
Metropolitan Capital Strategies, LLC
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4:15 EST

Sharon Snow:

Good afternoon everyone. I'd like to welcome everyone to our final 2009 MCS Conference Call. On today's call we have myself, Sharon Snow, and our CIO and Portfolio Manager, Dave Schombert. We have a mix of people on the call today - private clients, prospects, industry professionals, pensions, and endowment and foundation board members. Today we'll be talking about:

- 1.) MCS philosophy and approach to the stock market
- 2.) The stock market - past, present, and future
- 3.) The business environment
- 4.) Economic challenges ahead

MCS Philosophy and approach to the stock market

If you are a prospect listening, you want to know why you should hire MCS. Clients want clarification on 2009 and want to know what MCS is going to do next year and beyond. We want to make it clear to you. Clients have their money with MCS, and prospects want to hire MCS because of our philosophy and long-term goals. MCS does not invest by tracking a benchmark; we have specific long term goals instead. We are unique, we manage risk. Our goals are to protect principal and appreciation, double money every five years net of fees, and not have a negative year. We purposely added the flexibility to go to any asset class including cash when times are tough. These goals result in low standard deviation, outstanding performance over long-term time periods, and less volatility and concern for clients.

Let's break those goals down. Almost all other managers just track a benchmark, so common sense tells us if we have an anemic recovery, as many experts suggest, they will have anemic results tracking a benchmark. Well over half of all managers have results far under their respective benchmarks. Here is an example of the MCS strategy versus tracking a benchmark over long periods of time. On January 1, 1995 the S&P 500 Index was approximately 500 and is now approximately 1,100, which is a 15 year time period. The S&P 500 barely doubled your money if you tracked the S&P. We publish our goal to accomplish that in five years net of fees. The historical return of the S&P 500 Index in that 15 year time period is approximately 6%. In the past four years through 9/30/09, the MCS performance results for Tactical Growth are in excess of 10% annualized, despite the devastation we have experienced the past two years. Many people have forgotten the S&P 500 Index hit 1,565 in October of 2007 when MCS locked in their profits.

Moving forward to 2010, we anticipate the market conditions will mimic those of 2007. So how did MCS fair in 2007? The MCS 2007 net return was approximately 22% in the Tactical Growth Strategy versus

5% in the S&P 500 Index. 2010 should be a year when the market trades on fundamentals and the risk will be lower. Don't forget, MCS manages risk. As we go into a period of stabilization in the stock market over the next few years, MCS expects similar results that we experienced during 2007.

Everyone agrees that the past two years have been the most tumultuous in history, with the possible exception of the Great Depression. In fact, we have heard terms such as the "Great Recession" or the "Long Recovery" being used today, which can be frightening.

Our research, that is verified by our results, tell us to avoid markets that are not trading on fundamentals; such as the volatile market of 2009 that plunged 26% in three months and then increased in the next six months on government stimulus and weak fundamentals. There are still trillions of investment dollars on the sidelines.

Many articles have been printed recently about the "Cruel Math of Big Losses", such as the one in the Wall Street Journal on November 2, 2009. By avoiding these losses, a manager does not have to take on undue risk to make those losses up. The MCS philosophy avoided the losses that other managers experienced in 2008 along with the relief rally of 2009, which equates to overall superior returns. Investors need to concentrate on the long term results rather than the short term in 2009.

Let's look at some other published performance returns that also confirm how bad things have been. I stress *published performance* because many investors hear unverified data that is very different. A December 10th 2009 article in FundFire, an industry publication, stated the average endowment lost 19% for the 2009 fiscal year, which includes the relief rally from March. Harvard and Yale performed worse than the average, down -27% and -25% respectively, even with the mass of professionals running their funds. It will take years for many foundations to recover these losses. MCS is actively pursuing university endowments and foundations based on our risk management, goals and philosophy.

Again, our net results since inception through 9/30/09 are in excess of 10% annualized in our growth strategy even during this distressing time versus the S&P 500 Index which returned -2% during that same time period. The philosophy works over the long term, which is why you want to invest with MCS. You want a specific written goal for the future of your money, not underperformance by tracking a benchmark. You also want protection when the next bear market occurs.

Long term MCS clients have lost no money and have outstanding returns. Prospects and clients that moved over the past year may have lost money with other managers, but I want to stress that regardless of when you begin as an MCS client, you hire MCS for our long term goals and philosophy of managing risk, so you don't continue making money and giving it back; history shows that's what happens with other managers.

So let me turn it over to Dave for additional history and his forward projections.

Dave Schombert:

