

Private Wealth MANAGEMENT



Politics & Portfolios

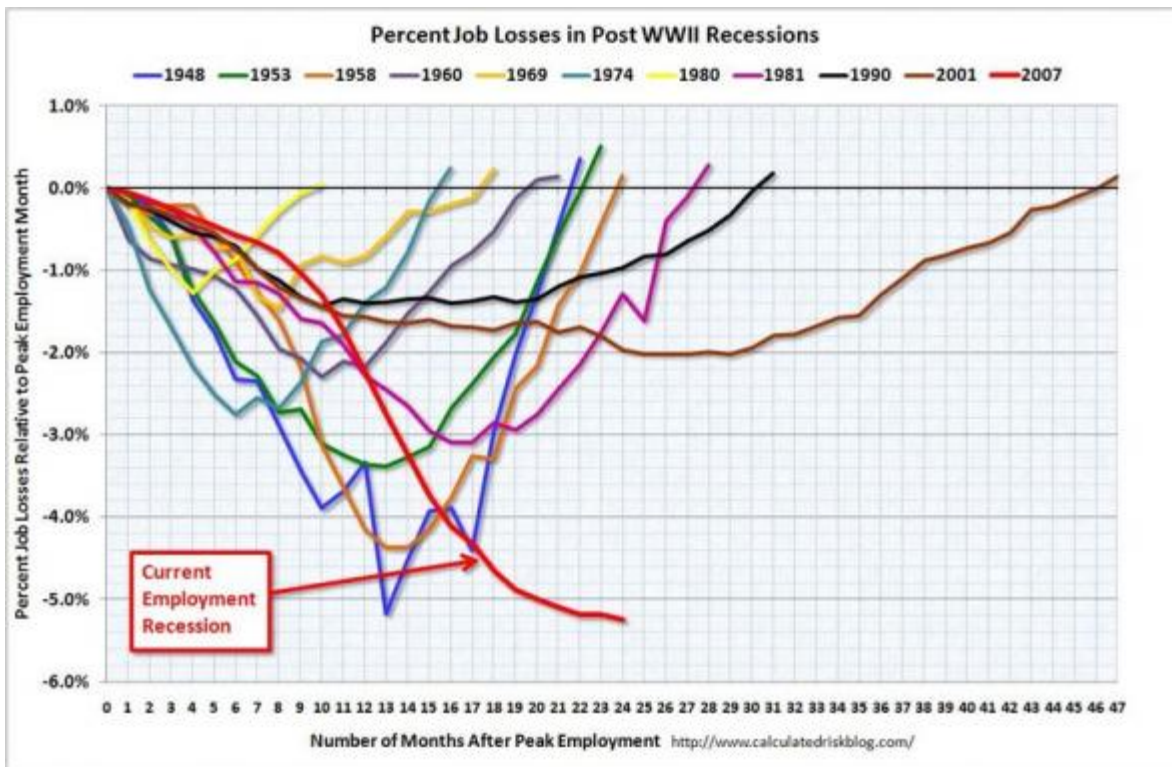
Early in my career, a mentor gave me some great advice. He said I should never discuss religion or politics while advising clients—I immediately realized why. Today I am forced to go against that advice and briefly discuss politics. Not because I want to, but because as stewards of other people’s wealth, it is our duty to be alert to anything that may impact that wealth.

I have often heard it said that politics is a “necessary evil”. Lately, it seems people are perceiving politics as being more “evil” than “necessary”. A recent poll by RCP (Real Clear Politics 01/31/10) reveals that almost 60% of Americans feel the country is headed in the wrong direction (57.5%). To quickly understand why, consider the following facts as reported by world renowned economist, David Rosenberg (12/15/09).

Today, more than one in every eight Americans...

- with a mortgage, is behind on payments or already in the foreclosure process
- is either unemployed, or underemployed
- is on a food stamp program

In my opinion the only way to improve the horrible situation outlined above is to create more jobs. I’m sure you have heard over and over again how bad the labor market is. This next chart does a good job of making that point very clear. The red line represents what we are witnessing right now...



