Sheaff Brock

MARKET UPDATE July 23, 2009

Quote of the week

"I don't know the key to success, but the key to failure is trying to please everybody."
Bill Cosby

A little trumpet fanfare please…...A couple of nice things happened this week, and even though Mama said we shouldn't, we're bragging about it.

There are about 14,000 registered investment advisers (RIAs) in the U.S. and around 11,000 of those are big enough that they fall under the regulatory authority of the SEC. Sheaff Brock is one of those 11,000 independent advisers. Sheaff Brock oversees around $175 million in client assets. (The Auer Growth Fund is a separate deal...keep reading for the trumpet fanfare on that.)

There are two major industry publications that list the top roughly 500 RIAs in the nation; *Financial Advisor* magazine and *Wealth Manager* magazine. Last week both magazines put out their lists. Nationally we are in the top 2 percentile of all RIAs as we were listed 200th in total assets under management.

In the state of Indiana only 9 firms were recognized, and of those only 2 were listed in both publications. We were one of those 2 AND we were the only firm in Indianapolis listed in both publications.

Now the Auer Growth fund, which is up over 22% in 2009 through last night.

Every quarter Barron's puts out their quarterly review of mutual funds. For the second quarter the Auer Growth fund was THE BEST fund in it's Lipper category of Multi-Cap Growth funds. #1 out of over 500 of their competition. Terrific work Bob, Bryan, and Paul. Absolutely terrific. Do you realize how hard it is to be #1 in the ultracompetitive world of Wall Street?

THURSDAY, JULY 16, 2009
BARRON'S

LEADERS & LAGGARDS

A Glance at the Best and Worst Performers

2nd Quarter 2009

The Auer Growth Fund was the best performing fund in its Lipper category for the second quarter of 2009

CATEGORY	AVERAGE RETURN	BEST FUND	RETURN	WORST FUND	RETURN
Large-Cap Core	16.67%	Rydex 2x S&P 500 /RSU	32.05%	UMB Scout Stock / UMBSX	7.32%
Large-Cap Growth	15.43	Putnam Voyager;Y / PVYYX	28.46	Brandywine Blue Fund / BLUEX	6.25
Large-Cap Value	16.02	Natixis:Har LC Val;A / NEFOX	24.17	Marshall:LC Val;Inst / MLVIX	6.68
Long/Short Equity	10.02	RidgeWorth:IE 130/30;I / SCEIX	36.27	Dover L/S Sector;Inst / DLSIX	-2.87
Mid-Cap Core	19.46	Legg Mason Inv:Opp;A / LGOAX	46.34	Hussman Inv:Strat Gro / HSGFX	-0.76
Mid-Cap Growth	17.80	Fairholme:Fairholme / FAIRX	32.74	Brandywine Advisors MCG / BWAFX	3.96
Mid-Cap Value	20.03	Fidelity Adv Lev Co;Ins / FLVIX	37.60	Old Mutual:TS&W MCV;I / OTMIX	12.9
Multi-Cap Core	18.52	Yacktman Focused Fund / YAFFX	36.91	Stadion Managed;A / ETFFX	1.24
Multi-Cap Growth	17.44	**Auer Growth / AUERX**	**30.99%**	FundX Tactical Upgradr / TACTX	-0.61

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This week in our Growth accounts we were called out of Apple Computer, or we sold it, depending on the account at about $150. Clients made around 20% in the 15 months they owned it while the market dropped 26% in the same period. Our sanity has been questioned as to why in the world we would sell a stock in such a hot company. The iPhone is the coolest thing to have in your palm, the company announced record profits, and the TV pundits are saying the stock could go to $200.

