



Finding the Perfect Company

Pick Re-Analysis

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From the Editor's Desk:

Are Things Turning Around?

Will the excitement never cease? As noted in the news section of our newly redesigned website, April (and March and February and January) has had a somewhat disappointing run. Somewhat? Well since our premiere issue in January of 2005, the Dow Jones Industrial Average Index has sunk a little over 6%. Not a very promising start to the new year.

As I write this piece, in the very beginning of May, the market has been turning up. This has resulted in quite a few days that actually had gains - I was beginning to miss those little green arrows. The plight of investors at this significant juncture in time is an unsure one. We've got a war going on abroad. Domestically, a gas crisis is looming, and internationally, countries like China and India are losing the "ing" from their old titles - "industrializing nations".

As the song goes - times are a-changing. Or are they? Similar sentiments have been expressed for decades. It seems that every time a shift in the world order is imminent, something changes and everything picks right back up again. The question in my eyes remains - can't we have it both ways?

Why can't we maintain economic stability globally and watch the global standard of living increase simultaneously? I assert that we can.

Despite the yet unpleasing performance in the equities market this year, there is a light at the end of the tunnel. This month, we've added Avaya to our model portfolios (yes, I know it's about time we made an addition) as well as a thorough reevaluation of our other picks over the last five months.

We've finally begun to settle into our new site design and hope that you like it as much as we do. Our new site uses a content management system that will allow us to provide our visitors with better information faster. As we continue to sort things out, pre-

pare for the final kinks (i.e. the discussion board and subscription page) to be worked out.

We've seen exciting growth in readership since we put out our first issue. Since January, we've seen a constant and steady 50% growth in readers each and every month. This is despite the fact that we've partaken in no advertising to speak of, as well as the logistical limitations of producing

"We've seen exciting growth in readership since we put out our first issue."

a monthly financial magazine. We've got some exciting stuff slated for the month ahead - with a resolution to try and make our model portfolios more of a priority.

Thanks for making growFolio quite an exciting ride. And hey - feel free to spread the word!



Jonas Elmerraji
The Perpetual Bull



Photo by Myles Davidson

Name	Symbol	EPS	P/E	Recent Price	Price at Call	Months on growFolio
eCost.com	ECST	\$-0.18	N/A	\$2.79	\$7.53	5
Lexar Media	LEXR	\$-1.20	N/A	\$5.00	\$5.01	5
Bank of Am.	BAC	\$3.93	11.50	\$45.13	\$44.50	5
Best Buy	BBY	\$2.79	17.98	\$50.10	\$47.31	5
UnitedHealth	UNH	\$4.23	22.57	\$95.37	\$66.50	5
LeapFrog	LF	\$-0.24	N/A	\$10.08	\$10.90	4
Avaya	AV	\$0.47	19.16	\$8.95	\$8.68	0

Recapping Our Picks

This has been one heck of a year for investors. The stock market has not treated us mercifully, and neither has the global climate. In the five short months since our initial picks, we've seen ups and downs, highs and lows. This is a point that some readers have been vocal in, with posts on our Discussion Board like, "What happened to Lexar". The same could now be said for eCost.com. January was a beautiful time for the aggressive growth portion of the portfolio, while the Stability portfolio (consisting of UNH, BAC, & BBY) is having a pretty good run right now. UnitedHealth is especially bullish, up 43.4% (or about \$29 per share) since our premiere issue.

When you have a stake in the stock market, it is essential to constantly re-evaluate your positions and make sure that a once exciting company has turned the way of Mr. Hyde.

So here you have it, our diagnoses of

this year's picks (sans newly chosen Avaya) as well as why we've stuck with them - and when we'd get out.

I'm a fervent supporter of all the stocks on this page, whether or not the analysts agree with me. Every equity I've mentioned since January 2005 has stayed with us because there is significant potential, and significant money to be made. It's important to keep the long term in mind, especially with stocks like those in our aggressive growth portfolio, that see payday around Q4 of the year.

