

INVESTMENT OUTLOOK

3rd Quarter 2009

Investors across all asset classes are feeling better, more confident and of course, wealthier. All financial asset classes from commodities to stocks, currencies, bonds have had huge runs. So the question of the new quarter is... "When one or two of these sectors sells off, where do you invest to rebalance your portfolio?"

Since all markets have moved up in lock step, as day follows night, they will pull back. Cash certainly is not earning a viable return that's for sure. For our corporate bond accounts, we have kept in front of the curve; short maturities, durations of roughly 3.5 years with a bell shaped distribution. Municipal account durations are a bit longer (roughly 4 years) as we continue to weed out bonds whose underlying credit quality, credit metrics and illiquidity is no longer acceptable. As a matter of fact, many of those issues which we haven't been able to sell because the institutional brokerage desks won't bid--have just begun to trade during the past 30-45 days.

Ladies and gentlemen--we are looking at a mirror image of last years markets. As bad as those markets were third and fourth quarter of 2008 are as robust and frothy as they are today. Yet there continues to be a murmuring, no a chant, from our clients and people who want to become clients about the nagging fear of inflation. I've never heard so much talk and anxiety about inflation when there isn't a whiff of reality.

When everyone, and in this case I do mean everyone, is looking at the inflationary trade then something else will come out of left field. The masses are rarely right at the same time.

Where's the consumer spending? Housing hasn't bottomed. Demand? From whom? Sure gold is over \$1,000 an ounce but it's liquidity driven--there's no shortage. Jewelry makers are barely staying in business and there's little industrial application for gold. Liquidity, liquidity everywhere--money is chasing any and every investment idea that has a chance of appreciating--fundamentals be damned.

One of my small claims to fame; I sat next to Doug Kass, a hedge fund manager, CNBC guest, often quoted in *Barron's*, The Street.com columnist, at a wedding dinner. We shared our mutual love for 1950s Rock n'Roll music and our investment business.

Doug's numbers, as reported in *Barron's*, are sobering. There are 2.2 million people who work part time but want full-time jobs. There are 9.2 million involuntary part-timers and 15.1 million unemployed. That's a mind boggling 26 million Americans that are jobless and semi-jobless. That's 26 million Americans not shopping, not eating out, not traveling, not going to the malls, not doing much but just trying to survive and pay their bills.

September gave us 21 consecutive months of declining employment. The public's inflation angst should be targeted toward corporate and municipal revenues not towards inflation

I'd like to shout "Wake up everyone--you are looking at the wrong thing." Certainly we are concerned about Government printing presses running 24/7. Certainly we are worried about the twin deficits, bailouts, liquidity facilities, bloated socialized health-care. Perhaps the ultimate answer is inflation, but that's down the road not around the bend.

So our bottom line is simple--we'll continue to upgrade portfolios. Buy corporate bonds whose balance sheets are improving and municipal bonds that can hopefully weather this horrific economy. Expect robust GDP numbers due to inventory rebuilding but be cautious in knowing it's not the start of something big. Certainly the worst of the recession is over just don't expect the recovery to look like those of the past.

Warmest regards for a wonderful Thanksgiving and Happy Holidays,

Best,

Marilyn