

Steady Returns

The Archer Balanced Fund aims at maintaining an asset allocation model by investing in stocks and bonds at different levels depending on market conditions while keeping the risk below that of the S&P 500. Portfolio manager Troy Patton uses a top-down approach to evaluate industries and sectors that have fallen out of favor and within them to identify companies with financial strength and strong management that are selling below their intrinsic value.

Q: What is your investment philosophy?

A: My investment philosophy is to maintain a diversified portfolio and measure it with risk adjusted returns. I do believe that slow and steady wins the race.

My philosophy in a nutshell is the old story about the tortoise and the hare. I do believe the people that follow the aggressive growth philosophy can do very well but I'd rather stick with a steady more predictable, low risk, and low volatility high quality companies. I think patience is a virtue and I believe if you stick with your investment philosophy through the different market cycles in the long term you can generate higher returns with less volatility.

I believe in the philosophy that says 'Don't speculate because you don't need to.' So we look for good quality stocks at value pricing. I've been managing money with this philosophy for a decade, and in the fund since 2005.

Q: How does this philosophy translate into an investment strategy?

A: I use an approach to evaluate industries and sectors of the economy

that are depressed or have fallen out of favor with investors. Then within each, I seek to find companies with solid financial strength and strong management that are selling below their intrinsic value. So from a fundamental basis it's more like a bottom-up strategy.

I strive to outperform the DJ Moderate Index first and then the S&P 500 index. I believe in asset allocation as it has been proven to account for over 90% of the returns within a portfolio. Asset allocation is also important because winning stocks of the prior year are not likely to outperform each and every year.

Q: Could you give an example of such a company?

A: A good example is Johnson & Johnson. Year-to-date the stock has declined, but if you look at predictable earnings and fair value of the company over the last ten years and you look ahead, you will see the stock's trading price to earnings ratio is below the mean.

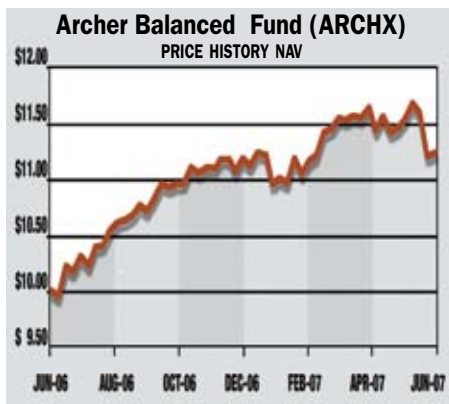
I believe in the reversion to the mean philosophy. Stocks with predictable earnings and stable businesses may go in and out of favor but in the long



TROY PATTON CPA has been managing the fund since its inception. He has over a decade of experience managing investments and preparing formal business valuations.

Patton managed individual portfolios until the inception of Archer Balanced Fund, as he was President of a Midwest Broker/Dealer until he was hired to manage the Archer Balanced Fund. He was named outstanding CPA by the Indiana CPA Society in 2005. In addition, Patton was a member of the Collegiate USA Wrestling Team in 1990.

Patton likes the Mark Twain saying, "There are two times in a man's life when he should not speculate: when he can't afford it and when he can."



run are likely to trade near their long term mean of price to earnings ratio. Based on history and future earnings, Johnson & Johnson is likely to trade between \$66 and \$75 near-term. When it trades below \$66, I add shares to my portfolio. At that price level there is a margin of safety and the stock is likely to generate as much as 8% return with very low risk.

Q: How do you ascertain value?

A: I use a stock screener and I want the current price to be less than the 52-week high and below the historical mean (P/E). I have two different screeners. I look at historical price to earnings ratio, return on equity, dividend consistency, debt to equity, and current price to earnings ratios and from there I generate a list of companies for my watch list. I also try to view stocks on the predictable earnings measure.

“My philosophy is similar to the old story about the tortoise and the hare. I’d rather be patient and steady and opposed to jump around at the latest craze. If you stick with your philosophy through the different market cycles it will tend to show positive long-term results.”

Q: Do you narrow your investment universe down and then do more research into the companies?

A: I look at both domestic and international companies. I narrow my universe down to approximately 25-30 names on each screen based on fundamental criteria. I use my contrarian screen and I am looking for total debt to equity of less than 0.5% and a consistent dividend yield. We also use multiple sources of information to cross reference various data points.

Q: How many of these 25 names end up in the fund?

A: One or two. We probably have 36 stocks at the moment. We are fairly concentrated. Generally, I do not want to have more than 40 stocks at any one time. I do believe in giving higher weight to the top ten positions. For instance Johnson and Johnson and Microsoft are at 4% in the portfolio.

On my watch list at any given time there are probably 75 stocks. I constantly run my screens every day, and I add and delete stocks that have run too far or I just don’t see them as a value. It’s not to say that I wouldn’t go back to them.

Once I go through the screens I start reading all the SEC filings and earnings reports. I read the notes to the financial statements, I talk to management, I try to speak to people at different companies and gain insights in the business.

Q: Could you illustrate your research process with an example?

A: We recently researched Toll Brothers because I’d like to find an entry point into a homebuilder. We tried to determine where Toll Brothers is going to be in one year, margin of safety at different levels, and how many units they are going to sell. What is their infrastructure like, what costs they need to cut and where are they heading in sales? I looked at the historical stock price and earnings.

