Richard E. Band's
Profitable Investing®
YOUR FINANCIAL GUIDE FOR ALL SEASONS • VOL.18, NO. 6

IN THIS ISSUE

ACP Phillips Investment Resources, LLC
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NOT DONE YET

Summer may eventually bring a pause, but the global bull market for stocks still has plenty of get-up-and-go behind it. Expect higher prices in June, perhaps into the first half of July.

Amazingly, even with stocks' tremendous performance over the past 12 months, my sentiment gauges (such as the put/call ratio) reveal that most investors are just mildly pleased, rather than bubbly or giddy. That's a strong hint this uptrend has a long way to go.

If you stay focused on value, you can still buy stocks and mutual funds with confidence. The market's not done yet—and neither are we. REB

June 2007

Dear Friend,

Rodney Dangerfield may be gone, but Wall Street's "I don't get no respect" bull market is keeping his legacy alive. Dow at another new all-time high? Shrug. Takeovers spiking stocks left and right? Yawn. We're in the midst of what ought to be a rollicking party, and most of the guests are half-asleep!

To be honest with you, I'm delighted with this state of affairs. It suggests that the advance will last longer, and climb to far greater heights, than the majority of observers now expect. When this bull is ready to keel over, it will be from too much revelry—not an excess of caution.

In this month's visit, I'll show you how to pinpoint the safest, most value-packed stocks in this underappreciated market. Remarkably, some of my top candidates are household names, giants "hidden in plain sight." I've got three for you that could easily pop 20%–30% in the coming year, with even bigger gains down the road.

100% Richer, Before You Know It

For the retirees and other income seekers among us, I'll update one of our most popular features, the Incredible Dividend Machine. Since inception in late 2002, this low-maintenance, low-stress program (which shoots you a dividend check every month of the year) has more than **doubled** subscribers' wealth. Starting on p. 4, I'll give you three fresh picks to help keep the streak going.

Later, we'll take a quick look at what may be the most exciting development this year in the world's emerging markets. China has just announced a major policy shift—and it's already lighting a fire under our dedicated China funds. See p. 5 for the details.

First, though, let's find out why Wall Street's subdued reaction to a streaking stock market bodes unusually well for the months ahead—and how you can harness the uptrend for maximum profit with a minimum of risk.

GROWTH STRATEGIES

There's a Lot More Snort Left in This Bull

More than four years have passed since global stock markets touched their lows for the new millennium (March 2003 for many foreign bourses, October 2002 for the U.S. market). The broad-based Wilshire 5000 index, which takes in just about any domestic stock worth counting, has doubled off its bottom—as stern a rebuke as you can imagine for bears like Bill Gross of PIMCO, who declared, amid the best buying opportunity of the decade, that "stocks stink and will continue to do so."

Yet the amazing thing about this market isn't that inflated egos like Gross missed it at the beginning. It's that even after four years of excellent gains, many people still aren't comfortable with the rally.

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Case in point. On April 26th, the morning after the Dow Jones Industrial Average first closed above 13,000, an Associated Press article asked the question: DOW CLOSES ABOVE 13,000—IS IT ALL GOOD?

The reporters who wrote the piece scrounged for excuses to believe that an all-time high in the market **isn't** good, and came up with the idea that, well, American corporations are drawing a big chunk of their earnings from overseas, which isn't doing much to create jobs back home.

Fair enough. If you hunt for it, I suppose there's a cloud in every silver lining. Those gourmet desserts I wolf down on cruises certainly do put on the pounds. But does that mean I'm going to sit at home and read diet books?

Excuses, Excuses

In a way, though, I can understand investors' glass-half-empty view of the stock market. After four years, a lot of folks are still sitting on the sidelines with cash burning a hole in their pockets. They want to justify their reluctance to get in (they know they should have bought earlier), so they conjure up innumerable "reasons" to find fault with the market.

We can observe the same mentality at work in the weekly poll conducted by the American Association of Individual Investors (AAII).

Back in early 2000, at the peak of the Internet bubble, more than 80% of AAII members who ventured a firm opinion expected the stock market to keep rising. Several additional readings near, or even above, 80% bullish were recorded as the market plunged into its horrible two-and-a-half-year descent.