Now is as good a time to buy as any. Finding an awesome company (see "Finding the Perfect Company" in this issue) is just a challenge waiting to be met.

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Lexar Media

Lexar's always been a favorite. Many have doubted its ability to make money, as well as its propensity for acquiring significant loans. Frankly, I think that's a bit ridiculous. Lexar is one of the most noted names in their field. They continue to produce products that impress consumers. Some have said that after winning their half-billion dollar lawsuit with Toshiba, it would be a good time to sell Lexar. I could not disagree more. The spike in share price we saw when the results of the litigation first came out essentially remedied itself within days. As I see it, this win has not been priced into Lexar's shares. When this money is realized, it will be a windfall for shareholders. More importantly, when Lexar hits their profitable quarters (historically late Q3 and Q4), we should see a significant boost in price.



Charts courtesy of StockCharts.com

eCost.com

Since our initial interest in eCost.com (ECST) we have tried to get in touch with them (see our January and February issues). While this was considerably disconcerting, it was somewhat understandable that a company like eCost.com would be experiencing some significant growing pains.

A couple of eCost.com's executives were temporary employment, on loan from their former parent (and until recently 80% owner), PC Mall. When eCost.com hired Liz Murray in January as their new Executive Vice President and CFO, I found my in. I recently had the pleasure of talking to Ms. Murray, who did much to calm my few concerns.

Murray informed me that eCost.com had been experiencing fast growth in sales (something evident from their impressive results thus far) and looking for profitability this year. Nice.

Still an infant of an independent company, this year, eCost.com hopes to focus on building customer loyalty as well as their top and bottom line. Something that they seem to be doing by consumer accounts. During the period in when I was unable to contact a member of management, I did note the fact that getting in touch with a sales representative or customer service agent was always available without delay.

eCost.com will have their Q1 conference call on May 9, not too long from the writing of this article. While that's a bit late to make it into this issue of growFolio, you can bet that we'll make comments in the news section of our website.

LeapFrog

Once again, LeapFrog has been going right along with our expectations. One of the latest additions to our aggressive growth portfolio, LeapFrog is currently not doing anything in particular. Like Lexar and eCost.com, LeapFrog is a highly cyclical stock that sees enormous increases around Q4 (toymaker + holidays = money). While it hasn't been performing very much recently, we weren't really expecting it to yet. I've got high hopes for this innovative company.

Stability Picks

While for our aggressive growth picks we've outlined each one individually, that's really not necessary for our stability picks. The growFolio stability portfolio consists of Best Buy (BBY), Bank of America (BAC), and, of course, UnitedHealth Group (UNH). These stocks have been doing tremendously compared to a Dow Jones down more than 6% since January.

UnitedHealth, especially has been the big performer of the portfolio, as well as a darling of the pundits and analysts. Over the past few weeks, UNH has been flirting with the \$100 mark, one that will most likely be a sell point for many, many speculative investors. I would recommend letting this one go at or before the \$100 mark.

As for the others, they haven't done very much yet (despite beating averages), so I would wait it out with them. Once this period of stagnation ends, these guys will be poised to move.



Chart courtesy of StockCharts.com

No doubt you've seen commercials touting the awesome benefits of Avaya's IP Telephony solutions. It looks like quite a few companies have as well. Avaya is a leader in the communications field with clients in 90% of the Fortune 500, small business, and government. Avaya has an international standing as an enterprise network developer. Only independent for four years (since their split with their notorious former parent, Lucent), Avaya is an exciting firm that has been able to establish itself a presence as a leader in the VoIP and digital communications realm (not to mention the fact that they have become profitable).

Avaya's money makers include their IP Telephony and business communications divisions, which focus on complete IP solutions in infrastructure and maintenance. Essentially, what that boils down to is the fact that Avaya build the communications systems that enable businesses to communicate more efficiently, and now, for less money. In recent years, they've been expanding, buying subsidiaries like Expanets (a large distributor), and Tenovis and Spectal, two enterprise communications firms with footholds in the European markets. Avaya is also the provider of communications systems like their Audix messaging system that allows companies to quickly implement a communications system without a large investment.

