

Money Manager Newsletter

December 31, 2007

Investment Consulting Group, Inc.

“Three Qualities Which Seem To Be Highly Valuable To Success:

1.) Do A Job That Is Worthwhile; 2.) A Consuming Desire To Be Great; 3.) Master The Little Skills”

Branch Rickey

The Biggest Fear of Any Business

Point and Counterpoint: Big Oil The Leuthold Group

Point:

Steve Leuthold wrote an article in November regarding Big Oil titled: “Big Oil Continues To Play In A Long Term Loser’s Game.” In December a large institutional oil reader responded, “I used to work in corporate research and was the lead scientist in problem solving that required high end calculations and modeling across many of the automotive, aerospace, and government research projects, so I came across many oil engineers. Oil companies employ geologists and petroleum engineers. For oil companies to spend time building staff and infrastructure to pursue alternative energies in areas of which they have no current expertise would be a big endeavor.

Why don’t you criticize the semi-conductor industry??? Oil companies are just glorified miners, they aren’t and never have been technology leaders, investors or innovators, so they should stick to their knitting, just like software companies.”

Market Commentary: Wally Weitz, The Weitz Funds

While few financial company stocks have escaped unscathed, we believe that the market has over-reacted to the potential credit exposure of many good companies. Many stocks’ prices already appear to discount a recession that may or may not occur.

We have seen markets like this before—e.g. 1974, 1982, 1987, 1990, 1994, 1998, and 2002—when it was hard to imagine how stocks could ever go up again. In various combinations, Iraq and other geopolitical uncertainties, oil and other commodity prices, speculative excesses in securities markets, and credit problems periodically shake the economy and scare investors. We have no idea when the panic will subside, but stocks have a way of bottoming long before all the uncertainties are removed. In the meantime, our companies are making lots of money and investing it wisely.

Counterpoint:

“We vehemently would disagree with your assessment that the oil companies should “stick to their knitting”. Leuthold who has seen industries decimated because management would not and could not adapt to change. In 1917 Central Leather (the ultimate buggy whip company?) was the 24th richest corporation in the U.S., but they fell from grace along with all the wagon and buggy manufacturers that refused to get into the automobile business.

Using asset data dating back to 1917, we were able to identify the 100 largest companies. Today, only 13 of those original qualifiers remain ranked among the top 100. In 1917, GE was the 10th largest U.S. company, and has essentially remained at the top.

We believe that the reason for the continued success of GE has been its ability to adapt and change its business model, its management did not stick to its knitting. Oil companies may not have the clear innovative and flexible thinkers that GE has had over the years, but that does not preclude the big oil companies from going out and finding those innovators that are already in place.

Is this not the fear of all Business?

HISTORICAL VALUATIONS

The Leuthold Group

	Growth Median P/E	Value Median P/E	Historical Growth Avg.	Historical Value Avg.
Royal Blues	19.6x	10.8x	24.5x	10.1x
Large Cap	23.8x	14.1x	25.3x	11.5x
Mid Cap	29.1x	13.8x	27.0x	10.9x
Sm Cap	35.4x	13.1x	31.9x	10.6x