



# ALCOSTA

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## GROWTH REPORT

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A MONTHLY NEWSLETTER FOR GROWTH STOCK INVESTORS

Edited by: Alcosta Capital Management

DECEMBER 2007

## MARKET OUTLOOK

It's no wonder consumers are feeling gloomy. All one has to do is read some of the headlines in the newspaper these days and they will probably walk away feeling terrible. We have what seems to be the perfect storm of bad news: Increasing oil prices, billion dollar losses at major investment firms, potential recession, falling home prices, etc. The current economic environment has caused consumer confidence to fall more than what economists had forecasted for November. The Conference Board's confidence index decreased to 87.3, the lowest since the aftermath of Hurricane Katrina in October 2005. Our research suggests the gloomy attitude of the consumer will be a drag on holiday spending and is likely to slow the growth of the overall economy. However, we do feel there is a silver lining in the poor consumer confidence numbers. Studies have indicated the stock market tends to perform well after periods of low confidence by consumers. The theory is as confidence declines other forces will move into action in an effort to turn the mood around (one example would be interest rate cuts by the Federal Reserve). Often these other forces also tend to have a positive impact on stock prices.

It's not much fun reading the financial headlines today and we do believe the current issues will be with us for a while longer. However, while economic growth is slowing down and the investment climate seems terrible, our work suggests our economy will not experience a recession in the coming months. In fact we believe the economy is probably somewhere near the bottom right now and the worst of the credit crunch is behind us. The Federal Reserve likely began lowering interest rates early enough to stave off recession. Over the past few weeks we have noticed through media reports some very big (and in our opinion very smart) investors taking positions in some of the same stocks being mentioned in those gloomy headlines. In October billionaire Wilbur Ross, who ranked among the worlds richest people in 2006 according to Forbes magazine, purchased part of American Home Mortgage for \$435 million after it filed for bankruptcy. The government of Abu Dhabi, which is the capital city of the United Arab Emirates, invested \$7.5 billion in Citi-

group last month. Citadel Investment Group, an influential \$16 billion hedge fund, invested \$2.55 billion into E\*Trade Financial Corp. It's one thing to witness a single smart person making a particular investment in isolation, but it is quite another when multiple smart investors make similar investments around the same time. Over the years our work has suggested this is the type of activity that we need to pay close attention to and many times has been a good catalyst for making investments in similar areas. The combined actions by these big investors we have observed gives us further confidence in our thinking that our economy is probably bouncing along the bottom and the stock market should move higher in the coming months.

Another positive sign for financial markets has been the Bush administration's plan to provide relief to the mortgage market. The plan has many aspects but a big component is that loan servicing companies will freeze mortgages at their low introductory rates for some troubled borrowers. The important point to take away from the announcement of the new mortgage plan is not in the complicated details of the plan trying to figure out who wins and who loses. The message being sent to the financial markets is that our government, through the Federal Reserve lowering interest rates or the White House creating new assistance programs, is working to fix the problems that exist in the financial markets today. This mortgage plan changes the fundamental landscape of the real estate and mortgage market overnight, and it is unprecedented in the industry. However, it is important to remember in a capitalist society the bodies that govern have historically made changes and passed legislation that had the goal of maintaining or increasing the value of financial assets. Often these acts are made in the interest of self preservation, preserving and growing the financial system we have in place. It is for this reason, among many others, that we make no attempt to time the stock market. Historically over the long-term the stock market has always eventually moved higher. Our existing financial system depends on it too much for it to be otherwise.



# ALCOSTA TRADING UPDATE

## COMPANIES PURCHASED

### **Priceline.com (PCLN)**

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Priceline.com operates as an online travel company in the United States and Europe. It allows its customers to make offers for travel services at discounted prices. The company provides various travel services, including airline tickets, hotel rooms, car rentals, vacation packages, cruises, destination services, and travel insurance. It also sells advertising to travel suppliers and others on its Web sites. In addition, the company provides various financial services. Priceline.com was founded in 1997 and is headquartered in Norwalk, Connecticut.