Avaya saw profitability in 2004, \$291 Million to be precise, which has allowed for massive debt repayments. Avaya has net quick assets of approximately \$2.74 Billion (with total assets matching their current market cap of \$4.17 Billion), and liabilities now brought down to \$593 Million. Avaya has issues debt securities in the form of convertible bonds as well as other liabilities acquired from the purchases of their subsidiaries.

It is important to note that their bond ratings from Standard & Poors as well as Moodys have been upgraded significantly over the past couple of years. A fact that I believe speaks to Avaya's corporate stability.

Avaya has an enviable operating margin, giving hope to the idea of profitability this year as well. The impact of other economic factors on the company this year has yet to be seen.



Competition for Avaya includes Siemens, Alcatel, Nec, Nortel, and others, though Avaya is without a doubt the star of this industry at the moment. Avaya's legal situation is somewhat special given the state of Lucent in the legal world. Regardless, it doesn't appear that Avaya has any pending lawsuits the results of which will have a material impact on their business.

After touching a 52 week low in late April, Avaya is a welcome addition to our model portfolios.



Book Review



One of my favorite genres in books is the autobiography. Thus when perusing the newest releases for the subject of growFolio's second book review, Mark Burnett's *Jump In* was a clear choice.

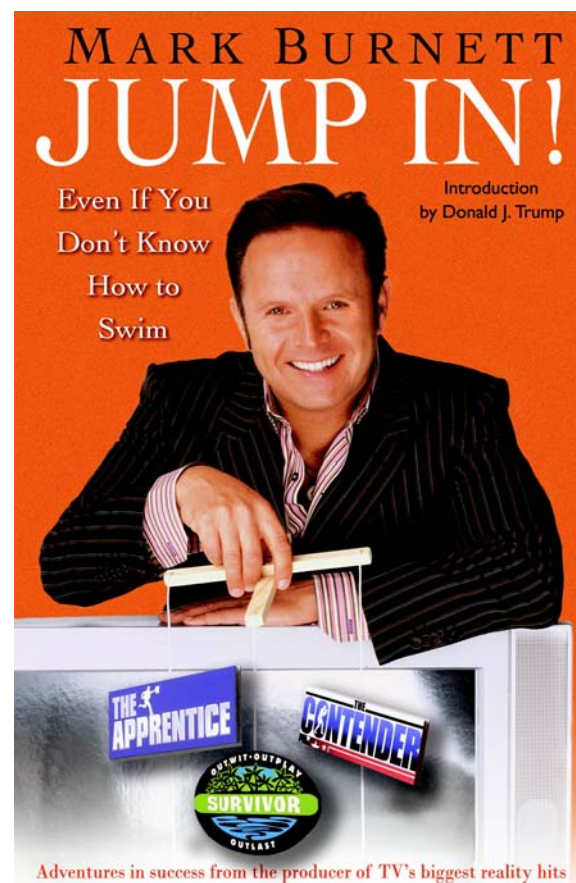
I can honestly say that *Jump In* was one of the most arresting reads I have had. I just couldn't put it down. The book chronicles the life of Mark Burnett, the creator of such hit shows as "Survivor" and "The Apprentice" from his first days out of the British armed forces to his current work on "The Contender" with Sylvester Stalone and Sugar Ray Leonard.

Jump In is a refreshingly interesting book. It's not simply a look at Burnett's life, as some would imagine, but rather a detailed look at business moves that defied the status quo and made Burnett (and potentially you) a millionaire. From days spent selling t-shirts on Venice Beach to multimillion dollar deals negotiated, Burnett has seen it all (in fact, he even did a stint as a nanny for a wealthy family), and goes into detail as to what he did that made him what he is now.

Throughout the book, Burnett refers to the concept for which the book is named - jumping in and taking a risk. He makes a concerted effort to explain that not only did his often unorthodox methods work for him, they could work for you as well. Good advice wrapped in a page-turner.