Fast forward to mid-May 2007. With the Dow at an all-time high, the AAII poll showed a mere 50% bulls (bulls as a percent of bulls plus bears). The market's fundamentals are much healthier than they were in 2000, yet the speculative sap has barely begun to rise.

Conclusion: Stocks have plenty of room to climb before tracing out a major top. I'll continue to watch for any change in the weather, but it looks as if the Dow should easily clear 14,000 this year on its way to our ultimate goal of 16,000 by Election Day 2008.

Fully Invested, But Careful

If I'm right that this bull market is nowhere near done, it's important for you to be fully invested in stocks, up to your personal limit. Still, at this stage of the market cycle, you want to be careful with your shopping. Stock prices, as I've already pointed out, are dramatically higher than they were four years ago; and, while corporate earnings have also exploded, not all companies will be able to keep up the pace in the year ahead.

The key is to uncover outfits whose prospects are likely to improve faster than the general economy over the next few quarters. Here are three well-known, financially solid names that fit the bill. To boot, these stocks are trading at surprisingly modest prices, compared with their future earning power:

• *News Corp.* (NYSE: NWS.A). Media mogul Rupert Murdoch's $5 billion bid for Dow Jones, parent of *Barron's* and *The Wall Street Journal*, has stirred fears that Murdoch might go wild and overpay, damaging News Corp. shareholders. However, I consider these worries groundless. Murdoch has already stated publicly that his offer represents a "full and fair price" for DJ. Don't look for the wily Australian to spark a bidding war against himself.

Meanwhile, News Corp. is enjoying robust growth through its ventures in movies and cable programming (Fox). Operating profits in the March quarter shot up 21% from a year ago. At only 16X estimated earnings for the coming fiscal year (ends June 2008), this blue chip will treat you gently when the market gets rough—and give you a fast ride on the way up.

Buy the Class A shares at $22 or less. I prefer the Class A, even though they carry no voting rights, over the Class B because the A shares normally trade at a discount to the B. In a sale or liquidation of the company, both classes would share equally in the proceeds.

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• *Target Corp.* (NYSE: TGT). The U.S. economy is slowing, no doubt about it. As usual, though, Wall Street is exaggerating the likely impact on consumer-oriented businesses, such as retailers. TGT stock has slipped almost 10% from its February high, even though 2007 earnings estimates for the company have held as steady as Gibraltar.

Whatever might happen to some other retailers (specialty apparel shops, for example), TGT is steadily gaining ground with its unique "cheap chic" marketing strategy. Customers—guests, as Target calls them—welcome the well-lit, pleasantly laid-out stores as much as the low prices.

On the financial front, TGT's shareholder-friendly management is actively buying back stock (and has doubled the dividend in the past four years). At less than 16X year-ahead earnings, the stock is poised to bounce smartly as soon as investors realize that the never-say-die American consumer is on the prowl again. Buy at $59 or less.

• *Toll Brothers* (NYSE: TOL). A new addition to our shopping list, this luxury homebuilder has taken it on the chin as a result of the downturn in the national housing market. However, TOL has weathered the storm better than most builders, thanks to the company's conservative balance sheet. What's more, I'm convinced that the housing industry is bottoming out in many parts of the country and will slowly improve in the second half of the year.

Certainly, that's the message I'm picking up from TOL's stock price (see chart on this page). Despite a dismal start to 2007, in which sales fell 19% for the April quarter, TOL shares are holding well above last summer's low. It was precisely this pattern—share price holding firm despite terrible news headlines—that enabled me to call the historic bottom in Chrysler 25 years ago this summer. I'm expecting a similar upside reversal for Toll this time.

Toll Brothers: A Firmer Footing

What to do now: Buy TOL at $27.50 or less. As soon as we get our price, we'll carry the stock in the model portfolio under World-Class Franchises. TOL pays no dividend, although the company does occasionally buy back stock as cash flow permits. I'm targeting a 30%-50% return over the next 18 months. Because TOL is a more volatile stock than most of our World-Class Franchises, you should limit your position to no more than 3% of your total portfolio.

