December 10, 2009

Dear Client,

We hope all is well with you and your family in this holiday season!

We wanted to sum up a few thoughts on the markets, economy, and investments since our last conference call, by answering some questions clients have been asking…

Why has the market increased so much this year while the economy is just now turning around?

- The market as measured by the S&P 500 has increased about 63% since its March 9 low and is up 22% for 2009 (*Business Week*). Of course, past performance does not guarantee future results. Yet, the economy expanded at a 3.5% rate in the 3rd quarter, unemployment is high, incomes are stagnant and consumers are shaky (*Newsweek*).
- This has occurred, in our opinion, mainly because the stock market is the best leading indicator of economic cycles (think back when the market started going down October 2007 but the strong economy was barely showing cracks in the dam). Fast forward to a few weeks ago, when unemployment (the lagging of the lagging indicators) hit over 10% and the market continued to rally. In our opinion, the market looks ahead (driving looking through the windshield), while most economic indicators interpret data that has occurred (driving while looking in the rear-view mirror). We believe the market is pointing towards a better economic cycle ahead.
- We believe another reason could be that most companies that make up the Dow, S&P 500, and NASDAQ are large global businesses. In 2008, with 253 of the 500 companies in the S&P 500 breaking out revenues between U.S. and non-U.S., 48% of their collective sales came from non-U.S. customers and operations (*Newsweek*); for example, in the 2nd quarter of 2007, 66% of an unnamed beverage company's business came from outside of North America (*Newsweek*). Given the trends in our global economy, it may be possible to have a lasting rally in American stocks without a sustainable rally by American consumers (*Newsweek*). Of course, no one can predict the markets with any certainty.
- A third reason could be an old phrase…bull markets climb a wall of worry. And there is plenty to worry about today. When people – consumers and corporations – worry, their money is not fully invested (they invest more with their hearts than with their heads). Significantly, more money has flowed into conservative investments – bond have taken in nearly $330 billion so far this year and U.S. stock investments have lost (net outflows) $28 billion (*Businessweek*).
- Individual investors in U.S. stocks are only slightly less bearish than they were in March, when the market hit a 12 ½-year low (*Businessweek*). Again, people act as they feel and have a very large collective cash investment - money market assets total $3.3 trillion, according to the Investment Company Institute (*Businessweek*).

How do you sum up the roller coaster like volatility of the stock market, over the past few years?

- Markets, for the most part in our history, are volatile - going up or down - and fluctuations will increase when you add emotional components, i.e. fear and greed.
- As we have said many times, it's never as bad as it seems at the bottom and never as good at the top…and somewhere in between lies the truth.

- We responded to the relative unknown a year ago by holding a large cash allocation and were even more protective of values in the first two months of 2009 (cash was greater than 50%).
- Our awareness to the winds of change in the markets led us to slowly invest cash over the past 10 months and we are now holding about 15-20% in cash, meaning 85% of equity allocation is invested.
- We have learned to respect changes in the economy and in the market, so we started to invest excessive (but comfortable) cash amounts in the beginning of March and continued to buy as the trend continues.

Has our investment management process changed given the market volatility?

- No. We have found success in owning high quality businesses over the long term; however, our technical analysis - charting supply and demand changes of stock prices - plays a more integral role in the timing of our buy and sell decisions.
- Fundamental analysis is the core to our decision-making on what we buy, what we do not buy (sometimes more important) and what we sell.
- In essence, fundamental analysis is the "what" of our buying, holding, and selling and technical analysis is the "when."

How long can this trend continue?

- It is a fool's game to predict since no one truly knows with any degree of certainty, although that is what all those talking heads on the 24-7 news shows do for a living (side note: please watch them for entertainment value only).
- Alan Shaw, a well-respect market technician, years ago used to tell us, "the trend is your friend and don't fight the trend."
- So, we respect the trend and are invested, for the most part, but we find ourselves easing off the gas pedal with our foot hovering over the brake – ready to tap lightly but for now smooth driving conditions ahead.
- This uptrend can and, for many reasons, should stop soon but can also continue well into the New Year…so we remain vigilant in watching prices, valuations, and trend changes.

What about all of the bank failures? What impact are they having on the markets?

