

OLD MISSION INVESTMENT CO.

OLD MISSION INVESTMENT CO. First Quarter 2007

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Over and Beyond.

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Note worth reading...

Don't forget about your IRA distribution! If you are over 70 1/2 this year please give us a call to make sure your distributions have been done for the 2006 tax year.

Remember when a new year meant the purchase of exercise equipment along with the vow to do something healthy?

New year resolutions always worked around the concept of 'change' for the betterment of your life. It was paired with a gym membership, the intent to do things differently, or the mending of a relationship.

The climate for stocks and bonds has changed dramatically following the crash of 2000, 9/11, and the technology bubble. We are less trusting of financial statements and the CEOs behind them, and still carry some of the 'hangover' from the market declines seen in 2000 through 2002.

It's about psychology. Invest-

tors feel, then act, sometimes without regard to what's real. During the times we are frightened of the market, we should be buyers. At times where making money couldn't be easier, we should be cautious. It's the opposite of what we were taught, and certainly the antithesis of what our 'gut' tells us from time to time. But, history has proven that chaotic market environments can bring excellent opportunities to the level-headed investor.

So, what is the change for 2007? Financial diet? Less paper in the mail? Not exactly.

Market volatility won't be going away any time soon. Television broadcasts will make small market hiccups feel like the sky is

falling. Newspapers and television alike will make people feel like doom and unmitigated market failure is just around the corner.

As a new year resolution, we'd ask this - Don't take too much of the upcoming market sensationalism to heart and certainly keep your fear of the markets at bay. The market for stocks and bonds has worked well over the past 215 years and we don't see it vanishing anytime soon.

For 2007: Sensationalism out. Level head... in. ▶

Want to see something covered? Let us know by sending us an e-mail at lamb@oldmissioninvestment.com

Market highs Worry... or No Worry.

So, the 'market' hits a new high. How should we feel? What should we do?

First, the market is generally defined as the market for stocks, not bonds. There is the Dow Jones Industrials Average that is strictly comprised of 30 industrial companies that are supposed to represent the barometer of the domestic economy. There is also the Standard and Poor's 500 which represents a basket of 500 individual stocks. Both averages are supposed to represent the health of the overall economy, and certainly the appetite for domestic stocks. One hit a new high. One is still 10% below its high.

Let's face it – the Dow, which had a closing high of 11,722 in January of 2000 could have closed up one additional point to 11,723 and it would have been the talk of every evening news program across the nation. But, putting a new market high into perspective is more important than ever at this critical point in investment history.

Make this assumption – As a new investor, if we were to sell the first time the market hit a new high, we would rarely *reinvest* in the market ever again. During 2006, we would have sold the minute the Dow Jones Industrials hit 11,723. With the market up another 4% since then, we would have sat quietly on the sidelines watching the market go higher. We certainly realize that clients have felt uneasy about the stock market given the manic performance over the past 6 years. However, this market high should be nothing different than the highs reached in the 1950's, the 1960's, the 70's, 80's or the 90's. Investments within stocks are long-term and should be meant to grow over long periods of time.

Why does the market go up? Earnings and profitability. There are two components to a single stock price; 1.) current assets and 2.) the present value of the future profits of the company. Investors come together and agree on a price based on their opinion of the future health of the company. If future profits look strong, the stock price will most likely rise. If future profits look poor, the stock price will mostly fall.

The markets of today are barely ahead of where they were 6 years ago with some major market averages 10% to 50% below their all-time high. While the majority of stocks are trading below their all-time highs, their internal profitability has steadily grown. Making that assumption, it would stand to reason that we are in a 'value' phase of the domestic market. Another way to look at it would be to say 'stock prices have stayed stagnant, yet they continued to earn profits' (repeat that ten times and click your heels).

To us, even though the markets are hitting new highs, it also means that the market is just beginning to trust the underlying growth in profitability that largely has been ignored. Let's not let new highs established in *one* market keep us from recognizing the values in another.

There is a new movie about the life and times of Marie Antoinette. Let's not lose our heads, also. ▶



History of the Dow

In 1884, Charles Dow made a list of the average closing prices of 11 stocks he thought represented the economic strength of the country: nine railroads, and two manufacturing firms. Mr. Dow formatted his list to be comprised only of industrial stocks and reported the 'average' regularly. Following 12 years of deletions and changes he finalized his list. Only one stock remains from the original 1896 list...