Primarily, the book focuses on his most well-known television creation, "Survivor". The show that made him famous. The casting, location selection, insurmountable odds are all laid out for each and every season, as well as how he and his company overcame them. Certainly a perk for any interested "Survivor" fan.

While it's doubtful that this book will provide the reader with any profound business advice, *Jump In* certainly caught me attention as one of the most interesting life stories between two covers. Cliche aside, the most unpleasant part about the book was putting it down.



Jump In

by Mark Burnett

Ballantine Books 272 pages

ISBN: 0345480988

\$24.95

Finding the Perfect Company



In an age of pump and dump trading and economic wobble, maybe the best approach to investing doesn't involve watching the market non-stop. Maybe it's just a matter of finding the "perfect company".

The perfect company - it's the holy grail of the investment world. The company that will make its initial investment hundreds of times over. It's what everyone shoots for. To have bought Microsoft when it first went public, It's how fortunes are made. What does make "the perfect company"?

The search for the perfect company is not the pursuit of day-traders or market insiders. They're looking for quick and dirty returns. High speed, high risk, high stress. No, the perfect company is more along the lines of what an individual investor - like you or I - would look for. I don't want to have to have my hand on my mouse until the closing bell just to make sure I don't lose my shirt. I want to buy a position in a company and know that regardless of what happens today or tomorrow, eight months from now, my portfolio will be worth more than today. I'm not talking about a laissez-faire approach to investing - far from it. What I'm talking about does take a time investment as well, in research, understanding the ins and outs of a company, but one that will be paid off in spades.

That's an approach that I've taken seriously (guess what, we're talking about money here), and that I feel makes the market less of a gamble. It's also a mantra that has gotten me yields in the double digits over the Dow to date in a markedly tough year.

So, you may be asking, "What is the perfect company? What traits should it have?"

One of the most important things - in my opinion - about investing in a company is

the feeling that you're a partner. It's essential to know the company inside and out. Be aware of all their products, as well as all of their numbers. Above all, you should be excited in the company you're investing in. If not, what's the point? Your gut is an important part of investing. If you're portfolio doesn't get you going, you might as well be gambling in Vegas. At least you'd get comped.

"In the perfect company, fundamentals are, well, fundamental."

In the perfect company, fundamentals are, well, fundamental. It's so important to familiarize yourself with the annual and quarterly reports (the 10-K is your friend) and listen to quarterly conference calls (both can be done online, very easily. Check out the company's investor relations site to learn more). Remember, you're not banking on market psychology, you're focusing on profits. No matter what happens to a company, if they've got juicy profits, their share price WILL go up. There's no two ways about it. Make sure that the company is making money and you will be too.

Emotion has a natural part in this. If you're loving a company, it can be expected that you'll be blinded by that fact when it comes time to sell. One remedy for this is defining a reasonable sell, or stop loss point before you even buy. All too often people

watch their positions go up past their expectations only to see them fall back down below what they bought for. Have a look at analyst estimates as well as other factors (after following the market for a little while, it becomes sort of instinctual) to try and determine a price to sell at no matter what. Just as importantly, don't forget to reevaluate frequently. Things change, you don't want to miss out on huge gains or look toward a share price the stock will never get to. News and economic factors will influence things, change your estimates appropriately.

Just as you should reevaluate your sell point for a stock, you should often reevaluate your position in the company itself. While a company may have been exciting and ideal for you when you purchased their stock, things change. Maybe the product line you thought would take off didn't. Maybe their visionary CEO retired. Maybe something just doesn't feel right. Ambivalence has no place in this game.

“If you want to try your hand at speculative, technical trading, this isn't the method for you.”

Don't be afraid to speak your mind on the company's business, either. You're an owner, however small, and have an obligation to protect your investment. While you might not have the same clout or voting ability as an institutional investor, or anyone who measures their equity in percentages of the company, but sometimes, making your points known makes all the difference. Lobby to those powerful holders of the company as well as other individual investors. (We'll have more on making your piece heard in an upcoming issue).

