

**Is your 401(k)
bundled or unbundled?**



Partner Meg Halloran examines the differences between the two methods and she cites the advantages of the unbundled approach. Read her full report on page 2.

*To Our Clients
and Friends*

In lieu of sending greeting cards this past holiday season, Midwest Investment Management contributed to the *Cleveland Plain Dealer's "Holiday Spirit" Campaign*, a program that serves 30 different human service agencies that face increased demands during the winter months. The list of agencies includes:

- Youth Opportunities Unlimited
- The Gathering Place
- Hospice of the Western Reserve
- Providence House
- Center for Families and Children
- Hunger Network of Greater Cleveland

On behalf of our Partners and staff, I want to extend our sincerest wishes for good health and happiness in 2008.

J. Mark Wipper,
Managing Partner

International Healthcare Summit Provides Forum To Evaluate Investment Opportunities

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

In early October, I spent 2½ days at the Cleveland Clinic's 2007 Medical Innovation Summit, the focus of which was "State of the Heart: Cardiovascular Technologies."

The Summit attracted people from around the world, including leaders in medicine, experts in medical technology, government officials, and even investment professionals. My reasons for attending ranged from general and qualitative, to specific and quantitative:

- To update and expand Midwest Investment Management's knowledge base in medical technology;
- To meet with executives of medical companies whose stocks are held in client portfolios;
- To gain further insight into the economics, feasibility, politics,

challenges, and opportunities in the current national healthcare debate;

- To better appreciate what can be done, should be done, and might be done to address expanding healthcare needs in the U.S.

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The 2007 Medical Innovation Summit served as a reminder that medical technology is exploding exponentially and has enormous potential to impact healthcare delivery and control costs.

After Market Turbulence of 2007, What Is Our Prognosis For 2008?

By Joseph A. Harrison, CFA, Partner

Security markets swung widely in the fourth quarter, continuing the pattern established in the preceding quarter. Each change of direction was either a reaction to, or anticipation of, bad news stemming from sub-prime mortgages and other securitized loans, and fear or joy over the reaction by the Federal Reserve.

Bad news prevailed in October when banks and investment banks reported third-quarter earnings, and wrote-down the asset values of weak loans on securities and increased loan loss reserves to protect against future losses. While we don't know whether the nearly \$20 billion in charges is just the tip of the iceberg, we do know that two high profile CEO's and a

number of other high-level executives were forced out of office.



"While difficulties in housing and credit markets and the effects of high energy prices will extract a penalty from growth, the U.S. economy has many strengths," said Treasury Secretary Henry Paulson. "I expect the expansion to continue."

Slowing economy

As the quarter progressed, several economic statistics indicated the economy was slowing. Among them: a weak housing market; slowing employment growth; and weak trends in the Institute for Supply Management's indices of manufacturing and new orders. A decline in industrial production; and slowing income formation were also evident.

In late-November, a spike in initial unemployment claims indicated that layoffs would exacerbate the slowing trend of

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“Plans of all sizes can benefit from the unbundled model.”

“If you are a plan sponsor, I invite you to contact me...”

Why “Unbundled” 401(k) Plans Offer Better Choices To Employers And Employees

By Meg E. Halloran, Partner



Employers who offer a 401(k) plan generally have two different ways to manage the administration and investment requirements of their plans: a “bundled” approach, often referred to as a “one-stop-shop”, or an

“unbundled” approach using select separate service providers.

“Bundled” plan shortcomings

While a bundled 401(k) plan may appear to be an easy choice because all services are obtained from a single provider, it has some inherent disadvantages:

- Lack of flexibility;
- Limited investment choices;
- Education for plan participants may be cursory, with limited customization to the plan;
- A limited range of additional services.

A better choice

Susan J. Pierce, president of Flexible Benefits Systems, Inc., an Akron-based third-party administration firm, believes that “unbundled” 401(k) plans provide several advantages to plan sponsors:

- A wider choice of investments;
- Ability to obtain cost-efficient pricing of mutual funds;
- Matching administrative services to the needs of the plan;
- Expense-sharing options with plan participants.

