

OLD MISSION INVESTMENT CO.

OLD MISSION INVESTMENT CO. Fourth Quarter 2007

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The Science of Leaf Color

Every fall, Michigan is treated to a color explosion. The lack of water causes a unique chemical reaction to stop. Photosynthesis keeps the green color within the leaves, and once this ceases, the true color of the leaves will dominate over the receding green pigment. Carotene causes our maples, birches and poplars to turn yellow, while anthocyanins will produce the brilliant reds and oranges that light our landscape on fire.

De Minimis.

De minimis is a Latin expression meaning about minimal things. It's generally a legal term, but generally can carry a broad meaning in terms of simplification in your life.

Each August I've told my wife that October is to be declared 'de minimis month'. This is generally on the backside of a busy summer and gives me a chance to unwind, and reflect a bit on the great summer we enjoyed. The summer is generally busy, and involves lots of packing, unpacking, time spent with friends and family, festivals, boating, and just a lot of busywork. The garage gets a little bit cluttered, the basement looks like the inventory room of a dime store, and our dog, Simon, feels like he's been hauled cross-country in a large plastic box (affectionately known as his 'prison').

De minimis, to me means 'take a breather'. Don't be in a rush to get things done and take your time. Stop by the bookstore, enjoy a cup of coffee, read a book, take a walk with the dog and enjoy the change of the season.

I think far too often we rush through the months only to take little time to reflect on what has happened during the summer season. Summer is a great time of the year, but the chance to slow down, change gears, and make life simple is something that should be cherished. If cleaning out the garage, or organizing the basement is your way of slowing down, then so be it.

Pick a de minimus month of your own. This can be your time to make life simple once again. Take your time when you pack up the summer clothes in order to get things organized after a busy summer. Take a nice walk and enjoy the trees as they change their color. Make it a month of simplicity, and take it slow. Life is good, but life is fast. Just don't forget to take a little down time, and enjoy the simple things when you can.

What are your simple things? ▶

- Christopher M. Lamb, CIMA
Principal, Old Mission Investment Co.

The Long-Term, ...and a wager.

This was said by one of our older investment clients: “The long term is like buying green bananas”. We might laugh at this comment knowing that it’s a humorous response to a fairly serious question, but it does raise an important point in the review of investment portfolios.

What does a long-term investment view mean? Well, in our view it means everything.

“Pascal’s Wager” – Blaise Pascal was a 16th century French mathematician who wrote that it was better to live as if God existed, rather than as if there was no God at all since the consequences of *not* believing were more severe than the consequences *of* believing. This reference has quite a bit to do with the markets for stocks and bonds, and especially for the older clients who are less tempted to believe in long-term investment philosophies. The whole point of Pascal’s Wager, in our terms, is that the consequences of your choice may be far more important than the likelihood of the negative outcome you are trying to avoid.

The old rule of thumb was that you take your age and subtract that number from 100. This, in an oversimplified manner, gave you a sense of the percentage of money you should have in stocks. It’s silly to think, however, that this method should be relied upon for significant financial planning purposes. But, it provides us with a similar tone of ‘the older you are, the less risk you want to assume’.

So, back to the question – ‘What is long-term?’

It is our view that the long-term is considered to be the balance of your investment lifetime. In many cases, since client assets will pass to younger generations, the long-term can take a multi-generational approach to investment manage-

ment. If we were to assume that you needed all your money tomorrow, we would invest accordingly. This is rarely the case. More and more, our clients are living longer and carrying an active lifestyle for many more years beyond their parents. Much like Pascal’s Wager, this creates a need to examine the conservative views of older clients, since the consequences of being too conservative can lead to a multitude of financial problems later in life.

We understand the need to sleep at night. But, we also need to make sure that there is balance between the risks of volatility today, while understanding that the needs of tomorrow are also taken into full consideration. *Please* understand that the impact of a decision to be too conservative can be devastating to your future financial situation. ▶

Let The Planning Begin! Estate planning topic

Or, should we say ‘let the planning, *resume*’?

A few years back, there was enough mud in the estate planning water to virtually make estate planning a very tough topic to handle. Estate planning was no different than hitting a moving target since we had no idea what was going to happen. Estate taxes were changing each year, and there was some doubt whether or not the reforms were going to be made permanent. There were just too many variables that gave both clients and planners little sense of predictability.

At this point, it seems that there is virtually no chance for estate tax repeal. With many states now sharing in the estate taxes collected on the Federal level, there is a significant stateside push to keep the estate tax in place. As an example, Michigan collects a portion of the estate taxes owed, even though they have no official ‘death tax’. Other states tend to follow suit.

