



## CAPITAL IDEAS

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### “A Pain in the Ash”

The Iceland volcano severely impaired the travel of millions of people just as the oil spewing into the Gulf of Mexico severely impaired the travel of millions of fish. From top to bottom, things are looking mighty glum these days.

Speaking of top to bottom, as Attorney General Blumenthal’s campaign for U.S. Senate in Connecticut was just taking off, his statements about serving in Vietnam brought his poll numbers down significantly – we frankly can’t see why; after all, isn’t this part of what we have become accustomed to from our politicians??!!

The head of the International Money Fund said that while the global economic recovery was proceeding faster than expected, it was still vulnerable to threats posed by long term unsustainable public debts. At some point, the shoe will have to drop on the countries that are borrowing too much, including the U.S.

For the first time in my memory, it is now cheaper for some U.S. companies to borrow than it is for the U.S. Government– Pepsi, Hewlett Packard and Berkshire Hathaway to name a few. This reflects that there is more confidence in well run businesses than in poorly run countries. For all the attacks on private enterprise that are occurring in this country, ultimately businessmen seem to solve their problems better than politicians. Incumbents, look out in November!!

The top 15 U.S. technology companies have a combined \$316 billion of cash – WOW!! That is good fodder for stock buybacks, acquisitions and increased dividends. We are looking to put more money to work in this sector.

Corporate profits have been strong. The average S&P component company has beat profit forecasts by 15%. It is troubling though, that revenues have only increased .8%. From this we can deduce that slashing costs and reducing overhead have largely been responsible for the profit increase. But how long can this cost cutting last?

The “flash crash” was a scary phenomenon – the regulators must find out why this occurred so that public confidence in markets is not impugned further.

The U.S. Dollar has strengthened against the Euro because of Greece’s financial woes followed by troubling debt loads in Portugal, Spain and Italy. We like the currencies and bonds of countries that have been

fiscally responsible. They should perform well relative to those of countries that are abusing the printing presses.

The stock market has been a challenging place to invest, and that is why we have focused on high dividend yields and companies with strong balance sheets.

Long-short managers are generally having a difficult year because the market has moved on many factors unrelated to corporate and economic fundamentals. Prevailing macroeconomic uncertainties relating to Europe only further complicate the current investment landscape. It is key in these times to stay diversified and not to take on more risk than one can handle. We still believe that a recovery is underway in the U.S., but when world markets want to buy or sell “risk”, volatility is inevitable.

We would like to leave you with this final note. During our twenty plus years in business, we have aligned our interests firmly with our clients. Unlike many of our competitors, we did not receive government assistance during the turmoil of 2008-2009 to keep our businesses afloat, and in times of stress, we took our own money, not the government’s, to advocate and protect our clients’ interests. We are completely dedicated to your satisfaction. While we will not always be right on every decision, we will always serve you with integrity and loyalty.

In these very challenging times for investors, business and our country, let’s remember that opportunity is always knocking, and we will be there to open the door for you.

As always,

Seymour W. Zises

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