Plan sponsors with an unbundled arrangement are free to evaluate and select a third-party administrator (TPA) and an investment management company of their choosing. The main responsibilities of the TPA are to:

- Conduct a thorough analysis of a current or proposed 401(k) plan to make sure it meets the goals of the plan sponsor and its participants;
- Develop plan documents that meet rules under ERISA, the federal Employee Retirement Income Security Act;
- Track the investment performance and account balances for plan participants.

“The extra mile”

The other main service piece of an unbundled model is an investment manager, such as Midwest Investment Management. Our *Best*

Funds™ 401(k) Investment Advisory Service is widely respected because we do more than simply select and offer investment options.

We “go the extra mile” by providing **comprehensive solutions** to 401(k) plans. Specifically, we recommend only funds that meet our stringent criteria for performance and quality of their managers. As an independent investment advisor, we do not operate any mutual funds, nor do we receive commissions or incentives for our recommendations.

In addition, we provide investment advice to plan participants, and meet regularly with plan trustees to review fund performance and investment options for their plan.

We work in close collaboration with TPA’s to help ensure that plan providers and participants receive the synergy and potential cost-savings that two specialist companies, working collaboratively, can provide.

Check our advantages

At one time, the unbundled 401(k) model was available only to plans with several hundred or more employees. This is no longer true. Plans of **all** sizes can benefit from the unbundled model.

In fact, “plan providers may be leaving dollars on the table or out of their pocket if the design of their plan hasn’t been reviewed in the past three years,” said Susan Pierce, whose firm has compiled a detailed comparison of bundled vs. unbundled plans.



Midwest Investment Management, working in collaboration with a TPA, can help 401(k) plan sponsors implement a plan that is cost-effective and offers a wider choice of investments, compared to providers of “bundled” plans.

If you are a plan sponsor, I invite you to contact me to discuss how Midwest Investment Management can add value to your plan, and perhaps even reduce your costs. I can be reached at (216) 830-1139 or meh@mimllc.com

How We “Look Out” For Our Clients

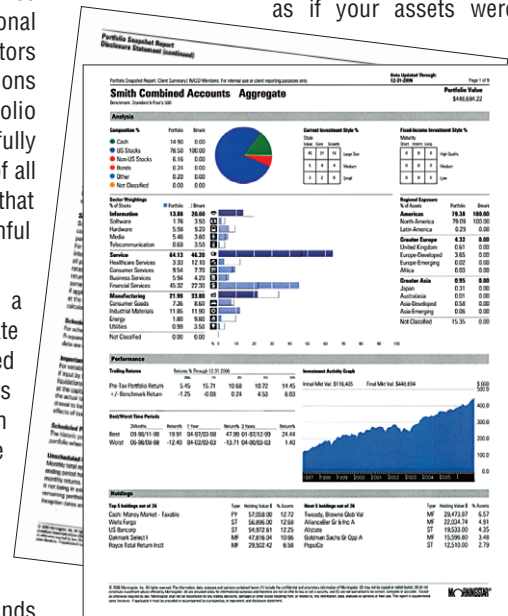
By Elmer L. (Al) Meszaros, CFA, Partner

At Midwest Investment Management, our investment philosophy, experience, resources, and world-class professional credentials strive to position your portfolio for the long-term compounding of capital you want. We hope our integrity and reputation can provide you with the confidence, trust, and comfort you expect.

In addition to these obvious responsibilities as investment managers, we can assist you in related ways, as well:

- Independent view:** One very valuable service we provide is acting as an unemotional observer of the financial markets. Investors are often hurt by reacting to their emotions when making decisions. Our portfolio managers and analysts have successfully navigated market conditions and events of all kinds, providing us with a perspective that can keep our clients from making harmful over-reactions.
- Expanded service:** Perhaps you hold a specific stock from a family or corporate source that you wish to keep separated from other accounts for the long term. This may involve advice on 401(k) plan selections or management of an entire 401(k) plan. If you wish, we can provide periodic updates on those holdings.
- Tax Management:** We want you to keep more of what you have earned. Thus, as 2007 drew to a close, uppermost in our minds was “tax management” of clients’ accounts to minimize their 2007 tax liability. In addition, if you need estate planning or accounting help, we can make suitable introductions to qualified professionals.

