The Investment Cha Cha Cha

First Quarter 2009

You take two steps forward, two steps back, one step forward, and another back. Heck, you don't even know if you are the partner dancing forward or back. One, two, cha cha cha.

Don't we all wish that this were only an episode of "*Dancing with the Stars*?" Since the market peak in October of 2007, it seems the whole investment world has fallen on its head. I do not have to remind you of everything we have been through; sub prime mortgages, CDO's, CMO's, credit default swaps, the great credit squeeze, hedge fund meltdowns and, of course, the Bernard Madoff fiasco. Our heads were spinning more than if our partner on "*Dancing with the Stars*" spun us off the stage.

We are in the middle of a major recession. As recently as a month ago, the Dow touched its lowest level in 12 years; we were all convinced that we were closer to 5,000 (on the way down to zero) than 8,000, on the way to recovery.

At the end of last year, we were hopeful the new administration would have all the answers. We still remembered the old phrase "What is good for General Motors is Good for the Nation;" now we sit looking at job losses hitting 650,000 a month and we are seriously discussing the potential of bankruptcy for GM.

Yet all is not bad. Since March 6th, we have seen the markets go up for 5 weeks in a row. By now, you should have seen your March statements, and for the first time in a while, your accounts are moving in the right direction. The big money center banks, such as CitiBank and Bank of America, stated they actually made money in January and February. Some companies are starting to discuss improvements down the road and even housing sales are starting to bottom.

As we have discussed many times before, a large percentage of market upswings happen fast and cannot be anticipated and that is the reason we have been so resistant to leave the markets entirely. We stated that if we went to the sidelines then we might not have been there for a large part of the correction. Though many of you were skeptical, the last few weeks should have put that skepticism to rest.

Earlier this month, I had the pleasure of having lunch with two of the most respected mutual fund managers in the business: Marty Whitman of Third Avenue Value and Jean-Marie Eveillard of First Eagle Sogen Funds. Both are considered among the best value managers of all time. Marty, who has been in this business for over fifty years, emphatically stated that the values he sees in this market are the most compelling that he has seen at any time in his life. Jean-Marie, who just retired for the second time agrees, and they both feel plenty of bargains exist. Although their enthusiasm is no guarantee we have seen the bottom, we all should pay attention to their experience.

Where does that put us? Well, we are beginning to see some signs of recovery. For the moment, inflation is low. As of the writing of this letter, CNBC reported that the year over year inflation was -0.4%. This is the first time since 1955 that inflation has been negative[1]. This should remove any pressure from the Federal Reserve Board to raise interest rates too soon. We need to see unemployment start to moderate, and the housing market start to stabilize. In the mean time, we need to be diligent both managing risk and taking advantage of any opportunities that present themselves to us. As we move from spring to summer, we look forward to putting this long, ugly winter behind us.

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[1] CNBC.com 04/15/2009