

Focus on The Markets

	YTD % 3rd Q 2007
DJIA	11.5
S&P 500	7.6
S&P SmallCap	13.7
Nasdaq 100	19.0
Russell 2000	2.3
MSCI EAFE	10.9
Oil/Barrel	\$81.66
Gold/troy oz	\$742.80
	YIELD%
30 yr mortgage	6.23
15 yr mortgage	5.86
Money Mkt APY	3.78
30 Yr Treas	4.82
10 Yr Treas	4.57

Source: WSJ.com

BEHIND THE PURDAH - WHO IS WHO IN SUDAN

All significant humanitarian efforts spawn their own cottage industries and the divest-Sudan campaign is no exception. One particularly effective and well known group is the Sudan Divestment Task Force (SDTF), a project of the Genocide Intervention Network, a non-profit organization that, among other things, focuses its efforts on fundraising for the United Nations supported African Union Mission in Darfur. It is the SDTF that is largely credited with leading the charge in this country to encourage individual and institutional investors to sell their holdings in certain companies with operations in Sudan and to encourage companies with business ties in that country to sever them. So far, they have been enormously successful (see August 1, 2007 issue of *On Balance*).

By encouraging investors to divest, it is the intention of organizations such as the SDTF to maximize the impact of that divestment on the Sudanese government while simultaneously minimizing potential harm on investment returns and innocent Sudanese civilians. To maintain this rather delicate balance, the SDTF has compiled a target list of companies identified as being “egregious offenders” in the region. The SDTF, “strongly feel(s) that, in general, economic investment in a country is critical for democratization and improved living standards...limiting the scope of divestment to worst offenders also serves to minimize potential impact on fiduciaries.”

Targeted Divestment More Appealing. Unlike past divestment campaigns when investors were asked, for example, to sell their holdings in all companies with operations in South Africa or Burma (Myanmar), this divestment campaign has taken a more sophisticated approach. Prior to calling on investors to sell, every effort is made to encourage the relevant companies to terminate voluntarily their Sudanese ties. However, given the urgency of the situation in Darfur, the SDTF

Continued on page 2

What's the Word

from Jim Longstreth - Co-Founder

Any seasoned investment industry professional will tell you that every client has a unique investment personality. An investment professional will also tell you that it is precisely this uniqueness that makes what they do as Advisors so important, and that it is only through experience that one gains the insight and skill necessary to identify and define that critical element. As the relationship between a client and Advisor deepens, the Advisor will

Continued on page 3

has expedited its approach to companies: Compile a list of “scrutinized companies,” and send each one a letter asking them to review their Sudanese business interests. Then, if the company won’t respond, start selling their stock.

In addition to spearheading this country’s state and local legislative divestment campaigns, the SDTF also monitors the Sudanese operations of individual companies. So far they have identified over 500 companies doing business there although only a small subset warrant “extra scrutiny” with even fewer still noted as having “problematic operations” there. A “problematic operation”, according to the SDTF, is one in which the company has thus far proven to be intransigent and, “largely unengageable by shareholders or unwilling to consider altering problematic practices in Sudan.”

As with any ethical investment screening criteria, individuals or institutions that choose to implement a Sudan related investment policy must decide what approach to take. For those who elect to follow the SDTF’s recommended model, they would avoid investing in companies that:

1. Have a business relationship with the government, a government-created project, or companies affiliated with a government-created project; and
2. Provides little benefit to the disadvantaged populations of Sudan; and
3. Has not developed a substantial business practice policy that acknowledges and deals with the fact that the company may be inadvertently contributing to the Sudanese government’s genocidal capacity.