- Proper Diversification:** Perhaps you have an individual stock portfolio or mutual fund account here, and other assets elsewhere. We can analyze your entire investment exposure, as if your assets were



The Consolidated Accounts Analysis is a comprehensive, meaningful, and actionable report for our clients.

in a single account, to ascertain proper diversification and see if improvements are possible. Using technologically advanced computer software, our “Consolidated Accounts Analysis” can analyze all of your equity, bond, and mutual fund holdings to identify strengths, weaknesses, or opportunities across all of your holdings.

I invite you to contact me if you have any questions about any of these services, or wish to take advantage of any one of them. I can be reached at (216) 830-1133 or elm@mimllc.com

“Investors are often hurt by reacting to their emotions...”

“We can analyze your entire investment exposure...”



At Midwest Investment Management, client accounts are overseen by this highly experienced team of financial analysts and portfolio managers. Standing behind Norm Klopp, are (left to right) Meg E. Halloran, Al Meszaros, and Joe Harrison.

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You may contact our partners or staff by phone or e-mail. Here is a complete listing for your convenience.

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International Healthcare Summit... (continued from page 1)

Familiar faces

The CEO's of three different medical corporations whose stocks are held in client portfolios and the vice chairman of another delivered formal presentations which, along with some informal discussions, provided me with deeper insight into their business model and strategies.

Common themes of their presentations were:

- The rapid escalation of technology in medical care including, but not limited to, physical, chemical, electronic and computer systems;
- The increasing focus on wellness, illness-prevention, and early detection as ways to significantly control or reduce future health care costs;
- The need for a totally integrated, seamless personal medical information system as a way for the national medical community to increase productivity, while reducing treatment errors and redundancy;
- The increasing personalization of medical treatment as diagnostic technology identifies the patient-specific efficiency of specific disease treatments.

Robotic surgery

At 7:30 a.m. on two consecutive days, I viewed live, closed-circuit TV feeds from one of the

Clinic's operating rooms. The first morning I witnessed the replacement of a heart valve through a small incision between the ribs. The surgeon was seated at a console in the corner of the operating room utilizing a robotic surgical system to perform this incredibly delicate surgery. On the second day, what I witnessed was breathtaking! It was an experimental procedure whereby surgeons replaced a heart valve with an artificial valve using catheters pushed through the patient's veins.

Enormous potential

The Summit served as a dramatic reminder that medical technology is exploding exponentially and has enormous potential to impact healthcare delivery and to control costs.

More importantly, though, the Summit provided Midwest Investment Management with information that influences investment decisions for our clients today and in the future.



This type of non-traditional investment research is typical of our efforts to identify investment opportunities across numerous sectors of the American economy. If you're not a Midwest Investment Management client, let Norm put his experience to work for you. Contact him today at (216) 830-1135 or nfk@mimllc.com

After Market Turbulence... (continued from page 1)

employment growth. Consumer spending, which had been holding up reasonably well despite falling home prices and higher energy costs, began to face a weakened employment picture. Thus, one of America's main economic supports was facing likely retrenchment.

Risk re-priced

Capital spending has also been a supporting factor in the continued growth of the economy. While non-financial profits, corporate balance sheets, and cash flow remain strong, signs that inventories are building, tighter credit conditions, and the re-pricing of risk all suggest that capital spending plans may be moderated.

Meanwhile, a third prop to economic growth, U.S. exports, remained strong, reflecting the substantial decline in the dollar—a trend that could offset weakness in other areas. Countries exporting to the U.S. have not been able to raise their prices to offset the falling dollar. Thus, inflation measures remained tame.

Rate disparity

Access to credit was also a substantial concern. The Federal Funds rate at 4½%, announced on Oct. 31, was a full 1½% higher than the yield on U.S. Treasury Bills—a disparity that made banks unwilling to lend. Thus, faced with weakening growth, tame inflation, and a stringently high Fed Funds rate, the decision to lower the rate to 4¼% on December 11, was a necessary move.

Despite the volatile news and sentiment changes, we believe the underlying fundamentals and valuations of large, globally exposed U.S. equities remain very favorable. The prospect for easier credit terms, solutions to the mortgage collapse, an infusion of foreign investment, and lower oil prices bode well for long term equity investment.

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.

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