

Leigh Baldwin & Co.

Investment Brokerage

112 Albany Street
Cazenovia, NY 13035
www.leighbaldwin.com

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Leigh Baldwin & Co. Investment Brokerage Newsletter

First Quarter, 2007

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Leigh Baldwin & Co.
Investment Brokerage

Main Office:

112 Albany Street
Cazenovia, NY 13035
315-655-2964 • 800-659-8044
www.leighbaldwin.com

Utica Office:

258 Genesee Street
Utica, NY 13502
315-734-1410 %

Norwich Office:

2 Hayes Street
Norwich, NY 13815
607-334-4100

Other Offices:

Syracuse, NY
Buffalo, NY
Clarks-Summit, PA

The “Golden Pig” in the Python

Much has been said and written about the demographic phenomenon of the baby boomers, those born between 1945 and 1963, and their huge impact on our society. Like a python trying to swallow a pig, the baby boom generation represents a huge population increase that has slowly, and steadily moved over the years through our economic system. Amazing change and development have been the results of this generational progression. Beginning with the growth in suburbia and education in the fifties to the upheaval of the sixties and the Vietnam era, baby boomers have directed public and private policy. The seventies and eighties followed with huge technology gains and societal changes such as the ending of the cold war. The last decade or so we have seen an unprecedented investment boom in stocks, bonds, homes, and vacation property.

The baby boom generation is clearly in control of policy and the political landscape as the Presidents for the last fourteen years are both baby boomers themselves. The boomers define the wants and needs of the country. For example, in entertainment, the two largest grossing musical performers in 2006 were the Rolling Stones, a band embraced by boomers for the last forty years, and Barbra Streisand, who amazingly had an average ticket price for her show in 2006 of \$298.30. The path of the baby boomers is well-documented, but how do we profit from the trend?

Obviously, there are some negative consequences to the baby boomer demographic. The fragile social security system and the potential for a housing bubble come to mind, but for the sake of investors, we can try to examine the positive potential results. Estate planning and the investment industry would figure to benefit enormously in the years ahead as the boomers begin to

retire and position wealth. Stocks that will benefit are **Merrill Lynch (ML)**, **Goldman Sachs (GS)**, and **National Financial Partners (NFP)**, to name a few. Healthcare and biotechnology should also benefit from the trends. In addition, companies such as **Quest Diagnostics (DGX)**, **Wyeth (WYE)**, and **Pfizer (PFE)** should perform well. Utilities and energy will benefit, as well.

The biggest gains may be from having a larger percentage of your portfolio allocated to international stocks, bonds and mutual funds. Not only will the travel industry benefit from the boomers, but countries like Japan will also be enjoying their own boomer revolution that will continue to change spending, saving, and investment patterns.

Finally, 2007 is considered the “Year of the Golden Pig” in China, which occurs every 60 years. The births in China are already expected to be 20% higher in 2007, as families hope to have their own “golden pig”. China, notwithstanding a 20% increase in their population, could be beginning a second wave of expansion and growth that will dwarf our own experience with the baby boom generation. Let the python swallow the golden pig.

Stocks to Watch in the First Quarter 2007

Petro-Canada (PCZ): PCZ is the largest integrated oil marketer in Canada as it controls over 16% of the gasoline sold in that country. With two refineries, one in Edmonton and the other in Montreal, the company explores, develops, and markets oil products in Canada and internationally. We believe that oil prices will continue to climb, even though the rise may be jagged at times. With a P/E of around 10 and the stock off its highs, PCZ may be poised to make a move in 2007 and beyond.

Investment Strategies

Making Money As A Contrarian Investor

Oil States International (OIS): Staying with our oil theme, Oil States provides specialty products and services to the oil and gas drilling industry. From a two year high price of about \$44, it is currently trading around \$27 with a P/E of about 7. Insiders are buyers of their own stock, and this company can be profitable with crude oil priced in a relatively wide range.

Rayonier Inc (RYN): Rayonier is a global supplier of timber and wood products in over 50 countries. More importantly, we believe RYN is a long-term real estate play that also combines stable growth with a very generous dividend, currently priced to yield about 4.5%.

Mutual Funds for the First Quarter 2007

Fidelity Advisor Diversified International (FDVAX): The Fidelity Advisor Diversified Fund is operated by manager Penny Dobkin as it seeks capital appreciation by investing in stocks around the globe. The fund has had a five-year load adjusted return of almost 15% per year. The fund is invested heavily in Japan, Germany, and France.

Putnam Balanced Portfolio (PABAX): This allocation fund combines bonds and stocks to offer a mix of capital appreciation and income. The fund is team managed to cover a wide spectrum of investments. It returned over 12% in 2006, with much less volatility when compared to an equity fund. ■

A contrarian investor ignores market trends and buys neglected and depressed stocks of well-managed companies.

Contrarian investing is an investment strategy that searches for securities, companies, or industries that are currently out of favor with the investing community.

Contrarian investors may seek undervalued stocks, turnaround candidates, or cyclical companies nearing the bottom of a trough. Contrarian investors tend to do the opposite of what the majority of investors are doing.

