Christiansen Investments, Inc.

Registered Investment Adviser

Spectrum Investor® 2nd Quarter 2007 Investment Review

Enclosed are your investment returns for the second quarter ending June 30, 2007 along with our privacy notice. The quarter opened with high hopes: the Dow repeatedly hit new highs and on May 30, the S&P 500 finally topped the peak it hit back in March 2000, the peak of the late 90s bull market. The advances were fueled by a merger and acquisition frenzy and global economic strength while the growth of the US economy slowed. For the quarter, the average US diversified stock fund returned 6.4% despite a rocky June partially due to the negative news on the subprime mortgage market (*Wall Street Journal*, 7/3/07). Something to keep an eye on, is that the yield on the 10-year treasury note ended the quarter at 5.03%, up from 4.56% in March, which means it is getting closer to the average yield on stocks (*NY Times*, 7/8/07). With 10-year treasury rates rising over 5.0% and corporate earnings beginning to slow, it may be prudent to begin to gradually reallocate your investment portfolio to a more conservative asset allocation.

Spectrum Investor® Update 6/30/07 Total Return

Category Average	2nd Qtr	1 Year	3 Year
Int.-Term Bond	-0.71%	5.68%	3.66%
Balanced (Mod. Alloc.)	3.91%	14.94%	9.61%
Large Cap Value	6.09%	20.98%	13.65%
Large Cap Blend	6.21%	19.50%	11.70%
Large Cap Growth	6.70%	17.17%	9.27%
Mid Cap Value	5.68%	21.20%	15.31%
Mid Cap Blend	6.44%	20.47%	14.60%
Mid Cap Growth	7.83%	19.00%	13.26%
Small Cap Value	4.40%	16.39%	13.83%
Small Cap Blend	5.51%	17.02%	14.19%
Small Cap Growth	7.23%	16.28%	11.54%
Foreign Large Blend	7.02%	**26.76%**	21.74%
Natural Resources	**11.86%**	17.17%	**28.77%**

6/30/07
Dow: 13,408 **S&P 500: 1503**
NASDAQ: 2603 **10Yr T-Note: 5.03%**
Barrel of Oil: 70.68 **Inflation Rate: 2.76%**
Source: *USA Today* 7/2/07 (May 07)

On a personal note, in early May of this year, my good friend and long-time customer, Gary Vanden Heuvel (President of the BLC Community Bank in Little Chute) and I took a trip to Omaha, to attend Warren Buffett's annual Berkshire Hathaway shareholder meeting, which many call **The Woodstock of Capitalism**. Gary and I have long shared the same passion for investing and for us, spending a weekend with Warren Buffett at his annual shareholder meeting was the equivalent of taking a fishing trip to Canada.

Warren Buffett is widely regarded as the best investor of all time. Over the past 40 years, his investments in equities and whole businesses have racked up compounded gains of more than 21% per year. His hallmark is to disregard short-term thinking and to focus on **deep rooted trends** that will generate gains not over months or even years, but over decades. If you look closely at his investment approach, he has made relatively few changes in his holdings. When he does shift out of one type of investment and adds another, it is meaningful indeed. It pays to watch him not only for his specific stock picks, but to understand also what long-term trends he sees that prompt him to buy those particular investments (*Complete Investor*, 6/07).

Until a few years ago (1997) Buffett's big positions were primarily consumer franchises (**brand name**) companies with pricing power in predictable markets such as Coca-Cola, GEICO, American Express, Wells Fargo, Gillette (now Procter & Gamble) and at one time Disney, which he sold in 1999. If you look closely at what he is buying in the last few years, it is **international** (Iscar, a manufacturing company in Israel), **energy** (Petro China and Conoco Phillips), **railroads** (Burlington Northern, Sante Fe, Union Pacific) and **utilities** (PacificCorp - a utility company on the West Coast) (*Complete Investor*, 6/07). If you think about what he buys, he tends to focus on stocks that make products that people **need** (value) rather than stocks that make products that people **want** (growth). The exception could be his current holdings in Anheuser Busch or Johnson & Johnson, which could be classified as a want or a need. In tough economic times, consumers tend to retreat to needs such as energy, utilities, financials and consumer staples.

During the five hour shareholder meeting at the Quest Center in Omaha, Nebraska, Gary and I witnessed two legends in the investment business. The format was very simple: a stage, a table, two chairs, two plants, five Cherry Cokes for Warren (yes, he did drink them all in five hours) and a box of See's Candy (a BH holding) split between Warren (76) and his partner Charlie Munger (83). Based on how simple the stage was, you understand why Warren has lived in the same house for 40 years and why he also has a no frills, black and white Berkshire Hathaway website (The Story of Warren Buffett, Andrew Kilpatrick).