- As of December 6, there have been 130 banks that have closed in 2009 (*New York Times*), the most in 16 years (*Investor's Business Daily*). Over this past week, for example, the Federal Deposit Insurance Corporation (FDIC) took over AmTrust Bank, whose failure is expected to cost the federal deposit insurance fund about $2 billion (*New York Times*).
- The FDIC has spent all their surplus bailing out failed banks and their deposit fund fell into an $8.2 billion deficit in the 3rd quarter (*Investor's Business Daily*).
- The FDIC set aside almost $22 billion for expected losses on future bank failures and recently ordered banks to prepay three years' worth of insurance premiums to shore up the deposit fund (*Investor's Business Daily*).
- The effect in our opinion is that the banks will remain secure and insured but this comes at a price…they will not be making substantial payouts to depositors (in the form of high CD rates). This is why we believe CD rates will remain low, well after the Federal Reserve Board starts to increase interest rates.
- We have had many worthwhile conversations talking through different cash alternative solutions with clients, so please talk to us if we might be able to help.

What are our choices given low interest rates on CDs?

- Although CDs have risks given the numerous bank failures just discussed, FDIC insurance still gives many a level of comfort; if you are an investor worried more about the return of your investment than the return on your investment, then we believe, CDs may still be one of the most conservative options.
- If you have cash in the banks that should be invested and are comfortable taking some risk, we believe that the total return (price + dividends) of high quality dividend-paying stocks may be well rewarded over the next 2- 3 years. *Changes in market conditions or a company's financial condition may impact the company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments.*
- As the economy improves, earnings should improve as well and the likelihood of companies increasing their dividends rises; thus, you might have a very good return on your investment from stock prices increasing + dividends being paid + dividends being increased.
- We believe the total return of dividend-paying common stocks will be much higher than both CDs and the negative real returns of bonds (please remember that bond prices decline as interest rates rise and a negative real return happens when the price drop is more than the income received from owning a bond).

CDs are insured by the FDIC and may provide fixed yields, whereas alternative investments' principal and yield will fluctuate with changes in market conditions and may not be insured.

So what have we learned from this last economic cycle?

- To be properly diversified, and this means different things to different people, given their stage of life, risk tolerance, goals, and needs. *Diversification does not guarantee a profit or protect against loss.*
- To recognize that markets are like a major highway – be alert (no texting and stay off your phones), stay in your lane, at times it's fine to pass, other times to drive cautiously, and change your driving depending on traffic, weather conditions, etc.
- There will always be a tomorrow and the markets, in our opinion, may remain full of opportunities – let's all learn from the recent past that the best opportunities in the future will present themselves at a time when no one may recognize the value.
- Oscar Wilde had said, "Education is an admirable thing, but it is well to remember from time to time that nothing that is worth knowing can be taught."

What should we be thinking about doing now, in terms of any tangible investment planning?

- Talk to your accountant, if anything is changing in your financial lives, especially between this year or next, for he/she might have insight into any tax or income planning, i.e. realizing income today or deferring income.
- Think about converting IRAs (tax-deferred investments) to Roth IRAs (potentially tax-free investments), by paying some income tax now. Of course, this is a personal decision. *Stifel does not offer tax advice. Please consult with your tax advisor regarding your particular situation.*

What's new at The Fishbein Group?

- The Fishbein clan (15 in total - includes Norman and Bobbi, their children and grandchildren) just spent Thanksgiving in Disney celebrating Bobbi's birthday! And thankfully, we all survived!
- Norman is spending most of the winter months in Florida, while continuing to talk to clients and research companies for client's accounts.

- Staci and Rich are enjoying all of their first holidays with their twins, Aaron and Ava, who are doing great at ten months old.
- We look forward to moving into our new Garden City office in a few weeks. You will receive announcement cards with our new address and the branch will be having an opening celebration (date to be determined), so we look forward to seeing those who can attend.

On a more personal note…

- Many of you have made good suggestions on our communication, including our conference calls and commentary e-mails (like this one); for this reason, we will alternate these commentary e-mails approximately every six months with our conference calls every six months, so our macro investment and planning thoughts will be conveyed on a quarterly basis.
- We wanted to send a heartfelt thank you, to all of you who have referred their family and friends to us. After what seemed like a long time without new client conversations, your potential client introductions have been great. We will continue to help all of our current clients and new clients who have been lost for direction in this difficult market cycle.
- In the spirit of being thankful for all we have, this begins with family and friends. We are fortunate to have forged friendships and strong relationships with many of you; you have become our extended family and we are grateful for our multi-decade long relationships, with many good wishes for the future.

We wish you and all of your families a very happy holidays and wonderful New Year - enjoy the holiday season!

Warm regards,

Norman and Perry