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Midwest Investment Management

PERSPECTIVE™

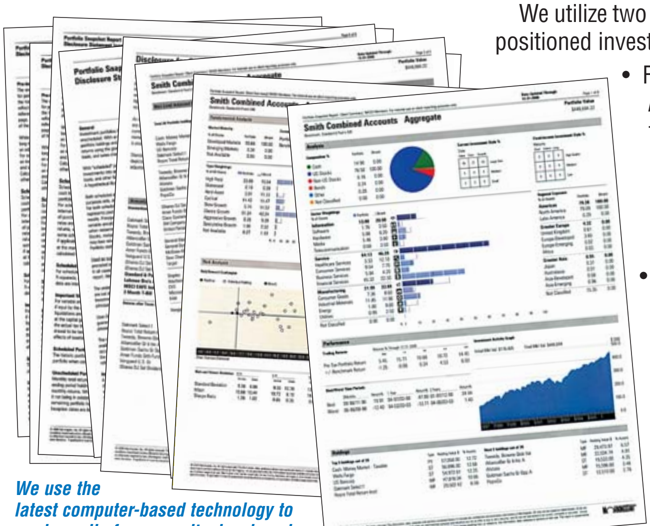
Other stories in this issue:

"Our Mission Is Your Success"

By Elmer L. (Al) Meszaros, CFA, Partner

Here at Midwest Investment Management, our primary goal is to create investment success for you, our client.

The road to investment success begins when we take the time to understand you; your unique needs; your temperament; and your past investment experiences. With this information, we can tailor an asset allocation plan that fits—a plan that contains the right proportion of the right investments, over the right timeframes.



We use the latest computer-based technology to analyze all of your equity, bond, and mutual fund holdings and then issue a comprehensive, meaningful and actionable report.

A key component of the plan is our new ***Consolidated Accounts Analysis.***

Perhaps you have a variety of investment accounts at different places—but they aren't managed in a unified way. The ***Consolidated Accounts Analysis*** provides a comprehensive review of all your accounts, held anywhere, as if they were a single consolidated account. It can also identify strengths, weaknesses, or opportunities across all your investments.

Tools for Success

We utilize two additional tools to create a well-positioned investment program:

- Foremost is our flagship *Large-Cap Core Portfolio,™* the foundation of most client investment programs. It creates a tax-efficient portfolio of quality, dividend-paying blue chip stocks.
- Through our "Best Funds™ Program," we offer independent and conflict-free advice to select, allocate, and monitor "Best-in-Class" mutual funds and exchange traded funds (ETF's) for clients who want to diversify their existing accounts or retirement plans.

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International Investing: A Different *Slant*

By Norman F. Klopp, Jr., CFA, Partner

In 2005 and 2006, investors willing to assume higher risk and volatility in search of higher returns poured billions of dollars into overseas stock markets or mutual funds that invest exclusively or primarily in non-U.S. corporations. As recently as mid-February, it seemed investor concern about the risk in those investments had all but disappeared!

But in the last days of February, overseas markets led by China tumbled—wiping out investors' profits literally overnight, and demonstrating once again that the lure of bigger rewards carries bigger risks.

Preferred method

This is not to say that investing overseas should be avoided. Rather, we prefer a method that can capitalize on market opportunities overseas *without* subjecting one's portfolio to the volatility and high risk normally associated with foreign markets. Let me explain in the context of Midwest Investment Management's proprietary *Large-Cap Core Portfolio.™*

First and foremost, our firm's investment philosophy is *risk-averse.* We focus on large-capitalization stocks as a way to reduce the risk of equity ownership.

Because most large U.S. corporations now operate globally, simply by adhering to our core strategy we thereby create for our clients a portfolio of stocks that have significant exposure in diverse international markets. *This is, perhaps, something that few investors consider when they think of "international investing."*

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“The Consolidated Accounts Analysis provides a comprehensive review…”

Experience

Our Partners, including three highly experienced CFA’s, have decades of investment experience in all market conditions. We strive to provide you with sound, personal, unbiased advice. Our original six founding Partners are still here and our three youngest Partners, with an average age of 41, ensure a continuity of commitment to your investment success for decades into the future.

