



FAMILY MANAGEMENT CORPORATION

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CAPITAL IDEAS

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139

“Party Pooper”

\$7 billion here, \$7 billion there. Sooner or later, it adds up to real money. Societe Generale’s rogue trader was only 31 years old. It took many older and wiser American Wall Streeters to lose that kind of money. Scary, isn’t it?

What is most concerning about the current mortgage securities meltdown is not that credit was extended to many who did not deserve it – it’s that there was the lack of checks and balances in the system that permitted it to happen.

To mitigate the swoon in the stock market, the Federal Reserve cut the Federal Funds rate by $\frac{3}{4}$ of a point. We believe that Mr. Bernanke has been reacting to events rather than anticipating them.

The stock market is clearly in trouble because the economy is in trouble. The collapse of credit is behind the current situation. We believe that this situation will last beyond 2008.

In the first six years of this decade, mortgage debt and consumer debt doubled. Credit card debt, we believe, will be the next shoe to drop.

A recent NBC poll found almost one-third of consumers said their priority for 2008 was to spend less.

We could be entering a period similar to the one between 1969 to 1982. In that period, it was a stock picker’s market. Short selling was very productive, and alternative asset classes, such as real estate and commodities, did well.

Nobody knows where “the market” is headed, but *caution is the operative word*.

Power, let’s talk power. The U.S. has 3% of the world’s population, and yet, consumes over 25% of the world’s power – what is wrong with this picture?

We like niche power companies as great stock plays in 2008.

Oil rich nations are now using more energy at home, cutting their ability to export. Indonesia has already made this flip, and some project that Mexico (the number two source of foreign oil for the U.S.) will flip in five years – with Iran soon to follow.

Some governments of these oil exporters subsidize gasoline prices by selling it for as little as 7 cents a gallon; that, of course, encourages great waste.

Speaking of waste, by the next Presidential election, the two nominees are expected to break the \$1 billion mark in spending.

Unfortunately, our politicians are offering no solutions, just rearrangements of our problems. Until we get competent leadership willing to make tough choices, America's course will be more reactive than active.

Please keep us very up to date on your total financial picture. We want to know how your business is, and if you anticipate any changes that could adversely affect your needs. We are confident in our ability to navigate these markets, but always need to understand where you are.

You know that our choices at Family Management are always pro-active – we will always sleep with one eye open.

Stay warm.

As always,

Seymour W. Zises

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