



Mid-Quarter Newsletter

FEBRUARY 20, 2007

From My Corner

Jeff Mengis



I recently attended a Goldman Sachs sponsored energy conference in New York City. The consensus among presenting companies and analysts was that oil will remain range bound, trading between \$45 and \$70 per barrel. However, there was some concern that a super spike could develop due to geopolitical concerns, heavier demand by India and China, and a lack of meaningful supply growth. After listening to a number of company presentations, National Oilwell Varco caught my attention. You'll find NOV featured in our investment focus column.

This time of the year, most investors are focusing on tax issues. We thought that the list below would be helpful in determining how long you should keep a specific document. If you need duplicate tax material relating to your account, please give us a call!

WHAT TO KEEP & HOW LONG TO KEEP IT

- BANK STATEMENTS: Six years
- BIRTH CERTIFICATES: Forever
- CANCELED CHECKS: Six years
- CONTRACTS: Until updated
- CREDIT CARD ACCOUNT NUMBERS: Until updated
- DIVORCE PAPERS: Forever
- HOME PURCHASE & IMPROVEMENT RECORDS: Keep until you sell
- LIFE INSURANCE: Forever
- CAR, HOME INSURANCE: Until updated
- INVESTMENT RECORDS: Six years after tax deadline for year of sale
- LOAN AGREEMENTS: Until updated
- MILITARY SERVICE: Forever
- REAL ESTATE DEEDS: As long as you own property
- RECEIPTS FOR LARGE PURCHASES: Until sale or discard
- SERVICE CONTRACTS & WARRANTIES: Until sale or discard
- SOCIAL SECURITY CARD: Forever
- TAX RETURNS: Forever
- VEHICLE TITLES: Until sale or disposal
- WILL: Until updated

* The IRS may audit returns up to three years after filing. But it has six years to challenge a return if it thinks gross income was underreported by at least 25%. And no time limit applies to fraudulent returns.

SOURCE: Teachers Insurance and Annuity Association / College Retirement Equities Fund

Investment Focus: NATIONAL OILWELL



National Oilwell Varco (ticker **NOV**) is the fifth largest oil and gas services company as defined by revenues.

The company designs and manufactures mechanical components and integrated systems for both land based and offshore drilling rigs. In addition, it makes many specialized drilling tools as well as provides supply chain services through its global network of distribution services. The tool specialization segment creates a proprietary business as repairs and maintenance on rig equipment must be purchased through the company.

There is currently a worldwide shortage of working rigs as the average rig has exceeded its life expectancy. NOV recently announced a rig technology backlog of 6 billion stretching through 2010, indicating continued strong demand for its products and services. Additionally, the company has instituted solid cost controls which should lead to higher margins.

Last week the company announced 4Q 2006 earnings per share of \$1.35 on \$239.2 million of revenue versus 4Q 2005 EPS of \$0.58 on \$101.6 million. The report surprised analysts as it came in well above forecasts. The stock currently trades at approximately 12x 2007 earnings estimates and 10x 2008 forecasts. Over the past year and a half, the stock has traded in a range between \$51 to \$77. The shares trade at the low end of the 5 year average for both price/sales and price/earnings. We view this as an unwarranted discount given current market conditions and the strong potential for this company.





Investment Strategy and Goal

The *Focused Taxable Composite* seeks long term capital appreciation by investing in companies which, in MCM's judgment, offer value relative to their long term potential and the market as a whole. Using a multi-cap approach, the composite is able to invest in companies of all sizes, although most companies have market capitalization in excess of \$500 million. Our overall goal is to consistently outperform the S&P 500 index.

This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page

Top 10 Holdings

GOLDMAN SACHS	4.7%
IBM	4.6%
GENERAL ELECTRIC	4.6%
COSTCO	4.2%
DEVON ENERGY	4.2%
DISNEY	4.0%
INTERNATIONAL GAME TECH	3.9%
AMGEN	3.9%
HONDA MOTOR	3.7%
NORFOLK SOUTHERN	3.5%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of December 31, 2006, cash represented 1.7% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

Performance

	1 Year	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	13.50%	12.78%	6.62%	11.95%
S&P 500 Index	15.80%	10.44%	6.17%	5.74%

* Past performance does not guarantee future results. Numbers are net of fees.