So, that being said, the estate planning movement can once again move forward. We feel that there is sufficient assurance that the estate tax situation will not be changing any time soon, and that clients should continue their estate planning efforts. While we are not attorneys and do not provide legal advice, we are intimately involved in the initial discussions with clients concerning the needs of forming trusts, life insurance trusts, and family limited partnerships.

We continue to serve as the ‘hub’ of many of our client questions, and can provide you with an appropriate referral to legal counsel when needed. If you have yet to create a will, or think you have the need to draft trust documents, please contact our office at your earliest convenience. Our firm has worked with a number of clients to identify what type of planning is most often required in light of their personal financial situation.

Give us a call - we won’t bill for the faxes, stamps, or even the paperclips, we promise. ▶



Percentage of \$1 million estates that are left to pets: 2%
Average annual salary for call center agents in the U.S.: \$29,000
Average annual salary for call center agents in India: \$2,667

Joseph Novak

Wise owl.

42 years later, and he's still in our business. He's seen crashes, corrections, melt-ups, melt-downs, and experienced a range of investor emotions that can fill a book. He types 15 words per minute, and is a menace with a pen and paper.

As a way to introduce you to each partner within our firm, it's our turn to shed a little light on our senior partner Joe Novak.

He started with Roney and Company in 1965 following his graduation from the University of Michigan, and was originally based out of Muskegon, Michigan. This was back in the days where you would call in orders, and still write them down in a book to make sure they were handled properly. Computers were barely in existence back then. He has worked for EF Hutton, First of Michigan, Thompson McKinnon, Prudential Securities and Wachovia Securities. He'll remind many of us that he's been in our business longer than we are old, and that he'll continue until he's 80. We have relied on Joseph for a historical reference and he brings a unique level of experience to the table.

This is your investment firm. What does Joe do for you?

Joe is responsible for the majority of our client service. He's been a follower and long time believer in the cash management methods made popular by the creation of the money market. As things were refined he worked with clients in maximizing the use of cash management accounts, and also made it a habit to remain up to date in the small company research market. He's developed intimate relationships with the department heads, and the CEO's of a handful of small companies and brought many of those investments to our clients. We'll remind you, small company investments aren't for everyone, and can carry a substantial degree of risk. So, before you venture out and rely on one of his recommendations, understand that things can, and will eventually, not work in your favor. But, rest assured, he does proper research and follows many companies before purchasing a single share for himself or any of our clients.

We can study market patterns all day long. Joe, however, brings his unique client interaction to the table with an historical perspective. What was it like to invest in the 1970's amidst rampant inflation, and gasoline lines? What was the investor sentiment? What was the best course of action? Those are all questions that we ask just to make sure our actions are consistent with the behavior that has worked in all types of markets. He's the 'wise owl' that most people like to rely upon at times, and we are appreciative that he's remained a part of our firm.

Retirement isn't an option just yet. He's grown accustomed to the corner office. ▶

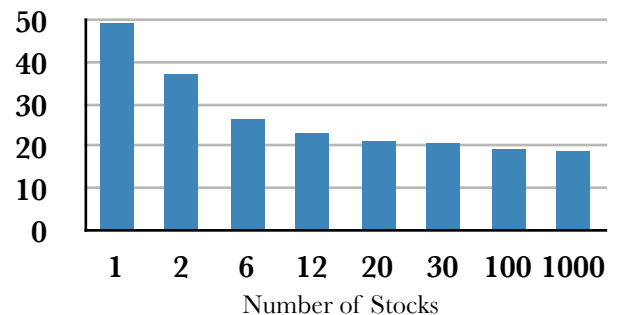


"Whatever you do...
it's got to be fun."

Joseph S. Novak

Question: How many stocks does it take to provide adequate diversification in your portfolio?

Risk Level



Answer:

According to our research, the more securities you have in your portfolio, the lower the amount of risk you assume.

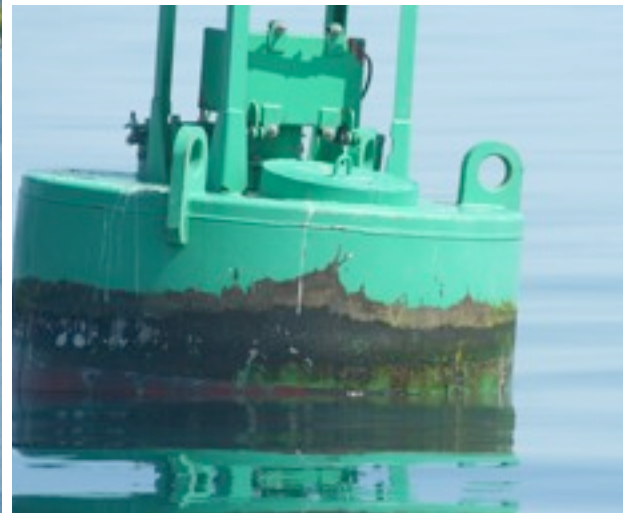
The law of diminishing returns in the investment world does exist when discussing investments. There is a point where the addition of more investments doesn't necessarily give you a reduced level of risk within your portfolio. Why? Mostly due to the fact that stocks have common characteristics that exist *just because* they are stocks. Those characteristics cannot be diminished through diversification. Stocks tend to go up and down together, and as a result the more you add, the more you have a portfolio that looks like the overall market. ▶

