



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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“The New Deal”

"We must accept finite disappointment, but we must never lose infinite hope" said by Martin Luther King, Jr. These days, his comment could not be more relevant.

The underpinning of every capitalist society is the financial strength of its banks. As of this writing, most of America's large financial institutions have been compromised by loose lending standards and securitization of residential and commercial mortgages. We believe that these institutions were in too many businesses creating conflicts that inherently led them to muddy their balance sheets. When the added dimension of leverage came into play, it was like throwing kerosene on a fire. Money and humans have proven to be a highly combustible combination.

Strong balance sheets are critical to survive long recessions. Fortunately, the U.S. government will restore the balance sheets of the major U.S. banks no matter how much money it takes.

The systemic problems that created this deepening recession have many parties to blame—that is old news. Think of the recession as a big hole in the ground. The government will continue to pour money into that hole until it believes the hole is filled back up to ground level. The government usually continues to such an extent that it puts more money than needed and the money starts to pile up above the hole. This creates inflation.

In our opinion, this is likely to occur now because the government would rather deal with inflation than deflation. Therefore, until there are positive signs in the economy, we believe the government will continue to keep interest rates very low and the financial system awash in liquidity.

The turnaround that we are all hoping for is not likely to happen quickly. We are still watching the deterioration in the form of layoffs and bankruptcies.

If you were planning to die next year to avoid the estate tax, think again! President Obama has said that he plans to repeal the law eliminating the estate tax in 2010.

On a positive note, this year the individual estate tax exclusion (for federal purposes) has been raised to \$3,500,000.

Carlos Slim Helú, the second richest man in the world and one of the most successful media businessmen of all time, is investing \$250 million in The New York Times Company in exchange for the right to convert his holding into a majority equity position. Such is the weakness of some of the greatest American institutions.

What has happened? Have we been depleting our bounty at the expense of our future? I think the answer is a resounding yes.

Here is our interpretation: After 9/11, America went on a spending binge. Our country watched innocent people die and, as a result, many of us decided to live for today. The savings rate of Americans declined and consumerism was the word of the day. Consumer and mortgage debt ballooned (no pun intended) and the piper eventually showed up.

Now for the GREAT news. America will change. We will become a nation of savers and investors. And I believe that we will also become a nation of innovators and manufacturers again.

The risks you may ask? The risks are fear, despair, laziness and lack of good government.

But I am a Believer! We as a nation will overcome this dip.

What is exciting is to look for the opportunity and the silver lining in the cloud.

Despite difficult markets and unsavory characters that live in our waters, we will navigate this period with a rededication to all of the principles that have always guided our firm.

Tough people last—tough times do not! Help someone you care about and YOU will feel better.

Stay warm and safe.

As always,

Seymour W. Zises

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