

August 2007

Companies Recently Added

Emerson Electric Co. (EMR)

Emerson, based in St. Louis, is an Industrial sector conglomerate, with over 60 businesses, including: software and systems, analytical instrumentation, valves, controls systems, motors and drives, transmissions, power systems, precision cooling products used in computers and telecommunications and Internet infrastructure. Emerson, which generates nearly half of its total revenues outside of the U.S, is benefiting from growth opportunities internationally for a wide range of its products, including investment in power infrastructure. We view management as top-quality with a demonstrated commitment to creating shareholder value. Management's goal is to return at least 50 percent of cash flows to shareholders in the form of dividends or share buybacks. With strong profit margins and attractive valuation levels relative to its historic averages, we have taken the opportunity to broadly add shares of this globally diversified leader in the Industrial sector across client accounts.

Northern Trust Corp. (NTRS)

Northern Trust, based in Chicago, is a multi-bank holding company in the Financial sector. It provides trust, investment and banking services to individuals, corporations and institutions. NTRS is one the largest global trust banks and it serves some of the world's wealthiest families. With strong organic growth expected from its large and growing portfolio of assets under management and assets under custody, Northern Trust should benefit from its strong global presence in financial services. Another reason Northern Trust stands out is that in our view the company focuses on asset management and asset servicing first and banking second. NTRS generates over 70 percent of its revenues from its fee-based operations, with the remainder coming from its lending business. Although NTRS trades at a premium valuation in its industry sector, we believe its valuation is justified given its leadership position in the affluent market and with the ultra-wealthy. Globalization and increased complexity in the capital markets should benefit NTRS. As such, we have added shares to portfolios.

Existing Positions Increased

None this month.

Existing Positions Decreased

None this month.

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Positions Eliminated

Wal-Mart Stores Inc. (WMT)

Wal-Mart is the world's largest retailer. Operating over 800 million square feet globally, including discount stores, super centers and Sam's Club stores, WMT has traditionally grown square footage by approximately 8% per year. The company announced a plan in the third quarter to refocus new store expansion on trying to maximize returns on invested capital rather than trying to maintain an 8% square footage growth rate per year. Moreover, growth rates have been declining at Wal-Mart while simultaneously expenses have been rising. Therefore, we believe WMT's margins will be coming under pressure. Operationally, inventory management and the product mix need additional improvement according to management, and same-store sales have suffered as a result. Given these internal developments, along with the headwinds from more challenging macro-economic operating environment, which includes higher energy prices and the housing slowdown, we believe Wal-Mart lacks a meaningful catalyst and as such we have elected to remove the company's shares from accounts.

iShares MSCI Emerging Markets Index (EEM)

EEM seeks to provide investment results that correspond to the price and yield of the MSCI Emerging Markets Index. Major country representation includes South Korea, China, Brazil, Taiwan and Russia. Top sectors weightings in the Index include Financials, Information Technology, Energy, Materials and Telecommunications Services. After adding shares of EEM to client accounts in the spring of 2006 to gain exposure to the economic expansion in many of these countries, a number of recent developments led us to reevaluate the position. First, volatility in the equity markets increased rather dramatically in the third quarter. Secondly, corporate bond yield spreads widened. We believe both of these indicators signaled a declining risk tolerance by investors overall. Moreover, with a U.S. economy that is forecast to slow in the second half of 2007 due to the housing drag and sub-prime related mortgage issues, emerging economies could be exposed to suffer a negative impact as a result. Given the increasing risk signals from the market, forecasts for an economic slowdown and the limited liquidity that this asset can exhibit, especially in downturns, we felt it was prudent to remove shares in EEM from accounts and realize the capital gain in order to protect and preserve capital.

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