

QUARTERLY REPORT

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AUTUMN

Over the past year, we've written about "subprime debt" and related risks and have managed client assets to avoid potential damage. We remain vigilant with customized portfolios composed of high-grade bonds and a diversified selection of "blue chip" stocks.

In managing assets, we believe in taking a long term. The consulting we provide begins by listening to your personal story and then producing an objective solution tailored to your needs. Our motives are client-driven as we have never accepted outside compensation.

Wimmer Associates is dedicated to preserve and grow your financial assets and we are most grateful for your confidence.

In this Quarterly Report, we review the recent and stabilizing efforts of the Federal Reserve and offer our positive, but moderating, outlook for the economy. Dave Niebuhr writes with his critical eye and interesting insight about the radical changes that will affect us all in his article, "Your Television May Soon be Obsolete".

Cordially,

Kathy Wimmer CFA, CIC
President

KEY FACTS FOR 2007

- *Annual gift exclusion*
\$12,000
- *Estate tax exemption*
\$2.0 million in 2006-2008
- *Highest marginal estate tax rate*
45% in 2007
- *IRA contribution limits*
\$4,000, plus another
\$1,000 for those over fifty
- *401(k) contribution limits*
\$15,500, plus another
\$5,000 for those over fifty
- *SEP IRA contribution limits*
25% of compensation or
maximum of \$45,000
- *Top Federal tax rate is 35%*
on income over \$349,700.
*Highest combined effective
tax rate for California
residents is 41%*

THIRD QUARTER 2007 AND OUTLOOK

The third quarter of the calendar year provided generous returns to stock and bond investors alike. Our prior outlook for slowing but continuing economic growth, along with high energy and raw material prices, was borne out as inflationary pressures kept the Federal Reserve on the sidelines until the end of the quarter. Then instability in the credit markets overtook conservative economic principles and led the Fed to boldly and generously cut rates in mid-August. Traditionally, the Federal Reserve provides price stability by raising or lowering interest rates when economic conditions mandate. Former Fed Chairman, William McChesney Martin, once famously said that the Fed's job is to "take away the punchbowl before the party gets really going." When the music stopped

playing in August as credit markets seized up due to the subprime debt crisis, Fed Chairman Bernanke decided to "spike" the punchbowl by dropping interest rates and injecting liquidity into the credit markets for the first time in four years. Just as investors had begun to leave the extended party of uninterrupted economic growth, Mr. Bernanke poured a welcome tonic for Wall Street.

The quarter began in an atmosphere of receding confidence as institutional lenders became risk-averse creating a "credit crunch" in debt markets. Almost overnight, lenders became reluctant to extend credit to even the most creditworthy of corporate borrowers. After years of careless lending practices bolstered by excess liquidity,

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bankers became leery of the true value of their loan collateral, especially mortgage-related securities. Moreover, a number of highly-leveraged “hedge funds” were forced to unload their stock holdings at steep discounts in order to make good on “margin calls” from their brokers. Not only did Countrywide Financial require a \$2 billion bailout from Bank of America, but Bear Stearns, America’s fourth largest investment bank, found itself obligated to fork over \$3.2 billion to one of its managed hedge funds as banks refused to accept Bear’s mortgage-backed securities as collateral. As the subprime debt contagion spread to otherwise healthy commercial paper markets (short-term corporate borrowings), the Federal Reserve took extraordinary steps to get lending back on track so as to facilitate the normal flow of trade in markets. The restoration of confidence in jittery markets was no mean feat as the Federal Reserve was further hamstrung with concerns that any easing of monetary policy might be construed as a bailout for Wall Street.

After the credit markets seized up and the S&P 500 index dropped as much as 9% from the start of the quarter, the Federal Reserve took the unusual step of lowering the rate of the Central Bank’s *Discount Rate* by .50% on August 17th. The *Discount Window* rate is used by the Federal Reserve to lend directly to banks as a “lender of last resort” and is not the Fed’s primary tool. Instead the *Discount Rate* is a penalty rate, usually 50 basis points higher than the *Federal Funds Rate* (the Fed’s primary tool) and is seldom, if ever, used. When the rate cut was announced, Chairman Bernanke clarified that contrary to tradition, the Federal Reserve would now construe borrowings at the discount window to be a sign of “strength and not weakness.”

Equities immediately responded as the Dow rose over 300 points and the S&P 500 climbed by 2.5%. Following its deft policy moves in August, the Fed also lowered the *Federal Funds Rate* target by .50% on September 18th, referencing a “crisis” in credit markets that overtook concerns of inflation. We applaud the Federal Reserve for its leadership role in restoring confidence to a frozen lending market by providing much-needed liquidity to overcome a crisis of confidence in market psychology. The Fed has rightfully opted to maintain the free flow of credit over protests that looser monetary policy will result in the dollar’s depreciation, increased inflation and the “bailing out” of Wall Street from its own mistakes.

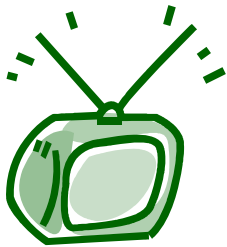
As the U.S. economy enters its forty-ninth consecutive month of positive growth, we counsel our clients that we will see a moderation in the economy’s performance as consumers continue to feel the weight of the housing recession and increased energy costs arising from all-time high oil prices and a weak U.S. dollar (gold, oil and many other raw materials are priced in U.S. dollars). We have already seen new highs in the Dow Jones Industrials and the S&P 500 index. As the U.S. economy slows, our emphasis on large multinational companies with strong exports will continue to benefit from the worldwide trend of robust economic growth, especially in Asia. By favoring energy and mining stocks and avoiding the housing market, as well as most transportation stocks, our clients are well-situated to preserve their gains and enjoy moderate returns going forward. Our fixed-income clients will continue to avoid exposure to subprime debt through investment in high-quality individual bonds instead of bond mutual funds where subprime debt exposure is seemingly rampant.