General Electric
NYSE symbol: GE

Joann Hudson

Staff profile.

‘Old Mission Investment Company...This is JoAnn.’

How many times have you heard this phrase wondering exactly who it was you were working with on the other end of the line?

We thought it would be a good idea to give you a little insight into who she is and what she does for you and us.

Originally, Joann came from Smith Barney, joining Prudential Securities in the summer of 2000. Spending 12 years at Smith Barney allowed her the opportunity to acquire a substantial amount of experience in managing investment relationships. Some of us were fortunate enough to work with JoAnn while we were at Wachovia, and the rest of us were more than pleased to have her join us when we created Old Mission Investment Company.

So, what does JoAnn do for you and our firm? It’s more than just answering the phone, we can assure you. She is responsible for the account documentation relating to the service of your account from beginning to end. When your new account is opened, she processes the documents directly to Fidelity and makes sure that account numbers are assigned. She verifies that your IRA distributions are done in a timely manner and that the appropriate amounts of taxes are withheld. She transfers funds to and from your accounts, among your accounts, to your children and to your grandkids when you request. She makes sure that the checks you write are covered in the event of a problem, and will do everything to protect you from having issues when using your Visa card at the grocery store. Address changes, copies of checks, copies of statements, verification of deposits and withdrawals are all within her responsibility as *your* investment assistant.



“People count on us. We aren’t going to let them down.”

JoAnn Hudson

She’ll make sure that your dividend checks are mailed out, and that your cost basis data is added to your statement. That’s just for starters.

If there is something you need on a non-investment basis, generally JoAnn can handle your request. If you have to reorder checks or need to make either a withdrawal or deposit, she can help you. If you need to move money from one account to another, she can certainly get the job done quickly.

If you have the need to discuss the investments within your account, please let her know. She can find us promptly to answer your question. We don’t want anyone to feel that she represents a ‘call screener’, since it’s clearly not what she does. She represents an integrated part of our firm and can positively influence the level of service you receive from our group. Our primary goal is to not let you down regardless of who takes your request.

We are proud to have JoAnn as a part of our company. She will most certainly treat you the way *she* would like to be treated if she were the client. ▶

Speeding Tickets. Bad.

There is one and only way to get out of a speeding ticket: The officer cuts you a break.

How do you increase the odds of getting a break? Put the officer at ease. Officers are trained to think you are going to kill them. It’s true. They expect the worst and prepare for it. If you put them at ease early, you stand a better chance of moving on without a citation.

Turn the engine off, keep your hands on the wheel and don’t make any sudden moves. They have a gun.

Be nice, appear repentant and say ‘Good afternoon, officer, sorry you have to waste your time with me,’ or something like that. When you are polite, you give them the power and increase your chances. But, don’t testify against yourself. If you admit you did it, you give him a reason to write you up.

Ask for a warning. If things are going well, ask if you can be excused without a ticket, just this once. They can only say no. Do it before they start writing the ticket. Once the pen hits the pad, it’s too late. ▶



Asset Class Profile: Convertible Bonds

Convertible bonds are interesting. Convertible cars are interesting.

Investors would like to have their cake and eat it too. Convertible bonds may be the asset class which most investors overlook, not knowing enough about this interesting asset class.

Convertible securities offer two types of return mechanisms; Capital appreciation, and the potential for income. Investors within a growth and income investment profile might find that convertible securities may fit both sides of the coin. They have long offered a way to participate in the current income of a bond, while also offering the holder the ability to convert their bond into the common stock of the underlying company. Having your cake and eating it too just became a possibility.

During periods of market uncertainty, we have found that investors prefer to shift their investment holdings to bonds. Bonds have offered investors the benefit of protection during stock market volatility, however, they do not offer the ability to participate in the gains of the market once the market begins to recover.

Convertible bonds seem to address this type of issue. Convertible bonds



“An optimist sees an opportunity in every calamity; a pessimist sees a calamity in every opportunity.”