Mutual Funds: Stick with Quality

As this long bull market moves into its later innings, we can expect a smaller list of stocks to lead the indexes higher. Most likely, big blue chip companies will dominate the action, although (as always) some smaller names will continue to make a splash.

If you're a mutual fund investor, I suggest earmarking most of your new cash for funds that favor well-known, well-financed businesses trading at value prices. Top of my list: *Selected American Shares* (SLASX; 800/243-1575, $1,000).

Despite a hefty weighting in financials, SLASX has comfortably outpaced its peers in the "large-cap blend" category for the past one, three and five years, according to Morningstar. It's up 14.8% in the 12 months through April 30.

Some discount brokers have stopped offering SLASX to new accounts. If your broker doesn't make the fund available, go directly to Selected. Accounts over $10,000 qualify for the fund's Class D shares, which feature a reduction in the fund's already low expense ratio.

For added diversification, I also recommend channeling up to 25% of your stock portfolio into foreign markets. My favorite pick here is *Dodge & Cox International Fund* (DODFX; 800/621-3979, $2,500). DODFX pursues, with foreign stocks, the same time-tested bargain-hunting strategy that has earned such magnificent returns for the domestic *Dodge & Stock Fund* (now closed to new investors). The international fund has gained 18.5% in the past year.

Both SLASX and DODFX impose no up-front sales charge or back-end redemption fee. Pay up to $49.20 for Selected and $48.50 for Dodge.

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Incredible Dividend Machine

Double Your Money, Without the Fuss

Will you forgive me a little impish smile? I chuckle when I see the crazy promotional come-ons for this or that investment "system." Most (especially the e-mail blasts that clog my in-box) are absurdly risky. I'm certainly not going to hazard my hard-earned money on some harebrained scheme that promises to make me "50% richer this month."

I can afford to laugh because I've discovered a wealth-building technique that really works—not just today or this week, but over decades. A lifetime. You can boil it down to one word: DIVIDENDS.

I've preached the virtues of dividend-paying stocks since day #1 in *Profitable Investing*. In recent years, however, I've sharpened the focus by creating a special portfolio for retirees and other income investors, our Incredible Dividend Machine. It's aptly named, because the results have been astonishing.

Since inception in our December 2002 issue, our Machine has more than doubled subscribers' wealth, chalking up a total return of 108% (including dividends, but with no deduction for brokerage fees). Over the same stretch, the blue chip Standard & Poor's 500 has returned 75%—respectable, certainly, but far behind the Machine.

It's the Demographics, Momma

What accounts for the Machine's success? A helpful factor, no doubt, has been the tax cut President Bush engineered in 2003 for dividend income. Ever since Congress passed the 15% maximum tax rate on dividends, investors of all stripes (not just traditional income seekers) have gravitated toward dividend-paying stocks.

However, there's a bigger force at work, too. America's population—like that of the entire industrialized world—is graying. This year, for the first time since the Reagan era, the number of retirement-age folks (65 and older) will grow faster, in percentage terms, than those in middle age (40 to 60).

As people near retirement, they're naturally drawn to income-producing investments. Not only do many retirees need investment income to live on; anyone who has stopped pulling down a regular paycheck will also normally seek to limit risk. To such individuals, a "bird in the hand" (dividends) looks better than "two in the bush" (uncertain capital gains).

How long will investors' love affair with dividends continue? Probably at least another 10–15 years, until it becomes apparent (if it ever does!) that the industrialized world has cracked the biggest financial nut of our times—paying for the Baby Boomers' retirement. We're in the early innings of the Great Dividend Game. A Democratic sweep in next year's elections might sprinkle some rain on the field, but would hardly cancel the festivities.

Capturing Your Share of the Loot

Whatever your reason for favoring dividends, our Incredible Dividend Machine makes it simple and easy to snare them. Most companies issue dividends on a quarterly cycle, during the first, second or third month of the quarter.

To earn a dividend every month of the year, all you need to do is buy at least one stock from each of the three dividend cycles in the table on p. 5. I've also included two stocks that hand out monthly dividends, a wonderful convenience if you depend on investment income to meet the monthly bills.

