

Quote of the week

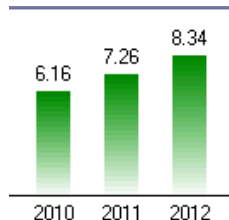
"I always tried to turn every disaster into an opportunity."
John D. Rockefeller

On March 9th, six weeks before the well explosion, we bought for our clients who use our Dividend Growth and Income strategy a 4% position in BP. In May, after reading several analyses on the potential costs, reading about the history of the nearly identical 1979 well explosion, and studying several independent analyst reports we added another 2% of BP.

As you know we are "value" investors and require clean balance sheets with strong cash on the books, as well as low debt, low p/e ratios, and a history of paying and raising dividends.

In the last week or two we have had a few inquiries as to why, at \$32 per share, we are continuing to hold BP. Here is why:

- The company is very strong. BP sells nearly a billion dollars of oil every DAY. The company's sales this year will be \$300 billion. The clean-up will cost them a lot, but this morning Goldman Sachs said they will be able to fund it without borrowing any money.
- A year or so from now when the media is focused on some other villain, when the well is no longer leaking and swimmers are again frolicking in the ocean, BP could be trading at closer to a normal valuation.
- In "normal" times BP trades between 2 to 3 times book value and at a P/E of 11. Value Line thinks book value will be \$35 per share at the end of this year and earnings will be \$6 per share. Do the math. Using book value the "normal" stock would trade at **\$70 to \$100**. Using P/E take the below earnings estimate numbers and multiply them by 11. You will come up with a valuation between **\$70 and \$90**.



BP earnings estimates after clean-up costs are factored in.

- Financially BP could afford to keep paying a dividend. And even though BP was pressured by the U.S. into suspending their dividend, they have as much pressure in the U.K. (their home country) to

pay a dividend. A lot of British pensioners rely on dividends from BP for income. BP is the biggest equity position in U.K. pension plans. The company has said the dividend will be reinstated, and since they can afford it we believe them. If you ran BP and lived in London, a picture in the **London Times** of a pelican dripping in oil is one thing, but a picture of a British pensioner begging on the steps of St. Patrick's Cathedral for crumbs because you took away their dividend is another.

In yesterday's Wall Street Journal we were quoted on the subject.

THE WALL STREET JOURNAL.

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Investors Hope Pressure Eases

BY GUY CHAZAN

Investors expressed relief at BP PLC's decision to suspend dividend payments, hoping it would ease political pressure on the company over its handling of the Gulf of Mexico oil spill.

But there was also surprise that BP had capitulated so readily to White House demands, agreeing to eliminate its payout for three quarters, slash capital spending, sell assets and pay \$20 billion into a claims fund.

Significantly, BP failed to win an assurance from government officials that the fund would represent a cap on the company's liabilities.

BP Chairman Carl-Henric Svanberg defended the deal as a necessary move to repair the company's fraught relationship with U.S. authorities.

"We are gaining by building trust with the American people,"

Some greeted the news on the dividend cut with equanimity. "We're long-term investors, and we believe BP can and will survive as a company," said Will Riley, co-manager of Guinness Atkinson Global Energy Fund. "We're very much focused on the fundamentals."

BP is expected to generate more than \$30 billion in cash flow this year, has \$5 billion in cash on its books and \$10.5 billion in committed bank lines.

Sheaff Brock Investment Advisors LLC in Indianapolis, which owns 70,000 shares of BP in client accounts, decided to hold onto the shares because it thinks BP has significant financial strength.

"We're staying in there," said Dave Gilreath, managing director of the firm, which oversees about \$220 million in assets. "Our belief is that they'll reinstate the dividend when the smoke clears."

Often times staying with a *financially sound* company in the midst of a disaster is the best course of action.

Below is a chart of Exxon before and after the Exxon Valdez accident.



Despite our ill-timed foray into BP our overall Dividend Growth and Income portfolios are doing well. The Dividend Growth Model is up about 6% for the year (including dividends) and even with BP cutting the dividend the portfolio is still yielding 4.5%.

Had we never bought BP we would be up about 8%; but hey being up 6% when the stock market is flat ain't too shabby. Our top three shining stars year-to-date have been Polaris, Kite Realty and McDonalds while the problem children have been BP, Verizon and Abbott Labs.

Our Growth accounts are up about 2% for the year but we feel are very well positioned. Our average P/E of our growth stocks is only 15 while earnings of all of our stocks will be up 20% this year.

Yes the BP spill is worse since nobody knows how much oil is shooting out of the hole in the ground. But it isn't the worst spill in the Gulf of Mexico.

The worst Gulf spill was in June of 1979 when a Mexican rig blew up and the oil soiled Texas beaches. The spill released more oil than BP's spill has (so far anyway), it happened during hurricane season and in fact a big hurricane made it into the Gulf 2 months later, and it took 10 months to fix the well. Yes it was a disaster in 1979, but nature healed herself then and will again in 2010.

BP should continue along and will probably be around much longer than any of us reading this newsletter will be breathing.

In fact if you are a betting person you could buy BP at \$32 and sell an 18 month call option at a price \$10 higher for \$4.50. The option income would nearly replicate the former dividend and if BP recovers you would make 44%; 30% from the stock and 14% from the option. If you are really adventurous you could also sell a put \$10 below which would ramp the option income up to \$9. That would be double their former dividend, but you would have to be prepared to buy more BP at \$22.50.

Our three best performing positions this year have been Wynn Resorts, Newmont Mining, and Humana. The three laggards have been Atwood, Corinthian Colleges, and Apollo.

The Auer fund is like a coiled spring. The fund has a P/E below 10 times earnings; which is 30% cheaper than the market. The fund also has projected earnings growth (according to Morningstar) 30% higher than the market. When you pay 30% less and get 30% more good things are likely to happen.

Thanks for reading.

Performance year-to-date as of 6/18/10

Sheaff Brock Growth Model	+ 1.5%
Sheaff Brock Dividend Growth	+ 5.9%
Auer Growth Fund	- 5.2%
S&P 500	0.0%

*Regarding the Auer Growth Fund: 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) obtains data from reliable sources but 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 gross of fees but net of 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) or the Dow Jones Select Dividend Index although the model positions may not reflect the securities making up these indices. None of the indices may be an appropriate comparison index as our model accounts may own companies not represented in the benchmarks. 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.*