Of the companies on the SDTF’s target list almost all are in the oil, mineral extraction, or power industries. Among the public companies identified by the SDTF that trade American Depository Receipts on the U.S. exchanges are:

- ▶ PetroChina Co. Ltd. (PTR) ▶ Sinopec Shanghai Petrochem (SHI)
- ▶ Sinopec Corp. (SNP) ▶ Weatherford International (WFT) - (recently announced their intention to withdraw)

And It Is Working. Recently, Rolls Royce (RRL) announced its intention to withdraw those of its operations linked to Sudanese extraction industries, notably mining and petroleum, and by so doing, saw itself removed from the list of “highest offenders.” In addition, CHC Helicopter Corp. (FLI), ABB Ltd. (ABB), and Siemens AG (SIE) have all withdrawn. 3M (MMM), and Xerox (XRX) have also terminated their non-humanitarian dealings there as well. Several of the large western oil companies have also been scared off as a result of divestment campaigns and concerns about state sanctions legislation. For example, Talisman (TLM) has withdrawn, and the June 21, 2007 issue of *The Economist* reports speculation that Marathon Oil (MO), “may dispose of its 32.5% share in Block B (oil concession) in southern Sudan.”

The divestment effort in this country has also grown and expanded to involve, in some cases, companies with ties to terrorist sponsoring countries, with the most notable being Iran. In 1993, Sudan, Iran, Libya, North Korea and Syria were identified as state sponsors of terror. In 1997, the U.S. federal government imposed economic sanctions which, among other things, prohibited U.S. companies from doing

*“Investors
squeeze as
Sudan slips
further into
chaos”*

prepare a client profile from which he/she will begin the process of developing a form-fitted investment plan and strategy, one that is tailored to meet the specific lifetime needs of the client and yet flexible enough to adjust to changing circumstances.

Balancing The Client Advisor Relationship. Having a long and trusting relationship with an advisor is one of those personal relationships that, in its own way, contribute to the domestic contentment of any household. Security in knowing that your family's financial needs are being watched over and tended - buying your first house, getting children through high school and college, and then finally, your own retirement - is a goal we all share. And yet, even with so much on the line, hiring a professional advisor to develop a long-term financial plan is one of those decisions that often gets postponed until people get closer to retirement.

Over the years, investment advisors described their role in people's lives in several different ways, with "financial quarterback", "financial lifeguard", and "financial planner" being the most common. But, as is true with most analogies, each of these titles were flawed. For example, in football, quarterbacks are the ones who carry the ball so, in the world of financial planning doesn't really work unless the client has handed over discretionary investment authority to the advisor. "Lifeguard" doesn't really work either in as much as it implies the Advisor becomes involved only when there is a problem. And as for "financial planner?" Well, that's only the first phase of what is a multi-phased process; much of the work rests in implementing and adjusting the plan to accommodate life events, stock and bond market fluctuations, political trends, and the inevitable unforeseen changes in one's circumstances. This is where hiring a seasoned investment professional really pays off and as we've said, there is no substitute for good solid investment training, skill and insight.

Introducing the Advisor as your "Financial Fulcrum." Sometime in the early nineties, the phenomenon we now call "the financial media" insinuated itself into our daily lives. For those of us who were in the industry at the time, we remember when the only investment research that was available arrived in the daily mail: the Wall Street Journal, Barron's, it seems like such a long time ago. Then came the seemingly hundreds of financial magazines, followed by market updates over the radio and later, an entire television channel dedicated exclusively to financial comings and goings. With all of this available information and analysis into the minutiae of corporate America, one would have expected investors to reap great benefits, but most did not. The stories that were being reported by this new media were not advisory in nature, they were newsy, it was entertainment posing as useful and actionable investment insight. Investors often found themselves left with more questions than answers, unclear as to what, if anything, they should do with this new information. In the end, what all this omnipresent market news did do was reinforce the importance of hiring an investment professional who was trained to listen, read, and interpret all this new information and offer investment advice and recommendations based on thorough analysis.

And so, just as you would with any other long-term relationship be it personal or professional, take the time and do the legwork and homework necessary to find an Advisor to serve as your "Financial Fulcrum." Choose someone who can deliver the customized advice and long-term attention you require and deserve.

... Who is Who in Sudan

business in any of those five countries. In 2000, the sanctions were broadened although they did not apply to *foreign based* individual parent companies. Sanctions were further expanded on May 29, 2007, when the U.S. Department of Treasury added 30 more companies owned or controlled by the Sudanese government to its list of specially designated nationals barred from access to U.S financial systems.

Unlike divest-from campaigns in years past, Sudan divestment supporters are targeting companies with direct ties to that country *and*, companies with *significant investments* in companies with direct ties.

