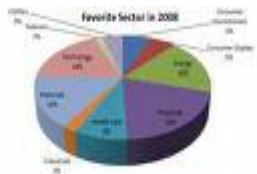




Strategic International Securities Research Inc.

An Independent Research Firm



## The SISR Model Portfolio\*

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### July Month End Summary of Model Portfolio: with reasons for Additions and Deletions, and Performance Table

#### **I. Introduction**

Beginning on October 18, 2009 we started a recommended list. Since then this recommended portfolio has had a return of 32.65% while the S&P has returned 4.99%, and since the beginning of the year this portfolio has returned 34.21% in contrast to the S&P return of 9.33%. The importance of the portfolio is very secondary to our sector work, in that the portfolio is simply a representation of the ideas that we are pursuing in our daily work with regard to the sectors of interest that we identify. The portfolio was created at the request of several clients, simply as a finalization of the logic and possible visualization in a more pragmatic manner of our work, in contrast to more theoretical framework that we conventionally employ.

#### **II. Additions and Deletions Since July 1, 2009**

##### **Additions since July 1, 2009:**

July 17, 2009

1. S&P Dep Receipts (SPY) - **Short** /Long -Power Shares QQQ (QQQQ)

July 22, 2009

2. BEBE (BEBE)

July 27, 2009

3. AECOM (ACM)
4. Louisiana Pacific Corp (LPX)

**Deletions since July 1, 2009:**

July 17, 2009

1. China Medical Technology (CMED)

July 22, 2009

2. Infosys Technologies (INFY)
3. Nokia (NOK)

July 27, 2009

4. Hewlett Packard (HPQ)
5. Stumberger Limited (SLB)
6. Baker Hughes Inc. (BHI)

**III. Reasons for Additions and Deletions****A. Additions**

1. **QQQQ Long/ SPY Short:** The one area that we feel a bit underrepresented may be in Technology which we believe is a likely overweight to the S&P. The S&P is very balanced and several sectors are likely to underperform the market, like stables, some financials, health care, utilities, whereas the QQQQ's while still down over 70% from its all time high, is likely to show greater appreciation, as soon as industries start to invest in new technology and begin to attempt to improve productivity.
2. **Buy BEBE Stores (BEBE):** This is probably the most problematic decision that we have ever made in this portfolio. We have followed the store for years. In the mid 2000's this company was one of the real high flyers. It has not had any kind of move up from its lows, like many of the other retail outlets, and as the economy starts to get stronger we expect that it will outperform as we expect Abercrombie (ANF) will. We currently have ANF in our portfolio, but BEBE takes the youth fashion to another level. That level will be back and when it comes back BEBE will benefit. This is not a position that we expect to flip in the next couple of months but we are looking for sizable appreciation from the current lows. When that will happen is anyone's guess but we expect that it will happen in a 3 week period, whenever that period is we hope to be there.
3. **Buy AECOM (ACM):** The decision to add AECOM is a purely based on infrastructure expectations much in line with our decision to add Jacobs engineering earlier in the year. ACM is involved in technical management support for projects like highways, airports, bridges, mass transit systems, and water and wastewater facilities, all projects that are part of the \$160 billion dollar infrastructure expenditure, from the stimulus package. We believe it is this sector that will lead the recovery.
4. **Buy Louisiana Pacific Corp (LPX):** This is by far is the weakest company that we have placed in the portfolio ever, but we believe our decision is sound. Over the past two weeks we have seen

home price stabilize from various reports like existing home sales and from the FHFA report, as well as last month from the new home sales report (they will report on Monday for June). Not only have sales been up for 3 straight months but prices have been up also. In addition we have now seen starts and permits up for two straight months. The LPX cash position is strong enough to weather this storm, the price seem right and we believe that as residential home building begins to pick up LPX will again be profitable by the end of this year or early next year and the price of the stock will reflect the anticipated improvement

## **B. Deletions**

1. **Sell China Medical Technology (CMED):** We are removing China Medical with a small loss after they reported good earnings but made a management decision to divest its tumor therapy division and concentrate on its diagnosis business. They took a major write down and ever since the company has not been performing very well.
2. **Sell Infosys (INFY):** This decision was based more on pure valuation and the 44.75% increase since mid April. At this point we feel this stock is fully priced and we feel we can do better elsewhere.
3. **Sell Nokia (NOK):** The decision to sell NOK is a difficult one. Given that they are losing market share when our decision to purchase NOK was based on the expectation that they would be gaining share with their new products, our reason for the purchase no longer existed, hence the decision to sell.
4. **Sell Hewlett Packard (HPQ):** The decision to sell HPQ was based on our report late last week where we argued that technology will likely not be a lead sector in this recovery. With the struggles of Microsoft we are even more convinced of this decision. We added HPQ on April 30, 2009 and it is up nearly 16% in the portfolio, so we felt we could use allocate our money better elsewhere.
5. **Sell Schlumberger (SLB) & 6. Baker Hughes Intl (BHI):** This decision was based on the earnings report for SLB on Friday July 24<sup>th</sup> where earning tumbled 57% and their outlook was very uncertain going forward. Also the portfolio is slightly positive on both positions so we decided to pull them, up 1.43% and 5.77% respectively.