We don't make a lot of changes to the Machine. (That's why I generally update the portfolio twice a year.) Once in a while, however, circumstances justify dropping a company from our active buy list—or even selling outright.

This month, I'm placing three past picks on "standby" status: *Merck*, *NuStar Energy Partners* and *Public Service Enterprise Group*. All three stocks have skyrocketed in recent months, shrinking their dividend yields for new investors. Merck, for example, has soared 54% since we added it to the Machine a year ago. Public Service has leaped 39% just since December 31!

If you were smart enough to purchase these names on my earlier recommendations, give yourself a hug. All three are well worth holding, but don't add to your stake at today's levels. I'll continue track them on our Web site as Standby Holdings, with a designated price at which you can resume buying.

Three to Scoop Up Now

For new money, try this trio on for size:

• *Redwood Trust* (NYSE: RWT). Spotlighted in last month's newsletter, this mortgage REIT is doing a fine job of managing the downturn in the nation's housing market. While profits for 2007 won't measure up to past years', it now appears likely that RWT will be able to dish out some kind of year-end bonus dividend in addition to the regular 75 cent quarterly. All told, I think RWT will distribute between $4.25 and $4.75 per share this year. If we take the middle of my estimated range, your yield (at today's share price) should approach 9%.

Buy at $52 or less. RWT pays during the first month of each quarter.

• *BB&T Corp.* (NYSE: BBT). We've owned this North Carolina-based bank in the Machine before. Now the stock has come back down far enough to trigger a fresh buy signal. Conservatively managed with a thick capital cushion and minimal bad loans, BBT also boasts one of America's finest dividend records: 35 annual increases in a row, with yet another likely in June.

At a current yield right around 4%, BBT gives you a generous rent on your money while you wait for some giant investor (another bank? a private-equity fund?) to recognize the value here. Because BBT serves one of the nation's most desirable territories, from Maryland to Florida, I wouldn't be at all surprised if, in a takeover, the company fetched a 15%–20% premium over today's share price.

Buy at $44 or less. BBT sends out dividends during the second month of the quarter.

• *Pfizer* (NYSE: PFE). Have you noticed? Healthcare stocks are perking up again. Despite the perennial issues of Medicare/Medicaid reimbursement, patent expirations and drug safety, shares of most major pharmaceutical manufacturers are comfortably in the black so far in 2007.

Pfizer, too—the industry's biggest player—appears to have turned a corner. Sales for Q1 of 2007 showed a respectable 6% increase, while earnings per share (adjusted for special items) jumped 15%.

Equally important, the company is sharing the fruits of its recovery with stockholders. In December, PFE boosted its dividend a whopping 26% (the 40th consecutive year of higher dividends). During 2006, Pfizer bought back $7 billion worth of stock, with another $10 billion on tap for this year.

Let's be frank. It will probably take three or four more years for PFE's business to reach full stride (and the stock to achieve its true potential). However, today's generous 4.3% yield gives you plenty of incentive to sit back and let the company's new CEO, Jeff Kindler, work his magic.

Buy at $28 or less. PFE schedules dividends for the third month of each quarter.

Here's how the complete Machine looks after this month's changes (yield as of 5/18 close):

January–April–July–October Cycle	**Buy below**
Comerica (NYSE: CMA, 4.0%)	$63.20
First Horizon National (NYSE: FHN, 4.5%)	41.40
GlaxoSmithKline (NYSE: GSK, 3.4%)	58.70
Redwood Trust (NYSE: RWT, 9.1%)	52.00
Regions Financial (NYSE: RF, 4%)	37.60
US Bancorp (NYSE: USB, 4.6%)	36.10

February–May–August–October Cycle	**Buy below**
AllianceBernstein Holding (NYSE: AB, 5.3%)	$88.60
BB&T Corp. (NYSE: BBT, 3.9%)	44.00
Citigroup (NYSE: C, 3.9%)	54.00
Kinder Morgan Energy Partners (NYSE: KMP, 6%)	53.80
Masco (NYSE: MAS, 3.1%)	29.20
Verizon (NYSE: VZ, 3.8%)	37.30
Washington Mutual (NYSE: WM, 5.1%)	43.00

