

Here is our monthly performance update for May 2007.

Another good month for world markets

The LWM portfolio returned 5.95% in May, taking our annualized return since launch to 45.85%.

The German DAX was the strongest major market, turning in 6.4% for May. This continues a very strong run that has lasted 12 months. The next best performer was the S&P 500, which returned 3.26% for the month and hit record closing highs on May 30 and 31. Next came the Nikkei (2.73%), the FTSE (2.67%), the MSCIW (2.48%) and finally the CAC (2.41%).

The best performing stocks in the LWM portfolio for May were Fremont General (75.5%), and Alcoa (16.3%) in the US, Posco (13.9%) in Asia, Aero Inventory (13.7%) in the UK and EON (10.8%) in Europe. Our worst performing stocks were Bank of America (-0.4%), Latecoere (-2.4%), RBS (-2.5%) and Hitachi (-2.8%).

Fremont General - +75.5% in May – a value-investment case study

Fremont General has been mentioned in previous newsletters, but usually as one of the worst performing stocks! Fremont General was one of the biggest sub-prime lenders in the US. Its stock was trading at over US\$20 per share but fears over troubles in the sub-prime market had meant that its share price had fallen to around US\$13, by which time it was starting to look very good value. We made our first purchase around this price, fully aware that Fremont was likely to be very volatile and that the share might fall further before the value was recognized by the market. And fall it did! At the end of February, Fremont announced that it would delay the release of its latest financials. This, plus general sub-prime market fears, caused the company's share price to plummet, hitting a low of US\$5.55. We re-analyzed the stock and decided that the market was mistaken. Markets tend to be driven by

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fear and greed in the short term, but reflect underlying value over the longer term. This allows the value investor to buy when prices are low and sell when they recover. We bought in again at US \$6 and \$8. Fremont had a strong asset base to support its price, to the extent that when we bought in at \$6, we estimated that you could buy the company's assets (after paying off any debt) for only 40% of their real value. That is, for every \$40 you spent on Fremont, you got \$100 dollars worth of hard assets.

In May, Fremont sold its sub-prime business at a modest loss. Having converted some of its assets to cash, and having rid itself of the stigma of being involved in the sub-prime market, the company's shares appreciated by 75% within a few days.

In one day alone, the stock jumped 40%. We'd made a substantial return for our clients, but should we sell? We asked this question of the analyst that had taken the lead on Fremont:

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As we have discussed, Fremont moved 40% last night. As we also have discussed, the beat-down it suffered in preceding months probably was not warranted. Regardless, people are absurdly optimistic about the Company's future for a few reasons: 1) FMT has liquidated its sub-prime business at a loss of just \$100 million - much less than expected, under the circumstances; 2) FMT is in the midst of orchestrating the sale of its Commercial Real Estate business for \$1.9 billion in cash, plus an interest in the current loan portfolio; 3) FMT has exited its two lowest revenue businesses, leaving only its retail banking operation intact; AND 4) new management has taken over, led by Gerald J. Ford, who is known for his ability to resurrect and resell at a premium Golden State Savings & Loan.

All in all, things look good. I say we wait until new numbers come out.

So we hold. It's not about making a quick buck. It's not about becoming overly emotional about what is happening in the markets as a whole. It is simply about carefully assessing the underlying net asset value of a company, then asking the question – "Is this company trading at a substantial discount to its real value?" If the answer is yes, we'll consider buying. When the company no longer offers attractive value, we sell. Historically, holding a diversified portfolio of undervalued stocks has outperformed the stock markets with a comparatively low level of risk.

Other Market News...

As mentioned above, May was a strong month for all markets. However, there has been a growing number voicing their concern about the Chinese stock market bubble. At the end of May in an attempt to rein things in, the Chinese government increased stamp duty tax from 0.1% to 0.3%. This led to a 6% drop in China's market. But unlike the fall on February 27, world markets ignored this completely and responded instead by rising, with the S&P setting two consecutive record highs to finish the month.

The US market was buoyed by the prospect of a potential interest rate drop. Figures released for April showed that the existing home sales dropped to their lowest level in four years and US GDP growth slowed to an annualised 1.3% in the first quarter. Inflation figures remained steady.

For the UK, consumer-price inflation fell back slightly from 3.1% to 2.8%. In Europe, inflation remained in check at around 1.9% and GDP was up 3.1% for the first quarter year-on-year. German industrial production jumped significantly, as did new factory orders.

