Great Companies, Inc.
Quarterly Review 4th Quarter 2008

"**The Majority Is Always Wrong**"

Thankfully, and perhaps mercifully, 2008 has come to an end. It will surely go down in history as a year of great economic challenge and stock market volatility. However, what may not be readily apparent to many people today is that it will also be a year that brought great opportunity.

There are many old Wall Street adages that possess timeless and profound wisdom that importantly and aptly apply to proper and profitable investing. Two that we believe are very timely at present are:

1. In times of crisis, money moves from weak hands to strong hands.

2. Buy low, sell high.

With all the histrionics, hype and hysteria promulgated by mainstream media today it is understandably difficult, or even impossible for people to follow sage advice. Yet it is vital to your long-term financial health and prosperity that you do. In the context of all the dire prospects regarding the economy and the stock market postulated today it would be wise to consider a quote by the late John Kenneth Galbraith, one of the most renowned economists of modern time. **"In economics the majority is always wrong."**

This quote was fortuitously brought to my attention over the holidays as my research process allowed me to stumble upon a terrific website and economic blog. It is with great enthusiasm that I recommend this website and blog to anyone and everyone that has a vested financial stake in the future. The site is www.goodnewseconomist.com.

I have included an article they published on Thursday, December 11, 2008, that highlights this newsletter's message:

"The Good News Economist – When all you read is gloom, turn here for a much different perspective.

Remembering 1975 – The Majority was Wrong

Does anyone remember the stock market crash of October 1973? Over the next 15 months world stock markets collapsed. In the UK the FT 30 index fell by 70%. The holidays of 1974 into the new year of 1975 were not merry. President Nixon decided not to light the National Christmas tree! All the talking heads agreed: the end was near. Oil was about to be rationed, thermostats were turned down in all federal buildings to 68 degrees, and 55 mph speed limits were imposed to save gas. An energy crisis was upon us. And the Department of Energy got a Cabinet level position in the White House.

But what happened next? In January 1975, the FT index jumped 25% and in the next 12 months was up over 100%. And what are "they" telling us now? "Things are bad right now, but they're going to get a lot worse. Apparently it'll be as bad as the Great Depression." So why does this post offer a "good news' perspective? Because history continues to tell us that when it comes to economics, "the majority is always wrong."

Remember it has been less than 6 months since all the financial experts were predicting rampant inflation, oil over \$200 a barrel, and gold over \$2,000 an ounce. Yet now the same experts tell us deflation is the problem, oil and gold have plummeted. And every news outlet has a new story on economic bad news. The majority was wrong in Jan. 1975 – one of the best buying opportunities ever in the stock market. Now the majority is wrong again.

Sounds like good news for 2009!"

The messages are simple. Your commons sense will tell you that neither the U.S. Economy, nor the world economies are coming to an end. We clearly are in one humdinger of a recession, however, it WILL SURELY END, probably very soon. Stock prices are compellingly inexpensive (low) today, representing an investment opportunity of a lifetime. Most importantly, the companies you own in your Great Companies, Inc. portfolios are captains of their respective industries possessing strong fundamentals and extraordinary long-term growth potential. They are not your average companies. Instead, they rank among the best of the best in the world.

Additionally, the long-term track records of the fine businesses you own are much higher than the average of the growth of the economy. In other words, their business prospects are not solely dependant on the economy. Instead, their success has been, and is, based on factors such as superior business models, competitive advantages, major demographic trends, disruptive technological advances and other powerful dynamics. The video webcasts that we have been producing provide extensive details on these points. If you have not been receiving them, please email Polly at pollyc@greatcompanies.com and she will gladly send you the links.

These short webcasts are offered to provide you a more factual, less emotional perspective of the high quality companies you own. We are confident you will find them most enlightening and reassuring.

At the end of the day, the most important message that we try to convey is that judging performance based on stock price alone is very deceptive. Three deans of investing have commented on this undeniable reality. First, Warren Buffett once said, *"For some reason people take their cues from price action rather than from values."* Second, the venerable Peter Lynch wrote in Worth Magazine, September 1995: *"What makes stocks valuable in the long run isn't the market. It's the profitability of the shares in the companies you own. As corporate profits increase, corporations become more valuable and sooner or later, their shares will sell for a higher price."* (Your portfolio companies for the most part are increasing earnings nicely.) Finally, Marty Whitman of Third Avenue Value Fund said: *"I remain impressed with how much easier it is for us, and everybody else who has a modicum of training to determine what a business is worth, and what the dynamics of the business might be, compared with estimating the prices at which a non-arbitrage security will sell in near-term markets."*

In short, these great investors are telling us that stock prices can be very misleading indicators of a company's true value. On the other hand, their profits and business health are true and real indicators. On the basis of profit growth, your businesses have increased in value in the aggregate by double-digit rates last year. 2008 has actually been a very good year for us. Stock prices do not as yet reflect that fact, but we are confident that they inevitably must.

We are managing your portfolios to these principles. Where there exists extraordinary disconnects (excessive price drops), we are selling less attractive holdings and adding to those with extreme upside. For those of you with strong enough hands to trust us to do this rationally, we believe the future rewards for you are large.

It remains our privilege to serve you. And, as always, remember; Earnings Determine Market Price, always have, always will.

Sincerely,

Charles C. Carnevale
Chief Investment Officer