Winston Churchill

provide the income of a traditional bond at a reduced yield, however, they also offer the ability to convert into a certain number of shares of stock of the issuing company. This gives the investor the ability to own a ‘hybrid’ security that has exhibited the ability to both protect during periods of market declines, while also offering the upside potential of stocks when the market and economy flourish. As the profitability of a company improves, the price of its convertible security can also rise. You not only have the

ability to collect the interest on your bond, but now you have the benefit of holding an appreciating investment.

Convertible securities can carry significant risk when purchased individually. This is the case with any individual security. However, it is our preference to own convertible securities through a mutual fund since there are managers which have specific expertise in assessing the unique risk characteristics of this interesting asset class. ▶

Transfer on Death (TOD) Eliminate Probate



An Expensive Share

Shares of Berkshire Hathaway Class ‘A’ closed at a price of \$100,000 per share on October 23, 2006 for the first time in history.

In the past there were two ways to ensure that your financial assets did not go through Probate court. You could put someone else on your account (i.e a child), or you could create a trust. There are many advantages to a trust document and the supporting documentation that is prepared along with your trust document. As a matter of fact, there are too many benefits to list within this article, so, we’ll pass for the time.

The Transfer on Death (TOD) designation is used in conjunction with your estate planning documents (i.e. trust documents). This designation is a simple document which allows you to appoint whom or where you would like to have your assets transferred upon your death. It’s no different than appointing a beneficiary to an account which, normally, has no beneficiary. This also allows you to provide the name of the individual or

entity that you would like to receive your account without adding their name to your account.

When used in conjunction with your trust document, it will allow you to maintain a joint account with your spouse or an individual account while knowing that it will transfer to your trust upon your death. At that point, your trust receives the asset free of Probate involvement and the trust provisions will govern the ultimate distribution of those assets. This process occurs without the publicity of Probate Court and the prying eyes of your neighbor.

Think of that bank account which is in both your name and the name of your spouse. A Transfer on Death designation can permit you to maintain that account without having to open a new one, while assuring yourself that Probate-free is the way to be. ▶



“The hardest thing in the world to understand is the income tax.”

Albert Einstein

Roth IRA Conversions

A different perspective

Roth IRA accounts prove to be useful tools for two types of investors - Those who are accumulating funds for retirement, and those who are spending down their retirement savings.

In simple terms, a Roth IRA works like this. Contributions made to a Roth IRA are non-deductible when they are made. The funds grow on a tax-free basis and can be withdrawn, for the most part, when you turn 59 1/2. So, in other words, you have the ability to turn your \$4,000 investment into a million dollars without having to pay a single cent in taxes on the appreciation or profit on your original investment.

This differs slightly from a regular IRA where the funds earn interest which will be taxed when they are withdrawn from your IRA. Someone, either you, your spouse, your children, or your beneficiary will certainly be paying taxes on the value of your account.

The benefits for the investor accumulating funds for retirement is easily seen. Funds go in, earn tax free interest and can be withdrawn for retirement without taxation.

But, the basis of this discussion is to shed some light on the conversion of your existing IRA to a Roth IRA. The conversion process allows investors to convert a portion, or all, of their individual IRA account. At the time they convert, there will be taxes paid on the value of the funds converted.

Clients have frequently commented that they plan on passing their IRA along to a beneficiary. This can prove to be an excellent opportunity for the IRS to step in as a non-appointed, but official, partial beneficiary to your IRA account.

By converting a portion of the *existing* IRA that you plan on passing to your children, you could find that the new Roth IRA could grow without your beneficiaries paying taxes on the distribution. Granted, you will have to pay taxes on the funds converted, however, there is a significant benefit to passing

along a tax-favored investment to your children.

Since Roth IRA accounts do not require individuals over 70 1/2 to take required distributions, the funds have the ability to grow over your lifetime, and the lifetime of your spouse without required withdrawals. Additionally, your children, when they inherit your Roth IRA, have the option of continuing the Roth IRA with only a minimum distribution. This can have the effect of not only ‘stretching out’ distributions over their lifetime, but, the ability for them to inherit a great asset on a tax-free basis.

There are some strange rules concerning who can and who cannot conduct a Roth rollover. We are happy to discuss whether or not it would be beneficial in light of your specific situation. It can be a complicated matter. ▶



Holidays and Good Cheer

The partners and staff of Old Mission Investment Company wish you and your family the very best during this holiday season.

Joe
Lisa
John
Liz
Karen
Bob



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