I couldn't take notes fast enough, but here are a few of my favorite questions and folksy answers that were asked by a few of the 27,000 shareholders in attendance, including over 600 from foreign countries, along with comments from the many books I've read about Warren Buffett: Keep in mind, past performance is not necessarily an indication of future results.

A 17-year-old young man attending his tenth consecutive Berkshire Hathaway shareholder meeting asked Warren Buffett and Charlie Munger what does it takes to be successful?
WB: "Choose a mentor to talk to, or what we call, a hero. Pick a person you most admire and ask, 'why can't I be like that?' Hang around the right people and hopefully it will rub off on you. Having a mentor to talk to, regardless of your age, will likely lead you to fewer big mistakes."

Warren Buffett's definition of risk:
"Risk is not knowing what you are doing. The less you know about investing, the more important it is to diversify."
(The Warren Buffett Way, Robert G. Hagstrom)

On how important key investment decisions are:
An investor should act as though he or she had a lifetime decision card with only 20 punches on it (The Warren Buffett Way, Robert G. Hagstrom).

How much should you invest in stocks?
Benjamin Graham, an economics professor at Columbia University mentored both Warren Buffett and Charlie Munger and also wrote Warren's favorite book The Intelligent Investor. In the first edition (1949) of his book, Graham clearly recognized the importance of controlling risk, recommending a cautionary equity position of only 20-50%. By his fourth edition (1973), he raised his equity position to a range of 25-75%, suggesting that the "simplest choice would be to maintain a 50/50 position in stocks and bonds by periodically restoring the equality [rebalancing] as market conditions indicate." (The Intelligent Investor (2005 edition) foreword by John Bogle)

On pulling back on his equity positions:

-Warren Buffett reduced his equity position in 1969, mid 1987 and in 1999 and also avoided investing in high P/E Tech stocks in the '90s.
-By mid 1987 Warren Buffett was holding large stakes in just three stocks. When the decade began, Buffett had amassed large positions in 18 different companies. As Timothy Vick explains in his book, Buffett will slowly whittle away and reduce his equity positions when he sees corporate earnings slowing and interest rates rising as he did in early to mid 1987 prior to the market crashing in October, 1987. (How to Pick Stocks Like Warren Buffett, Timothy Vick)
-During the periods of 1969, late 1987 and early 2000, the yield on bonds was equal to or greater than the forward averaging yield on stocks (Fed Model).
-**When bond yields are rising and threatening to overtake stock yields, the market is generally overvalued.** When stocks fall to the point where earnings yields are above bond yields, they are attractive (How to Pick Stocks Like Warren Buffett, Timothy Vick).

In the last three years the dollar has declined 25-30%. How does this impact Berkshire Hathaway and what threat does it pose?
WB: "We think the dollar over time is likely to decline against most major currencies. We now prefer to focus on foreign businesses or businesses that have substantial foreign earnings. The United States is following policies that are likely to lead to further decreases in the dollar."

What is your favorite type of company to invest in?
WB: "Look for easy to understand companies with strong balance sheets that make something like Snickers bars. Even if prices rise, people will still buy them. We like to invest in companies that have pricing power and a **durable competitive advantage**, preferably without the need to constantly reinvest capital to stay competitive. For example, See's Candy Company, which we own, requires very little additional capital. Berkshire Hathaway attempts to buy businesses that do not have a high labor content or face severe foreign competition."

What does it take to be a successful board member?
WB: 1) "The most important job of a board member is to select the right CEO."
2) "Don't let the CEO over reach from a bout of over confidence, which usually occurs after a great year."
3) "Oversee major acquisitions - big business deals generally are contrary to shareholder values."
-If Berkshire managers find themselves struggling, they don't throw capital at the problem (The Real Warren Buffett, James O'Loughlin).

And my favorite question was from a young lady: "Mr. Buffett, I'm ten years old, how can I be a better investor?"
WB: "**Read!** Read as much as you can and not just about investing. The earlier you start reading the better. You need to read a lot to see what ideas jump out at you. Once you've done that, you need to jump in the water and take action on your ideas."

At 76 years old, Warren Buffett with all his energy and wisdom, continues to work each day (he truly loves what he does). He starts at 8:30 a.m. and leaves at 5:00 p.m. His day consists of talking to companies for about two hours. The remainder of his eight hours is spent reading and planning in his office with 17 employees. Planning not just for the day or even next year, but for generations from now as he generously has illustrated by his $30 billion gift to the Bill and Melinda Gates Foundation (The Story of Warren Buffett, Andrew Kilpatrick).

As Randy Cepuck states about the shareholder meeting, "it was like getting an MBA in a day." (A Weekend with Warren Buffett, Randy Cepuck)

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Thanks for your business.

Sincerely,

James F. Marshall
President

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