



## COMMENTARY - March 30, 2007

The stock market was mixed in March, with the Dow Jones Industrials up 0.7% and the index of Ford stocks down 0.2%. Long term interest rates rose to 5.4% from 5.2%. The net effect increased the Ford stock average price/value ratio to 1.41 from 1.35, indicating that the typical stock is overpriced.

## Change Direction Effect on Earnings Momentum - Revisited

### EMO and Earnings Change Combined

	Highest	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Lowest	Ford Univ.
2003	138.4	68.5	52.3	60.3	77.1	73.8	56.6	55.6	56.1	76.7	70.3
2004	30.3	21.9	20.8	21.7	23.1	18.4	22.5	18.2	13.4	15.5	20.6
2005	12.3	9.0	11.2	9.4	7.4	0.1	1.7	2.0	-1.4	-7.8	4.3
2006	22.5	22.5	22.0	19.1	17.1	16.5	15.8	16.6	16.3	7.5	17.6
<b>Annualized</b>	<b>43.8</b>	<b>28.7</b>	<b>25.7</b>	<b>26.2</b>	<b>28.7</b>	<b>24.5</b>	<b>22.6</b>	<b>21.6</b>	<b>19.4</b>	<b>19.3</b>	<b>26.0</b>

### EMO

	Highest	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Lowest	Ford Univ.
2003	83.4	87.9	81.6	70.0	51.0	42.8	50.7	52.4	79.0	114.1	70.3
2004	26.7	26.4	24.6	21.2	16.7	17.6	20.3	22.0	15.6	14.4	20.6
2005	7.8	5.4	7.0	5.3	5.8	6.4	8.5	3.6	-0.3	-6.5	4.3
2006	20.7	18.6	20.3	21.6	20.8	15.9	14.0	16.0	17.9	9.9	17.6
<b>Annualized</b>	<b>31.9</b>	<b>31.3</b>	<b>30.6</b>	<b>27.4</b>	<b>22.5</b>	<b>20.0</b>	<b>22.4</b>	<b>22.3</b>	<b>24.9</b>	<b>25.9</b>	<b>26.0</b>

Ford's Earnings Momentum (EMO) model measures the acceleration or deceleration of change in operating earnings per share for the trailing 12-month for the past four quarters and the estimated value for the current quarter. It is based on Ford's original earnings trend analysis. Because the model measures the change in the rate of change in earnings, it is not dependent on the underlying direction of that change. For example, a company with declining earnings and a company with rising earnings can each have positive or negative earnings trend values depending on the change in the rate of earnings decline or increase, respectively. In a special study we published in August 2003, we explored the relationship between earnings momentum performance and whether earnings are increasing or decreasing. In that study we found a measurable improvement in performance by combining the direction of earnings change with earnings momentum. As an update, the table above extends the performance of the combined earnings change and earnings momentum factors for the last four years. Looking at the performance of the top decile of the combined factors compared to the performance of EMO shows that earnings direction continues to add significantly to performance of the Ford Earnings Momentum model.

Autozone, Pfizer, and United Tech were removed from the selected stock list this month because they dropped out of the top 30% value momentum ranking. Added to the list are CEC Entertain [CEC](Restaurants), Lexmark Intl [LXK](Printer manufacturer), and Target Corp [TGT](Department stores).

### Selected Stocks

Common Stock	Quality Rating	Growth Rate	Price/EC5	Earnings Mom (%tile)	Price Mom (%tile)
Bank Of America (BAC)	A-	8	10.7	50	69
CEC Entertain (CEC)	B	14	18.3	91	82
Cigna (CI)	A-	9	14.4	63	45
Centurytel (CTL)	B	6	17.5	88	60
Cisco Systems (CSCO)	A-	14	20.9	85	83
Downey Financial (DSL)	B	6	8.6	87	63
Forest Labs (FRX)	B+	14	17.7	99	69
Jack In The Box (JBX)	B	12	21.2	62	90
Kohls (KSS)	A-	16	22.1	60	44
Lexmark Intl (LXK)	B	8	14.5	46	95
Lincoln Natl (LNC)	B+	10	13.1	50	79
Mentor Corp (MNT)	B	12	35.7	87	74
NBTY (NTY)	B	14	22.2	71	97
Phil Consol Hldg (PHLY)	B+	15	11.6	27	91
Precision Cast (PCP)	B+	9	24.5	93	43
Reinsurance Grp (RGA)	B+	11	12.2	22	68
Sherwin-Williams (SHW)	A-	10	15.8	42	85
Target Corp (TGT)	A-	13	18.0	65	76
UST (UST)	B	6	18.1	76	90
World Acceptance (WRLD)	B	15	15.5	57	96

