Great Companies, Inc.
Quarterly Review 2nd Quarter 2008

Turn Fear Into Greed

The second quarter of 2008 ended with consumer sentiment at an all-time low. Investors continue to be gripped with fear as the media relentlessly bombards them with doom and gloom. Yet amongst all this panic the businesses we own continue to prosper. While the S&P 500 was down -2.73% in what appears to be a lousy U.S. economy, our businesses on average have remained operationally strong and healthy. Therefore, we take great comfort in owning what we believe to be the financially strongest companies available. Although it's always smart to invest in the best, it's even more important during times like these. It's profitable to realize that the long-term growth rates of the businesses we own have been several times greater than the growth of the general economy. Though there is no guarantee that these companies will continue to grow at their historical rates, we believe that they will continue to have growth rates that support the prices we are paying. The point is that it's not the economy that makes our companies great, instead it's the greatness of the individual companies themselves. The current stock market weakness is presenting a tremendous opportunity to invest in great companies at fire-sale prices. Buying low is the first and most important rule of investing.

As serendipity would have it, I received an email from bestselling author James Arthur Ray promoting his new book Harmonic Wealth just before the quarter ended that suggested ways to deal with the doom and gloom we are currently being bombarded with.

Here is an excerpt that I felt worth sharing: "First, shift your focus of attention. Get your mind and continued thoughts off the economy and all the problems being pumped into your home by the mass media. As difficult as this may be, those who are truly wealthy, financially and otherwise, choose where they place their attention and stand guard like a watchdog at the gates of their mind. Peter Lynch once stated, 'I don't spend 15 minutes a year thinking about the economy.' Lynch's results speak for themselves. Stop. Just stop for a moment and think rationally…There is no way in hell that any company's true worth can fluctuate as dramatically on any given day as the New York Stock Exchange would indicate. It's nothing but an opinion….and other people's opinions are only predictions if you allow them to be." Mr. Ray's words are wise and we would all benefit financially to heed them.

Fundfire, an institutional investor intelligence provider, recently polled professional money managers with the following question: Which legendary money manager do you pay most attention to? Fifty-three percent (53%) chose Warren Buffett. Therefore, we thought you might be interested in knowing Warren Buffett's opinion of one of your weakest holdings regarding its stock price, yet a great bargain based on its profits. On June 28, 2008, Guru Focus reported: "Warren Buffett's holdings in United Health Group Incorporated have gone from 1,021,400 shares at the end of 2006 to 6,400,000 shares in 2008." Clearly, Warren Buffett, the most admired and revered money manager of them all sees the great opportunity the current stock market is providing…. not the losses. The shrewd one is buying while the frightened are selling. That's how you become one of the richest men in the world.

