

# J.L. BAINBRIDGE & COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

## ENHANCING CLIENTS' LIVES

At J.L. Bainbridge & Company, Inc. our business is dedicated to “enhancing clients’ lives” by providing long term professional money management service totally focused on helping clients finance their children’s education, build and preserve the resources for an enhanced retirement and achieve a meaningful higher standard of living.

The foundation of J.L. Bainbridge & Company, Inc.’s business philosophy is based on the full understanding that our future and success is completely dependent on client satisfaction and delivering to clients a consistent long term investment service of the highest level of quality, competence and integrity.

Our commitment to “enhancing clients’ lives” is a guiding light that governs our professional daily activities and demands every decision and action be assessed as to exposure to investment risk as well as the long term benefit to clients.

## J.L. BAINBRIDGE & COMPANY, INC.

Managing more than \$450 million for over 900 clients nationwide.  
VISIT OUR WEBSITE: [www.jlbainbridge.com](http://www.jlbainbridge.com)

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## 2007 MID-YEAR REPORT

### INVESTMENT RESULTS

For the first half of 2007 J. L. Bainbridge & Company, Inc. achieved an 9.0% rate of return on all monies managed in its equity investment program. In conjunction with returns in its equity program for 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005 and 2006 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.2%, -8.5%, 13.8%, 14.6%, 5.1% and 13.3% respectively, a January 1, 1994 investment of \$250,000 has grown to a June 30, 2007 value of \$1,358,224. This equates to an increase of 443% over the past thirteen and one half years or 13.4% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee.

### INVESTMENT REVIEW

Our results for the first half of 2007 are gratifying because the majority of investors expect 2007 will be a year of low returns at best. In comparison the market advanced only

6.0% as measured by the S&P 500 index. Our return was the direct result of the impressive earnings growth of the companies in our portfolio. Our current portfolio of twenty-six stocks is comprised of small, mid and large cap companies and these companies derive almost one half of their business from international countries. Thus we believe our present investment portfolio is the best ever and offers the potential to generate strong investment returns for the next several years.

June 19, 2007 Nuveen announced an agreement to sell the company for \$65 per share. A unique feature of this agreement allows Nuveen to solicit higher bids from other potential buyers until July 19, 2007. Based on our analysis, we are of the opinion a bid as high as \$72 per share is possible. Hence we will wait and see before making a decision to sell this Summer, depending on the difference between the price at that time and the final offered price, or wait until the closing which is forecast for late this year. For taxable accounts, the decision will be made on an individual client basis in order to minimize short-term capital gain taxes.

## INVESTMENT STRATEGY

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We have stressed for over twenty years that investing for the long-term via a logical conservative investment program and the patience and discipline to adhere to this program in both positive and negative environments is the key to success. The solid commitment to our conservative program is the reason clients were protected from the devastating losses incurred after the technology bubble burst in 2000 and the market fell more than fifty percent and stands today where it was seven years ago. Regardless the media continues to harp on perceived short-term dangers lurking around every corner. Today the danger is a major market decline from a supposedly overpriced market. Considering the minor market decline during the past month, the hype of an eminent major decline has become more emotional, and therefore we decided to repeat our rationale for refuting the hype. The reasons cited for a terrifying decline are:

- The market has rallied too far too fast and therefore is due for a major decline.
- The economy is slowing which will lead to lower profit growth and a market decline.
- Interest rates are rising which will draw money from stocks to bonds.

The first line of thinking is another example of rearview mirror investing. Looking in the rearview mirror only affords a glance of the recent past which appears to be a great market advance. However looking longer-term and more specifically over the past seven years

provides a more accurate and logical view. The market reached its peak in March, 2000 or more than seven years ago. Compared to that peak, today the Dow Jones Industrial index is slightly higher, the S&P 500 index is even and the NASDAQ remains far behind. Thus the market as a whole is at about the same level as seven years ago. However over the past seven years companies in general have increased earnings and dividends dramatically. Hence the market evaluation today is much lower. While a direct comparison is difficult because the speculation during 1999 and early 2000 led to some companies selling at extraordinary levels which tended to overstate market evaluations, we estimate the evaluation of most stocks today is 40% to 50% lower. Our portfolio of growth companies over this period returned 76%. Considering these companies increased earnings much more than 76%, their evaluations remain very attractive. Consequently based on our analysis, our current portfolio has the potential to appreciate an additional 28% by the end of this year.

The second argument that a slowing US economy will lower profit growth also does not hold water except for companies that rely solely on the US economy for growth and operate in a cyclical industry. Our portfolio is comprised of select companies that operate either in industries that thrive regardless of the economy or derive a significant portion of their business internationally from regions of the world growing at much faster rates. Petsmart is

an example of a growth company with all their business within the US. Their business is being driven by two factors: one, pet owners indulge their pets independent of the rate of economic growth; two, the aging of the population whereas people over age fifty spend the most on their pets. On the other hand, 3M Company is an example of a company benefiting from burgeoning growth in Asia, Eastern Europe and Russia. Due to 3M's products sold to the US auto and housing markets, analysts were overly concerned earnings would be affected and estimated first quarter earnings would increase only 6%. In reality strong growth outside the US, caused earnings to jump 14% and their stock appreciated 11% in the two weeks following their first quarter report.

Lastly the concern that higher interest rates will deflate stock prices is only valid if interest rates were destined to rise dramatically. In actuality the rate on ten year Treasury notes has increased only one-half percent to 5.25% over the past two months. Does anyone really believe a return a little over 5% is that attractive? Of course the answer is no. Therefore the only relevant factor regarding interest rates is the risk of a significant increase in inflation that would push interest rates up toward double digits. With the economy growing moderately and the sluggish auto and housing markets preventing much higher growth, higher inflation is just not a valid concern.

## CONCLUSION

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As indicated earlier we are confident our portfolio is stronger today than at anytime in the past, and based on our analysis has the potential to appreciate 28% by the end of this year. Be assured we will not be deterred by the constantly negative hype of the media and will remain focused on our mission to build and preserve clients' wherewithal for an enhanced retirement. This month second quarter earnings reports will be released for most of the companies we own which with regularity make for great reading. Record results quarter after quarter at a double digit rate over the long-term inevitably translate into stock price appreciation at a double digit rate unless the stock is over valued. With our disciplined program purchases are made only, when based on our analysis, the appreciation potential over the next twelve months is at least 35%. This prevents buying over priced stocks and positions holdings to appreciate in line with or greater than earnings growth. This approach is the nucleus of our investment philosophy.

It should not be assumed that past results will be achieved in the future or that a loss could not be incurred. Furthermore it should not be assumed that a 15% compounded return will be achieved or that future results will exceed market indexes.

In accordance with SEC regulation, a current copy of our SEC registration form ADV Part II is available upon request free of charge.

PRIVACY POLICY: J. L. Bainbridge & Company, Inc. policy is client information is private and is not shared with any individual, organization or firm.

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