



July 2005

Mercury General

A new member to our portfolios is Mercury General, the property and casualty insurer located in Los Angeles. MCY has had great growth and has a well-honed business model. Their car insurance is sold through individual brokers as opposed to over the internet or phone. This allows MCY to have stricter underwriting guidelines.

Mercury has some of the most affordable rates in the auto insurance business. They are able to do this because they make sure that the right people get the preferred rates. MCY is ubiquitous in California and is spreading across the country. We see this stock as a good long term hold.

Helen of Troy

Helen of Troy manufactures hair care products, deodorant, after shave, and other personal care products. Some of the names that you would recognize are Brut, Old Spice, and Dr. Scholl's.

These products are made in China and sold at Wal-Mart and Target. These two retailers make up over half of HELE's sales.

HELE is another good long term hold. Its revenues doubled over the last six years.

Unum Provident

Our shares in UNM are up nicely. The stock broke \$19 a share. Most of our accounts are up between 20 and 35%, including dividends.

We are not sure how much longer we will hold this company. UNM's shares are trading closer to book value which is what we feel the company's shares should be trading at

Finish Line

FINL has come down off its high of \$23.39 to about \$18. We are very happy with this stock and plan on holding for a long time.

Merrill Lynch released a report that said that they did not think FINL's revenues were going to keep growing at the pace they were. The stock dropped to \$17 and we were able to buy it for many clients who did not already own the stock. We do not agree with Merrill Lynch's assessment and still think that FINL has many great years ahead of it.

We are building a high quality portfolio of good companies to hold for a long time. As we have stated before, we are looking for the next Wal-Mart and Home Depot success stories. We hope that some of these companies will have high rates of return over many years.

Aegon

Our shares of the Dutch insurer are up about 9%, including dividends, in most portfolios. A few weeks ago AEG paid a special dividend that amounted to over 2% before the foreign tax was applied. When foreign companies pay a dividend, the home country charges a tax. You pay this tax even if your shares are held in a tax-deferred account like an IRA.

We plan on holding AEG until the stock rises about 30% higher. Then we will take our profits.

Krispy Kreme

Krispy Kreme has been up and down since our last newsletter. KKD was over \$9 a share but is now a little over \$7. Six board members were fired in June and most of the analysts are bearish (they don't like it).

We are down in most of our accounts but are up in a few in KKD. We continue to hold and buy for new clients. We still feel that Krispy Kreme's brand name and products are strong and things will improve or they will be bought.

T. Rowe Price Bond Fund

Our shares in T. Rowe Price Foreign Bond Fund are down. The American dollar has strengthened against most foreign currency (except of course the Chinese Yuan). We continue to hold this fund and think the dollar will weaken.

Third Avenue Value

For our smaller accounts (Roth IRAs and college savings accounts) we have been investing in the Third Avenue Value Fund. As we mentioned in our last newsletter, this fund has had an annualized return of 16% since 1990. TAVFX invests primarily in companies that are undervalued. K-Mart was a home run last year for the fund and was a big contributor to their performance. As of June 30, shares were up 7.08% for 2005.

United Dominion Realty

We have been buying UDR, which specializes in apartment buildings. This type of company is called a real estate investment trust (REIT). By law, REITs must pay out most of their income in the form of dividends. They are not taxed on their income like a normal corporation because they pass their earnings on to their shareholders.

We think that UDR is in the right market because as interest rates rise, it will become more difficult to buy a home. This will cause rental prices to rise. In this low interest rate environment today, landlords cannot raise rents because, in many cases, it is less expensive to just pay mortgage payments.

UDR also has a nice dividend yield of 5.7%. We will gladly take this yield as we wait for this stock to rise.



On July 6, Holmes Osborne was a guest on *Coffee Break*, seen on Channel 24 in Los Angeles. *Coffee Break* is seen by over 700,000 people in the Los Angeles area. The show is hosted by Paula Golden and Bob Klein. Bob played professional football for the Los Angeles Rams.

The interview lasted 20 minutes and focused on a variety of topics including financial planning, the stock market, and real estate. Paula started the interview by saying that she would trust her money with someone with a name like Holmes Osborne. Holmes reminded her that he is also the third. Bob then asked Holmes how he was qualified to manage money and Holmes explained the rigorous Chartered Financial Analyst program. The next question focused on what kind of investments Holmes's firm makes. Holmes told of Helen of Troy, Aegon, and Mercury General. When asked what Helen of Troy did, Holmes talked about their product line of Brut, Old Spice, and Dr. Scholl's. Holmes explained that he likes to invest in companies that are involved in businesses that he understands. He also said that one should take advantage of the global market that we live in and buy companies that benefit from the changing global environment.

Experience

Holmes Osborne began his career as a financial consultant for Merrill Lynch Private Client Group in Naples, Florida. At Merrill Lynch Mr. Osborne assisted clients in asset management and estate planning. After Naples, Mr. Osborne managed trust portfolios for Merrill Lynch Trust Company (a division of Merrill Lynch's mutual fund division) in Boca Raton, Florida. The trust department managed over \$1 billion in clients' assets. Upon leaving Florida, Mr. Osborne worked in management for Farmers Insurance Group in Los Angeles, California.

Mr. Osborne has a degree in finance from the Martin J. Whitman School of Management at Syracuse University. Licenses held are Series 7, 63, 65, and 26. Member of the CFA Society and Los Angeles Society of Financial Analysts and holder of the Chartered Financial Analyst designation. Mr. Osborne is President of the Syracuse University Alumni Association of Southern California and a member of the Malibu Chamber of Commerce.

Fidelity Investments

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