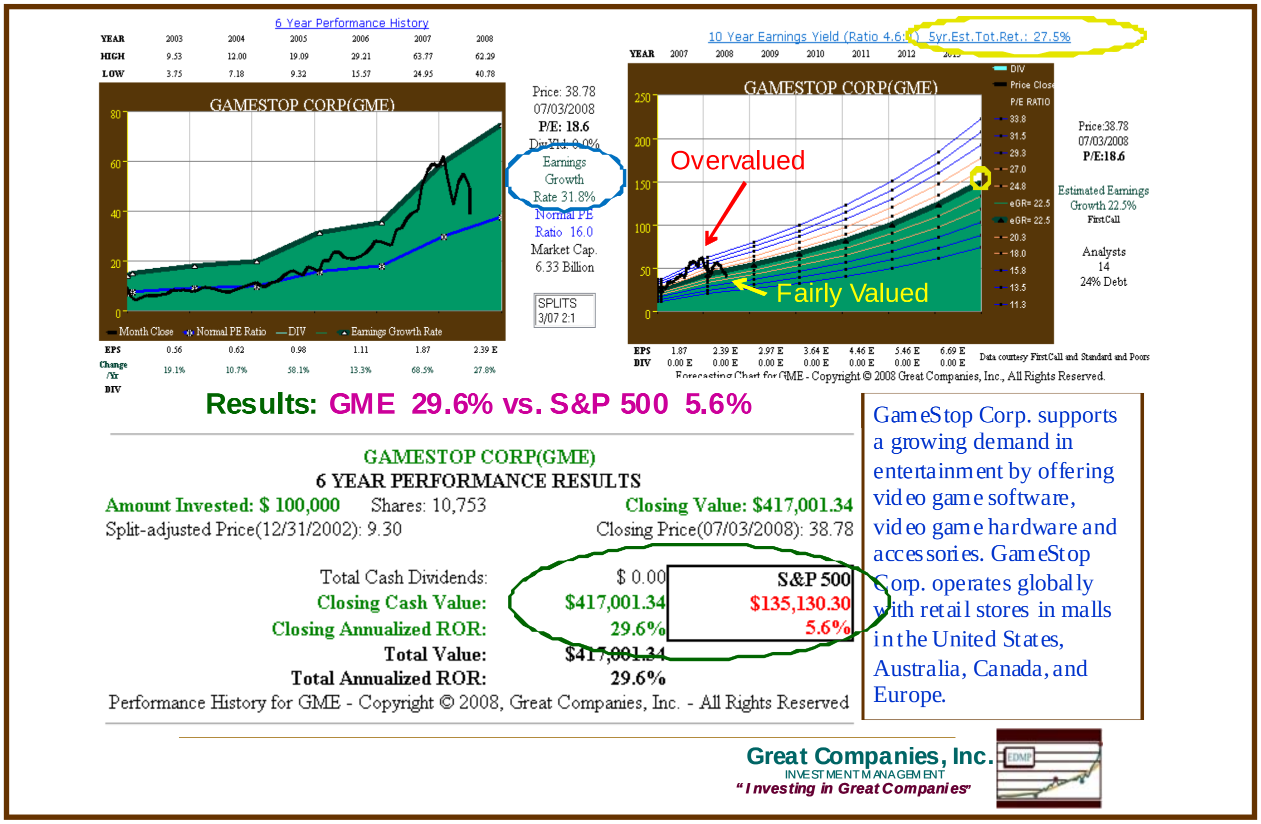
As we have been stressing in the last several newsletters, we are seeing outstanding opportunity from the current market weakness, where others see risk. Therefore, we will allocate the remainder of this quarter's letter to introducing some of our recent investments that this weakness has provided us. We are quite excited to have the opportunity to invest in these great additions as we are excited regarding the remainder of the portfolio companies we already own. Hopefully, the following Great Companies Fundamental Analyzer™ software graphs and commentary on these terrific new holdings will help us help you turn any **fear** you may have **into greed**.

Our first example, Cisco became a compelling buy after falling from an overvalued high of 34 (see chart below) to becoming fairly valued in the mid 20s. As can be seen from the 19-year performance history below (green circle), Cisco has generated a return, for its shareholders, that approximates its earnings growth rate which is many times greater than the stock market (S&P 500).

The following by Cisco as reported in ITNEWS on June 18, 2008 summarizes the growth potential of Cisco far more succinctly than we could ourselves. Importantly, high oil prices actually make this opportunity more compelling as businesses and consumers will rely on webcasts more than travel if the energy crisis persists.

IP traffic to 'double' every two years

Our second and newest addition to your portfolios is GameStop, the leading retailer of new and used video games. GameStop fell from an overvalued high of almost $64 per share in January (see chart below) to becoming fairly valued in the mid $40 per share range. For the past few years shareholders of GameStop earned over 29% per year during the same period that the stock market (S&P 500) only averaged 5.6% (green circle). Clearly, neither the stock market nor the economy had much to do with GameStop's growth. Higher oil prices could actually improve their business as parents will buy video games before a trip to Disney World.



