



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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“Zig Zag”

What is the price to earnings multiple on hope? The stock market advanced as soon as President Obama said that it was a good buy. Did he mean a “good-bye”? Maybe the President should head for Wall Street after his career in government.

As the markets have surged over 30 percent in the last few months, we find ourselves saying “where’s the beef?”

In referring to the economy, Larry Summers, a former Treasury Secretary and the current Director of the National Economic Council, said that it no longer feels like a ball falling off a table. So does it feel like a ball bouncing once it has fallen off a table?

Anecdotally, many of our clients say that “it feels better”; some say “it feels better” just because they have become used to it, and some say it actually is better. So I guess when we realize that there is nothing to fear but fear itself that it actually is better!! Now...when “it feels better” consumers do what they do best, which is consume. The economy needs its balance sheet to be restructured and quickly. Banks needed to raise capital, which they did, while they wrote down bad loans. The Government “stress tested” the banks to determine how much extra capital they needed. This comforted the markets.

By and large, everyone agrees that business is off 25-35 percent. When lenders, buyers and sellers are able to digest this concept, the velocity of transactions will increase and the engines will start moving—in some places this is actually occurring.

So, as we write this letter, General Motors, once one of the nation’s largest corporations, is preparing to file for bankruptcy. What happened? GM’s costs were bloated, their products inferior, their management asleep and thus, their customers moved to better and more valued product. The average car in America is 9.4 years old. The companies that make the cars of the future will be some of the greatest new businesses of the 21st century. Why? Because the “green theme” will be increasingly important, and it is an example of a theme that will carry America out of its malaise.

Russia's pullback, commensurate with oil's pullback, may end soon if the price of crude continues to climb. If the dollar continues to fall, this will also benefit the Russians as oil is priced in dollars.

China's accelerating power in its relationship with the United States is both good and bad; Bad because we should have never allowed ourselves to become so deeply in debt, and Good because the symbiotic nature of the relationship will most likely keep it in balance. We'll see.....

Speaking of China, the U.S. Government is borrowing money at an unprecedented rate. This has resulted in an increase in interest rates in the last few weeks. This rise is very dangerous and certainly must be monitored very closely—especially by fixed income investors. We have been buying bonds with this situation in mind and, therefore, we are well positioned to take advantage of rising interest rates. (Please be very careful if you are invested in bond funds, as you can never know if the capital will be preserved as is usually the case with individual bonds.)

Market volatility seems to have abated, but we believe this may be a temporary situation. Do not take on more risk than you can handle. It is important to set your asset allocation properly to ride out waves of volatility and potential inflation.

We are concentrating portfolios in “blue chip” and solid dividend producing equities, high quality corporate and municipal bonds and a stable of quality managers in the hedge fund and separate account space.

Our real estate portfolios have high quality and well leased assets, and high yielding secured debt instruments which hold great promise in their cash flows and appreciation potential.

The summer may be calm, but do not expect the markets to forgive investors for overreaching for returns. The time for caution has not passed, but we do give the Government high marks for taking the patient out of the emergency room.

Wear sunscreen!

As always,

Seymour W. Zises

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