



FAMILY MANAGEMENT CORPORATION

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## CAPITAL IDEAS

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### “Change”

That is what you would get from exchanging a \$10.00 bill for one share of Citigroup. Can you believe it?

As we write this letter, the U.S. government grows bigger and bigger while private industry continues to shrink. Is this absolute proof (as we have stated before) that repealing the Glass-Steagall Act was the biggest regulatory mistake of the 20th century?

It is time for responsibility and accountability to return to American business. Hopefully, both of these concepts will become valuable again in the corporate world.

When I started working, one of my first mentors taught me “People do what you inspect, not what you expect.” That principle still holds true. Ronald Reagan said, “Trust, but verify.” That’s one for the gipper!

If Senator Obama governs the way he campaigns, the country is in for a great ride. Rarely have we seen organization, fundraising and messages so clear in the race for the nation’s highest office.

And speaking of shrewd, who is it that said, “Keep your friends close, but your enemies closer”? Hilary Clinton as Secretary of State keeps both Clintons from back biting the President-elect – well, just maybe!

The stock market roared at the appointment of Timothy Geithner as Secretary of the Treasury. We always respected Hank Paulson. However, spending crisis time defending “letting” Lehman Brothers fail gives us real pause. In our view, the government should have let Lehman enter into bankruptcy with the proviso that all counter-party payments would be guaranteed by the Fed. We also believe that the automobile companies should be put into prepackaged bankruptcies.

So many of our Nation’s businesses need fresh starts under the new economic reality, not band aids for old wounds.

If you think disinflation or deflation is here to stay, think again. We believe that after a bout of deflation, a new reality will emerge similar to the 1970's when President Ford wore the "Win Pin" (Whip Inflation Now). Although we believe that interest rates are headed lower for at least six months, we feel that the yield on the 10-year Treasury note will be at least 5% at some point in the next three years. In addition, the price of gold rising is a leading indicator of future inflation.

Notwithstanding the fact that hedge funds have taken their lumps, most have performed much better than the stock market. This is not to say that the hedge fund world is problem free. In many cases, the phrase "hedge fund" has been misused; too often "hedge fund" has referred to a method of compensation rather than to an investment strategy.

There are rotten apples in every bunch, and no doubt there are plenty around now. We are proud to say that we are joining industry colleagues to form an "investor led activist and reform group" to assure that the hedge fund industry continues to weed out the bad apples and maintain the highest standards. We will keep you posted on our progress.

Many friends and clients have called me with questions about what is happening. In my view, the system became contaminated by easy access to credit and poor government self-regulation somewhat similar to giving a child all the candy he or she wants...

Our society has become irresponsible in many ways – a new age of fiscal responsibility is about to emerge. But it will take five years to feel the effects of the new business cycle and the tax and fiscal initiatives. (This does not mean five years of poor returns.)

Additionally, the world is interdependent. There is no such thing as diversification if all one does is invest on the basis that "over time the stock markets go up".

It is important that we're aware of our *true* risk tolerance in light of what has happened in the economy. Doing so requires careful re-examination of how family, health, career, emotional state, etc. affects one's financial goals and appetite for risk moving forward.

At Family Management, we strive to create individual financial profiles and portfolios – we want to get it right for you!

Though we are far from perfect, we will always give 150%.

For your friendship, support, patience and loyalty through a very difficult year, we want to thank you from the bottom of our hearts.

May 2009 bring you good health, happiness, profits and always keep in mind that The Best is Yet to Be!!!

Happy Holidays!

As always,

Seymour W. Zises

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