Source: Wharton School of Business - Executive Education Program



“Travel: Some good advice from someone who knows: Take twice the cash, and half the clothes.”

Anonymous



Love to travel? Use the copier.

If you like to travel, here's a great tip to consider the next time you leave home.

We've all thought about the trouble and inconvenience of replacing a credit card. But, what if you are traveling abroad, or just traveling in another state and you have your wallet or purse stolen? Do you know the phone number to your bank by heart? Can you recite your credit card and bank account numbers by memory? Who do you call, and what do you do?

On an immediate basis, you should first consider filing a police report in the city where the loss occurred. If you are traveling in London, file the police report there. If you are traveling in Orlando from Michigan, file the report in Orlando. Also, consider placing a 90-day fraud alert on your file with the credit reporting agencies as well as a 90-day credit freeze, not allowing anyone the ability to apply for credit using your name or Social Security number.

One thing to consider is maintaining a back-up photocopy of the existing contents of your personal items. Keeping a copy of your driver's license, credit cards, debit cards, and

passport isn't a bad idea. Keep them in a secure location within your luggage or hotel room in the event you lose your wallet or purse. It can save valuable time and keep you moving along during your trip. But, best of all, it will still permit you to carry on while mentally knowing that you still can prove your identity. Also when traveling, it's not a bad idea to maintain your credit cards in separate locations. Keep one in your hotel room, and another in your wallet. That way, in the event one gets stolen, you still have another to use.

Lastly, there is no need to travel with your Social Security card. We can't remember any time where we've been asked for proof of a Social Security number that required our Social Security card. That little document can be a valuable 'score' for any thief or individual looking to steal your identity. We suggest leaving it at home the next time you travel.

Next time you are in our office, let us know if you'd like us to make you copies of your personal documents. We'd be happy to oblige. ▶

What's 'Normal'?

Statistical Analysis

Advanced Topic

With the ups and downs in the market, it begs the question – What's a 'normal' monthly return in the market for stocks and bonds? You know... what can you *usually* expect?

As advisors, we look at market returns daily. We keep our quote screens open all day, look at the stocks which are going up, take notice of the stocks which are heading down, and understand what we can reasonably expect each and every day. To us, as your advisor, it's no surprise that the markets tend to have 100 point days, and understand that it's just part of the 'normal' day-to-day routine within the market system.

Make no bones about it, this isn't the easiest concept to grasp, and it might involve a little time in our office with a pen and paper. But, we'll give it a try.

As a client, you look at it like this – What can I expect, within reason, each time I open my monthly statement? Is it possible that I see a 3% loss when things are bad? When things are good, what is the 'normal' return in my

portfolio? Bear in mind, the answer to this question will involve a bit of statistical analysis.

Let's take a short primer in the world of statistics. There are average monthly returns known as the 'mean' monthly investment return. Then, there is risk measure known as 'standard deviation'. Both are used together to determine the *normal* investment returns over a given period of time. You can examine this normal return occurrence based on a certain level of confidence. For purposes of this discussion, normal distribution curves occur in three levels of confidence; 66%, 95%, and 99%. As an example, you could say this: "There is a 95% chance, that the stock market will return between good% and bad% each and every month". This comment is based on the average monthly returns, and a variable (which is standard deviation).

First, let's take a look at the average returns of the Standard and Poor's 500 on a monthly basis for the past 5 years. The average return for stocks for the past 5 years has been .99% per month. To cut to the chase, in any given month, there is a 95% chance that the market for stocks will either make 7.37% or lose 5.39%. This is calculated using a risk measurement known as standard deviation. This essentially allows the ability to create a range of

"This data is obviously subject to change as current markets write their own history..."

possible outcomes using the past returns of the overall market that can be explained in 95% of the situations. This is based on a thing known as a 'two standard deviation event'. Meaning, you take the average return (which is .99%) and subtract *two* times the standard deviation number of 3.19%. So, .99% (average return) minus 2 times 3.19% will give you the worst return 95% of the time, and .99% (again, average return) plus 2 times 3.19% will give you the best return in 95% of the monthly instances. As noted above, this gives you 95% chance of a good return of up to 7.37% or a bad return of a loss of 5.39% for the month. These two numbers just represent, in simple terms, the possible bands of returns for any given month using historical data.