Unfortunately, it seems our confidence in the ability of politicians to “create and save” jobs is small and shrinking

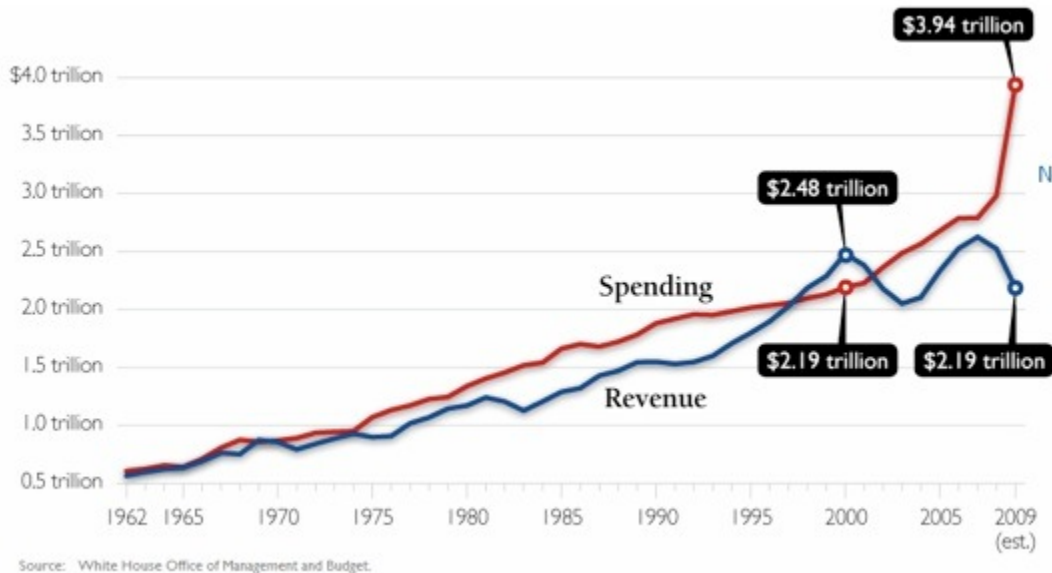
by the day. To illustrate, consider that last year, the government decided to raise the minimum wage to \$7.25.

Now ask yourself, how many of the people looking for jobs, or struggling with bills, would be willing to work for \$6.50/hr. What about \$6.00/hr.? I think that many would be willing to work for much less than the minimum wage if given the opportunity. We feel that wages should be determined by employers and employees, and not by politicians, so that we can remain competitive in today's global economy.

When a business owner or investor faces uncertainty regarding taxes and regulations, they hesitate to invest (as they should). That's why it's not surprising that many small business plans, capital investments, and hence, new

jobs, appear to have been shelved until the clouds of confusion clear up. Today, there are clouds around, healthcare reform, financial reform, tax reform, and climate reform (cap & trade). This does not look like an investor-friendly or job-friendly environment.

As the self proclaimed "public servants" continue beating dead horses on Capital Hill, take a glance at what America's own income statement looks like in the picture below (a picture is now worth a trillion words). The red line represents what our government is spending now (but does NOT include any of the reforms I mentioned) and the blue line represents what they collect from us via taxes.



We simply will not be able to keep sweeping this problem under the rug—there is no rug in the world big enough.

So let's cut to the chase; what should we do with our money?

In general we believe that most stocks (here and abroad) are at or above fair value. Risk/reward opportunities can be found in fixed income markets. Opportunities are still in distressed assets, secured debt, but they require much more homework to locate.

Although we are bearish on the US dollar in the long term, the problems in Europe (Greece, Ireland, Portugal, and Spain to name a few) may increase volatility and spark a flight to quality, meaning that the US dollar could rally in

the short term. We recommend keeping some cash on the sidelines for opportunities that might arise later in the year. Please note, everyone's situation varies so please talk to us to determine what is appropriate given your situation.

As always, please feel free to call us with any questions, concerns, or comments. Have fun at your Super Bowl party, and feel free to borrow any of the points above during the inevitable conversations about money and politics.

Respectfully,

Vijay J. Marolia, MBA
Chief Investment Officer

Disclosure: The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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