PetroChina & Berkshire Hathaway. One especially well publicized case in point is Berkshire Hathaway's (BRK.A, BRK.B) investment in PetroChina Ltd. (PTR). If ever there was a poster child of a "bad company" doing business in and supporting the Sudanese government it is PetroChina's parent, the Chinese National Petroleum Corporation (CNPC). CNPC is the Chinese state oil company and is a key player in Sudan. The Chinese government owns a reported 88% of PetroChina's shares. A superficial comparison of the management's of the two companies reveals they share a great deal of common management.

And as for Warren Buffett? Under fire from divestment activists, Mr. Buffett has consistently defended his substantial investment in PetroChina on the grounds that it has no operations in Sudan. Mr. Buffett admits the CNPC's role in Sudan's oil industry, he just argues that it has nothing to do with PetroChina. He further maintains that in light of the fact that in 2000, PetroChina was partly privatized and that it is merely a subsidiary company of CNPC and as such exercises no control over its parent, it is unfair to hold it accountable for the actions of CNPC or, by extension, the Chinese Government. Although he had steadfastly refused to succumb to pressure from activists, he finally gave in and has reduced his holdings to a reported 9.72 percent.

According to a January 10, 2007, memorandum published by the SDTF entitled "*PetroChina, China National Petroleum Corporation and the Darfur Genocide*", Warren Buffet and Berkshire Hathaway, JP Morgan Chase (JPM), Fidelity Management, Templeton Asset Management, and Allianz Global Investors are identified as the top five U.S. shareholders of PetroChina stock. Activists are also pressuring Franklin Resources (BEN), Capital Group, and Vanguard to divest their holdings in PetroChina. All together it is estimated these fund companies hold \$8 billion in PetroChina shares.

Activists Target Mutual Fund Companies. Just about everyone with money in a mutual fund or company sponsored 401(k) pension plan has money invested in companies that are doing business in so-called rogue states including Sudan. As a result, activists have been targeting some of this country's largest mutual fund families including most especially, Fidelity. They want Fidelity to divest its holdings in oil companies working in Sudan, especially PetroChina. This past proxy season, Fidelity capitulated and, according to the May 16, 2007 issue of the Wall Street Journal, reduced its holdings in PetroChina stock by 91%. However, Fidelity has so far declined to provide information about its holdings of H shares in PetroChina on the Hong Kong exchange which actually represent the majority of its holdings in the Company.

Meanwhile, Here in Washington. For their part, members of Congress have also stepped to the fore. This past summer for example, the Senate passed a resolution introduced by Chairman of the Senate Foreign Relations Committee Joseph Biden (D., DE) and Ranking Member Richard Lugar (R., IN) which was designed to put pressure on the government in Khartoum by calling on the U.S. and our allies to help pave the way for the development of a comprehensive peace agreement in the region. The resolution also threatens the imposition of multilateral sanctions if the Sudanese government does not hold to its commitments. The Sudanese government and Darfur rebel leaders have agreed to hold peace negotiations in Libya starting on October 27. In the meantime, investors and legislators will continue to exert pressure the best way they know how, via the stock market and the bully pulpit of their respective state houses.



12010 Sunset Hills Road
Suite 875
Reston, Virginia 21090

Phone: 703-689-4001
Fax: 703-689-4016
Web: www.fulcrumsecurities.com
E-mail: info@fulcrumsecurities.com

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Description of Indices

- **DJIA:** A price-weighted average of 30 of the largest and most widely held stocks traded on the New York Stock Exchange and the Nasdaq.
- **S&P 500:** An index of 500 stocks chosen for, among other things, market size, liquidity and industry grouping. The S&P 500 is designed to be a leading indicator of U.S. equities, and reflects the risk/return characteristics of the large-cap universe.
- **S&P SmallCap:** An index of small-cap companies with market capitalizations between \$300 million and \$2 billion.
- **NASDAQ:** Capitalization weighted index of 100 largest non-financial securities listed on the Nasdaq.
- **Russell 2000:** Capitalization weighted index of small capitalization stocks.

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