Second, let's examine the normal returns for the market for bonds. We measure the bond market through the performance of the Lehman Brothers Aggregate Bond Index. This is an index that combines both government and corporate bond issues as a way to gauge the overall direction of the bond market. On an average month, the bond market returns have been .37% with an overall risk of 1.07%. Again, applying a 95% confidence level (or two standard deviations), you'll find that the best expected returns in 95% of the months will be .37% plus 2 times 1.07%, or 2.51%. For a worst-case scenario you would take .37% minus 2 times 1.07%, or a loss of 1.77%.

So, to summarize the normal returns in 95% of the market situations you'll find that stocks have the potential of either going up by 7.37%, or losing 5.29% during any month. On the bond-side of the investment spectrum, you have the chance of making either 2.51%, or losing 1.77% during any month. This is obviously subject to change as current markets write their own history, since a great deal of these calculations are based on historical performance and risk data.

If you have a balanced portfolio of both stocks and bonds, you'll find that you will have a blend of the numbers referenced above. You will not have 100% of the downside risk, however, you will also find that your upside potential will also be limited. The core concept to diversification is to limit your exposure to risk, while providing a suitable return given your tolerance for risk. ▶

Data for this article was supplied by Morningstar, Inc., Principia Pro Advanced Analytics Database.



Waugoshance Lighthouse

Created in 1851, Waugoshance light was positioned to mark the entrance to the Straits of Mackinac. It was decommissioned in 1912, and has even been used as a practice bombing target in World War II.

Waugoshance lighthouse is now on the nation's list of most endangered lighthouses.

www.waugoshance.org

This seems to be the 'lighthouse issue'. We aren't sure why we like them so much, but they have aided mariners and sailors for years while providing an interesting backdrop to our nation's maritime history.

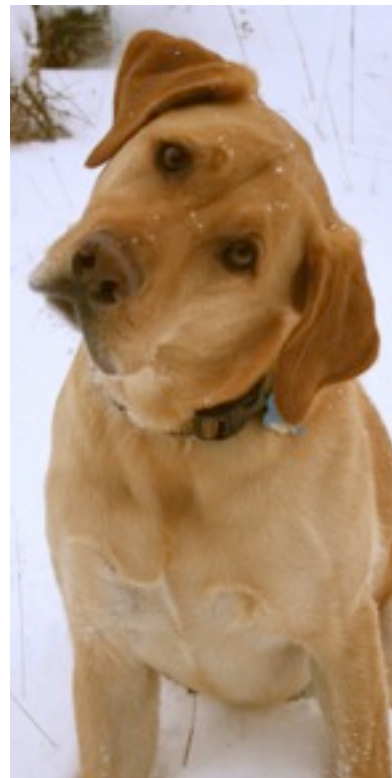
Beneficiary Designations Check when you can

Over the year, Fidelity will send clients short notices letting them know what is kept on file concerning beneficiary designations.

Please, if you could, check these documents thoroughly and make sure they are listing your appropriate beneficiary. If there is not a beneficiary listed, fear not, your assets don't go into a 'black hole'. Fidelity will pay your assets to a spouse, in the event they survive beyond your death. If, however, you do not have a spouse living at the time of your death, Fidelity will pay your assets to directly to your estate. It would be our preference, however, to have accurate beneficiaries listed on each of your retirement accounts.

Also, bear in mind, if you have a trust, beneficiary designations can get increasingly complex due to tax considerations. We would be happy to explain the consequences of all beneficiary appointments. If you have any interest in discussing this matter, please let us know.

Lastly, both single and joint brokerage and bank accounts can be probatable items even though you may have formulated a trust. Payable on Death (POD) and Transfer on Death (TOD) designations are beginning to gain popularity, and are easy, cost-free, and effective ways to tidy up your financial affairs.



Simon

Yellow lab
Will travel
Loves cookies
Will clean plates
Will steal food if necessary
Door alarm
Visitor alert
Earth excavator
Porcupine hunter
Bird chaser
Friendly to skunks

Skunk Scent Remover

1 qt of 3% hydrogen peroxide
1/4 cup of baking soda
1 tsp dishwashing liquid

The mixture will foam. Use it right away (it's the oxygenation that removes the scent). Don't get the mixture in your pet's eyes.

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