



CAPITAL IDEAS

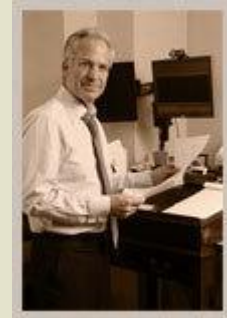
September – October, 2011

161

“Grecian Formula”

As the world turns, we are now faced with pessimists almost everywhere we look. It is as if we have never faced large deficits and high unemployment before. Solutions exist to the economic problems we face, but there is little, if any, debate about the sociological changes this country has undergone and what the impact of these changes has been. I call our current state of affairs “The Era of Me”.

The individual, rather than family or country, has become the priority and focal point and, in many respects, has caused the dilution of our ethics, our strength and our resolve as a nation. Further, the state has become the safety net as opposed to the family...that is just not a good thing.



Fifty years ago, our nation admired those with courage, principles, discipline and patriotism. Now, we see one politician after another preach bipartisanship while stonewalling each other's proposals to no good end. The population is fed up, and Herman Cain's win in the Florida straw poll is just one example.

The "September Massacre" has taken no prisoners. Every asset class except for high quality bonds has suffered. A small number of stocks have performed, but they have been few and far between.

Fortunately for us, the majority of our equity holdings are high quality, high dividend stocks. Many of them got marked down, but by less than the market as a whole and the dividends helped soften the blow. Our bond portfolios have performed extremely well, as did most of our hedge fund holdings.

Among our asset classes, the two primary disappointments have been foreign bond holdings and commodity exposure. We believe that non-dollar exposure continues to represent an important component in many portfolios and have retained our exposure in this area. However, we cut back the commodity exposure due to internal risk control factors.

Doomsayers abound, from George Soros to pundits on CNBC. For sure, this is the choppiest, most challenging time I have EVER seen for markets. The problems are (i) a dysfunctional United States government, (ii) an over leveraged economy from home mortgages to credit cards, (iii) a European currency and monetary union which may fail (G-d forbid) due to the inability of the "P.I.I.G.S (Portugal, Italy, Ireland, Greece and Spain) to get their financial houses in order and (iv) the “managed” slowdown in China.

Putin has decided it is time for him to reassume the Russian presidency...whatever happened to "Gorby"? This is more evidence that Russia is a “back to the future” country.

The gold trade rattled investors, as margin calls and stock market downdrafts sent weaker holders to the sidelines. We expect the metal to shine again as quantitative easing #3 becomes more obvious to Fed observers.



Mayor Michael Bloomberg said, “We have a lot of kids graduating college who can’t find jobs. That’s what happened in Cairo. That’s what happened in Madrid. You don’t want those kind of riots here...” Mayor Bloomberg is correct. We need a jobs program through strong tax incentives here. Those incentives should be directed towards growing industries and to educational programs.

Is it not ironic that over-regulation occurs when the economy is weak, and under-regulation occurs when the economy is booming and freewheeling? The pendulum on regulation always swings too far in reaction to the last crisis...don’t they get it in D.C.?

President Obama is out campaigning already. Raising money is his number one job. Are we not sick and tired of the political money raising machine? If only they were as good at raising a few dollars to keep the country running! Is the best man or woman winning the race, or is it the guy with the best fundraising apparatus?

Governors Cuomo and Christie (the Two C’s) are inspiring their local constituents to believe in government, and we applaud their practical and common sense approach to governing. It would be interesting to see these two as opponents in the 2016 presidential election.

Diversification is critical in these uncertain times. Too many let fear hold their investments hostage. As Warren Buffet says, “When the sun is shining, it is too late to buy cheap.” Keep your allocations in line with what you can handle emotionally. Otherwise, your plan may get scuttled.

We believe the problems of the world are very solvable. We need leadership that is above petty partisanship. Once we achieve that, the United States will be off and running again.

As a friend of mine said, the United States needs a “mood transplant.” I am hopeful that as the holiday season approaches, we will be uplifted by the news that our leaders, and those around the world, will make good choices and bring about the confidence that is sorely needed.

The best is yet to be!.

As always,

Seymour W. Zises

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