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Investment Management.....Financial Planning.....Estate Planning.....Tax Strategy

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CMA Update: Recent Company and Federal Reserve News

Fed News

Today, the Federal Reserve cut short term interest rates by an additional .50% to a 3% Fed Funds rate, following last week's reduction of .75%. The Fed has now cut rates by 2.25% since last August. This rate cut reduction was seemingly done to target maximum financial assistance to the residential housing and mortgage industry. New housing starts now are at about half the 2 million annual level at the peak in 2006.

Lower mortgage interest rates improve affordability to a buyer. As an example, if the 15yr and 30yr mortgage rates are now going below 5% from 6% out there last year, then the monthly mortgage payment cost going down by 16% on interest cost, is like getting a 15% price reduction on the house because of the lower monthly payment....affordability improves.

Industry News

Hotel Industry...Hotel REVPAR (revenue per average room) increased 9.4% for the past week vs a year ago, as room occupancy increased 2.2% and average room rates across the US hotel industry increased 7.1%.

Company News

Advanced Micro Devices (AMD)...AMD's issuer default rating was downgraded by Fitch Ratings to B- from B on weak operating performance and a modest liquidity position. About \$4.1 billion in debt is affected. The rating outlook remains negative. In other news, an analyst at JMP Securities is speculating that IBM may purchase part or all of AMD.

Alaska (ALK)...The company reported that revenue that increased 8% in the 4th quarter. Passenger traffic at Alaska Airlines increased 6% (4.6% from capacity increases) with increasing load factor in the quarter while costs, excluding fuel, declined by 3%. While fuel continues at a high level, the company has been able to offset some of this fuel increase due to the recent purchase of more efficient Boeing 737 planes.

While competition is increasing in San Francisco and Los Angeles, so far in January, the company is seeing good results with growth coming out of its Vegas, Phoenix, Alaska, and Hawaii markets. At the end of the quarter, the company had \$823 million of cash on its balance sheet, which is about equal to the book value of the company, and its "Market Cap". In the 4Q, the company repurchased \$62.3 million of its stock and has lowered its share count by 5% over the past year.

Ex fuel cost, Alaska is operating very well as it is increasing load factor (number of seats filled per flight) and RASM (average seat fare) on top of its capacity increases to Hawaii, Mexico and elsewhere. Given the relatively conservative nature of its fuel hedging program and the good operational results, we continue to hold Alaska Airlines while waiting for flat to lower fuel costs.

American Express (AXP)...Citigroup downgraded AXP to a hold and dropped the price target on the stock from \$56 to \$48 as the analyst believes that the trends in credit card quality is getting worse. We own some AXP feeling that they are the premier CC company and can manage credit risk better than anyone else.

Ashford Hospitality Trust (AHT)...Prudential and Ashford announced a \$400 million joint venture with Ashford contributing \$100 million of this fund. As per our recent conversation with Ashford CFO, David Kimichik, the company is now putting a higher priority on its mezzanine financing (lending) business with interest income of near 13%.

Broadcom (BRCM)...Broadcom reported 4Q EPS of \$0.34, \$0.02 ahead of estimates. Driven by the strong growth in Bluetooth, wireless LAN, and digital TV, Broadcom's revenue was slightly ahead of estimates and 11.2% ahead of 4Q 2006. While R&D increased 27% in 2007 vs only a 3% revenue increase, management stated that they expect to slow down R&D spending in 2008. The company ended the quarter with about \$2.3 billion or about \$3.50 per share in cash and marketable securities with no debt.

Coach (COH)...At \$0.69, COH reported \$0.01 better than expected EPS results in its fiscal year 2Q of 2007. Given the tough retail environment, this was more than a positive surprise as the company increased total annual revenues by 20% with 4th quarter retail comp stores down 1.1%, but factory stores up 7.7%. In Japan, sales increased 17% on a constant currency basis with same store sales increasing by mid single digits. In addition, the company raised its fiscal 2008 EPS guidance by \$0.02 to \$2.06, 22% ahead of 2007.

EBAY (EBAY)...EBAY reported strong 4Q 2007 results but lowered guidance dramatically for 2008. EBAY reported 4Q 2007 EPS of \$0.45, \$0.04 ahead of estimates on 27% revenue growth. The company lowered its 2008 EPS guidance to \$1.63-1.67 from the previous \$1.66 estimate. After the strong 4Q, investors expected the company to raise guidance and took 10% off the stock when the company didn't raise its earnings outlook. It is likely that the company is being conservative in its guidance, since a new CEO was named and the CEO wanted to lower the earnings expectations to an easier to reach level.

