Metropolitan Capital Strategies, LLC
Wednesday, May 13, 2009
4:15 EST

Sharon Snow:

Good afternoon, we have the MCS team here today-myself Sharon Snow, our Chief Investment Officer-Dave Schombert, Conrad Heinz our Trading Analyst and our newest addition Siiri Ling, our Marketing Manager.

Today we are going to dive right into the questions that seem to be on everyone's mind:

Now that MCS has not participated in the 30 plus rise in the market from the March low, what does MCS have to see in the market data before they invest client's money?

Dave will you address this question?

Dave Schombert:

First and foremost, a 26% drop of the S&P 500 Index during January and February, and then a 30% rise in the market should have all investors on extreme red alert. This is unprecedented and did not happen in a comparable timeframe during the Great Depression. Very few people dispute the fact that the US economy is still in the midst of a severe economic recession. We need to look at the pertinent historical data. The S&P 500 index was 1565 in 10/07 and it is 884 now, a 43.5% drop. MCS did not participate in any portion of that massive drop in the stock market and we chose not to participate in this rally or bounce.

That being said MCS will participate in many of the bounces and rallies over the next several years. The fundamentals of companies and the weak stabilization of the economic data should allow us the clarity needed to make prudent decisions to enter the market with minimal risk of failure, and to make a nice profit for our clients even if the S&P 500 does not increase significantly.

The United States has experienced one of the greatest Federal Reserve Bank and Treasury rescue operations of all time, which allowed the market to increase from the 666 March 6th to its current level of 884. Factors which allowed the market to move higher include changing the mark to market bank rules and injecting trillions of dollars into the economy, banking and financial system. The FED's have used almost every tool they have at their disposal to try and contain this disaster. Everyone including the US Gov't now have their fingers crossed that the economic and financial stimulus packages will work. It is yet to be proven and it may not be successful. In light of the high risk environment and the bounce that occurred, MCS will not participate in highly uncertain market rallies, nor does MCS need a major market rally to achieve our stated goals. There are numerous factors that need to provide clarity that a market bounce or rally will not reverse suddenly and cause a negative return for our clients. A couple of the many factors which led to the lack of clarity, and that were not present in March were a lack of high volume and secondly, the VIX, a fear or uncertainty index, did not indicate a dramatic reversal from its March highs. MCS, along with our clients "wanted" to catch this bounce, but conveying the high risk that was involved in order to participate in this bounce is difficult to summarize.

Let us be clear, we will not expose clients to unnecessary risk. Cautious and prudent, successful professional money managers make their profits and keep them in an environment that is low risk, not in an environment that is hyped by the media. We fully expect to achieve our goals and objectives this year, but we will only invest when our criteria are met. Remember, this is the same criteria that allowed us to achieve a 21% plus profit in 07, keep that profit in 08 while most managers lost about 40% of their client's total account values.

Sharon Snow:

So Dave, I am hearing that although all of your criteria were not met in this bounce or rally, you expect to meet the MCS goals and you will not invest our funds when the market is too risky. Is that correct?

Dave Schombert:

Yes

Sharon Snow:

All right, why doesn't MCS use a different money market like a muni bond fund, CD's or higher return money market than the ones that are currently used ?

Dave Schombert:

The money market simply holds our money to earn some appreciation when we are not invested in ETF's or stocks. It is a part of the entire strategy, not the strategy. We anticipate being in a money market only until an environment develops in the stock market that we can exploit with low risk and the required clarity.

Also, all of these instruments carry some degree of risk and that risk varies depending on the duration and quality of the bond, note or CD. Some of you may not realize that the bond market can be a high risk environment as the stock market. The money markets that MCS funds are currently invested in are one of the safest havens at this point in time until we move into the market.

Sharon Snow:

Great Dave, so my take away is high yield does mean high risk. MCS is risk averse and since the money market is simply a holding tank, you want the greatest degree of protection you can find for our funds.

Next question, when do you expect to see an economic turnaround to a point where you can start trading in ETF's? We all want to make money.

Dave Schombert:

MCS does not need a full turnaround to invest in the stock market. We expect to take advantage of a low risk environment associated with a double digit potential return quite possibly as early as this year. Remember, we do not need an economic turnaround to begin trading. We merely need a market with low risk and clarity of the fundamentals and economic environment which again we believe will occur between now and the end of 2009.

Sharon Snow:

Are there any signs of a recovery short and long term?

Dave Schombert:

Not really. Best case in the short term (less than a year) is that the massive rescue plan will work. Worst case (long term): Bank losses will exceed projections, the housing market will level and moves sideways, the economic activity will continue to remain weak, and most importantly the EPS on the S&P 500 will remain stagnant or increase at a dismal rate over the next several years. But again, I want to point out that MCS does not need any recovery to achieve our goals and objectives.

Sharon Snow:

Are banks stocks coming back or is this a false hope for now?

Dave Schombert:

I'm not sure what is meant by 'coming back'. If you mean returning anywhere near their previous highs, the answer is no. The devastation has been brutal and the distortion of 'mark to market' needs to be resolved. Banks need to restructure and begin lending again. It will take time for this to occur.

Sharon Snow:

What is the "mark to market" controversy and is it something to be concerned about?

Dave Schombert:

Mark to Market allows the banks to price their assets against a measure other than the market price. Early in April, banks got the O.K. to use their own judgment in valuing their toxic assets, rather than relying on depressed market prices. The result – banks have raised the value of their toxic assets in the first quarter, thereby artificially increasing earnings, and allowing paper gains to offset real losses during the first quarter. At some point in time the banks will not be able to continue this practice.

So- To summarize, most other investors have been and remain on thin ice. By that we, mean they held their securities. In March they fell through the ice into the river and then crawled back out of the water in April and are lying on the ice suffering hypothermia and frostbite in a weakened state. They remain in harm's way and it will take many years for their portfolios to return to their prior values.

Meanwhile MCS clients are on the shore and while we have sympathy for those investors, we remain in a safe and secure environment. We fully expect to meet our goals and objectives over the next few years.

Sharon Snow:

Great Dave, We are bombarded with contradictory and conflicting information on the media every day and that can be confusing. We are in for a long, slow economic recovery, but MCS has remained safe and will meet our goals and objectives. Thank you for that.

Now we have a couple of administrative issues to discuss. With respect to the mergers and changes with broker/dealers or custodians- MCS clients should realize that we can implements our investment strategy at a number of different custodians or broker/dealers today and we are continuing to add new custodians. The reasons that a certain client may use a specific custodian will vary with each client. Any individuals that need specific guidance on a custodian and the benefits that could be provided should give me a call. There are many factors to consider and each situation is unique so we need to discuss your specific accounts. Now, I am going to turn it over to Conrad to talk about some new paperwork.

Conrad Heinz:

Thanks Sharon. MCS needs to send out our ADV each year to existing clients. Clients will be receiving this paperwork in the mail very soon. Along with the ADV, MCS is required to send a new Discretionary Manager Agreement. Our fees will stay the same, but MCS needs to retain some additional client information for our files to be complete. Please be sure to fill the paperwork out completely, and call myself or Siiri if you have questions once you receive it.

We are signing off, so please send any feedback regarding this call to info@mcsmgr.com. Have a great night!