Metropolitan Capital Strategies, LLC
Wednesday, December 10, 2008
4:15 EST

Sharon Snow:

Hello to new listeners, thanks to our clients and returning callers. On today's call we have myself, Sharon Snow, and Dave Schombert, our Chief Investment Officer.

The fantastic news is that we have remained positive for calendar year 2008, and since inception May 2007, we are positive approximately 20% net of fees. MCS has met our objectives of no negative years and beating the S&P 500 by 20% annually or greater per ADV.

Our intent is for clients to relax, focus on their businesses and families and not worry. I'd like to address the concern that some have mentioned that perhaps our strategy may not work in this "new environment." Our answer is - the MCS strategy is working. We have avoided losses and are patiently waiting for the opportunity that will enable us to make double digit profits with low risk.

When will that occur you may ask? We want some activity… while we do not know the exact timing, but it should be sooner rather than later, and activity for activity sake does not equal results.

The MCS results speak for themselves. As of 9/30/08, MCS is one of the top performing managers in the country and we have been rated a TOP GUN money manager in the PSN Informa database that professionals use to evaluate money managers. This is one of the premier honors that a money manager can receive.

Some of you have voiced a concern about paying a fee if we are in a long term bear market. As you know, with investment products you pay a fee whether the money is in a mutual fund, hedge fund, wrap account, or if you purchase stocks or bonds on a transactional basis. The results show the earlier MCS became your manager the better off you would be at this point in time. Loss avoidance alone is a valuable service.

Here is an example to make loss avoidance clearer:

If you have a paper and pencil handy, write these numbers down. Let's say you had a $100k portfolio at the end of 2007 and a loss of 40% of the value this year just like the S&P 500-you would be left with $60K. If the market comes roaring back in 2009 with a 40% gain- you are back to $84K. The market returned your 40% but you are still down $14K on your $100K portfolio. Loss avoidance is paramount to making money. With MCS you avoided loosing the 40% and your 40% gain in 2009 on the $100k portfolio would be $140K the following year. That is a difference of $56K in a $100K portfolio in the same time period with loss avoidance.
It is important to remember that **whenever** you became a client you have benefited from our services. Clients that have been with us since inception of the firm are positive 20% net of fees,

and have benefitted the most, but whatever time frame you converted to MCS, you beat the market by avoiding additional losses.

For those of you who asked how we intend on doubling the money every five years, we have a great start with 20% in the first eighteen months during one of the worst bear markets ever. For those that just came in as clients avoiding any additional losses provides a stable base of your principal to grow your funds as I have shown in the example I just used. The bottom line is everyone who is a MCS client has benefited from our services and there are plenty of investors out there who would have gladly paid twice our fee to avoid the losses they have incurred this year.

So let's move on to Dave to provide an update on the market:

Dave Schombert:

We have been in the bear market for over a year now. A normal bear cycle is typically 18-36 months. Currently, we expect a recovery around the 2nd half of 2009. However, from an investment standpoint, we expect the risk to lower significantly which should allow us to capitalize on that environment for our portfolios.

One of the gauges we use to determine fear, risk and uncertainty in the marketplace is the VIX indicator. The VIX measures how many puts vs. calls are being purchased. The more puts being purchased vs. calls, the greater the uncertainty as to which direction the market is headed for the next 30 days. The VIX has been in extreme negative territory since September 2008 and currently remains in a very cautious range. This is just one of our indicators that we use and one example of why we remain very cautious in this environment.

Economics continue to deteriorate across the board. Unemployment, new and existing home sales, durable and non durable goods, and GDP all continue to decline. It is our opinion that these numbers should stabilize around Q2 2009. We are closer to the bottom than we were on our last conference call of September 24th. The low of November 21st might prove to be the bottom of the stock market deterioration. However, two things may occur:

1.) The market could retest the Nov 21st low within the next 6 month and/or
2.) The market could take another leg down and set a new market low.

While we look for an entry point into the stock market, we need to keep these two factors in mind.

Despite these negative indicators, next year is lining up to provide MCS some real opportunities. Let's use Japan or the Nikki index for an example. They have been in a negative environment since 1990, yet the opportunities that have been provided to make money in their stock market have been phenomenal. Along with the rest of the world, it began another decline at the end of 2007. When reviewing the chart patterns, there were many opportunities to make money prior to that despite the fact that their real estate market has not recovered and they experienced a banking crisis. While this is not the only example it is one that parallels or mirrors the current early stages of the US economy.

Sharon Snow:

Now let's move onto some questions we've had.

Question - What is the average percent return needed to double the money with the MCS strategy in 5 years? How can we double the money if the financial markets stay the same given the current bear market?

Dave Schombert:

Answer - The average annual rate of return is 14.4% to double the account value every 5 years. Remember, as we go forward, the stock market will establish channels within which it will fluctuate until events change. Once the channels are established the risks will be lower so we can enter the market with our risk reward ratios.

Sharon Snow:

Question - What criteria will MCS use to invest in equities?

Dave Schombert:

Answer - When you say equities, we use Exchange Traded Funds, as we have said previously and have stated in our ADV, to reduce risk. The #1 criteria to invest is the timeframe that the risk is 10% or lower with an upside potential return of 10 to 20%. Other criteria will be the trend of economic indicators improving, the strengthening of profits and increasing revenues for most companies.

Sharon Snow:

Question - I am concerned about the future value of the US Dollar? Would MCS convert to a more stable currency other than the dollar, perhaps a currency that is based on the Gold Standard?

Dave Schombert:

Answer - The only time we would consider another currency would be if the US Dollar appears to be headed for dire straits. Utilizing another currency involves risks associated with the political stability of another country, the inherent possibility of devaluation or the potential for gold to drop in value which could affect the value of that particular currency.

Sharon Snow:

Dave, we received a mixed bag of questions with some people being extremely negative toward the stock market thinking the S&P will go below the low of 750 and settling in at 600-700 and wanting MCS to short the market, and others that want to know what the option strategy will be if that happens?

Dave Schombert:

Whether we go long or short the market, the same criteria is followed. Again, the amount of risk involved in a transaction is the primary factor for determining when we invest - whether it's long or short. Having a channel established helps reduce risk. The market environment over the past six weeks since our last call verifies this. The market moved from 900 down to 750 and back. We use the same macro strategy regardless of market conditions.

Sharon Snow:

Question - When do you see the bottom of the market, because I am not going to put my money into MCS until you get into the market?

Dave Schombert:

Answer - First and foremost it needs to be clarified that MCS clients have been invested all year. There are three asset classes available for investments: stocks, bonds and cash. MCS chose the cash position because it afforded us the greatest protection and lowest risk considering the environment and the risks associated with stocks and bonds in 2008.

Secondly, if an investor is not invested with MCS now, what is he/she currently invested in, and how great a risk do those investments carry with respect to the possibility of declining further in value?

Do those investments have the potential to outperform the market in the future? What one needs to do is ask themselves, do I feel comfortable with MCS's approach to the market and will I have the confidence and trust in their ability to avoid downturns in a bear market and outperform the market in a bull market.

Sharon Snow:

Thanks Dave. In closing we would like to wish all a very Happy Holiday season and a Happy New Year. We want to say a special thanks to all of our clients and we look forward to a positive year in 2009.

Best to all, Cheers!!!!