Book value of the company is still decreasing and in my estimate it will keep decreasing for a foreseeable time. If interest rates continue to rise, the unit sales are going to continue to go down and fixed infrastructure cost will drag down the book value. Before they can get back to normalized earnings we need to have a normalized housing market and until we do that homebuilders are not a value. Toll Brothers in my estimate does not offer value above a \$23 price.

Q: Where do you stand in terms of asset size in the fund and fee structure?

A: We are small but growing – we have \$11 million under management. We fixed our costs to not be higher than 1.2% on the mutual fund side. Once we get to \$100 million then the expense ratio would be about 0.94%. At some point I will reduce my management fee as well because I want it to be less than 0.9% and reduce it further to 0.6% as the assets grow above \$400 million.

Q: Does your portfolio have stocks and bonds?

A: We are a balanced fund. Currently we are 70% based in equity and 30% in bonds. I have been as low as 53% equity but I don’t foresee currently getting back to that position.

Q: What kind of bonds do you invest in?

A: I do believe that there is some money to be made in the bond market at certain levels, but over the long haul I still believe the equities are going to provide the key to any portfolio. So I use the bond portion as an anchoring in terms of stable returns. And I use equity to get the alpha and that’s how we create the value in the marketplace for the investors.

I try to structure my own deals on reverse convertible notes. I’ll take a reverse convertible note which has a put feature and trades like a short-

term note. I'll take short-term notes on stocks that I understand and would not mind owning in the future. If the stock is put to me, it will be at a price I like and if not, then I should make a solid 8%-12% return.

Reverse convertible notes are about 19% of my portfolio, my current yield to maturity is about 7.28% but I'm also sitting on about 1¾% in unrealized gains. I understand that sometimes these products are expensive because of the underwriter fees but I believe the rates of return justify the incremental cost.

The part of my bond portfolio that has not performed very well is treasuries. I've taken a position in 20-year treasuries which probably was a little more aggressive than normal because I thought the 10-year was going to slip to around 4.2% to 4.3% from a technical standpoint looking at my bonds. It moved against me so I've lost ¾ of a percent of the overall return in the portfolio, but that happens. Now I am looking for a rally in the bond market to move potentially out of that position and into a shorter duration because I think long term rates will continue to trend higher. Although, from a political standpoint our government has a unique ability to want to keep inflation ultimately low. The government takes the largest hit if rates go up.

Q: Does the bond market exposure require you to have a view on inflation, interest rates and the general macroeconomic trends in the U.S.?

A: From a stock perspective I'm not a chartist, I'm a fundamentalist. And on the bond portfolio I use charts a lot more. For instance I recently charted the P/E ratio of the S&P 500 to yield on 10-year treasuries and I try to look at correlation or inverse relationships and try to see historically what the bond market did at this point in time.

I think that there is overall inflation

in the global economy. I think there's a real problem in the U.S. as far as inflation in certain sectors (Food and Energy) is concerned. There is deflation in some sectors and inflation in others and I believe that's normal. But one area that concerns me is the whole food and energy areas because that's the main part of the consumption of all families. The CPI basket shows that 20% of our expenditures are in the food and energy but for 60% of the families in America that food and energy basket makes up closer to 50% or maybe even higher.

Q: What kinds of risk do you monitor and what do you do to mitigate them?

A: I actually watch my risk very intently and I like to see our portfolio have a beta of anywhere from 0.60% to 0.80%, which is significantly lower than the market. Modern portfolio theory tells us that beta is just a measure of volatility overtime and amazingly enough risk is reduced the longer you hold the stock. I'm more concerned and I also look at our alpha, the measure of our performance relative to our risk versus the benchmark. I try to focus on the risk and try to look at the stocks that I think perform admirably while taking less risk as well. That's why stocks like Johnson & Johnson are the main thrusts of my portfolio.

There is safety in large caps but I won't say that I wouldn't invest in small and mid-cap companies if I believe that such investments provide opportunities for better returns. Sometimes a stock is classified as a large cap growth stock and it may have a higher beta but depending on where it's trading and depending on the future outlook, in my book it can be a relatively low risk investment.

Archer Balanced Fund

Symbol	ARCHX
Website	www.thearcherfunds.com
Address	Archer Investment Corporation 9000 Keystone Crossing Suite 630 Indianapolis, IN 46240
Tel. No.	800-238-7701
Inception	09/27/2005

PORTFOLIO

Total Net Assets*	\$10.7
Avg Mkt Cap (\$ Weighted)*	\$70,160
Average Price/Earnings Ratio	15.37
Average Price/Book Ratio	2.58
Turnover Ratio	83%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$2,000

RISK (AGAINST DJ MODERATE PORTFOLIO INDEX - 3-YR)

Alpha	N/A
Beta	N/A
R-Squared	N/A
Ann. Std Deviation	N/A
Sharpe Ratio	N/A

RETURNS VS. DJ MODERATE PORTFOLIO INDEX

	ARCHX	Index
1 Year (Cum.)	16.33%	14.79%
3 Year (Ann.)	N/A	11.72%
5 Year (Ann.)	N/A	11.79%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	0.50%
Total Expense Ratio	1.20%

PORTFOLIO MANAGER

Troy C. Patton	09/27/2005
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*millions **0.50% within 30 days of initial purchase

Data through: 06/30/07

Source: Company Documents; Lipper

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