

**Quote of
the week**

“Diligence is the mother of good luck.”
Ben Franklin

Time to go to school folks.

People spend an inordinate amount of time worrying about “what’s the market going to do?” We write about potential market moves in these letters periodically and CNBC spends hours of programming trying to answer the question.

The truth is nobody has the slightest idea which way the market is going. Peter Lynch, the legendary money manager said it best, “If you spend 14 minutes a year worrying about the market, you’ve wasted 12 minutes.”

The only thing that *is* controllable when you invest money is the price you pay and the value you get. We can control what we pay. Benjamin Graham (The “Moses” of value investing, professor at Columbia whose star student was Warren Buffett) called the price we pay Mr. Market.

As Graham describes it, every day the market opens and Mr. Market rings your doorbell willing to buy or sell your stock. Sometimes the price he offers is ridiculously low, such as on March 9th of last year, and sometimes he is willing to do business at a high price. When you answer your door and Mr. Market gives you a price you don’t like, you can just politely say “No Thanks” because you know he will be back tomorrow with a different price.

Ben Graham believed the best way to make money in stocks was to wait until a company with great value was offered by Mr. Market at a price lower than normal. He described a great company as one that:

- Is of decent size with sales above \$350 million.
- Has twice as much cash as they owe in the short run.
- Has less long-term debt than their net cash.
- Is making 30% more now than 10 years ago.
- Has made a profit each year for the last 10 years.

The above attributes made for a great “value”...the what you get part. If Mr. Market would offer a price where that company’s stock:

- Has a P/E below 15
- Is selling at a very low price vs. their book value.

Then Ben Graham would probably buy it. But if the stock was selling at a price where the P/E was very high and the price-to-book was very high, Ben Graham would be willing to sell his shares to Mr. Market.

We look for many Ben Graham value attributes when we buy a stock for you. But besides just “good value”, we also want good growth expectations; growth is the only thing that will ultimately cause Mr. Market to offer a higher and higher price.

A stock we just bought this morning has great value coupled with a price offered by Mr. Market that we just couldn’t turn down. The stock is Corning Inc. (GLW)

CORNING Some of you think of glass cookware, Corningware, when you hear their name, but they don’t make that any more. Corning now makes glass for LCD screens, flat panel monitors, fiber-optic cable and medical lab equipment. (pricey glass)

First look at the “value” of the company: What we “get”.

- Decent size? Yes, sales are over \$5 billion.
- Cash vs. their bills? Loads of it. After paying bills they still have \$3 billion left over.
- Low debt? Yes, only \$2 billion in debt. So they could pay all of their bills, pay all of their debt back, and have \$1 billion left over.
- Making 30% more than a decade ago? Yes, they are making 100% to 200% more than 10 years ago.
- Made money every year for the last 10? Almost. They had 1 year in the last 17, 2002, where they lost money. But given the turmoil in the economy, 16 out of 17 profitable years ain’t bad.

Now look at the price we pay.

- P/E below 15? Yes, forward P/E is about 12. (Corning’s normal P/E is between 14 and 20) The market’s P/E is about 16, so Corning’s is about a 25% discount to the market.
- Low price-to-book? Yes, 1.9 times book. This is about 5% less than the market.

Corning’s “value” is good, and the price is low...how about the expected growth though? Corning’s sales should grow 17% this year and their profits should grow by about 25%. What we are paying for what we are getting looks good; and the future looks bright too.

When we put all of this into the valuation blender, the stock is now at \$18 and should trade between \$27 and \$36. We could double our money in a year or two. Now we wait for the doorbell to ring. *Class dismissed!*

A couple of days ago we bought Intel (INTC) in our Dividend Growth accounts. Intel has many of the same Ben Graham attributes, \$9 billion of net cash, only \$2 billion of debt, positive earnings every year for at least 15 years, low P/E, reasonable price-to-book, etc.

We paid \$20 for it and fully expect Mr. Market to offer us 50% to 100% more in the future. Plus, Intel pays a dividend of 3.2% AND they have raised their dividend every year for 17 years.

By the way, ten years ago Mr. Market offered over \$75 for Intel and well over \$100 for Corning. Admittedly he was nutty back then, but we think \$40 for Intel and \$35 for Corning is pretty reasonable.