### **Illumina (ILMN)**

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Illumina engages in the development, manufacture, and marketing of life science tools and integrated systems for the analysis of genetic variation and biological function. Its single-nucleotide polymorphism (SNP) genotyping product comprises Array Matrix, which uses a universal format that allows it to analyze various sets of SNPs. The company also offers BeadLabs and BeadStations for gene expression profiling; BeadArray Reader, a scanning instrument that uses a laser to read the results of experiments that are captured in its instruments. Illumina distributes its products through distributors to pharmaceutical, biotechnology, agricultural, diagnostics, and consumer products companies, as well as to academic or private research centers.

## COMPANIES SOLD

### **Rogers Communications (RCI)**

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Rogers Communications operates as a communications and media company in Canada. It operates in three segments: Wireless, Cable and Telecom, and Media. The Wireless segment offers wireless voice, data, and messaging services. The Cable and Telecom segment provides cable television, cable telephony, and high-speed Internet access. It also owns and operates cable systems in Ontario, New Brunswick, and Newfoundland serving cable subscribers. The Media segment engages in radio and television broadcasting operations, and consumer and trade publishing operations, as well as offers televised home shopping services. The company was founded in 1920 and is based in Toronto, Canada.

The above changes include all purchases and sales since the last issue.

# ALCOSTA MODEL PORTFOLIO

December 6, 2007

Quantity	Security Symbol	Security	Price	Market Value	Pct. Assets
41	AMZN	AMAZON.COM	94.21	\$3,862.61	2.3
33	AAPL	APPLE	189.95	\$6,268.44	3.7
14	BIDU	BAIDU.COM	392.88	\$5,500.32	3.2
70	BEAV	BE AEROSPACE	50.33	\$3,523.10	2.1
91	CELG	CELGENE	60.10	\$5,469.10	3.2
33	CHL	CHINA MOBILE LIMITED	96.24	\$3,175.92	1.9
28	CMG	CHIPOTLE MEXICAN GRILL	149.15	\$4,176.20	2.5
11	CME	CME GROUP	699.80	\$7,697.80	4.5
100	CROX	CROCS	45.21	\$4,521.00	2.7
42	DRYS	DRYSHIPS	83.65	\$3,513.30	2.1
310	EMC	E M C	19.52	\$6,051.20	3.6
26	FSLR	FIRST SOLAR	218.40	\$5,678.40	3.3
78	FLIR	FLIR SYS	67.60	\$5,272.80	3.1
86	FTI	FMC TECHNOLOGIES	58.81	\$5,057.66	3.0
58	GME	GAMESTOP	59.65	\$3,459.70	2.0
30	GRMN	GARMIN	109.35	\$3,280.50	1.9
66	GR	GOODRICH	74.14	\$4,893.24	2.9
13	GOOG	GOOGLE	715.26	\$9,298.38	5.5
58	ILMN	ILLUMINA	58.65	\$3,401.70	2.0
28	ICE	INTERCONTINENTALEXCHANGE	174.82	\$4,894.96	2.9
14	ISRG	INTUITIVE SURGICAL	344.79	\$4,827.06	2.8
18	MA	MASTERCARD	206.02	\$3,708.36	2.2
74	MDR	MCDERMOTT INTL	54.04	\$3,998.96	2.4
48	MOS	MOSAIC	77.45	\$3,717.60	2.2
56	NOV	NATIONAL OILWELL VARCO	73.50	\$4,116.00	2.4
164	NOK	NOKIA	39.00	\$6,396.00	3.8
92	NVDA	NVIDIA	34.31	\$3,156.52	1.9
43	OII	OCEANEERING INTL	72.32	\$3,109.76	1.8
165	VIP	VIMPEL COMMUNIC	37.57	\$6,199.05	3.6
48	POT	POTASH CORP SASK	129.75	\$6,228.00	3.7
37	PCP	PRECISION CASTPARTS	150.35	\$5,562.95	3.3
29	PCLN	PRICELINE.COM	118.64	\$3,440.56	2.0
105	RIMM	RESEARCH IN MOTION	103.88	\$10,907.40	6.4
43	SPWR	SUNPOWER	125.44	\$5,393.92	3.2
				\$169,758.47	99.9
	CASH	CASH ACCOUNT BALANCE		\$174.97	0.1
<b>TOTAL PORTFOLIO</b>				<b>\$169,933.44</b>	<b>100.0</b>

The beginning date of the Model Portfolio is September 2, 2003 and the beginning value is \$100,000. It is based on hypothetical buys and sells and pricing information as of the close on the date above.



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