Trading on future popularity

Stocks with low market prices and low P/E ratios are particular favorites with contrarian investors. However, the contrarian should guard against low stock prices, which are in fact deserved. Before deciding to make an investment, contrarian investors should also consider the company's balance sheet, management and market structure.

Major news sources move markets just by their tone of optimism or pessimism. The financial news is often focused on daily price movements and tends to emphasize winning or losing streaks.

The contrarian way of thinking

Contrarian investors buy on bad news and sell on good news. "Buy low, sell high." This is how an investor must think in order to profit from his or her investments.

A contrarian investor evaluates the opinion of the investing public and when that opinion reaches an unreasonable extreme, he or she invests against it. How can we can profit from contrary opinion?

This is true for both market tops and market bottoms. At the top,

investors have committed all their money to the market, meaning that there is no more money available to push it higher. At the bottom, these investors have taken all of their money out of the market and typically will refuse to invest until the market renaissance has begun.

It is also critical to remember that a contrarian point of view is just an entry and exit technique. You are looking for the right time to buy and to sell and are using the crowd's opinion to tell you when the time is right. But once you've taken a position, you want the majority to follow your point of view. Only the majority can push the price of an investment up or down enough to create dramatic profits.

The true contrarian attempts to buy before the crowd starts buying and tries to sell before the crowd starts selling.

Usually, the majority will notice the same opportunity that you have discovered. Once you have purchased that stock, you need to be able to adjust your strategy and participate in the stock's appreciation. That is the great irony of contrarian investing. You are usually going along with the crowd. The crowd is wrong at the tops and bottoms when you are buying and selling. However, in between the extremes, the group actually agrees with your analysis. The true contrarian attempts to buy before the crowd starts buying and tries to sell before

the crowd starts selling.

For every true contrarian, there are hundreds of investors who falsely claim the contrarian mentality. Many are value investors, who often choose the same beaten-up stocks that contrarian investors are buying. But the value investor is merely looking for bargain stocks and is not as interested in extreme opinion.

Just because an investor assumes an unpopular attitude, disagrees with the crowd, or buys stocks trading at their lows does not make him or her a contrarian. A contrarian is interested in extremes in market reaction, not just disagreement with the majority.

The advantage of contrarian investing

Liquidity drives markets. By buying early, you are in a position to allow other investors to bid up the price of the shares that you already own. Likewise, you are out before investors start taking money off the table when the prices of those shares start to fall.

You will also find that disgraced stocks often create less risk, as the bad news has already been built into their prices. In a falling market, stocks that already were trading near their lows will frequently drop a lot less than shares that had been trading near their highs.

The perfect example

Poor General Motors. On December 28th, 2005 GM traded at \$18.59 per share. The news headlines on that day were dreadful. One analyst wrote, "We believe GM is likely to file bankruptcy following the completion of the GMAC spinoff... With GM's current market cap of just \$10 billion, versus \$14 billion for

Ford Motor, the financial markets are basically saying that neither company's equity has any value. And the markets are right."

Au contraire! Actually, that was the bottom. On December 29, 2006 the stock traded at \$30.72, an increase of 65%!

More examples: Merck traded at \$25.50 on October 7th, 2005. On December 29, 2006, MRK closed at \$43.60! On April 21, 2003, Apple computer traded at \$6.56. On December 29, 2006, AAPL closed at \$84.84! In addition, on September 30th, 2002, Corning Inc. traded at \$1.46. On December 29, 2006, GLW closed at \$18.71! The list goes on and on.

Since a contrarian takes action against the crowd, all of the other investors already will have pushed the individual stock, industry sector, market index, or commodity to an extreme price. That allows the contrarian to buy low and sell high.

The difficulties of contrarian investing

Succeeding as a contrarian investor is more than just opposing the public. If it were that easy, everyone would embrace this approach to investing. Being a contrarian means not only disagreeing with the crowd, but also knowing when to act on that disagreement. One must scan the market for extremes: specifically, buying when a stock has been decimated below its fair value, or selling when the price of a stock has been bid up above its actual worth.

But estimating extreme sentiment can be quite difficult. Actually, it is the point at which many people go wrong in contrarian thinking. You need a real extreme in order to act.

Thinking like a contrarian will be difficult as you are opposing existing opinion. When everyone around you is bullish on the stock market, it takes strong courage and an independent mind to be watching for the chance to invest the other way. We all want to fit in. But as a contrarian, you must become a detached thinker and learn to be comfortable as a loner. Indeed, being alone is reassurance to the dedicated contrarian.

Contrarian investors can often buy stocks too early. Doing so means that they are not only alone in their opinion but, for a time, are wrong as well. But, for contrarian investors, to profit, all the other investors need to be wrong when you are buying or selling your shares.

Remember, contrarian investing is a strategy that has its inherent risks; but the gains made by such investors can be substantial.

Contrarian investing check list

- Concentrate on turnaround situations, which are currently unpopular but are likely to regain their luster in the near future.
- Focus on stocks that have the ability to increase in value by a minimum of 50 percent.
- Carefully analyze corporations' financial statements, concentrating on debt ratios and book values.
- Analyze management's ability to achieve stated goals.
- Invest only in companies that have existed for at least ten years.
- For optimal returns, choose takeover candidates well before the takeover occurs.