

December 2007

### ***Positions Recently Added***

#### **CVS Caremark (CVS)**

The new CVS business model combines one of the nation's largest pharmacy chains (6,200 stores) with a leading pharmaceutical services company (Caremark). The combined entity is the largest provider of prescriptions and related healthcare services in the nation. CVS fills or manages more than 1 billion prescriptions annually. The Company's new business model is expected to modernize the industry as it moves forward with capabilities in retail stores, pharmacy benefit management (PBM), mail order prescriptions and specialty pharmaceutical services. The majority of the Company's revenues are generated from prescriptions. In addition to prescriptions, its retail stores also offer over-the-counter medicine, beauty products, cosmetics, film and photo finishing, greeting cards, convenience foods and seasonal merchandise. The average ticket from the 'front of the store' is low at \$10 - \$12, giving its retail operations less exposure to consumer spending trends. In our analysis, CVS also trades at an attractive valuation discount to its PBM competitors. Moreover, our evaluation revealed that the Company's long-term expected earnings growth and cash flow generation potential are appealing. Given its positive characteristics, we have taken the opportunity to add positions of CVS to client accounts.

### ***Existing Positions Increased***

None this month.

### ***Existing Positions Decreased***

None this month.

### ***Positions Eliminated***

#### **Bank of America (BAC), Marshall and Ilsley (MI) and Wachovia (WB) for Income**

The negative fundamentals related to the credit markets combined with the uncertainties with regard to the future level of economic growth led us to remove shares of these three financial institutions from client accounts. Declining real estate values and the related loan losses, corporate and investment banking declines, rising delinquency rates for credit cards, and charge-offs related to structured fixed income products are all points of weakness to the current and future revenues and earnings for many regional and super regional banks. While the valuation levels and dividends paid by the companies may appear attractive, in our analysis, the current financial market turmoil will, at best, limit future dividend growth rates, and at worst, create situations where dividend payments made need to be reduced for some regional and super regional banks. Moreover, given the deterioration in multiple segments of their business models, we believe that consensus earnings estimates for the stocks in this sector are too high, which may put additional pressure on the shares. With an uncertain period of slower economic growth ahead, more credit quality deterioration and loan losses are possible in the future, which could lead to additional declines in revenues and earnings. In light of these risks, we have removed the shares of these the three firms from client portfolios.

*The information included in this publication was compiled from Reuters, Bloomberg L.P., Baseline, and/or other Independent Investment Research sources. These reports are intended solely for the clients of Godsey & Gibb Associates. This material is for informational purposes only and is not intended to be a recommendation for the purchase or sale of any individual security.*