All transactions since inception can be found in the Appendix below. All transactions had an initial purchase of \$50,000 with the initial investment being \$1M. Once again this exercise is primarily a way to better represent the work that we are doing with respect to sectors. This is not intended to be representative in any way of our portfolio management skill set. Our sole objective is to help portfolio managers understand the sectors which we favor at a given period of time.

Figure I: Performance Table of Performance of the SISR Recommended List Since Inception (July 24, 2009)

Companies, Initiation Date and Price and Percentage Change												
#	Company	Initiation Date	Initiation Price	Initial Purchase	Initial Purchase Sold	# of Shares	Date of Sale	Sale Price	Closing Price July 24	Percent Change	Current Value	Profit/ Loss
1	The Mosaic Company (MOS)	Oct. 18, 2008	\$33.66		\$50,000.00	1485.44	April 8, 2009	\$45.61		35.50%	\$0.00	\$17,751.04
2	Holly Corporation (HOC)	Oct. 23, 2008	\$16.75		\$50,000.00	2985.07	May 7, 2009	\$25.25		50.75%	\$0.00	\$25,373.13
3	Abercrombie (ANF)	Nov. 3, 2008	\$28.96	\$50,000.00		1726.52		\$28.59		-1.28%	\$49,361.19	
4	Aeropostale (ARO)	Nov. 3, 2008	\$24.18		\$50,000.00	2067.82	May 5, 2009	\$37.22		53.93%	\$0.00	\$26,964.43
5	Harris (HRS)	Jan. 25, 2009	\$42.80		\$50,000.00	1168.22	May 7, 2009	\$28.58		-33.22%	\$0.00	-\$16,612.15
6	Caterpillar (CAT)	Jan. 28, 2009	\$32.32	\$50,000.00		1547.03		\$44.06		36.32%	\$68,162.13	\$0.00
7	Accenture (ACN)	Feb. 4, 2009	\$33.11	\$50,000.00		1510.12		\$35.07		5.92%	\$52,959.83	
8	Polo Ralph Lauren (RL)	Feb. 18, 2009	\$36.97		\$50,000.00	1352.45	May 7, 2009	\$52.00		40.65%	\$0.00	\$20,327.29
9	Darden Restaurants (DRI)	Mar. 16, 2009	\$28.78	\$50,000.00		1737.32		\$32.39		12.54%	\$56,271.72	\$0.00
10	Cheesecake Factory Inc. (CAKE)	Mar. 16, 2009	\$9.48		\$50,000.00	5274.26	April 30, 2009	\$17.37		83.23%	\$0.00	\$41,613.92
11	Applied Materials (AMAT)	Mar. 16, 2009	\$10.43	\$50,000.00		4793.86		\$13.80		32.31%	\$66,155.32	\$0.00
12	L-3 Communication Holdings (LLL)	Mar. 16, 2009	\$61.29		\$50,000.00	815.79	May 7, 2009	\$77.04		25.70%	\$0.00	\$12,848.75
13	Wells Fargo & Co. New (WFC)	Mar. 16, 2009	\$13.70		\$50,000.00	3649.64	May 7, 2009	\$24.76		80.73%	\$0.00	\$40,364.96
14	Bank of America (BAC)	Mar. 16, 2009	\$6.18		\$50,000.00	8090.61	April 30, 2009	\$8.93		44.50%	\$0.00	\$22,249.19
15	Lowes Companies Inc. (LOW)	Mar. 19, 2009	\$17.19	\$50,000.00		2908.67		\$22.46		30.66%	\$65,328.68	\$0.00
16	J.B. Hunt Transport (JBHT)	Mar. 31, 2009	\$23.61	\$50,000.00		2117.75		\$27.95		18.38%	\$59,191.02	\$0.00
17	Infosys Technologies (INFY)	Apr. 17, 2009	\$27.98		\$50,000.00	1786.99	July 22, 2009	\$40.50		44.75%	\$0.00	\$22,373.12
18	China Life Insurance (LFC)	Apr. 17, 2009	\$54.72	\$50,000.00		913.74		\$66.56		21.64%	\$60,818.71	
19	Granite Construction Inc. (GVA)	Apr. 17, 2009	\$40.12	\$50,000.00		1246.26		\$33.88		-15.55%	\$42,223.33	
20	Texas Industries Inc. (TXI)	Apr. 17, 2009	\$31.81	\$50,000.00		1571.83		\$45.50		43.04%	\$71,518.39	
21	China Medical Technology (CMED)	Apr. 20, 2009	\$19.28		\$50,000.00	2593.36	July 17, 2009	\$18.83		-2.33%	\$0.00	-\$1,167.01
22	Nokia (NOK)	Apr. 30, 2009	\$14.14		\$50,000.00	3536.07	July 22, 2009	\$13.00		-8.06%	\$0.00	-\$4,031.09
23	Hewlett Packard (HPQ)	Apr. 30, 2009	\$35.98		\$50,000.00	1389.66	July 27, 2009	\$41.72		15.95%	\$0.00	\$7,976.62
24	Coach Inc. (COH)	May 5, 2009	\$25.42	\$50,000.00		1966.96		\$29.59		16.40%	\$58,202.20	
25	Nordstrom Inc. (JWN)	May 5, 2009	\$23.90	\$50,000.00		2092.05		\$26.44		10.63%	\$55,313.81	
26	Jacob Engineering (JEC)	May 5, 2009	\$41.57	\$50,000.00		1202.79		\$40.98		-1.42%	\$49,290.35	
27	S&P Dep Receipts (SPY) - Short	May 7, 2009	\$90.86		-\$600,000.00	-6603.57	June 5, 2009	\$94.02		3.48%	\$0.00	-\$20,867.27
28	Exxon Mobil Corp (XOM)	May 11, 2009	\$70.80	\$50,000.00		706.21		\$70.39		-0.58%	\$49,710.45	
29	Petroleo Brasileiro (PBR)	May 11, 2009	\$40.00	\$50,000.00		1250.00		\$41.32		3.31%	\$51,655.00	
30	Schlumberger Limited (SLB)	May 11, 2009	\$56.53		\$50,000.00	884.49	July 27, 2009	\$57.34		1.43%	\$0.00	\$716.66

