

# WISCAP NEWS

A QUARTERLY FINANCIAL UPDATE FROM WISCONSIN CAPITAL MANAGEMENT & AFFILIATES



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## A STRONG FOUNDATION FOCUSED ON FUNDAMENTALS

By Thomas G. Plumb, CFA  
President

As we begin the fourth quarter of 2007, it is reported that the first baby boomer has applied for social security benefits commencing on January 1, 2008. The world may never be the same. The post-WWII generation is beginning the transition to using retirement savings rather than accumulating them. We also know that the next twenty years should see the biggest generational transfer of wealth in the history of our great country.



Thomas G. Plumb

These issues reinforce the need for our investments to have a solid foundation, both in providing attractive rates of return and in avoiding catastrophic risk. I have witnessed many fundamental changes in the investment markets over the last 28 years, but I have also witnessed the emergence and destruction of many investment strategies that didn't recognize fundamental risk. Analyzing fundamental changes and avoiding stories that sound too good to be true are very difficult tasks. We will continue to evolve carefully on your behalf and would rather risk being late than expose you to more significant risk than would be expected from our strategy.

Having said that, we remain a fundamentally-focused shop. We believe that we are concentrating on investment opportunities that are sound, fundamentally attractive and have a quantifiable risk level. We believe our clients have come to expect this prudence when working with our firm.

## SECURITY IN THE SPOTLIGHT – MOODY'S (MCO) **Moody's**

By David B. Duchow, CFA  
Principal, Portfolio Manager, & Director of Marketing

Recent turbulence in the stock market related to sub-prime mortgages has provided an opportunity to invest in one of the strongest companies in the country, Moody's Corporation (MCO). Moody's is one of two major players in the business of rating debt securities. Recently, its stock price has slipped due to what investors saw as over-rating of some poor quality mortgage-backed securities. While MCO is experiencing higher legal and regulatory scrutiny, we believe this fall in share price presents a great opportunity to purchase a company with a very large market share and strong financial characteristics.



David B. Duchow

Please see Spotlight on page 2

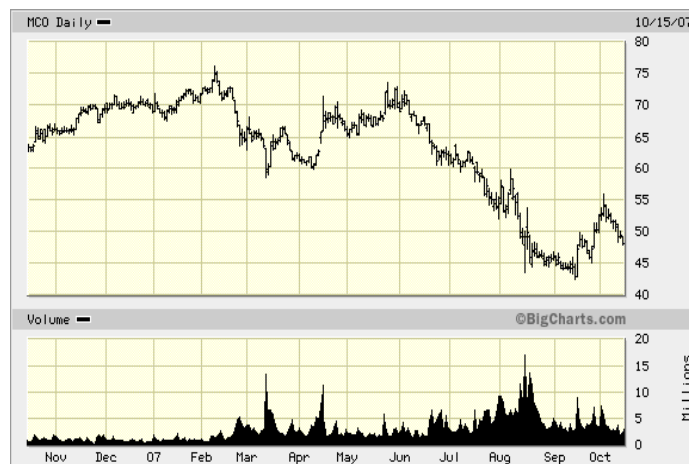
*Spotlight from Page 1*

Moody's shares a virtual oligopoly for rating debt securities. Moody's, along with S&P owned by McGraw Hill, dominates the credit ratings industry, together comprising approximately 80% of the industry. In addition to its debt rating business line, Moody's provides research data and analytic tools for assessing credit risk and publishes research on business transactions, market-leading credit opinions, and commentary. A smaller portion of its business focuses on providing consulting services and credit processing software.

Moody's currently maintains offices in most of the world's major financial centers and employs approximately 3000 people worldwide, including more than 1000 analysts. The firm has expanded into developing markets through joint ventures and affiliations with local ratings agencies. Customers include a wide range of corporate and governmental issuers of debt securities as well as institutional investors, depositors, creditors, investment banks, and commercial banks.

Our investment in Moody's is rooted in our expectation for long-term growth in public debt markets not only in this country but globally. More importantly, this company has a long respected history and an entrenched industry position that make it very difficult to unseat as a dominant market leader.

Despite recent negative press, we believe that this company's financial characteristics remain solid. Moody's has a very high return on invested capital, net profit margins of 30%, and low capital expenses. The company generates a high level of cash flow relative to its net income. Although mortgage-backed securities and domestic structured debt financing deals will likely see lower volume during the remainder of 2007 and into 2008, growth opportunities are developing in other



**1-Year Chart of Moody's stock price through 10/12/07 (Bigcharts.com)**

types of securities and in other parts of the world.

MCO's shares have declined from over \$70 per share in June to the mid-\$40s per share recently in the face of wide-spread mortgage concerns on Wall Street. At a purchase price of \$44-45, we believe MCO is attractively valued at about 17.5 x earnings for 2007. Moody's is clearly a high quality company with an oligopoly industry structure, high returns on invested capital, a solid balance sheet, and is in a growth industry, making it one of the best businesses in the world. We believe Moody's deserves a premium Price/Earnings multiple and that the shares are attractively priced relative to our proprietary estimates of value of \$65.

