

Focus on The Markets

	YTD % 2nd Q 2007
DJIA	7.6
S&P 500	6.0
S&P SmallCap	8.1
Nasdaq	7.8
Russell 2000	5.8
MSCI EAFE	9.1
Crude oil/Brl	\$70.68
30 mortgage	6.41%
15 mortgage	6.12%
Money Mkt APY	3.69%
	YIELD
30 Yr Treasury	5.00%
10 Yr Treasury	5.07%

Source: Wall Street Journal

ROGUE STATE OR ODIIOUS SCOURGE, INVESTORS GIVE KHARTOUM THE EVIL EYE

Lying along Egypt's Southern border, Sudan has become the object of one of the most organized and far reaching divestment campaigns in this country's history. In this the first of what will be a two part series on the genocide that is taking place in that country, we will give a general outline of what has happened to get Sudan to where it is today, and look at what investors and Wall Street have been doing in response. In the second part of our series, we will delve more deeply into the details of some of these rather remarkable goings-on, and examine in greater depth a few of the specific corporate targets of the "Get Out of Sudan" campaign.

Located in the western part of Sudan, the largely non-Muslim population of Darfur is the target of an organized genocide supported and equipped by the Sudanese government and funded largely by that country's energy industry. And, while it is tempting to say that the heinous acts being perpetrated against the region's inhabitants are the result of a struggle purely about religion, it is in truth, as much about oil. According to recent reports, 90% of Sudan's export revenue is derived from its oil reserves, with 70% of that used to fund the military. Indeed, most everyone agrees that the revenue generated from the work the non U.S. based multinational oil companies are doing in that country is helping not only

What's the Word

from Stan Tsirulnikov, Analyst,

A few clients have asked what if any impact the Bank of New York's acquisition of Mellon Financial Corp. might have on their accounts and the short answer is, very little if any. The longer answer however is exactly that, only just barely.

The Bank of New York is the parent company of Pershing LLC

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to support the continued violence in Darfur, but also to underwrite and support terrorism. We will take a closer look at the terrorist issue in a later issue of *On Balance*.

A Penny's Worth of Contemporary Sudanese History. The current fighting in Darfur began in 2003, when ethnic African rebel groups in the region launched retaliatory attacks against government troops after they were denied a larger governmental role by President al-Bashir. Unable to combat this new threat, al-Bashir armed Arab nomads, known as janjaweed, to handle the job for him. He extended them great latitude in their methods and they took full and grotesque advantage.

In the ensuing years, at least 200,000 civilians in the region have been killed, with another roughly a quarter million refugees escaping across the border into Chad. As time went on and the fighting continued, the janjaweed finally gained the upper hand, due in no small part to the fact that such a disproportionate share of the country's oil revenues were being used to purchase arms bought mainly from China. The Chinese spend almost \$2 billion a year on Sudanese oil and the Sudanese then turn right around and buy their weapons from China. Not surprisingly, China is the only major global arms exporter that has to date refused to sign arms-sales agreements that include human rights considerations.

While Policy Makers Ring Their Hands . . . As a result of the persistent violence against the people of Darfur, the global community found itself confronted with a human rights situation that could not be ignored. And so, while U.S. policy makers and Administration officials, members of the United Nations, and various other foreign governments began working the diplomatic angle, the investment community rolled up its sleeves and got down to work.

. . . Investors Have Stepped to The Plate. Not since the days of the South Africa divestment movement in the 1980's have so many investors with disparate points of view worked together as effectively and in such large numbers as they have around Khartoum's policies in the province of Darfur. And, just like in the days of the South Africa campaign, the investor profile of those who are selling their holdings in companies with operations in Sudan is the same: state and municipal pension systems, college and university endowment funds, labor unions, religious groups, a multitude of non-profit organizations, liberals, conservatives, and large and small investors. They have embarked on what has become one of the largest (measured in investment dollars), most organized divestment and disinvestment campaigns in this country's history - Sell your holdings in companies with operations in Sudan or, if you are one of those companies, get out!

Although there are many similarities between the two movements, the investment implications of the South Africa divestment campaign and today's efforts pertaining to Sudan are quite different. In the case of South Africa, it was mainly large multinational U.S. companies that were being divested, many of which constituted key portfolio holdings for any well diversified investor. In Sudan's case, however, the companies that are doing business in that country tend to be foreign energy companies that are not key holdings. As a result, the potential overall performance impact of divesting one's investment in any of them is greatly reduced.

*“ Investors of
all shapes &
sizes demand,
“Get us out of
Sudan! ”*

... What's the Word

and it is with Pershing that we clear our trades and custody our client's accounts. Pershing has always been one of the largest custodians of client accounts and one of the largest clearing firms in the world. As of July 2, the merger was completed, and the new Bank of New York Mellon Corporation (ticker: BK) was officially born. According to a company press release, the Bank of New York Mellon Corporation is now, "the world's leading asset servicer ...with more than \$18 trillion in assets under custody and administration...(and) the leading provider of...clearing and shareowner services". So, no more *one* of the largest, now *the* largest. Oh yes, and the longer answer? The logo is changing.

