Great Companies, Inc.
Quarterly Review 3rd Quarter 2008

Neither Pollyanna nor Armageddon

The sky is not falling, nor is everything peaches and cream. Extreme investment strategies, like liquidating a great portfolio at the bottom, do not play out well. Intelligent and rational approaches do. Although the media makes this difficult, it's vitally important today that we deal with probabilities, not possibilities, and focus on the solutions rather than dwell on the problems. True, we are facing serious financial problems; however, we are not going down the drain. The free market economic system that we are all blessed to live and work under is built to effectively and efficiently deal with situations like we find ourselves in today. More importantly, our economic system has a long history and extensive experience in positively dealing with and ultimately fixing these kinds of serious events.

The most comparable event we can revisit is the S&L disaster of 1989 that created the Resolution Trust Corp. which bailed out our country's savings and loans. Essentially, the U.S. Government bought the troubled savings and loans, placing them into a holding company. With this action, it took approximately two years for the economy and housing to bottom out and begin improving. **However, it only took the stock market a year to begin recovering and led to one of the most profitable decades in stock market history.** For the following period 1990 to 1999 the stock market as measured by the S&P 500 generated an unusually high annualized rate of return of plus 16.3%. In contrast, since 1999 the S&P 500 has generated an annual loss of minus 3.2%

Great companies, that we own, performed significantly better as is illustrated by the following table:

Returns for Period 1990-1999

Aflac	27.50% /yr	Manitowoc	17.60% /yr
Charles Schwab	58.30% /yr	Nike	22.70% /yr
Cisco	93.70% /yr	Oracle	35.40% /yr
Cardinal Health	26.60% /yr	Staples	37.00% /yr
Danaher	29.90% /yr	Stryker	27.90% /yr
Fiserv	30.50% /yr	Teva	23.40% /yr
Genentech	28.90% /yr	UnitedHealth Group	33.10% /yr
Illinois Tool Works	20.80% /yr	Walgreen	24.90% /yr

The 16 Great Company examples above represent great companies that you own today that were in business during 1990 to 1999. There are several important principles that this highlights. We feel the most important principle is to focus on the individual investments themselves, the actual businesses that you own, rather than the general market. As we have been reporting through the earnings report cards we have been sending you, our quality businesses are actually performing extremely well on a fundamental basis. Therefore, the current prices our great businesses are now fetching are mispricing our businesses' real and true value. This is completely illogical and thus there is no reasonable explanation. It's, however, inevitable that this will soon correct itself.

On average, your portfolio companies have grown their respective enterprises by over 20%, yet the stock market is pricing them as if their businesses have shrunk by that amount. We can literally inundate you with undeniable and conclusive evidence that businesses operating results are significantly more important than price volatility over the long run. To be perfectly clear, we are emphatically and steadfastly stating what is in truth a fact; that your investment portfolios have actually grown substantially in value in 2008 and have not gotten less valuable.

The financial markets, however, are gripped with fear and panic resulting in a short-term run on stock values. Professional and experienced money managers are therefore being forced to sell stocks because panicked clients are running for the hills. Even though these professionals know better, they have no choice and are forced to sell. When there are more sellers than buyers, prices fall. This is only a temporary phenomenon and one does not have to participate. In fact, to participate is to suffer losses that neither should be nor need to be taken. In other words, you shouldn't sell perfectly healthy and valuable businesses at less than they are worth just because everyone else is. As previously pointed out, these serious events have always led to great future opportunities.

Think for a moment about all the serious crises our great economy has endured: Viet Nam, Watergate, Oil Embargos, the Crash of 1987, the aforementioned S&L crisis, Kuwait, the collapse of the hedge fund Long Term Capital, 9/11, the war in Iraq, and the list goes on. Now think for a moment how we made it through and how from it all we grew. So you know that we are not alone in this view, we thought you might find it interesting to hear the legendary investor Warren Buffett's view on these matters. The following is an excerpt from an interview he did for CNBC on August 22, 2008:

"*But we've had a number of recessions in this country. In fact, we had a Great Depression, and we've had world wars. And throughout, the genius of the American economy - our emphasis on a meritocracy, a market system, and a rule of law – has enabled generation after generation to live better than their parents did. I mean, most of the people is this room… live better than John D. Rockefeller lived. And all kinds of things have happened. But in the 20th century alone, the standard of living of the average American went up seven for one. There's never been a period like that in our history. And that's not an accident. It's because we unleash human potential - and we'll continue to do that in the future.*"

And based on his faith and intelligent approach, **Warren is buying this market not selling it.** He has been sitting on billions of dollars of cash that he is now investing in stocks. The rest of the above interview explains his logic:

"There are certainly things that are a lot cheaper than they were a few years ago, and the businesses are better. Now, that doesn't mean they're doing better today, but they are fundamentally worth more than they were a couple of years ago. People are just looking at the glass being half empty rather than half full…. I'm reading far more 10-Ks the last few months than I was reading three years ago. There are more potentially good ideas out there than there were three years ago – and some of them are in financials. I'm looking all the time. And the cheaper they get, the harder I'll look."

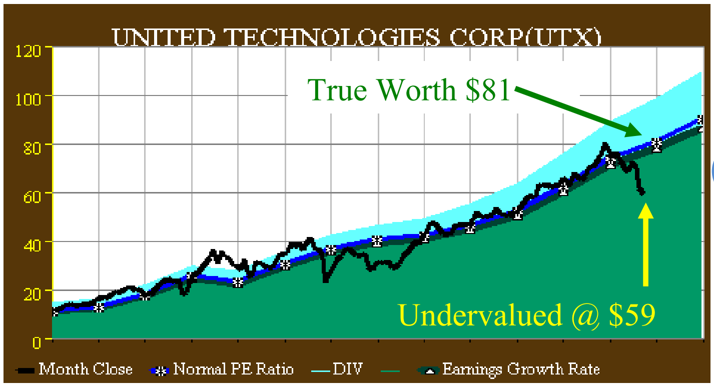
Warren Buffett

is buying this market

not selling it!

We cannot stress strongly enough how confident we are regarding the companies you own. These Great Companies are growing their businesses at extraordinary rates. They are among the strongest companies in their respective industries and are selling at what we feel are insanely low prices. When, not if, but when the market turns as it surely will, your portfolio is poised to outperform. On the next page we are featuring United Technologies in order to clearly illustrate the great opportunity before us.

YEAR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
HIGH	17.61	22.23	28.13	37.98	39.88	43.75	38.88	48.38	53.14	58.89	67.47	82.50	77.14	0.00
LOW	11.31	16.28	16.75	25.81	23.25	20.05	24.41	26.75	40.34	48.42	54.20	61.85	60.51	0.00



EPS	0.81	1.11	1.58	1.44	1.89	2.27	2.49	2.59	2.83	3.20	3.83	4.53	4.95 E E	5.50 E
Change /Yr	14.1%	37.0%	42.3%	-8.9%	31.3%	20.1%	9.7%	4.0%	9.3%	13.1%	19.7%	18.3%	9.3%	11.1%
DIV	0.28	0.31	0.35	0.38	0.41	0.45	0.49	0.57	0.70	0.88	1.01	1.17	1.33 E	1.52 E

Price: 59.12
10/01/2008
P/E: 12.2
DivYld: 2.2%
Normal PE Ratio 16.4
Earnings Growth Rate 15.7%
Market Cap. 57.01 Billion

SPLITS
06/05 2:1
05/99 2:1
12/96 2:1

The historical chart to the left for United Technologies clearly illustrates the importance of earnings. The stock price (black line) clearly tracks earnings (green line). When above the earnings, the price will always move back to the earnings line. And when the price is below the line as it is now, it again will always move back. The green arrow points to the True Worth™ or value for UTX of approximately $81. The yellow arrow points to its current undervalued price of $59. This is more than 25% below its True Worth™ indicating a great time to be buying. Clearly, when you buy below the earnings line you can expect a higher return at lower risk.