The stock market - past, present and future

- a. Investors have made and lost a lot of money in the last 12 years and very few, if any, have positive returns in their portfolios. In 1998, the S&P 500 Index first reached 1,100 points. About 10 years ago, it was 1,450, 5 years ago, 1,200 and two years ago 1,565. Today, 12 years later, it still stands at 1,100. History shows that buy and hold strategies, diversification, and asset allocation models have been decimated primarily because they don't manage risk.
- b. Currently, the S&P 500 index is at about 1,100, about 30% down from 2 years ago and close to the total drop experienced from 2000 to 2003, which was 42% at its lowest point. The market today is struggling to find direction. It is being influenced by many negative factors and, unfortunately, by only a few positive factors. However, the good news is that many of the criteria we use to assess market risks are improving. This may sound contradictory, but remember we assess risk in both current and near term timeframes. The stock market doesn't have to be positive for any given calendar year for us to make double digit returns. It merely needs to present the opportunity to step in, with low risk, and exploit those opportunities. So far, the 2009 stock movement has been a result of the declining dollar and inexpensive borrowing (liquidity) by hedge funds. This significantly increased the risk of MCS participating in the market during 2009.
- c. This leads us to the future of the stock market. During 2010, the S&P 500 Index could go as low as 1,000 and as high as 1,300. At this point in time, we have estimated the market will end the year with between a 6 to 13% increase, depending on exactly where the market closes on Dec 31st 2009. Potential areas of investment that are being considered at this point in time are the Midcap 400, technology index, emerging markets, and shorting of the Treasuries. It appears we are moving from a protection of wealth environment to an accumulation phase. The next one to three years should be very favorable for investing in the MCS strategy with its relatively low risk and potential double digit returns.

We will now discuss some of the factors from an economic and business aspect that will affect the ups and downs of the stock market during 2010.

The Business Environment

- a. Banks need to lend more to individuals and businesses. Unfortunately, one of the primary focuses of the banking industry right now is to shore up their balance sheets. During 2009, the US had a record breaking 150+ bank failures. It is difficult for banks to worry about lending money when they are fighting for survival. Without an increase in lending next year,

- it is going to be very difficult for companies to expand their capital investments in plants or personnel.
- b. Revenues (which are a combination of sales and investment income) need to begin to increase significantly from the lows currently being reported by many companies. Revenues of a company are second in importance in the fundamental criteria used by MCS for determining risk. For those of you who may not know, earnings are number one.
 - c. Unfortunately, companies have been slashing their payrolls in order to maintain profitability. However, companies can only cut costs for a limited amount of time and unless revenues begin to improve, stock prices will begin to stagnate within a trading range.

Economic Challenges Ahead

- a. Interest rates - The only two questions that matter are, “When is the FED going to begin to raise rates?” and, “How high will they go once they start moving up?” The FED is faced with a daunting task. If they raise rates too quickly, they could choke off the economic recovery and possibly cause the economy to take another downturn. Based on current data, it is our best estimate that they may begin to raise rates in the second half of 2010, but at a slow and unsure pace.
- b. Inflation should not be a problem for 2010, but could very well be a problem for 2011, 2012 or beyond. Inflation is a double edged sword. It causes cost benefits of workers to increase, which cuts into profits; but it allows prices to increase, possibly at a faster rate, which could produce greater revenues and profits for companies. At this point in time, however, as we have stated, we do not see inflation as a problem for 2010. We will continue to monitor any new developments as they unfold.
- c. Unemployment vs. underemployment - The current focus should be on underemployment, because many unemployed persons are exhausting their benefits and are no longer counted in the unemployment number. Underemployment, however, captures both the unemployed receiving benefits as well as those no longer participating in those benefits. The current underemployment rate is at 17.2%, or roughly 26 million people out of the total workforce of approximately 150 million people. When people are worried about losing their jobs or if they are unemployed, they have a tendency to spend less and defer purchases of durable goods for as long as possible. This has a negative effect on business, which leads to less economic growth.
- d. Gold is a commodity and as such carries an inherent high risk as an investment vehicle. It has dropped in value by 10% in the last few weeks and has returned a negative inflation adjusted return over the last 30 years of 50%. Only two primary factors move gold up or down, they are an increasing or decreasing dollar or the anticipation of, or actual

- occurrence, of inflation. As we've stated, the dollar is currently stabilizing and inflation may or may not be a problem in the future. Investing in gold is a highly speculative and potentially dangerous endeavor and rarely, if ever, should be placed in a portfolio, unless you are willing to risk losing a large portion of your investment.
- e. US Debt - We could talk for hours on this subject alone, but for simplicity sake, we will highlight the dangers our debt presents to us. If the US has difficulty finding buyers of our debt, we will need to increase the interest rates associated with our debt which leads to higher deficits, which could lead to higher or new taxes on individuals and businesses which means less disposable income, leading to fewer purchases of goods and services and ultimately to less revenue and profits for companies. Our debt is on a path that could lead to devastating consequences if it is not brought into check in the near future. We need to bring the debt to around 37% of our GDP. It is currently at about 45% and I've seen estimates projected out for the next 5-10 years of 85% of GDP. This is and should be unacceptable, because it could threaten the US credit rating and the value of our dollar, either of which could have long lasting negative effects on our nation and standard of living.
- f. This leads us to estimate that the next recession, assuming we do not have a double dip recession, will likely occur between 2013 and 2015. Between now and then will be the time to accumulate wealth and develop a plan on how to protect that wealth. MCS already has a plan, most investors understand the necessity to accumulate wealth, but few seem to have a plan on how to protect it, yet both are required to be a successful investor. Investors have always hired money managers, mutual fund managers, etc. to make them money. The problem is they are only paying for one service. MCS provides two services, the first is to increase clients' portfolios, and the second and most important service is to protect the principal and appreciation. Successful investors have both services. Why have only one, when both are required for successful long term investing.

To summarize, banks need to lend, consumers need to spend, and as always, caution will be necessary to make money and more importantly, keep the appreciation. MCS will do both in 2010 and beyond. We are on track to meet our primary goal of doubling the account values within 5 years of each client's inception date and keeping those assets intact when the next recession roars its ugly head.

Thank you for your trust and confidence in MCS and have a great holiday season.