March–June–September–December Cycle	**Buy below**
Bank of America (NYSE: BAC, 4.4%)	$54.50
BP plc (NYSE: BP, 3.7%)	70.00
Consolidated Edison (NYSE: ED, 4.6%)	50.30
KeyCorp (NYSE: KEY, 4%)	38.30
Pfizer (NYSE: PFE, 4.2%)	28.00
Pinnacle West Capital (NYSE: PNW, 4.3%)	48.10
Wachovia (NYSE: WB, 4%)	57.10

Monthly payers	**Buy below**
Gladstone Capital (NASDAQ: GLAD, 7.3%)	$23.60
Inland Real Estate (NYSE: IRC, 5.7%)	17.60

What to do now: In addition to the three companies I just profiled, I encourage you to round out your own Dividend Machine with as many names as you can afford from the table above. Start with those trading farthest below our buy limit (in percentage terms). Don't be deterred if it takes you three months, or even longer, to complete your purchases. Remember, the profit you make depends on the price you pay. Lower is better!

GOING GLOBAL

China Opens Up to the World

I hope I've made it clear to you. I'm not worried about the U.S. stock market. But does that optimism extend to the world's emerging markets, especially after the huge recovery they've had since March?

In a word, yes. Emerging markets will continue to run into occasional selling squalls, but I don't foresee a major breakdown anytime soon. In fact, a recent edict by the Chinese government could help prolong the uptrend for that key country's bourse—by giving a boost to the kinds of Chinese stocks we've invested in.

If you've followed the news lately, you probably know that the mainland Chinese stock market has exploded. Through mid-May, the Shanghai Stock Exchange Composite index has soared almost 50%, on top of a 130% leap in 2006. At 40X trailing earnings, Chinese "A" shares—the only variety local

(continued)

investors were allowed to own until a couple of days ago—look mighty expensive.

It's entirely possible the Shanghai market will take another jolt soon, similar to the steep 8.8% drop on February 27. But if the mainland Chinese exchange does hit a bump, don't expect the same panicky reaction from the rest of the world.

Here's why. On May 11, the Chinese government eased restrictions on overseas equity investment by Chinese citizens—specifically, Chinese banks. For the first time, banks can allocate up to 50% of their overseas investment quota for purchases of foreign stocks. Indirectly, bank customers who invest in a bank-managed fund can now also own foreign equities.

How This Policy Shift Helps Us

For purposes of Chinese law, Hong Kong is deemed a "foreign" stock market. And most of the Chinese stocks we own (through our two China specialty funds) are listed in Hong Kong.

Over time, I expect that savvy Chinese investors will gradually shift money out of the inflated local "A" shares and into the more reasonably valued "H" (Hong Kong) shares, which tend to represent China's largest and safest companies. A sharp sell-off in Shanghai might even accelerate this process.

At the moment, both our China vehicles are trading above what I would regard as a prudent buy price. On a sizable pullback, however, I would again accumulate both funds. *Matthews China Fund* (MCHFX; 800/789-2742, $2,500 minimum), a traditional no-load fund, has catapulted 221% since my first recommendation in June 2003. Exchange-traded *iShares FTSE/Xinhua China 25 Index Fund* (NYSE: FXI) has zoomed 113% since December 2004.

Keep your eyes peeled. MCHFX will rate a buy at $25.60 or less, and FXI at $104.80 or less. We got a marvelous, unpredictable chance to "buy China" in February while the crowd was in an uproar. A similar bolt from the blue could strike almost anytime.

Total Return Portfolio

Bubbles, Bubbles Everywhere?

If you've roamed around financial cyberspace lately, you've no doubt heard a scary comment from Boston mega-money manager Jeremy Grantham. After surveying all the world's major asset classes (stocks, bonds, real estate, artworks, you name it), he concludes that we're in "the first truly global bubble."

Now, Jeremy is a good guy, a card-carrying contrarian with tons of smarts. Ordinarily, I wouldn't quibble with him. This time, however, I'm afraid he has caught a case of intellectual food poisoning.

It's true there are few, if any, whole asset classes that you could call screaming bargains today. But that doesn't mean they're all overvalued. Certainly not the U.S. stock market.