UNITED TECHNOLOGIES CORP(UTX)
14 YEAR PERFORMANCE RESULTS

Amount Invested: $ 100,000 Shares: 8,532 **Closing Value: $504,411.84**
Split-adjusted Price(01/31/1996): 11.72 Closing Price(10/01/2008): 59.12

Dividend Cash Flow

YEAR	Dividend/Share	Cash Dividend	% Return
1996	0.28	$2,388.96	2.4%
1997	0.31	$2,644.92	2.6%
1998	0.35	$2,986.20	3.0%
1999	0.38	$3,242.16	3.2%
2000	0.41	$3,498.12	3.5%
2001	0.45	$3,839.40	3.8%
2002	0.49	$4,180.68	4.2%
2003	0.57	$4,863.24	4.9%
2004	0.70	$5,972.40	6.0%
2005	0.88	$7,508.16	7.5%
2006	1.01	$8,617.32	8.6%
2007	1.17	$9,982.44	10.0%
2008	1.33 E	$11,347.56	11.3%
2009	1.52 E	$12,968.64	13.0%

		S&P 500
Total Cash Dividends:	$ 84,040.20	
Closing Cash Value:	**$504,411.84**	**$182,286.42**
Closing Annualized ROR:	**13.6%**	**4.9%**
Total Value:	**$588,452.04**	
Total Annualized ROR:	**15.0%**	

The performance results on the left for United Technologies tell several stories. First, the return of 13.6% (green circle) is almost three times the S&P 500 return of 4.9%. Second, the 13.6% return correlates closely to the 15.7% earnings growth (blue circle) adjusted for its current low valuation. This is just one of many examples of your portfolio holdings that the stock market is currently mispricing. We offer this as compelling evidence that your portfolio is worth more than the market is currently valuing it. This represents a tremendous long-term opportunity in our view.

STOCK PRICES OFTEN LIE.

We would like to conclude this quarter's report with a few comments on our investing philosophy and more importantly how it relates to our commitment to you, our valued clients. First of all, we believe our investing philosophy is sound, prudent and based upon timeless principles of business, economics and accounting. Therefore, we never waiver from executing our philosophy on your behalf, regardless of how the stock market and its mavens may be behaving.

One of the most important investment books ever written is The Intelligent Investor, authored by Ben Graham, who mentored many of the greatest investors of all time, including Warren Buffett. There are three very important lessons regarding investing in stocks in this great work that are most appropriate and important as they apply to today's investing climate. First you should think of your stock as part of a business. This business perspective is one of the most neglected principles of investing. Skipping to the third, Mr. Graham promoted the idea of margin of safety. We believe that having strong earnings and other important fundamentals underpinning your holdings is the best way to accomplish this principle. Your portfolio companies possess these fundamentals in spades.

The lesson we saved for last most appropriately applies to scenarios like we find ourselves in today. Unfortunately, this is a most difficult principle for investors to adhere to, yet it is perhaps the most vital and important of all. IT IS CRITICAL THAT YOU USE THE MARKET TO SERVE YOU, AND NEVER TO INSTRUCT YOU.

In 1998 and 1999 the stock market was insanely overvaluing stocks and it was wrong. Recognizing the dangers and pitfalls of overvaluation, we protected our client's money, often to their dismay as prices temporarily continued to rise before finally and inevitably collapsing. The market was dead wrong in how it was pricing stocks, and the principles of True Worth™ Valuation clearly showed it. Most refused to listen, however, we did, and therefore avoided the ravages of the bear market that followed. Today is the mirror image where our stocks are being grossly mispriced by the market, only this time below value. The timeless principles will once again prevail as sure as the sun must rise and set.

…. in the long run earnings determine market price. Always have, always will.

Sincerely,

Charles C. Carnevale
Chief Investment Officer

The opinions in this newsletter are for informational purposes only and should not be construed as a recommendation to buy or sell the stocks mentioned or to solicit transactions or clients. Past performance of the companies discussed may not continue and the companies may not achieve the earnings growth as predicted. The information in this newsletter is believed to be accurate, but under no circumstances should a person act upon the information contained within. We do not recommend that anyone act upon any investment information without first consulting an investment advisor as to the suitability of such investments for his specific situation.