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At LWM we operate according to a strict value-based investment methodology. We focus on undervalued tangible assets, established companies and strong dividends. By purchasing companies at a substantial discount to their intrinsic value, we reduce risk and maintain the possibility of generating superior returns. Since we began trading, we have been able to generate superb performance, whilst being able to protect our clients from losses when markets have underperformed.

Please forward this to any friends or colleagues for whom you feel this may be of interest. If this has been forwarded to you and you would like to receive monthly performance updates, please let me know.

Kind regards,

Justin Lowes

Managing Director

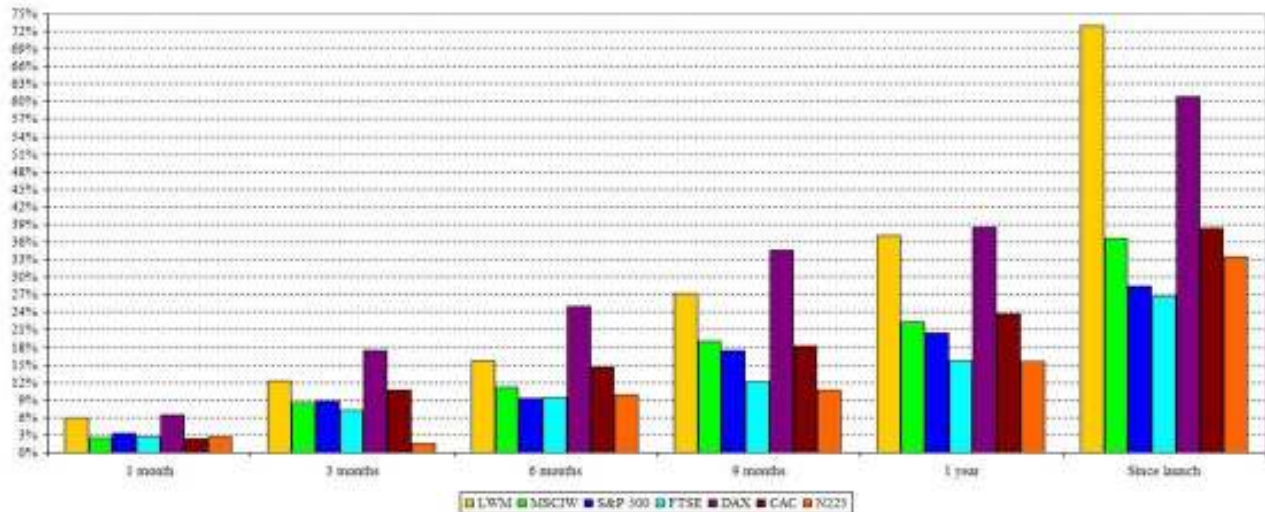
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Lowes Wealth – May Performance Graph

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Performance as of May 31, 2007



	LWM	MSCIW	S&P 500	FTSE	DAX	CAC	N225
1 month	5.95%	2.48%	3.26%	2.67%	6.40%	2.41%	2.73%
3 months	12.30%	8.49%	8.80%	7.29%	17.38%	10.65%	1.55%
6 months	15.77%	11.11%	9.28%	9.47%	24.95%	14.57%	9.84%
9 months	27.17%	18.99%	17.40%	12.11%	34.53%	18.18%	10.75%
1 year	37.05%	22.28%	20.51%	15.68%	38.47%	23.81%	15.57%
Since launch	72.93%	36.68%	28.47%	26.66%	60.85%	38.33%	33.45%

Key

LWM – Lowes Wealth Management
 MSCIW – Morgan Stanley Global Index
 S&P 500 – US Standard and Poor's Index
 FTSE – UK Index
 DAX – German Index
 CAC – French Index
 N225 – Japanese Nikkei Index

* An explanation of how we derive our performance figures.

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The performance figure that we quote is the total return on our entire equity portfolio. Thus, it measures the performance of all stocks that we actually own on behalf of our clients. This is a gross return (no charges are calculated) and is expressed in US Dollars. (Which is the currency most commonly invested by our clients.). We measure only the performance of the equity that we hold – we do not factor in any cash that is held. (Which will tend to dilute performance when our stocks rise in value, but dilute losses when our stocks fall.).

Whilst this is, therefore, an accurate indication of the performance of the stocks that we hold on behalf of all our clients, each individual clients' returns will be different due to charges, the cash that we hold on their behalf, depending upon when they invested and in which currency.

Please note: As always, I've tried to ensure that this will go out only to those who will be interested in this information. If you don't want to receive this in future please let me know and I'll take you off the list immediately

Disclaimer

Stated performance reflects equity gains, exclusive of any fees.

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