# Ford Data Base Monthly Summary

	<u>This month</u>	<u>One month ago</u>	<u>One year ago</u>	<u>Two years ago</u>
Basic discount rate (long-term bonds) (%)	5.4	5.2	5.7	5.4
Short-term rate (U.S. Treasury bills) (%)	4.9	5.0	4.5	2.8
Number of stocks in data base	4509	4514	4576	4591
Price index of all stocks	2631	2637	2649	2325
Average price/value ratio for all stocks	1.41	1.35	1.61	1.31
Underpriced stocks (P/V ratio below 0.70)	1013	1110	716	999
Overpriced stocks (P/V ratio above 1.30)	1516	1400	1906	1414

**Additions to this month's report:** ACR Group [BRR]; AMDL [ADL]; BSD Medical [BSM]; Bolt Technology [BTJ]; Broadridge Finl [BR]; Dyadic Intl [DIL]; Hyperdynamics [HDY]; Idearc [IAR]; Imergent [IIG]; Jamba [JMBA]; Nymex Holdings [NMX]; Quadramed [QD]; Rick's Cabaret [RICK]; Spirit Aerosyst [SPR]; Susser Holdings [SUSS]; Thermage [THRM]; Time Warner Cabl [TWC]; Trio-Tech Intl [TRT]; US Global Invest [GROW]; Venoco [VQ]; Wells Gardner [WGA].

**Deletions from this month's report:** ADVO Inc [AD]; BNP Residential [BNP]; Cadmus Commun [CDMS]; Caremark Rx [CMX]; Clark Consulting [CLK]; Columbia Equity [COE]; Commonwealth Tel [CTCO]; Computer Horizon [CHRZ]; Corus Group [CGA]; Elkcorp [ELK]; First Fed Bancsh [FFBI]; Hancock Fabrics [HKF]; Mercantile Bnksh [MRBK]; Molecular Device [MDCC]; New Century Finl [NEW]; Northern Empire [NREB]; Proquest [PQE]; Readers Digest [RDA]; Saflink [SFLK]; Spectralink [SLNK]; Strategic Dist [STRD]; Traffic.Com [TRFC]; Univision Comm [UVN]; US LEC [CLEC]; Vitria Technol [VITR]; Zevex Internl [ZVXI].

**Stock splits and stock dividends (over 10%):** Albemarle, 2/1 split; Carlisle, 2/1 split; Carmax, 2/1 split; Computer Horizon, 6.797 spinoff; Cooper Indust, 2/1 split; Frontline Ltd, 1.085 spinoff; Gamestop, 2/1 split; Gen Maritime, 1.529 spinoff; Guess, 2/1 split; Gyrodyne Amer, 1.062 spinoff; Harsco, 2/1 split; Health Mgmt Asso, 2.013 spinoff; Jacobs Engineer, 2/1 split; Lamar Advertising, 1.053 spinoff; Markwest Engy Lp, 2/1 split; Natl Presto Ind, 1.047 spinoff; Regal Entertnmt, 1.102 spinoff; Republic Service, 3/2 split; Sealed Air, 2/1 split; Sipex, 1/5 reverse split; Systemax, 1.055 spinoff; US Global Invest, 2/1 split; Valhi, 1.478 spinoff; Waste Connection, 3/2 split.

**Name (and ticker symbol) changes:** Amer Eagle Outf [AEOS to AEO]; Chordiant Softwr [CHRDD to CHRD]; CVS Corp to CVS/Caremark [CVS]; Domtar to Domtar Corp [DTC to UFS]; ECC Capital [ECR to ECRO]; eMagin [EMA to EMAN]; Globix to Neon Communic [GEX to NGI]; Petrohawk Energy [HAWK to HK]; Simpletech [STEC to STEC]; United Dom Rlty to UDR [UDR]; UnumProvident to Unum Group [UNM]; Washington Group [WGII to WNG].

## Selected Stock List Performance

Ford started publishing a selected stock portfolio in the Investment Review on August, 30, 1974. The purpose of the list is to illustrate the usefulness of our models in investment selection. Stocks are selected on the basis of (1) average or above average quality rating; (2) consistent earnings growth; and (3) Ford's Value/Momentum ranking which incorporates earnings yield, earnings momentum, and price momentum. The current selection method was introduced in December 1997.

In order to evaluate the success of this approach to stock selection, we have monitored the performance of a stock portfolio which (on the first of each month) consists of equal dollar investments in the selected stocks. The percentage gain of this portfolio from August 30, 1974 to date is shown below, along with comparable gains in the Dow Jones Industrial Average and in the average of all the stocks we follow. Returns from 12/97 (when the current selection method was introduced) to present are available upon request.

	<b>W/O Dividends</b>	<b>With Dividends</b>
Ford Selected Stock List	+ 47658 %	+ 118917 %
Dow Jones Industrials	+ 1719 %	+ 5528 %
Ford Stock Index	+ 435 %	+ 1131 %

There is, of course, no guarantee that future investments in the selected stock list will be profitable or equal past performance. Since the above figures do not include brokerage commissions, and since many investors may choose to hold stocks longer than the period they appear on the selected list, subscribers would not necessarily be able to achieve the quoted performance results. Nevertheless, this record strongly supports the validity of Ford's approach to common stock selection.