focus on achieving outstanding risk adjusted returns. Contact Steven Collins at 703-584-3494 or visit www.wilsonbennett.net

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Short Selling As An Asset Allocation Tool

Short selling was once too exotic and dangerous for individual investors. And while most investors should continue to avoid selling short individual stocks, there are a number of short selling strategies that can help reduce portfolio risk.

For example, today's investors can obtain short exposure through mutual funds or ETFs that sell a portfolio of stocks or indexes short. By combining this diversified short exposure with their long equity holdings, investors can create a hedged or even market neutral portfolio. An actively managed short strategy that is able to limit losses in market rallies can make the long/short mix even more attractive.

But why would an individual investor deviate from a long-only buy and hold strategy?

Certainly investors would have benefited from short exposure during the 2000-2003 market downturn. But some indexes, including the widely following Dow, have gone on to all-time highs. Still, some short exposure may be appropriate for several types of investors. That includes equity investors who want a hedge against a sharp market correction. Others may think the rally off the 2003 bottom has run its course and want to prepare for a resumption of a bear market. Historically long bull markets are followed by long bear markets, and the bull market that ended in

2000 was one of the longest and strongest on record.

It's particularly important for new retirees to avoid losses. Negative returns early in the distribution period will cause savings to run out sooner than if losses are suffered prior to or well into retirement. As a result, new retirees may want to sell stock, or temporarily hedge against stock market losses. An explanation of this phenomenon is presented in online version of this article, along with reasons why we think the long bear market is long overdue.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800.711.1848, or visiting www.prudentbear.com. Read it carefully before investing.

To read the full report, go to www.financial-resource.com/prudent.asp



Prudent Bear Funds

Alternative investing with mutual funds. **Please refer to the prospectus for special risks associated with investing in the Prudent Bear Funds, including, but not limited to, risks involved with short selling, futures contracts, options and restricted securities and investments in foreign and gold securities.** Quasar Distributors, LLC, Distributor(11/06) The information provided herein represents the opinion of Prudent Bear Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Enhancing Your Wealth and Saving Tax with a Delaware Trust

Delaware offers unique advantages for protecting your wealth from tax and liability – preserving more for yourself, your family and your chosen recipients. Delaware trusts are a favored vehicle for this purpose. You do not, however, need to live in Delaware or own assets located there in order to garner these benefits; your trust simply needs to be administered there.

Federal transfer tax rates (at 45% in 2007), rising state taxes and increasing opportunities for potential liability have contributed to personal trusts' growing popularity. Some key Delaware advantages for wealth and risk management include:

- **Saving State Income Tax.** Delaware does not impose state income tax on the income or capital gains of an irrevocable (non-grantor) trust in Delaware where the remainder beneficiaries are non-Delaware residents.

- **Protecting Your Assets and Yourself.** Delaware asset protection trusts ("APTs") can provide strong protection against certain claimants and creditors. Often, a physician, business owner, corporate executive or other professional – typically residing outside Delaware – looks to a Delaware APT to protect his or her selected assets. Corporate executives also can combine the benefits of Delaware asset protec-

tion and a "blind trust" to achieve timely, prudent diversification of restricted stock and nonqualified stock options in a manner that doesn't violate insider trading laws or Sarbanes-Oxley.

- **Transferring Wealth in a Tax-Advantaged Manner.** Delaware allows the creation of perpetual or "dynasty" trusts which can save generation-skipping transfer tax (45% in 2007) on those assets. A Delaware dynasty trust also can be fashioned to properly avoid federal estate tax (in 2007, the highest estate tax rate will be 45%), allowing you to pass more wealth to your heirs.

In short, you can use these and other well-recognized Delaware strategies to protect your capital and preserve more of it for yourself, your family and your chosen recipients.

To read the full report, go to www.financial-resource.com/millennium.asp



Millennium Wealth Management & Private Banking, a division of Harleysville National Bank (founded 1909), provides comprehensive trust, wealth management and private banking services to individuals, families, foundations, endowments and other institutions. For more information on the Delaware advantages, please contact Mr. Ed Ianni, Senior Vice President and Chief Strategy Officer in Delaware, at 302-225-1010 or call 1-888-611-7400. © 2006 Edmond M. Ianni. For more information on Millennium Wealth Management, visit www.mwmpb.com.



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Is Your Life for Money or Your Money for Life?

We are the most prosperous people on earth and yet most of us experience some sort of anxiety over money. Those who have little are worried that they do not have enough and are convinced that everything would be better if only they had more. People with money worry that they will lose what they have, or fret that they are making wrong decisions with their money, or that they are making wrong decisions with their lives because of their money.

We have discovered no correlation between the reduction of anxiety and the accumulation of money. So while some people fret over not

having enough, others find it almost impossible to enjoy what they have. Many agonize over each daily dip in the market. Spouses refuse to discuss their money issues with each other (psy-

“The common denominator is that money is not delivering satisfaction. But why? ”

chologists tell us that it is the primary cause of divorce), and lottery winners suffer from depression! The common denominator is that money is not delivering satisfaction. But why? Why is discovering balance and doing what we

want with our money and our lives so elusive? Is it possible to free ourselves from guilt and worry and start getting our money's worth?

Ask people what they want from their money and their lives, and the answers you hear are happiness, balance, security, and meaning. How well and how wisely we manage our money has an impact on all four of these cornerstones of life. By making poor financial decisions, it is quite easy to compromise our happiness, security, balance in life – and even our sense of meaning – if we are enslaved to money-producing activities that keep us from doing the things that make us feel a sense of purpose. Read our full report of these four cornerstones and their relationship to your money.

To read the full report, go to www.financial-resource.com/rtd.asp



RTD Financial Advisors, Inc. is a fee-only Financial Life Planning firm that specializes in discovering our clients' goals and values and developing strategies to help them achieve those goals. RTD is always mindful of the fact that financial peace of mind is achieved when values and actions are aligned with each other. For additional information, call 215-557-3800 or visit their website at www.rtdfinancial.com

Portfolio Diversification vs Bucket Diversification

Individual investors often fall into the trap of chasing performance by jumping into the latest trendy investments. Unfortunately, most advisors are more than happy to oblige them, but the result is usually being late to the party. The latest trend is to allocate portfolios among several different investment “buckets.” Investors now boast about exposure to large, mid, and small cap, growth, value, sector specific, international, and emerging market stocks, and probably an “alternative” investment or two.

The “bucket” approach is largely a reaction to the bear market of 2000-2002. No one wanted common stocks any more, so advisors divided their clients' portfolios

among many different investment products to insure that their assets would be diversified and protected.

What sounds good is often not in the best interest of investors. Diversification is crucial. However, there is a difference between having all of your eggs in one basket (bad), having all of your animals on one farm (good) and having too many animals on too many farms (bad). With the “bucket” approach, the overall result is over-diversification, average returns (at best) and above-average fees. It is also common for individual investors to only have access to unproven specialty money managers. The “star” managers serve large institutions.

We recommend individual investors use a multi-

cap “core” investment strategy. Diversification occurs within one portfolio of individual stocks, not by creating many separate portfolios. Investments in companies are made based on their relative valuation and prospects, not their size, style or industry. This strategy is more transparent, less expensive and leads to better investment results.

International investments are important. However, “core” managers can invest in numerous foreign companies whose ADRs trade in the U. S. In addition, the average U.S. company generates over 40% of its revenues outside of North America.

Trends come and go, and we see “bucket” investing being replaced by core investing over the next several years as investors seek to simplify, clarify and improve their investment strategy.

To read the full report, go to www.financial-resource.com/dcla.asp



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