Let's go back to why we buy a stock. Basically we buy in the Sheaff Brock Growth accounts when a company's P/E ratio is below their earnings growth rate, earnings are growing at a high level, and their balance sheet is pretty clean. In essence we try to find companies that have a low valuation, high growth, and no monkey business in the accounting department. In January of 2008 Apple was at $200 per share and the company hiccupped. By March of 2008 the stock had dropped to $120 and all of a sudden sported the characteristics of stocks we like; so we bought it at $127. Within 2 months the stock ran back up to $190. We could have sold it, but we still liked the company; and besides if we had sold it we would have listened to a lot of grief from clients complaining about a big short-term gain.

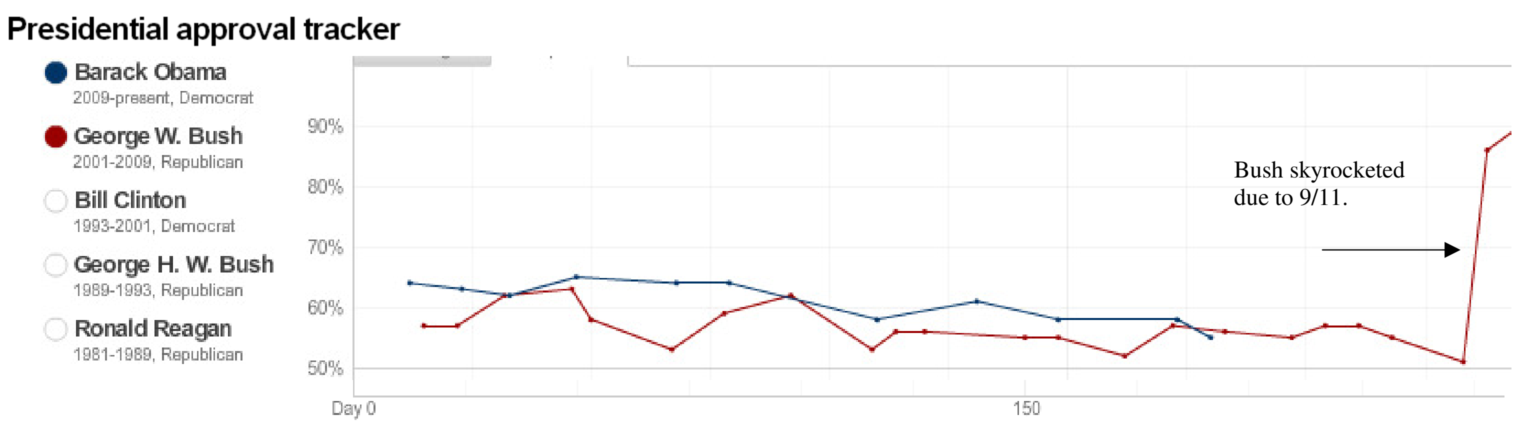
In late 2008 the world changed, remember? All along Apple had been reporting great earnings, but the stock fell anyway, all the way down to $80. Now many of the same client's questioned why we didn't sell out at $190, *"I could have **made** $6000 on my 100 shares and now I'm **down** $5000; an $11,000 swing, why are you still holding it?"*

Let's look at Apple's characteristics today:

- Current P/E ratio is 27. Very high, but could be justified
- Earnings growth last year was 36%. Wow! No wonder their P/E is so high.
- Earnings growth this year will be only 8%. Huh? That doesn't sound so good.
- Earnings growth for next year is expected to be up 19%. Better, but way less than 2008 and much less than their P/E of 27.
- Steve Jobs has had pancreatic cancer for 5 years and just got a liver transplant. That's real bad.

Apple is a GREAT company with a very clean balance sheet. Their iPhone is white hot but Apple's computer sales grew 4% and iPod sales fell. What if Steve Jobs died, what would the stock do? Great company, but very expensive, with significant potential event risk. That's why we let it go.

There is a fun website at USA Today that tracks Presidential approval ratings. You can compare all the Presidents back to Truman. Below is Obama compared to George W. You can see Obama just dipped below Bush. It's fun to play with. Here is the link: http://www.usatoday.com/news/washington/presidential-approval-tracker.htm



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