Ford (F)...Ford reported a narrower EPS loss in the 4Q at \$0.20, in line with estimates. At \$44.1 billion, global revenue increased almost 10% from year ago levels. North American operations lost \$3.5 billion, but were significantly better than the \$6.0 billion loss in 2006. International operations continued to be strong with the company unable to meet auto demand in South America. Credit, while lower than last year, continued to show a profit. The loss for the full year was \$2.7 billion, but was significantly less than the \$12.6 billion that the company lost in 2006.

The company expects another loss in 2008, but profit is still expected to be seen in 2009. Given the continued weakness in North America, Ford is offering buyouts for 54,000 of its U.S. hourly workers in order to cut costs further. The UAW union has already agreed to two rounds of buyouts with workers expected to leave by March 1 or April 1. These buyouts are in addition to the 33,600 buyouts that occurred in 2006. We hold Ford debt securities that yield 10-12% annual returns, but do not own the common stock.

Harley Davidson (HOG)...The company reported 4Q EPS of \$0.78, \$0.04 below estimates. Worldwide, retail sales were down 6.1% in the quarter and 14.2% in the U.S. including a decline of 9% in the U.S. for the heavyweight motorcycle market. Overseas, HOG increased sales by 17.4%.

Given the fall off in demand in the U.S., the company has done a fairly good job of controlling inventory as shipments were down 5.3% vs the 1.8% fall in sales in 2007 and shipments were off 12.5% in the fourth quarter. In 2007, the company repurchased 20.4 million shares of its stock at a cost of \$1.15 billion.

Given the recent uncertainty in the U.S., management at Harley continues to remain cautious but still expects moderate revenue growth and 4-7% EPS growth. We personally checked with the Harley D store manager at Heritage Harley serving Downers Grove and Naperville, IL and he felt

his sell through was still strong and he would run out of big bikes. ABS brakes are now an option on HD touring bikes....a great safety enhancement.

However, Robert W. Baird analyst, Craig Kennison, was positive about the stock despite lowering his EPS estimate to \$3.52 from \$3.90. He said that the strong international demand, lower dealer inventory, and unchanged guidance were all positives, but the U.S. retail results and the EPS shortfall were disappointing. Moreover, he said that, "We think investors are selling today below intrinsic value to really avoid the unfavorable headlines in the consumer discretionary space." Kennison said, "but we think the stock is worth more and we're recommending it."

This sentiment is exactly where we are at on Harley Davidson. We understand the problems and concerns in the U.S., but believe you seldom are able to buy such an iconic brand at the currently depressed valuation of near 10 times forward earnings.

Kohls (KSS)...Upgraded by Bernstein Research due to limited downside to the stock and the positive impact of a Federal Reserve rate cut.

Lowes (LOW)...Upgraded by Bernstein Research due to limited downside to the stock and the positive impact of a Federal Reserve rate cuts.

Macys (M)...Upgraded by Bernstein Research due to limited downside to the stock and the positive impact of a Federal Reserve rate cut. This stock position was just sold out for a gain in CMA's STT accounts program.

Motorola (MOT)...Goldman Sachs lowered its rating on the telecom equipment sector as the economy slows and Chinese vendor Huawei Technologies takes share.

National City (NCC)...Excluding a write down of \$181 million on its mortgage business and \$691 million for credit losses, NCC reported an EPS loss of \$0.53 vs the estimate of a \$0.26 loss. Oddly, NCC is up 20% off its low of last week.

Panera (PNRA)...Panera shareholder, Shamrock Activist Value fund, has asked that a Shamrock executive be added to the Panera board.

Starwood (HOT)...Starwood is selling some of its hotels in Italy for \$226 million.

Texas Instruments (TXN)...While revenue was down 3% and slightly below estimates, the company's 4Q EPS increased 13% and were \$0.01 ahead of estimates. Management expected growth to pick up in 1Q of 2008, but the company is running lean on inventory and is being prudent on capital spending in case growth slows. Investors have been expecting TXN to lose share in the wireless business, but the company expects an increase in this business in the first quarter.

U.S. Bancorp (USB)...Punk Ziegel analyst Richard Bove upgrades USB to buy.

Yahoo (YHOO)...It has been speculated by several newspapers that YHOO will announce a cut of 5-15% of its workforce when its reports 4Q 2007 results on January 29th.