



# VIEWPOINT

April 2008

## Two New Opportunities

We've said many times that market turmoil creates not only headaches but opportunities. The very reason that stocks have a higher expected return than safe Treasury bills or certificates of deposit is that investors demand to be paid for tolerating uncertainty.

We've recently added two new stocks to our approved list: Walgreen and Microsoft. They are in different businesses, of course, but share certain traits. Both are market leaders and have good returns on capital, opportunities to grow, capable managements, and share prices that are well below what we judge to be fair value. Both are also well known. Had Sherlock Holmes been an investor, he might have said these two are examples of good values being "hidden in plain sight."

Walgreen is the largest pharmacy chain in the U.S. as measured by sales and profits. With more than 6,100 stores, they dispense 17% of the nation's prescriptions (up from 11% in 2001) – more than any other chain. They stand to benefit from the increased use of medications by an aging population. The growing number of generic drugs also works in their favor because these offer higher profits to retailers than do drugs still on patent.

Walgreen was founded in 1901 but still has plenty of room to grow. Management plans to expand the store base to 13,000 in the U.S. and to consider international expansion as this number is achieved. The Company is also growing in specialty pharmacy, where expensive biotech drugs are administered to patients with such diseases as multiple sclerosis, HIV and rheumatoid arthritis. Walgreen has also become a leader in providing in-store convenient care health services through their *Take Care* clinics.

The stock became cheap on market concerns about expense control and pharmacy reimbursements. Management has been adept at working through a variety of industry challenges, and they showed improved cost control in the latest quarter. We see a particular margin of safety in their demonstrated ability to sell high-margin "front-end" merchandise and services, such as digital photo printing, movie rentals, ink-jet refills and shipping. It's noteworthy that of the 4,400 stores opened in the past ten years; only six have closed because of poor sales.

Microsoft is a leading technology company, which dominates the market for computer operating systems through their *Windows* business. They are also a market leader in business software with

**AMERICA FIRST**  
Investment Advisors, LLC

(402) 930-3020  
www.am1st.com

**Eric Ball**  
Chief Executive Officer  
402-930-3044  
eball@am1st.com

**Mike Thesing**  
President  
402-930-3031  
mthesing@am1st.com

**Barry Dunaway**  
Vice President  
Director of Research  
402-930-3088  
bdunaway@am1st.com

**David Guthrie**  
Vice President of  
Client Development  
402-930-3064  
dguthrie@am1st.com

**Tyler Hughes**  
Portfolio Manager  
402-930-3086  
thughes@am1st.com

**Carl Deicke**  
Chief Compliance Officer  
402-930-3062  
cdeicke@am1st.com

**Nancy Targy**  
Executive Assistant,  
Investment Administrator  
402-930-3020  
ntargy@am1st.com

**Matt Holloway**  
Investment Administrator  
402-930-3056  
mholloway@am1st.com

## Curious about a financial topic?

Send your query to  
Nancy Targy at  
ntargy@am1st.com;  
we may include it in  
a future issue of

**VIEWPOINT.**

Office and an increasing force in entertainment with the Xbox video game console and games.

Microsoft is well-positioned to adapt to the inherently fast-paced technology industry. They are a mature company with more than \$26 billion in cash and investments on the balance sheet. They do not have to be the first to develop a new technology. Their capital base gives them phenomenal closing speed; they can wait and watch for ideas to gain traction before investing heavily in them.

Microsoft does have challenges. They need to keep a strong foothold in the growing market for mobile computing/communications devices. They also need to be attuned to the trend of software being provided as a service rather than a product that resides on a user's computer. Software piracy is a continuing concern.

More recently, the market turned thumbs down on the Company's bid for Yahoo! Analysts believe that management either has offered or will offer too high a price for Yahoo! and that a merger of the two companies will destroy value. We think the decline in share price that resulted from this controversy compensates for the risks involved. At a price of just 13x next year's expected earnings and a substantial cash balance, we see very good value.

—Barry & Tyler



## Updated SEC Form ADV, Part II Now Available

Every calendar year, or more often if changes occur, America First Investment Advisors, L.L.C must file a report with the U.S. Securities and Exchange Commission. According to rule 204-3(c) of the Investment Advisers Act of 1940, we must offer to provide our clients with a copy of a portion of this report, Form ADV, Part II. The rule states that an investment adviser must deliver, or offer to deliver upon written request, a copy of Form ADV, Part II without charge. If you would like to receive a copy of this form, please feel free to e-mail your request to me. My e-mail address is cdeicke@am1st.com. If you would rather send your request via US mail, our address is America First Investment Advisors, LLC, 1004 Farnam St., Suite 400, Omaha, NE 68102. If you don't want or need a copy, no action is necessary.

—Carl