



## FAMILY MANAGEMENT CORPORATION

485 Madison Avenue 19th Floor New York, NY 10022 212/872-9600 Fax: 212/758-4020

# CAPITAL IDEAS

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136

## “Dis-Putin”

Why pick a fight with someone before you have a lunch date. That is just what President Bush did with Mr. Putin before the Group of 8 Meeting at their pow-wow in Kennebunkport.

That's not to say that we are at all happy with Russia's seeming regression, but poking someone in the eye is no way to win friends and influence people. Happily though, Aeroflot, the Russian airline, put in a big order to Boeing. Maybe Putin liked the abuse!

China's May 2007 trade surplus was \$22.5 billion. China promised to narrow that under pressure from Washington. In 2006, the U.S. had a \$232.5 billion trade deficit with China...that is enormous and not coming down. As long as China continues to buy U.S. Dollars with their funds, our deficit can continue at a "symbiotic" rate. Should China cease to help finance the U.S. Deficit, there would be hell to pay!

There is also increasing pressure on the U.S. Dollar in that many countries are buying other currencies (such as Euros) with their accumulated surpluses. Additionally, many countries are considering the formation of "sovereign investment funds" to deploy their surpluses for more aggressive returns. Can you imagine Russia accumulating shares of Florida Power and Light because it is undervalued!!!

The cash holdings of fund managers are nearing all time lows at roughly 3.6%. Cash is normally held to weather the downside of the markets.....we are concerned that at these levels of cash, fund managers are overzealous about the prospects of the market. This could be a "bearish" sign.

On the political side, will Hillary choose Bill as her "running mate"? Wouldn't that be a kick!!! It would surely work as the Vice President gets his own residence. This could kill two birds with one stone!!!

New York State has produced many Presidential candidates. It appears that New York may have three in the running for '08! From the first presidential election after the Civil War to the first after World War II, Americans cast 21 ballots for President. On 15 of those election days, a New Yorker led at least one major party ticket...

Speaking of Hillary Clinton, let's talk health care. We all know that the health care system and the cost of health care have been under attack for many years. Preventive medicine and personal responsibility should be stressed. David Cutler, a health care economist at Harvard said of the health care system, "there is money to be saved, but it is not going to be cheap"!!!

It looks like the world's richest people (those holding at least \$1 million in financial assets) rose from 8.7 million persons to 9.5 million persons. Their global wealth was \$37.2 trillion dollars...they control about one quarter of the world's total wealth, or roughly 3 times the gross domestic product of the U.S.

The concentration of wealth and power is troublesome.....we ponder the consequences. Poverty and despair among the world's people is leading to ever increasing receptivity to radicalism. Yet, the world's countries have not used technology as effectively as possible to combat terrorism.

Few, if any, of the thousands of terrorists worldwide have had their fingerprints checked against global databases to find out their true identity or to verify if they are wanted or known by other countries. But try to carry a bottle of water onto a plane and you will be stopped cold.

Private Equity is the buzzword of the financial world. And why should this not continue? During the first half of 2007, private equity firms paid an estimated \$9.6 billion in fees to investment banks; this is 35% higher than last year!

The sub-prime mortgage mess has created an opportunity in many areas of the capital markets. Indeed, some of our portfolios have made gains being short this sector, and there are buying opportunities that we are monitoring.

Keep your wits about you and you can make this difficult period into one of great opportunity!

Have a great summer!

As always,

Seymour W. Zises

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