I would argue that the bear market for big-cap growth stocks in the early part of this decade, and the bull market for a wide variety of value stocks since 2003, has leveled the playing field. Most U.S. stocks these days, large or small, are fairly valued—neither hugely cheap nor excessively dear.

OK, I know it's hard to get excited about lukewarm water. As we've seen with our model portfolio, though, you can still earn superb profits in a fairly valued market. For the 12 months through April 30, our internal tracking figures show the portfolio up a sparkling 19.5% (one of our best performances ever, relative to the market).

To achieve such results, of course, you need to exercise self-discipline. You can't overpay when you invest. Chasing runaway trains will leave you at a dead stop in the middle of nowhere. Keep that principle in mind, and let the bubbleheads chatter on.

Outlook and Strategy

Here, in a word, is my outlook and strategy for the model portfolio:

• **Stocks** (69% of the total) have a long way to go before we reach bubble territory. However, the market's angle of ascent will probably flatten out during the summer, and another 3%–5% "correction" may well ensue before the rocket lifts off again in the fourth quarter.

Strategy: Resist the temptation to get careless as the market indexes surge. Demand real value from every stock or equity mutual fund you buy. The best way to build a healthy discipline into your investing is to heed our "best to buy below" prices (see p. 5 and the portfolio table on p. 7).

Besides the names featured earlier in this issue, I'll upgrade last month's buy signal for *FedEx* (NYSE: FDX) to a "table pounder." Measured by its P/E ratio (trailing 12 months' earnings), the stock is now trading at a whopping 30% discount to its five-year average. Next time some grizzly growls at you that the whole market is overpriced, grab him by the tail and throw him down the stairs! FDX rates a buy up to $115. From here, I'm projecting a total return of 60%–90% over the next three or four years.

• **Fixed income** (31%). Bond yields have proved sticky this spring, thanks mainly to the booming stock market, which is drawing money away from defensive investments like bonds and cash. I continue to believe

(continued on p. 8)

TOTAL RETURN PORTFOLIO

★★★★ = best buy at 5/21 closing prices

Stocks (69%)