If you want to try your hand at speculative, technical trading, this isn't the method for you. If, however, you want to shoot for a

combination of excitement and profit, you may want to look into this a bit. It's worked for me. If you're a seasoned investor, or a newbie willing to learn (through methods that don't require money initially) you may find this to be a particularly rewarding idea.



The perfect company may be just a click away. The trick is finding it. There's always a buyer's market out there for the individual investor if you just look (and look hard sometimes).

Beginning Investor:



Getting the Information

Obviously, knowledge is power. This is especially true, however, in the financial world, when stock prices can fluctuate violently from day to day based on news, or (as some picks close to me have exhibited) earnings reports. The tough part is getting the information together - and early - so that you can take advantage of it before everyone else catches on.

First off, as an individual investor, you'll just have to come to terms with the fact that you don't have the sources that professional traders and fund managers have at their disposal. So come to terms with it... you won't be as able to make a quick move as the pros are. But neither are your peers. The key to moving faster than the next guy is that information thing I mentioned.

So where should you turn? You still stand a sporting chance of making some cash in the market, what it essentially comes down to is your sources.

Get to know the numbers. Yeah, I'll admit it, it's one of my favorite points to harp on - you just have to know a company's numbers (and understand them) before you even think about putting your money in it. The internet is one of the best places to get that information. Head over to the company's investor relations website. You can usually accomplish this by heading to their regular site, then clicking "About Us" or something to that effect, then clicking "Investor Relations". This site is a wealth of resources. Here you'll be able to download a company's annual report and SEC filings. You'll also be able to request printed investment publications from the company free of charge. I highly recommend both - you can learn a wealth about a company just by the way they present printed materials to potential investors.

Once you have the numbers down, it's important to get information that is fundamental to its businesses. If they deal with consumers, check out customer reviews of their service. If they work with other companies, are former customers sticking with them?

One of the best ways to find out if a little known

product or company is going to hit it big is by looking for financial trends in non-financial magazines, newspapers, radio, and TV. Free publicity is a big deal in the "connected" society we live in today. If a host or columnist is praising something that your company does (and especially if others do so as well), the media conscious public is bound to catch on as well.

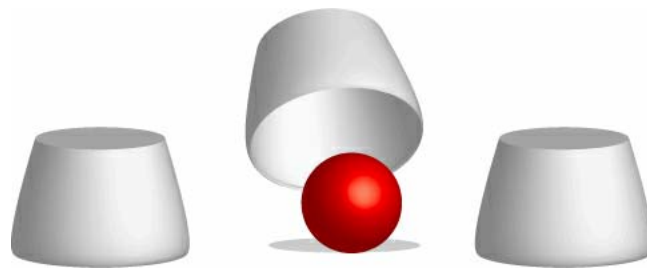
If you are trying to get background on a company, do the "Search Engine Test". Just type the company's name in , and see what comes up in Google, Yahoo!, Ask Jeeves, or whatever you use. Most likely, the company's site will come up first, but you're bound to find articles and product commentary, just the things that interested customers will be looking at when they Google a product the company makes.

A really neat spin-off of the "Search Engine Test", is Google's news search. I really love this feature, since it lets you look for stuff on a product, stock, company from just about any media outlet in the world.

Market-related information is also incredibly valuable.

There are a couple of ways to get this, one of my favorites is Yahoo!'s finance website (<http://finance.yahoo.com>). They have [delayed] quotes, news, analyst comments, charts, and so much more relevant information about any stock you are looking at. Another awesome source of market related information is your online broker. If you log into your brokerage account, you can get real time quotes, important news, and a wealth of other information (this does vary by broker, so check to see what yours offers).

There's a ton of information out there if you're looking. Digital media has changed the face of investing forever, and continues to do so. While getting the information you need is only part of the battle, it is a significant part nonetheless. Good luck.



Getting the info you need can be like a shell game. If you know how to go about it, though, you can beat the odds.