... Khartoum Gets the Evil Eye

State Pension Funds, Colleges and Non-Profits Take the Lead. Nowhere can the success of this current divestment effort be seen more clearly than by taking a look at the number of Sudan related investment policies that have been adopted by the ever increasing list of state pension funds and college and university endowment funds. To date, 18 states have adopted Sudan related divestment policies for their state pension funds, including; California, Colorado, Connecticut, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, Rhode Island, Texas, and Vermont. In addition, 14 other states, including Michigan, Ohio, Oklahoma, and Pennsylvania have either initiated divestment campaigns or are pursuing similar measures by other means.

On the academic front, at least 54 colleges and universities have adopted similar proposals calling on their endowment funds to divest their Sudan holdings, referring to them as "genocide-free-investments". Among the schools that either have or are in the process of divesting are such institutions as Amherst, Brandeis, Brown, Columbia, Dartmouth, Harvard, Princeton, Stanford, Universities of California, Illinois, and Washington, Williams, and Yale, and most recently, the University of Vermont. Upwards of forty seven other universities have launched Sudan related divestment campaigns.

Critics Have Jumped On-Board Too. Even people who are not usually fans of "divest from" campaigns on the grounds that when you divest from a company all you are really doing is selling your shares to someone else while the company's "objectionable" activities and profits continue unaffected have jumped on the bandwagon. Many report doing so simply because as human beings there are some issues and some companies that are so reprehensible as to be worthy of an exception.

Supporters of this current campaign contend that just as the international community was able to isolate South Africa economically in the 1980's, forcing it to hold democratic elections almost certainly sooner than it would have ordinarily, so too will investors in this country be able to exert the same pressure on Khartoum and force an end to the killings.

If you would like further information on this issue or are interested in pursuing a Sudan related ethical investment policy, contact your Fulcrum Investment Advisor.

Politics etCetera

morsels and bits from The Political Forum LLC

Everybody enjoys a little political prognosticating from time to time and we at Fulcrum are no exception. Following are a few provocative snippets, edited somewhat, from "Politics etCetera," a newsletter published by our very good friends Mark Melcher and Steve Soukup of The Political Forum (www.thepoliticalforum.com). We have selected these little items specifically because they are provocative, something to get the juices flowing.

* * *

One of the big news events last week, not as exciting as, say, the Dempsey Tunny fight in 1926 or Lucky Lindy's flight to Paris in 1927, but clearly in that same exalted category, was the dust up between White House hopefuls Hillary Clinton and Barack Obama over the wisdom of presidential meetings with foreign tyrants. Like most of humanity, we were overwhelmed for several days by the excitement of the moment. But after we calmed down a little and had time to reflect on this knotty and complex issue, we concluded that the advisability of such meetings is directly related not to the relative wickedness of the foreign leader involved but to the nature of the message that our hypothetical President carries to the meeting and the skill with which he or she is likely to deliver said message.

To be more specific, if the President of the United States is, as the British might say, a big girl's blouse, then it might be better for the citizens of the good old U.S. of A if he or she simply stayed at home. If, on the other hand, our hypothetical president were carrying a message that would be viewed by the entire world, as well as by the tyrant involved, as a firm outline of the nature of the response that the U.S. would likely make to various aggressive actions by the tyrant, then routine meetings between Presidents and tyrants might save lives and promote peace. As regards the kind of message that we would find commendable, we are thinking in terms of something like. . . "Given that you are a self proclaimed enemy of the United States, I must inform you that if you don't voluntarily stop building nuclear weapons, I, as Commander in Chief of the U.S. military, will stop you myself, immediately and with prejudice."

Given the propensity of both Mrs. Clinton and Mr. Obama to consider surrender as the most attractive option when the going gets tough, neither should, if elected to the presidency, endanger American security by engaging in any sort of conversation whatsoever with any foreign leader who is more aggressive and more capable of inflicting harm on the U.S. than, say, the Sultan of Brunei. Now, we will admit that we have engaged in a bit of hyperbole here; that the dispute between Mrs. Clinton and Mr. Obama wasn't really as exciting as we have portrayed it; that, in fact, the entire exchange was rather "silly", largely because both participants failed to note that the real issue here is the message, not the messenger.

For her part, Mrs. Clinton hewed to the traditional, safe, and almost old-fashioned view that direct talks between Presidents and tyrants should be avoided, "I don't want to see the power and prestige of the U.S. President put at risk by rushing into meetings with the likes of Chavez, and Castro, and Ahmadinejad." In contrast, Mr. Obama broke some interesting new ground arguing that he would go anywhere and talk to anyone, being unafraid of "losing the p.r. war to dictators." And then, as a kicker, he forcefully asserted that the U.S. military should not be used to solve humanitarian problems around the world, even if these problems involve genocide.

Now it is extremely difficult to figure out how all of this would translate into policy if Hillary, or Barack, or, say, John Edwards, were to win the presidency next year. Which brings us back to the subject of meeting with tyrants. The problem, as we see it, isn't that the next Democratic President wouldn't eventually defend the nation and its interests with military force if necessary. The problem is this hypothetical president would be forced by prior promises to the party faithful to spend an enormous amount of valuable time on fruitless diplomacy before he or she could take the necessary steps to defend the nation, which would make the subsequent military action bloodier and longer.



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For further information about Fulcrum and our services, please give us a call.

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 cap. stocks.
- **MSCI EAFE:** Market index of foreign stocks from the perspective of North America.

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