



FAMILY MANAGEMENT CORPORATION

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## CAPITAL IDEAS

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### “It’s A Small World”

After All!

What happens here affects there. But where is there? There is everywhere.

They (whomever they are) use to say that if America catches a cold, the rest of the world gets pneumonia. Then there were the “new age” economists who said “America’s days are over”.

We say Humbug! Without America buying goods from around the world, where would “they” be? Without American ingenuity? Capitalism? Deficits?!!!

It’s also a small world because big is out – at least we think it is. As behemoth organizations disintegrate, smaller organizations that deliver quality products and specialized services will flourish. At the end of the day, people want to deal with people.

Speaking of people, despite all the talk about the growth of China’s economy, U.S. GDP in 2007 was \$13,844 billion while China’s was \$2,773 billion; so don’t count our fortune out, cookie.

By the way, Russia’s GDP was not even one tenth of the U.S. GDP – it was \$1,290 billion. We are not DIS-“PUTIN” that Russia’s economy has emerged as powerful – but it has a long way to go!!!

More importantly, labor unions in China are becoming powerful for the first time. Workers want overtime pay! Can you imagine???! Seriously, wage inflation has become a problem in China particularly in the urban areas causing production of lower cost goods to move further out of the metro-centers into the outer provinces.

Going even farther out, life on Mars? On May 5th, the Phoenix (spacecraft) landed on Mars and discovered that its soil could produce some vegetables, especially asparagus. With all the pollution and population we have on Earth, we had better move quickly – this food is potentially “out of this world”.

Back on Earth, citizens are tired of government putting the blame on the private sector when things go wrong with the economy. The increase in oil prices have been blamed on the speculators. Of course, the government, which has not created a coherent energy and conservation policy, is not responsible for any of the predicament. Remarkable!!! In six short months, the world has become aware of the laws of supply and demand.

The massive deleveraging of the world's economies is leading to the liquidation of assets which can be sold. Great bargains will be found in those assets as buyers demand steep discounts and sellers just want to get out!!! The bargains include beaten down shares. Investors are not inclined to buy assets losing value. However, some shops are losing value because, not withstanding their intrinsic value, they must be sold!!!

As we move into the second half of the year, the challenges of investing are many. Western governments are showing poor leadership. Totalitarian systems are succeeding because of their national resource bases. Trade imbalances and deficits hamper the U.S. The U.S. Presidential election is uncertain. The planet is being abused, the list goes on...

Behavior modification is required for the U.S. to lift itself from this mess. We are overconsumers and borrowers. At the end of the day, I believe we can succeed and flourish. We have it in us to do so.

As investors, we must be mindful of this transition. Only through being nimble and cautious can we succeed.

We have managed to avoid significant pain this year. We will continue with our attitude of capital preservation and taking advantage of opportunities as they present themselves.

Albert Einstein said "the only real valuable thing is intuition."

Hold on to your hats!!!

See you in September.

As always,

Seymour W. Zises

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