	World-Class Franchises (34%)		Buy Below	Comments
	Accenture	NYSE: ACN	35	On track for a blistering 20% profit increase in FY 2007 (ends August)
	American International Group	NYSE: AIG	71	Wall Street catching on to stock after blowout 29% earnings jump in Q1
	Carnival Corp.	NYSE: CCL	47	World's largest cruise operator serves customers at all price points
	ConocoPhillips	NYSE: COP	68	Boosting refinery capacity to tap EnCana's giant oil sands deposits
★★★★	FedEx Corp.	NYSE: FDX	115	Selling at trifling 7X cash flow, low enough to tempt takeover funds
★★★★	Gold Fields Ltd.	NYSE: GFI	18	Reasonably priced as industrial stock, plus upside kicker if gold soars
	Hewlett-Packard	NYSE: HPQ	42	We've now doubled our money in a little over two years; buy next dip
★★★★	Home Depot	NYSE: HD	41	Shareholder activist Ralph Whitworth is shaking up a cozy boardroom
★★★★	Johnson & Johnson	NYSE: JNJ	66	Record profits ahead for 2007, despite stent setback; heirloom stock
	Lincoln National	NYSE: LNC	67	Focus on affluent Boomers places life insurer in market sweet spot
	Microsoft	NASDAQ: MSFT	30	Generates a staggering $1.2 billion of free cash flow every month
★★★★	News Corp.	NYSE: NWS.A	22	Surprise bid for Dow Jones nicks stock, creates buying opportunity
	Occidental Petroleum	NYSE: OXY	49	Replaced a handsome 234% of last year's production with new reserves
	SLM Corp.	NYSE: SLM	55	Takeover by private equity funds will hand us a hard-fought 30% profit
★★★★	Southwest Airlines	NYSE: LUV	15.25	Just announced new $500m stock buyback, on top of $1.2 bn since 1/06
★★★★	Target	NYSE: TGT	59	Bargain: Rapid growth drives P/E 10% below its level three years ago
	Time Warner	NYSE: TWX	20	Has now bought back 1 billion shares, shrinking float 15% in past year
★★★★	UnitedHealth Group	NYSE: UNH	54	HMO industry leader trading at steep discount to "normal" P/E ratio
	Zimmer Holdings	NYSE: ZMH	84	Aging population creates built-in demand for hip, joint replacements
	Mutual Fund Alternatives			
	Selected American Shares	MF: SLASX	49.20	"Quality" value fund's low $1,000 minimum ideal for gifts to minors
	Vanguard Value Index	MF: VIVAX	28.50	Low expense ratio (0.21%) gives fund a head start on active managers
	Growth & Income Plays (13%)			
	Citigroup	NYSE: C	54	Rapid-fire acquisitions overseas will spur profits in 2008 and beyond
	Fifth Third Bancorp	NASDAQ: FITB	41	Takeover rumors are swirling; we see a potential bid in $45-$47 range
	General Electric	NYSE: GE	36	Value hounds at Dodge & Cox, with stellar instincts, are buying briskly
	Eli Lilly	NYSE: LLY	57	Among largest holdings of top-performing Vanguard Healthcare fund
	Unilever	NYSE: UL	28	Bonus dividend, plus tripling of buyback plan, warm investors' hearts
★★★★	Wells Fargo	NYSE: WFC	37	Well-balanced business model humming despite mortgage slowdown
	Emerging Markets (4%)			
	ICICI Bank	NYSE: IBN	38	Don't chase stock; tighter credit by Indian central bank raises risk
	iShares South Korea Index	NYSE: EWY	52	Warren Buffett's favorite emerging market, selling at rock-bottom P/E
	Taiwan Semiconductor	NYSE: TSM	10.50	Dividend yield over 3%, one of the world's highest among tech shares
	Unibanco	NYSE: UBB	97	Return on equity now a spectacular 25% a year, spurring profit growth
	Japan (5%)			
★★★★	iShares MSCI Japan Index	NYSE: EWJ	14.80	Japan's economy is on the upswing again, and the stock market is cheap
	Master Limited Partnerships (5%)			
	Buckeye Partners	NYSE: BPL	46	Increases distribution like clockwork, now 12 quarters in a row
	Enterprise Products Partners	NYSE: EPD	28	With distribution hikes, we're earning 7% on our original 2005 cost
	Teppco Partners	NYSE: TPP	40	General partner voluntarily limiting its take—a plus for public owners
	Utilities (8%)			
	Electric and gas (3%)			
	Duke Energy	NYSE: DUK	20	Healthy electric utility with good growth prospects and a fat 4% yield
	Progress Energy	NYSE: PGN	48	Cutting debt, boosted dividend in December for 13th consecutive year
	Spectra Energy	NYSE: SE	28	Runs natural gas pipeline network, a lucrative "toll taker" business
	Public Service Enterprise	NYSE: PEG	81	Overextended after stupendous 40% run since last fall; buy dip only
	Telecoms (5%)			
	BT Group	NYSE: BT	57	Shares are overstretched and need a rest; wait for 10% pullback to buy
	Deutsche Telekom	NYSE: DT	18	New CEO Rene Obermann has the edge in crucial showdown with unions
	Mutual Fund Alternative			
	American Century Utilities	MF: BULIX	16.90	OK to hold for now, but don't add; we may sell if utes keep steaming

Fixed Income (31%)

	Three-Year Bank CDs (10%)			
★★★★	GMAC Bank	866/246-2265	—	Paying a lofty 5.25% (after compounding) on deposits of $500 and up
	Long-Term Bonds (15%)			
	Wasatch-Hoisington U.S. Treasury Fund	MF: WHOSX	—	Now a hold; look to sell when 10-year Treasury yield sinks to 4.2%
	Zero Coupons (5%)			
	American Century Target Maturities Trust—2025 Portfolio	MF: BTTRX	—	Now a hold; look to sell when 10-year Treasury yield sinks to 4.2%
	Cash (1%,)			
	GMAC Bank	866/246-2265	—	Among the nation's highest-yielding MMDAs; $50 minimum deposit