*As of 9/30/07, Moody's comprised 2.29% of the Plumb Balanced Fund and 2.74% of the Plumb Equity Fund. Fund holdings are subject to change at any time and are not recommendations to buy or sell any security.*

*Mutual Fund investing involves risk. Principal loss is possible.*

***The Plumb Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the fund and may be obtained by visiting our website at [www.plumbfunds.com](http://www.plumbfunds.com) or by calling 866-987-7888. Read it carefully before investing.***

References to other mutual funds should not to be interpreted as an offer of these securities.

Plumb Funds are distributed by Quasar Distributors, LLC. (10/07)

*The opinions expressed within this newsletter represent the opinions of Wisconsin Capital Management staff and are subject to change. Past performance is no guarantee of future results; investing in securities may result in a loss of principal.*

## YEAR-END GIFTING OPPORTUNITIES

If you are 70½ or older, it is possible for you to make charitable gifts up to a maximum of \$100,000 directly from your IRA to charitable organizations before 12/31/07. If the gift passes directly to the charity from your IRA, it will count toward your required minimum distribution and is not included in your 2007 income. A direct gift can be more tax effective than a gift made after a withdrawal from an IRA.

Also, for those wishing to gift appreciated stock to family or charitable organizations in 2007, please let your account officer or trust officer know by early December so we can ensure that the gifts are made by year-end.

## REQUIRED MINIMUM DISTRIBUTIONS

For those over 70½, we also offer a friendly reminder that required minimum distributions must be taken from your retirement accounts before December 31. If this is your first year of required payouts, you may defer the first payout until April of next year. If you choose to wait, keep in mind that your payout for next year must be taken by December 31 of 2008 which could mean two significant income tax events next year.

If you have not already met your requirement for this year, please contact your account officer or trust officer soon to ensure that your 2007 requirement is met.

If your IRA moved to our Plumb Funds this year, please reconfirm any automated payments set up for your Required Minimum Distributions.

## MARKET COMPARISONS

(As of 9/30/2007)

	S&P 500*	Bond Index**
1 Year	16.44%	5.43%
5 year	15.45%	3.82%
10 year	6.57%	5.68%

\* S&P 500 Total Return Index

\*\* Lehman Intermediate Government/Corporate Index

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Lehman Brothers Intermediate Government/Corporate Bond Index is a market value weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and 10 years. You cannot invest directly in an index.

## CHANGES IN THE KIDDIE TAX

The kiddie tax will become more onerous in 2008. This tax imposes the parents' marginal tax rate on a dependent child's unearned income in excess of \$1700. In 2007, the kiddie tax age is 18, but next year the age rises to 19 and, for full-time students whose earned income is less than half of their support, the age rises to 24.

This change is certain to impact gifts of appreciated stock to children. Most college-age students will no longer be able to take advantage of lower capital gains rates when selling appreciated securities for tuition expenses. We advise parents to consider making such gifts well in advance of year-end so the sales can be completed before 12/31/07.

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*Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisors or legal counsel for advice and information concerning their particular situations. Neither the Fund nor any of its representatives may give legal or tax advice.*

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## A WORD FROM THE TRUST COMPANY

The Trust Company is pleased to announce the addition of Tom Terry to the Trust company Board of Directors. Tom has served on the Board of Wisconsin Capital Management since 2004. He also brings expertise and insight from his past experience as a senior officer with the American Funds Group and The Capital Group Companies and from his current consultant position with Capital Research and Management Company. We look forward to his input in shaping the direction of our company.

Former Board member Jim Berbee will be missed; he has decided to leave the Board to concentrate on his medical studies. In appreciation of Jim's service as a Director of the Plumb Trust Company, the Trust Company has made a donation in his honor to the Technology Education Foundation. His assistance and guidance in the first five years of our company have been invaluable, and we wish him every success in his new endeavors.

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If you do not wish to receive this newsletter or if you have suggestions for articles, please call us at 608-824-8800 or email us at [lhempboll@plumbtrustcompany.com](mailto:lhempboll@plumbtrustcompany.com)

**CALENDAR**

Eau Claire Investment Forum	November 12
Madison Investment Forums	November 13, 14, 15
Thanksgiving Day, Markets Closed	November 22
Christmas, Markets Closed	December 25
Client Social Event, <i>The Nerd</i>	May 2008

**FALL INVESTMENT FORUMS**

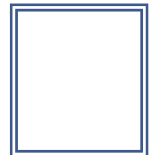
Wisconsin Capital Management will once again be hosting client investment forums in both Eau Claire and Madison. Our portfolio managers will present their thoughts on recent market events and their outlook for the coming year.

Discussions will demonstrate the firm's investment philosophy and process in action as we analyze various portfolio holdings. Each forum will provide an opportunity for you to ask questions and to discuss topics of interest.

The first forum will take place in Eau Claire on Monday, November 12. Forums will be held at our offices in Madison on Tuesday, Wednesday, and Thursday, November 13-15. For details or to RSVP, please visit [www.wiscap.com](http://www.wiscap.com) or call Linda Stuart at 608-824-2107.



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