In summary, we offer our clients:

- An extensive analysis of all their investments;
- The vast collective experience of our Partners;
- A management structure that will continue seamlessly into the future.

Collectively, these attributes position each Midwest Investment Management client for investment success.

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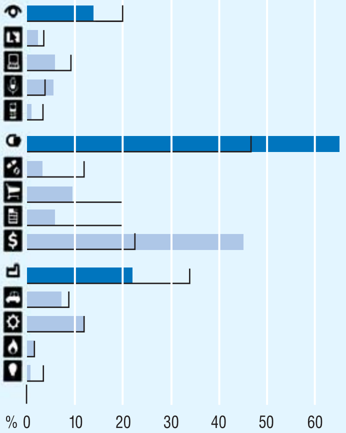
Al Meszaros is a Chartered Financial Analyst,® the world’s highest standard for investment knowledge and ethics. Whether you are an individual investor or the trustee of a company 401(k) plan, he is available to provide a comprehensive review of your portfolio to identify strengths, weaknesses, or new opportunities. He can be reached at (216) 830-1133 or elm@mimllc.com

Sector Weightings

% of Stocks	Portfolio	Bmark
Information	**13.88**	**20.00**
Software	1.76	3.50
Hardware	5.98	9.20
Media	5.46	3.80
Telecommunication	0.68	3.50
Service	**64.13**	**46.20**
Healthcare Services	3.33	12.10
Consumer Services	9.54	7.70
Business Services	5.94	4.20
Financial Services	45.32	22.30
Manufacturing	**21.99**	**33.80**
Consumer Goods	7.36	8.60
Industrial Materials	11.85	11.90
Energy	1.80	9.80
Utilities	0.99	3.50
Not Classified	0.00	0.00



For clients with multiple investment portfolios, our Consolidated Accounts Analysis can identify “over-weighted” or “overlooked” sectors of the market.

Personal Briefings With Corporate CEO’s—One More Way We Manage Clients’ Holdings

By Elmer L. (Al) Meszaros, CFA, Partner

SCOTTSDALE, AZ—The 50th anniversary of the S&P 500 Index was celebrated on March 1st. This is noteworthy, in part, because only 111 of the original 500 companies have survived intact until now. The rest were either merged or dropped from the index and replaced.

Of the 111 survivors, the stocks of 20 companies have performed extraordinarily well, outperforming the 10.83% average return of the index through 50 years. Among those 20 top-performers are Pepsico, Proctor & Gamble, Heinz, Colgate Palmolive, Hershey, and Coca Cola. These companies are known as “consumer staples,” an investment sector that has trailed other sectors over the past eight years, leaving this category reasonably priced today.

“It was a perfect venue; 25 CEO’s made presentations…”

And so, one of my objectives while attending the Consumer Analyst Group New York (CAGNY) meeting here, was to check out potential opportunities for our clients in this sector. It was a perfect venue; 25 CEO’s made presentations about their companies and their strategies to the analysts in attendance.

I met with senior-level executives from these companies:

GENERAL MILLS—The maker of Cheerios, Green Giant, and Yoplait is rapidly expanding its international business and is striving to generate double digit (10%+) investor returns (8.9% from earnings, plus 2.7% from dividends), as it has for 40 years.

P&G Proctor & Gamble—This giant is gaining share in all of its key global brands and is experiencing accelerating earnings. It will continue its 50-year record of consecutive dividend increases, growing at 10% per year.

PEPSICO— Its snack and beverage lines are showing strong increases in volume and driving 10%+ earnings growth. It is focused on opportunities overseas, where it’s just getting started. Note: you’ll be hearing more about “healthy choices” in its snacks and beverages.

