



FAMILY MANAGEMENT CORPORATION

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CAPITAL IDEAS

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“The Ninja Economy”

Ninja economy? Yes, that means that you can get a loan if you have “no income, no job and no assets.” That’s what has put the housing market into a tailspin.

Anecdotally, we have heard of low income persons buying not one, but two apartments in Miami Beach. These people are now suing developers for “irresponsibly” selling apartments to them. Obviously, little or no down payment had been required.

Why would a developer accept little or no down payment? Because in order to get a bank to lend against the construction of a project, the developer needed to have signed contracts for 75% of the apartment units. A warm body, a pen and signature proved to be enough.

The Federal Reserve still believes that no recession is coming. Maybe that is true technically speaking, but ask the average person, and they will tell you that the economy has slowed down.

At the same time, various commodity indexes have risen 15% over the last 12 months; of course, oil has led the way up – it has increased about 50%.

The standard of living continues to rise around the world. The demand for commodities has risen, and we believe it will continue to do so. There will be periods of lower growth, of course, but why shouldn’t everyone want a nice place to live, a flat screen TV, a computer, a car and a partridge in a pear tree?

Speaking of Christmas and the holidays, I have a friend who says, “I am nostalgic about the present.” I think that is a great way of expressing appreciation for each and every day of life, health and happiness.

Back to business – the markets have expressed concern over the direction of the economy, but we believe it is more so over the lack of leadership in Washington and in corporate America. Can you name one Presidential candidate that you are excited about?

Can you name more than a few of today's business leaders that you respect and admire? When I was growing up there always seemed to be a statesman that everyone respected – Adlai Stevenson, Henry “Scoop” Jackson. Where are they now?

The economic indicators of construction spending, personal savings and manufacturing trade balance are all at or below 2002 levels. The exception is the supply of housing, which is sharply higher. Very simply, we believe average housing prices are going down.

New forms of financing will be necessary to help cure this oversupply – for instance, we would propose that individuals be allowed to use up to 20% of their retirement assets tax free in order to increase their equity in their homes or to purchase new homes. We believe that this could create a reservoir of capital for the purchase of real assets and could alleviate some pressure on the financial system and the government.

The “prime rate” is now 7.5%. We believe that this rate must come down to 6% in order to help companies finance capital expenditures. Let's see what happens over the next six months. However, the “prime rate” will only come down if the Treasury lowers the cost of lending funds to banks, and so far, this has not happened fast enough.

Oil may surge well beyond \$100 per barrel (the inflation adjusted price of oil in 1980 would be \$101.70 in today's dollars) and this would not surprise us at all. If OPEC cuts its reliance on the U.S. dollar, who knows where the price of oil could go. High oil prices, as we have said in the past, need not create a crisis here. Indeed, this could be a big wake up call to the U.S. to begin AGGRESSIVE structural changes in the way we consume energy, which still remains excessive relative to the rest of the world.

The strongest quality in our country and in the businesses of our country is impatience with negative thinking. No great leader or businessman ever allowed any thought except “we'll make it work” into their heads.

Spinoza, the great philosopher said, “I have striven not to laugh at human actions, not to weep at them, nor to hate them, but to understand them.” If we take this attitude of understanding what is going on in the world, then we should find opportunity everywhere.

Our goal everyday is to understand your needs and provide you with the best advice. In 2008 we will continue to strive towards meeting our goals every day.

We truly believe the best is yet to be.

As always,

Seymour W. Zises

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