As we said on the front, projecting the market is mostly an exercise in futility, but it is kind of entertaining. January was not a kind month to investors and some people are on pins and needles about what will happen next. We showed you the chart below a month ago. For a mo-

ment put binoculars on and look out 10 years from now.

If history even remotely rhymes, next decade should be pretty good for stocks. Even using conservative assumptions the Dow should double or almost triple. For a variety of good reasons no one thinks it can happen. But how many people thought it would happen just a year after World War I ended, or just after the "Great Depression of the 30's, or in Jimmy Carter's final days? Global problems were terrible in all three of those periods yet the next decade was great for stocks. One constant about Mr. Market; he is always unpredictable.

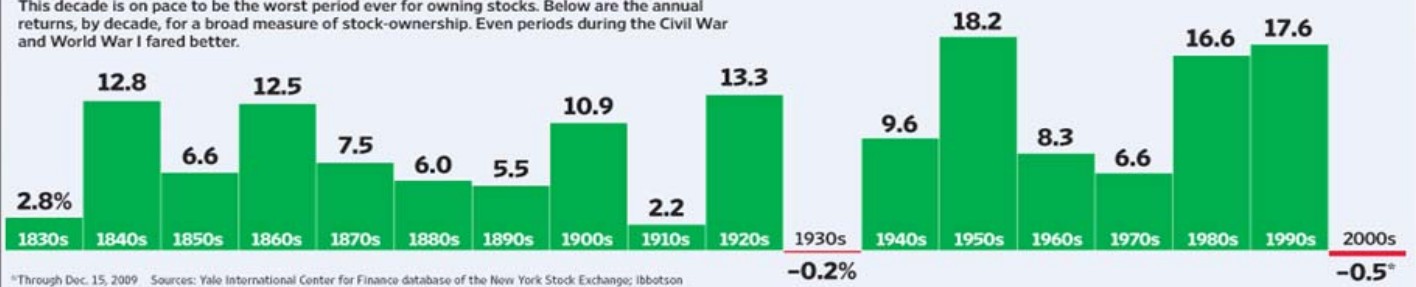
Performance year-to-date as of 1/31/10

Sheaff Brock Growth Model	+0.6%
Sheaff Brock Dividend Growth	-1.6%
Auer Growth Fund	-6.5%
S&P 500	-3.7%
Dow Jones Select Dividend Index	-2.8%

THE WALL STREET JOURNAL.

Dubious Distinction

This decade is on pace to be the worst period ever for owning stocks. Below are the annual returns, by decade, for a broad measure of stock-ownership. Even periods during the Civil War and World War I fared better.



Bad decades have been followed by unusually good decades

Average return following a bad decade is 12.5% = Dow Jones Industrials at 27,000 in 2020

Even if the return is only HALF as good the Dow will go to 17,000 in 2020

We are optimistic

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-888-711-2837 or visiting www.sbauerfunds.com. Past performance is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Sheaff Brock Investment Advisors, LLC (SBIA) does not guarantee the accuracy or completeness of this report, nor does SBIA assume any liability for any loss that may result from reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice and are for general information only. Index return and yield data is from *The Wall Street Journal and Thomson*. Past performance does not indicate future results. Model account returns are net of fees and commissions and include the payment of dividends which are held in money market funds pending reinvestment in other portfolio securities. Client returns may differ because all securities in the model may not be owned by each client. The securities mentioned in this report can be, and often are, owned by clients and employees SBIA. Clients and prospective clients should understand that there is no assurance that capital gains made in the past will continue. There is always the chance that market conditions or portfolio performance may deteriorate in the future, and clients may experience real capital losses in their managed accounts. The Classic Growth model and Dividend Growth and Income model are compared to the performance of the S&P 500 and sometimes to the Dow Jones Industrial Index (DJIA) although the model positions may not reflect the securities making up these indices. Neither comparable index may be an appropriate comparison index as our model accounts may own small and mid-cap companies not represented in the S&P 500 or the DJIA. There were no other strategies employed to obtain the results portrayed other than those strategies disclosed in the Sheaff Brock Investment Advisors, LLC Form ADV or other disclosure brochure.