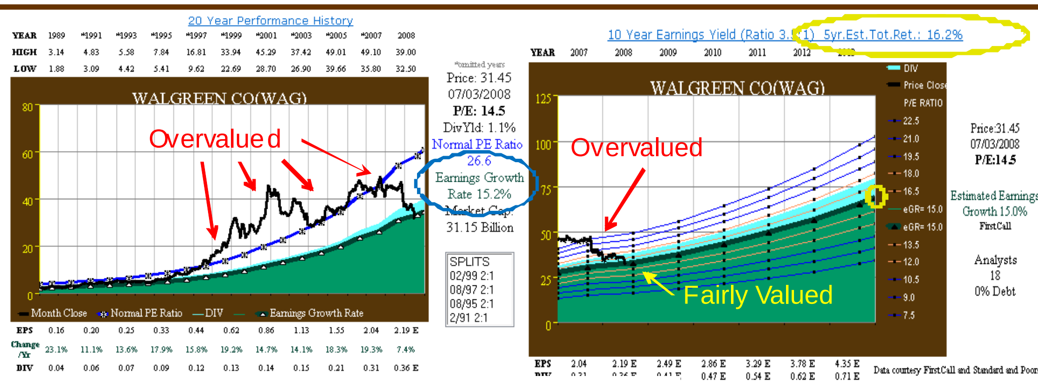
The following opinion and report by the Motley Fool summarizes the opportunity we see for this Great Company.

Motley Fool: GameStop Worth a Look

Video game retailer GameStop (NYSE: GME) recently reported a very good quarter, with earnings up 151 percent year over year and revenue rising 42 percent to $1.81 billion. CEO R. Richard Fontaine said that he is "very Bullish on the future as three major metrics are transforming the business and accelerating the potential for GameStop growth." The first metric, the installed base of current-generation game consoles, such as the PlayStation 3, Xbox 360 and Wii, grew by 31 million units last year, expanding GameStop's addressable market by about 34 percent. Second, gamers are not just the stereotypical young males anymore: Fontaine says that 38 percent of gamers are female. Many might have been drawn in by rhythm-based games such as Guitar Hero. Wherever new gamers are coming from, the market is growing. Third, the upcoming slate of games includes sequels to three of the industry's best-selling franchises. It also doesn't hurt that Grand Theft Auto 4 was released five days before the end of the quarter.

The video game market is exploding. Games are edging into new demographics as game publishers get creative with the capabilities of the latest hardware platforms. GameStop is building out its store network to take advantage of these trends. The company is worth a closer look.

Our final example of a new opportunity created by the big bad bear market is Walgreen. This leading drugstore represents a classic and high quality opportunity to participate in the aging of America, a major trend. As the chart below clearly shows, Walgreen had been dangerously overvalued for the past ten years. Even though the company grew earnings at over 15% per year since 1999 shareholders would have only earned 1.6% compounded due to overvaluation. Therefore, this is the first time in over a decade that we could rationally invest in this great company. Also generic drugs are the most profitable part of their business and weak economies don't stop people from taking necessary medications.



Results: WAG 15.6% vs. S&P 500 8.1%

WALGREEN CO(WAG)

20 YEAR PERFORMANCE RESULTS

Amount Invested: $ 100,000 Shares: 52,910 Closing Value: $1,664,019.50

Split-adjusted Price(01/31/1989): 1.89 Closing Price(07/03/2008): 31.45

	WAG	S&P 500
Total Cash Dividends:	$148,148.00	
Closing Cash Value:	$1,664,019.50	$454,644.00
Closing Annualized ROR:	15.6%	8.1%
Total Value:	$1,812,167.50	
Total Annualized ROR:	16.1%	

Walgreen Co., founded in 1901, operates both a chain of over 6000 drugstores in the United States and Puerto Rico, and three mail order facilities. About two thirds of sales comes from prescription drugs.

Great Companies, Inc.
INVESTMENT MANAGEMENT
"Investing in Great Companies"

In closing, we once again want to iterate how compelling we believe your portfolios currently are. In 2006 and 2007 the stock market and many of the names we now own were dangerously overpriced. This bad market has changed that dramatically. Consequently, we have gone from playing defense (protecting) to playing offense – preparing to make you money. It is important to not allow the current doldrums to erroneously cause you to project this bad market too far into the future. As terrifying as bear markets are, in truth, they are part of the cycle. All bear markets end as bull markets, and this one will be no different. As Wayne Gretzky, the famous ex-hockey player so aptly put it: The secret to my success is that: "I skate to where the puck is going to be, not where it's at or has been." At Great Companies, Inc. we are skating like crazy with a big smile on our face and dollar signs in our eyes because …. in the long run earnings determine market price. Always have, always will.

Sincerely,

Charles C. Carnevale
Chief Investment Officer