August 3, 2009

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#	Company	Initiation Date	Initiation Price	Initial Purchase	Initial Purchase Sold	# of Shares	Date of Sale	Sale Price	Closing Price July 24	Percent Change	Current Value	Profit/ Loss
31	Baker Hughes Inc. (BHI)	May 11, 2009	\$39.20		\$50,000.00	1275.51	July 27, 2009	\$41.46		5.77%	\$0.00	\$2,882.64
32	Occidental Petroleum Corp (OXY)	June 6, 2009	\$68.56		\$50,000.00	765.46	June 12, 2009	\$68.97		0.60%	\$0.00	\$2,793.78
33	FPL Group Inc. (FPL)	June 6, 2009	\$55.22	\$50,000.00		905.47			\$56.67	3.93%	\$51,312.93	
34	Woodward Governor Co. (WGOV)	June 6, 2009	\$23.12	\$50,000.00		2162.63			\$19.64	-15.05%	\$42,474.05	
35	Vulcan Materials Company (VMC)	June 6, 2009	\$46.09	\$50,000.00		1084.83			\$47.48	3.02%	\$51,507.92	
36	Holly Corporation	June 14, 2009	\$20.72	\$50,000.00		2413.13			\$21.27	2.65%	\$51,327.22	
37	WellPoint (WLP)	June 22, 2009	\$48.82	\$50,000.00		1024.17			\$52.64	7.82%	\$53,912.33	
38	United Health (UNH)	June 22, 2009	\$24.56	\$50,000.00		2035.83			\$28.06	14.25%	\$57,125.41	
39	S&P Dep Receipts (SPY) - Short	July 17, 2009	\$94.13	-\$500,000.00		-5311.80			\$98.81	4.97%	-\$524,859.24	
40	QQQQ	July 17, 2009	\$37.56	\$500,000.00		13312.03			\$39.45	5.03%	\$525,159.74	
41	BEBE	July 22, 2009	\$6.50	\$50,000.00		7692.31			\$7.27	11.85%	\$55,923.08	
42	AECOM Technology Group	July 27, 2009	\$32.99	\$50,000.00		1515.61			\$32.40	-1.79%	\$49,105.79	
43	Louisiana Pacific Corp	July 27, 2009	\$3.78	\$50,000.00		13227.51			\$4.22	11.64%	\$55,820.11	
	Total Equity			\$1,200,000.00							\$1,324,971.47	
	Cash			\$1,558.03							\$1,558.03	
	Total Realized Gain/Loss											\$201,558.03
	Total Value of Account										\$1,326,529.50	
	Original Asset Value					07/31/09					\$1,000,000.00	
	Total Return Since Inception Oct 2008			S&P Oct 18 08	940.55	987.48	S&P	4.99	SISR	32.65%	\$326,529.50	
	Return 2009			S&P Jan 1, 09	903.25	987.48	S&P	9.33	SISR	34.21%		

Source: Reuters, SISR

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