SUMMARY

Actions to Take This Month

1. **BUY News Corp.** (NYSE: NWS.A) at $22 or less; **Target** (NYSE: TGT) at $59 or less; and **Toll Brothers** (NYSE: TOL) at $27.50 or less.
2. **BUY Selected American Shares** (SLASX) at $49.20 or less, and **Dodge & Cox International Fund** (DODFX) at $48.50 or less, as alternatives to the individual stock picks in our model portfolio.
3. **BUY Redwood Trust** (NYSE: RWT) at $52 or less; **BB&T Corp.** (NYSE: BBT) at $44 or less; and **Pfizer** (NYSE: PFE) at $28 or less, for the Incredible Dividend Machine.
4. **BUY**, as Niche Investments: **Matthews China Fund** (MCHFX) on a dip to $25.60 or less, and **iShares FTSE/Xinhua China 25 Index Fund** (NYSE: FXI) on a pullback to $104.80 or less.
5. **BUY** CDs with a maturity of 24–36 months from **GMAC Bank** (866/246-2265 or *www.gmacbank.com*).

RICHARD E. BAND is the newsletter world's #1 authority on investing for low-risk growth. His Total Return Portfolio has quadrupled investors' money since inception in 1990, while taking far less risk than the popular stock indexes. He is the author of *Contrary Investing* (named "Best Investment Book" of 1985, subsequently updated), and a popular speaker at investment conferences. Band's straightforward style and safety-first "value" approach have won numerous awards, including six in the "Best Financial Advisory" category by The Newsletter & Electronic Publishers Foundation. Band has been quoted in *BusinessWeek*, *Barron's*, *Forbes*, *The Wall Street Journal* and other leading publications.

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that the economy will slow enough this summer to permit one last meaningful drop in bond yields (comfortably below 4.5% on the benchmark 10-year Treasury). I'm targeting the September-November window for the final low.

Strategy: Hang on to your long-dated Treasuries and zeros for now, but don't add to your stake. For new money, I prefer bank CDs, particularly in the maturity range of 24 to 36 months. We're changing the maturity designation on the model portfolio CD category to reflect this emphasis. *GMAC Bank* (866/246-2265 or *www.gmacbank.com*) is paying 5.25% on both two-year and three-year CDs. Minimum to open an account: $500.

One Final Thought

This Old House, New Again

After 24 years at the same address, we're remodeling our house—for a third time. "Tearing it apart" wouldn't be much of an exaggeration. Enid and I thought long and hard about moving, but in the end, we decided we really liked our town and its amenities. So we're staying put.

Staying put, though, doesn't mean standing still. Visitors who knew our home before will be startled at the changes. Walls have vanished; a new kitchen (with the obligatory stainless appliances) has sprung up; three bathrooms have undergone an Extreme Makeover facelift; and hardwood and tile flooring now spreads throughout the house.

Did I mention central air? It nearly killed this old Yankee skinflint to do it (how often do you need air conditioning in frigid New Hampshire?), but I caved.

Sometimes, I guess, you have to take apart, and rebuild, a thing you love if you want to keep it. The same is true of investment portfolios.

Your investments may have served you well up to now. But if you're embarking on a new stage of life (retirement, say, or the last few years **before** retirement), it's time to do some remodeling.

Work from the blueprints I furnish in *Profitable Investing*, such as the Incredible Dividend Machine, the Total Return Portfolio or our model mutual fund portfolios. Feel free to alter a feature here or there, and to add your own finishing touches. Without ever moving out, you'll have a new financial "house" to enjoy for many years to come.

I can hear the hammers banging in the background at your place, so I'll wrap up.

This month, take advantage of the stock market's powerful uptrend by laying in a supply of undervalued blue chips like *News Corp.*, *Target* and *Toll Brothers*. A year from now, they should all be 20%–30% higher.

For income, load up on as many of our Incredible Dividend Machine stocks as you can afford, but especially *Redwood Trust*, *BB&T Corp.* and *Pfizer*. Finally, if you're an aggressive investor, watch for another dip in the red-hot Chinese market as a chance to beef up your holdings of our two high-potential specialty funds, *Matthews China* and *iShares FTSE/Xinhua China 25 Index*. They've run a long way, but they've got even further to go.

Yours for Profitable Investing,

Richard E. Band