After meetings with those executives, I felt satisfied with the current progress of their companies, and I like their stocks because they represent:

- A dominant category franchise;
- Steady growth;
- Rising dividends;
- Strong cash-generation;
- A reasonable share price.

I also met with executives of several other companies that could be attractive for our clients—but only when the prices of their stocks are “right.” Stated another way: a great company that is able to drive profit and dividend growth is not enough. We always wait for an attractive price before purchasing any stock for our clients.

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Portfolio X-ray

Of the 33 corporations whose stock is currently held in client portfolios, 28 generate a portion of their revenue in markets overseas. Only five of them have revenues that are 100% domestic; three of those five are retail companies: Lowe's, Target and CVS. The remaining two are Sysco, the food wholesaler, and Sallie May, the specialty finance company.

Overseas Revenue Important To Many U.S. Corporations

Of 33 corporations whose stocks were held in client portolios on Mar. 31, 2007, eight generate 50% or more of their revenue overseas.

Company	% of Revenue From Overseas
Intel	81%
Maxim	70%
Dow Chemical	63%
IBM	62%
3M	61%
AIG	60%
Procter & Gamble	52%
Microsoft	50%

Source: Corporate annual reports for fiscal year 2005

Of the 28 with some international revenues, eight of them report that 50% or more of their total is generated overseas. And as the table above indicates, some companies receive significantly more than 50% of their revenue from overseas sales. *This is a significant participation!*

In the case of the top two companies, Intel and Maxim (both semiconductor manufacturers), a large percentage of their sales to international customers ends up back in the U.S. in products such as computers or related equipment.

The total dollar revenue from international sources for the 33 companies whose stocks are in client portfolios is 38.1% of their aggregate total revenue. *This, too, is significant.*

"...our firm's investment philosophy is risk-averse."

Opportunity for clients

We believe our approach offers opportunity to our clients, while at the same time mitigating some of the risks of international investing. Why? Before we purchase any stock for client portfolios, we want confidence that the management of the respective company will:

- Manage their overseas currency risks well;
- Manage their asset exposure in a given country or region;
- Have a strategic plan to pursue advantageous markets;
- Maintain their competitive position;
- Provide us with a degree of accounting transparency we might not be able to get through direct foreign investment.

"We believe our approach offers opportunity..."

Is this a valid way to invest in international markets? We believe it is. Is this a more conservative way to invest in international markets? Certainly.

Is it less risky? We believe so. Will our strategy be less volatile? We think so.

In summary, clients who participate in our proprietary *Large-Cap Core Portfolio™* can have the best of both worlds: access to overseas markets combined with the safeguards of a more conservative, risk-averse, less volatile portfolio of stocks.

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If your portfolio isn't positioned to benefit from opportunities in overseas markets, let Norm tell you about the success our clients have achieved from a portfolio that includes the stocks of many U.S.-based multi-national corporations. He can be reached at (216) 830-1135 or nfk@mimllc.com

U.S. Exports Reached Record High in 2006

WASHINGTON, D.C.—Exports of American goods and services reached an all-time high of over $1.4 trillion in 2006, Commerce Department Secretary Carlos M. Gutierrez has reported.

Gutierrez also stated that:

- U.S. exports comprised 11.1% of U.S. GDP in 2006, compared to 9.6% in 2002 and 5.2% in 1956.
- Purchases of services and goods by foreign travelers, including expenditures for food, lodging, and recreation while in the U.S., are counted as U.S. exports.
- For the first time in nearly a decade, the growth rate of exports outpaced the growth of imports.

"While these numbers show tremendous progress, we still need to do more to open new markets and promote U.S. exports," Gutierrez said.

Imports to the U.S. from China increased 18.2% in 2006; however U.S. exports of goods to China grew 31.7%, Secretary Gutierrez reported.

Container ships, such as this one piled high with intermodal containers, are the backbone of international trade.