** Annualized performance figures

Mengis Capital Management, Inc., has prepared and presented performance returns in accordance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Mengis Capital Management, Inc. is a registered investment advisor. Performance prior to November 28, 2001, occurred while the portfolio manager was employed at a prior firm. Compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS) was verified at the prior firm, beginning February 1, 1998. As represented by management, the performance from the predecessor firm conforms to the AIMR-PPS with regard to portability of investment results. The firm maintains a complete list and description of composites, which is available upon request. Focused Taxable Equity Composite contains fully discretionary taxable equity accounts and for comparison purposes is measured against the S&P 500 Index. Sector weightings observed in the Focused Taxable accounts vary significantly from those in the S&P 500 Index. In addition, from time to time, the Focused Taxable accounts will generally have 20-30 holdings as compared to the S&P 500 Index (composed of 500 different stocks). For certain time periods, the composite may be more concentrated than the benchmark. Due to the limited number of holdings relative to this index, the investment risks associated with concentration are significantly greater for the Focused Taxable accounts than it is for the index used for comparison. The minimum account size for the Focused Taxable Equity Composite is \$150,000. Results are based on a portion of fully discretionary accounts under management, including those accounts no longer with the firm. At present, there are 14 accounts being managed consistent with the discipline referred to as "Focused Taxable". Jeff Mengis manages over 50 other portfolios on a discretionary basis. These portfolios are not managed according to the Focused Taxable methodology and the results in these accounts will vary, both positively and negatively, from those experienced by the Focused Taxable accounts. Information regarding the performance achieved in these accounts is available upon request. No non-fee-paying accounts are included in this composite. Past performance is not indicative of future results. Investments are subject to market fluctuations and investors could lose some or all funds invested. The U. S. dollar is the currency used to express performance. Beginning January 1, 2002, returns are presented gross and net of management fees and include the reinvestment of all income. A fee schedule is available upon request and is described in Part II of the firm's ADV. In general, most equity accounts under \$1M are charged 2% annually. However, fees may vary. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Prior to January 1, 2002, gross returns are stated gross of all fees and have not been reduced by transaction costs; net returns are reduced by all actual fees incurred. Fee schedules for the individual wrap agreements are available from the associated wrap sponsor. There has been no material change in personnel responsible for the investment management of this composite. Balanced portfolio segments are not included in this composite. Leverage is not used in the composite. The Focused Taxable Equity Composite was created October 1, 1998.

	Total Firm Assets (thousands)	Composite Assets		Accounts at Year End	Asset-Weighted Annual Return		S&P 500	Annual Composite Dispersion
		US Dollars (thousands)	% of Firm Assets		Gross	Net		
2006	97,690	14,870	15%	12	14.66%	13.50%	15.80%	1.1%
2005	89,242	15,206	18%	12	9.55%	8.49%	4.88%	1.1%
2004	85,368	11,016	13%	9	17.70%	16.51%	10.88%	1.2%
2003	86,803	8,414	10%	13	30.04%	28.79%	28.69%	1.1%
2002	61,896	4,072	7%	10	(24.82%)	(25.44%)	(22.10%)	2.2%
2001*	45,728	1,848	4%	8	(9.74%)	(11.16%)	(11.88%)	4.4%
2000*		1,404	2%	6	35.90%	33.49%	(9.11%)	N.A.
1999*		481	1%	5 or fewer	25.13%	22.35%	21.04%	N.A.
1998*		137	<1%	5 or fewer				

- N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

- *Information presented pertains to portfolios managed by the portfolio manager while affiliated with a prior firm. Their presentation conforms to AIMR-PPS guidelines regarding the portability of investment results.

- S&P 500 Index performance returns reflect gross dividends reinvested into index. S&P Index performance returns through September 30, 2001, were obtained from Bloomberg; index performance returns for periods after September 30, 2001, were calculated using data from FT Interactive Data.