October 19, 2007 marked the twentieth anniversary of “Black Monday” when the Dow fell 22.9% in a frightening day of trading. Today when periodic crises envelope financial markets, the supportive aid of the United States’ central bank is ready to supply needed liquidity to maintain order.

Interestingly, the Dow has advanced five fold since that date twenty years ago.

YOUR TELEVISION MAY SOON BE OBSOLETE BY DAVE NIEBUHR, CFA

If your television set or video recorder is over five years old, it will likely become obsolete on February 18, 2009. That's the date Congress has mandated for the first major change in TV broadcasting since the introduction of color in 1954. Broadcasters will have to change from analog to digital transmissions which will likely affect the quality and, perhaps, the number of stations available. In addition, a shift in the radio frequencies used to transmit the signal will free the current broadcast spectrum for a variety of uses, including police and fire emergency calls as well as new wireless and computer services.



The first modern TV was introduced in 1936. In 1941, the National Television System Committee (NTSC) developed standards (still in use today) that called for 525 horizontal picture lines and an aspect ratio (the ratio of picture width to height) of 4:3. The FCC was also charged with allocating transmission frequencies to various services such as submarine communication, cellular telephone service, AM and FM radio, and TV.

WW II interrupted the spread of television but, after the war, TV became the Internet of its era as the number of households with television sets increased from less than one percent of the population in 1946 to 56% in 1956. The first clamor for change began almost the instant the NTSC standard was set, with many parties advocating changes that would 'improve' the experience for the viewer. However, entrenched interests and in-fighting made improvement almost impossible with the only major changes being the opening of the UHF band (channels 14

and higher) in the early 1950s and the introduction of color in 1954. However, technological changes that eventually made it possible to deliver a better picture at little increase in cost led to a meeting of the minds. As such, a compromise resolution was finally passed by Congress that mandated the shift from analog to digital.

Digital signals are better than analog for several reasons, including the ability to encode non-picture information such as closed captioning in the signal and compress signals with little or no loss of quality. This enables broadcasters to send out not only a 'high-definition' (HD) picture (generally defined as 720p or 720 lines of horizontal picture resolution although 1080 lines is also possible) but also to send multiple signals over a single frequency band-- i.e., two or three 'sub-channels'. Note that the conversion to digital does not require the broadcaster to send out a 'high-definition' signal. Broadcasters can continue to send out 'standard definition' signals (SD - or 480 lines of resolution) but can now transit several channels over their allocated frequency band.

Unfortunately, the electronic circuitry that's used for encoding, sending, receiving and decoding the analog signal does not work with digital signals. This means new equipment will be needed at both the transmission and receiving ends. The transition is a significant and costly change for broadcasters. Many of them have already purchased new equipment and are broadcasting digital signals over their new digital spectrum. This is why you may see 'new' channels. In my area, I get 68 over-the-air channels using my old roof antenna. However, 39 of these are analog (typically the ones without the hyphen) and will disappear or be replaced by new digital channels on February 18, 2009, unless Congress changes the transition date.

For more information about this transition and its impact visit www.dtv.gov. This is an official government site that should answer most of your questions. In addition, www.dtvconversion.org, a website put together by a broad coalition of organizations (such as the AARP, Cisco, Goodwill, Target and Wal-Mart), provides more information.

WIMMER ASSOCIATES

Investment Counsel

350 West Colorado Blvd, Suite 200
Pasadena, California 91105
626-683-3150

We're on the web
www.wimmerassociates.com

We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

YOUR TELEVISION MAY SOON BE OBSOLETE BY DAVE NIEBUHR

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The transition regulations require that television sets manufactured after March 2007 be able to receive and decode digital signals (i.e., have ATSC or digital tuners.) Cable companies will continue to send out an analog signal after the switch-over date, but it will be the result of their converting the new broadcast digital signal to analog and quality may suffer. Existing over-the-air antennas should receive the new signals just fine.

To encourage the owners of analog TVs to enter the digital age, Congress has implemented a plan to subsidize the process of enabling the older analog sets to receive digital signals. This plan calls for the

issuance of up to two discount coupons per household worth \$40 each toward the purchase of a device that will convert a digital signal to an analog one so that it will not be necessary to purchase a new set. Single-chip solutions to provide the digital-to-analog conversion for home TV sets have already been announced by firms such as Broadcom and the devices themselves should be available in early 2008. As the estimated retail price of the converter boxes is around \$ 60, the net cost of \$ 20 (less than half the price of a typical video game) should not be onerous for most households.



To summarize, digital television is the culmination of efforts begun several decades ago to improve the quality of U.S. television. The path to implementation in February 2009 has been an arduous one with many vested interests delaying progress. However, the result, thanks to the seemingly inevitable improvement of electronic technology, should be more than satisfactory -- not only a better picture for millions of Americans but the freeing of the existing broadcast spectrum for more beneficial uses.

Disclosure: "Be careful about reading health books, you may die of a misprint." Mark Twain Keep that in mind as you read these articles. We obtain data from sources we believe are reliable but they should not be relied upon for making life-changing decisions.