

PORTFOLIO INTERIM SUMMARY OCTOBER 2007

I mentioned in my recent quarterly review, that this quarter will see some volatility in certain sectors which could provide some investment opportunities for us going forward. I suggested... and still believe...that the lack of clarity as to both the sub prime and more recently the general credit and liquidity squeeze debacle requiring the major financial entities to write off billions in bad debts, will continue through this quarter and into next year. The major difficulty is that the major banks hold these instruments, as "off book" transactions and as such, it is nearly impossible to accurately assess what the real value and size of problem that exists. Notwithstanding this, I have always been alert to certain "Fair Price" valuation ratios which begin to become compelling. In short, when there is blood in the streets, then generally those... such as we... with a longer term investment philosophical can find some bargains. I shall return to this topic later.

The Fed meets next Wednesday and they will decide whether, to lower, raise or keep rates as they are. The Markets have already priced in a decrease and although I believe in the long term a further rate cut will undermine some basic fundamentals going forward, never the less, I believe they probably shall. This should give a little upward momentum to valuations. If on the other hand, they apply a pragmatic view and allow the rates to stay, then there will be a major downward movement in sentiment and values will fall.

This is an important point, because some sectors offer good valuations, as indicated in the chart below...



NOTE Fair Value percentages are compiled from the database held and managed by Morningstar who monitor daily, thousand of individual US and International Companies and value their stock prices against assets, earnings and capital.

The above ETFs are way below their fair values and as such I would normally have no hesitation in recommending them at these prices, if of course we didn't have the difficulties as presented above. However whatever else may negatively occur in the next few quarters, I still believe that a year or two from now at these prices, you will be happy if you bought some position in the sector. The only question is whether before next week's FED decision, you wish to make your play. If you believe that they will further reduce rates, then these are likely to get a short term boost. However, if you feel they will hold rates, then this sector will be further impacted to the downside. In any event as I mentioned above, this game has a way to go and as such further bad news is inevitable over the next few months, then a further eroding of valuations of a few percent age points is likely.

For those of you with a strong stomach and a reasonably size cash position, you would extend your position on further dips... I believe this sector will return 30-40% within two to three years. For those with a smaller cash pot they may want to wait and hope for a further reduction. In any event, I believe the general trend globally will be continued growth but at a slower pace than previous years and it is very important to identify those areas which are likely to offer above average growth return potential and these areas are becoming much harder to find.

NAME	CODE	P/FV
KBW Bank	KBE	0.76
IShare Dow Jones U.S. Financial Services	IYG	0.78
IShares Dow Jones US Home Construction	ITB	0.74
PowerShares Dynamic Leisure & Entertainment	PEJ	0.88

Subsequently there are times when “bottom fishing” for bargains can be the best method and as stated, Financials are becoming compelling. Technology, especially the US base large cap technology ETF’s offer growth potential as their fourth quarters are generally their best periods and the US dollar fall, means that their international business has a higher profit margin when applied to their overall performances, thereby enhancing their valuation. This sector has seen some increases already, as indeed some of you already benefit in your existing investments, however I believe technology although somewhat volatile will generally grow going forward, even at these values.

KBW Bank ETF KBE. (0.76 price/fair value) It’s an ETF full of wide-moat banks trading at unusually low valuations. Although it sub rating is collected under the “Regional Bank” tag, it hold major players like Citicorp, Bank of America, JPMorgan, Wachovia etc. and generally as it never takes more than two years for banks to rebound. Subsequently this is a long term buy and hold.

iShares Dow Jones U.S. Financial Services IYG (0.78 price/fair value) This is the most-diversified of the two financials ETFs profiled, spanning virtually every financials sub-sector. Its top three holdings--Citigroup, Bank of America, and J.P. Morgan Chase--recently soaked up nearly 30% of assets, and all three of those stocks are trading well below fair value, however its diversification into brokerages, mortgage lenders, finance houses etc., will probably mean a slower return, however it is the broadest based.

iShares Dow Jones US Home Construction ITB. Its performance has been downright abysmal this year. Homebuilders have gotten slammed during the downturn in the housing market, and the worries over Sub prime mortgages added further downward pressure on the stocks. I believe it will be several months before we see some stability from this group. But homebuilder stocks are exceedingly cheap right now, with most trading well below their book values, which has historically been a good entry point for the sector. The last time homebuilders saw their price/book ratios dip below 1.0 was in 1999, and a big rally followed. For example, in 2000, **D.R.Horton DHI, Toll Brothers TOL, and Lennar LEN, all top holdings in this** ETF, doubled in value. Believe me, it will be no fun watching this sector over the coming quarters however if we view this

sector over a future three to five years, then an investor will be rewarded. I probably would wait until the end of the quarter and have another look, but for those interested in just placing money out of cash in a place with a reasonably safe long term return then the price although not at the bottom is reasonably close to prove attractive and if the FED further reduce rates could get a little bounce. Its price to day is \$19.20USD its 52 week high was \$44.36 USD its fair value ratio is difficult to assess, but I would estimate it somewhere between 0.66-0.70.

PowerShares Dynamic Leisure & Entertainment PEJ, (which has an attractive price/fair value ratio of 0.90. It tracks a benchmark of 30 companies in a variety of leisure oriented industries such as gaming, restaurants, and broadcasting. Some of its top holdings, such as **Yum Brands YUM, Walt Disney DIS, and CBS CBS,** look cheap against their peers.

As stated before all of the above should benefit from a FED rate cut and indeed some of your existing investments can be added too in periods of volatility during this quarter. This Interim Report is to address those ETF’s listed above. I would like you to confirm by email that you have received this report and I suggest that if any of the above interest you, then you email me no later that Monday noon and I shall place the order, Monday afternoon to ensure placement before Wednesday’s FED meeting.

I shall raise another Interim Report next month and offer some further opportunities. I believe the next few months will provide many opportunities, so please be patient if none of the above interests you. Be assured many others will be offered at similar Price/fair value ratios.

Best Regards

Alan Lamb