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Midwest Investment Management

1st Quarter Economic Review

Whew! "Roller Coaster" Market Produces A Quarter of Contrasts

By Norman F. Klopp, Jr., CFA, Partner

The New Year began with a robust extension of the strong market uptrend that began in July, 2006. By February 23rd the Standard & Poors 500 Index had advanced 2.3%, and news pundits referred frequently to the "goldilocks" economy. But as is usually the case when concerns about risk are low, the market finds reasons to correct. And so it did. In late February, several foreign markets posted rapid double-digit declines and concern about the sustainability of economic growth became front page news. In March, the condition of the sub-prime lending industry shook the markets. As this newsletter went to press in late-March, the market was down a modest 0.5% year-to-date and appeared to be hunting for a stable base.

Another area of general concern: Housing, which is a cyclical industry. After the recent long up-cycle, many people were lulled into thinking "it was different this time." Well, it wasn't! And what happens when a cyclical industry corrects after a long up-cycle? Production is slashed, prices are reduced, excess inventory is moved, and eventually the market comes back into balance.

I have followed cyclical industries for more than four decades and can tell you that every cyclical industry experiences excessive up-cycles. Today, housing is working through that corrective process. It will take longer in some cities, but it will happen, probably by year's end.

Next question

Are we in the early stage of a manufacturing downturn and is it a precursor of a general economic recession? We think not. But we see a typical inventory slowdown that will likely last through the first half of the year, along with a modest slowdown in capital spending. This slowdown was evident in various measures of business sentiment in the fourth quarter of 2006, as detailed in the table below.

Prominent Measures of Business Sentiment

	2006 Peak	'06 4th Qtr. Average	Most Recent
CEO Economic Outlook Index[1]	102.2	81.9	84.9
Small Business Survey[2]	101.5	99.0	98.2
ISM Manufacturers Index[3]	57.3	50.7	52.3

[1] Business Roundtable; [2] Nat'l. Fed. of Independent Business;
[3] Institute of Supply Management

Note that both the CEO and ISM indices show modest improvement in the most recent period versus the 4th quarter 2006, suggesting a continued, although somewhat slower, rate of economic growth.

The consumers

Payroll growth of 156,000 over the last three months was down from 177,000 in the 4th quarter of 2006, but included a weather-depressed February. The unemployment rate fell to 4.5% in February, and average hourly earnings were up 4.6% year-over-year in February, up from an approximate 3% growth rate in 2006 and 2.5% in 2005. While this raises inflation concerns, it is positive for consumers. Consumer sentiment remained positive with the Conference Board Consumer Confidence Index at 112.5 in February, a 5½ year high.

Why negative headlines?

With these facts, why are the economic headlines so negative? Because growth is slowing from an unsustainable rate of 3.3% in 2006, to a more sustainable rate of about 2.3% to 2.5% for 2007. When growth slows, people fear it may stop. However, we believe the underpinnings of this economy are healthy, with solid gains in personal income; low inflation; low unemployment; relatively low interest rates; good corporate profits; and even better cash flow.

On the negative side, we see acceleration in hourly earnings placing upward pressure on employment costs. Also, some food prices are rising, in large part, because of ethanol-related demand for corn. These factors could result in an increase in the inflation rate, and possibly influence the Federal Reserve's interest rate decisions.

In summary, we see the foundation of a solid economy. We believe growth will re-accelerate by year's end, setting the stage for higher equity prices.

With investors' increasing attention to risk, we believe the market will reward the stocks of large, well managed companies that can continue to generate high returns on invested capital and growing cash flows and dividends.

We hope you enjoy reading our quarterly newsletter, which contains news about our firm, its investment philosophy, the economy and market trends. We suggest you retain these newsletters for future reference.

Perspective is published quarterly by Midwest Investment Management LLC, Cleveland, Ohio for its clients, friends and members of the business community. All information contained herein reflects the opinions of the authors and does not necessarily constitute investment advice. Past results are no guarantee of future performance.