

Metropolitan Capital Strategies, LLC

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4:15 EST

Sharon Snow:

Good afternoon. We'd like to welcome our current clients, new listeners, and prospects to the Metropolitan Capital Strategies conference call. You are here with myself, Sharon Snow, and our Chief Investment Officer, Dave Schombert.

I want to start out by telling you a little bit about Metropolitan Capital. We have some very specific goals. Our goals are:

1. To protect the principle and appreciation of our client's funds,
2. To double our client's money every five years net of fees, and
3. To manage long term risk.

This is a unique philosophy, it's a creative approach, and we've had this approach since we started our company in 2007.

We're pleased to let you know that with a global financial meltdown our results have been outstanding. Clients that have been with us since mid 2007 are positive approximately 40% in their accounts. Year to date, we've locked in an approximate 24% net profit in our Tactical Growth strategy. I say locked in because our portfolio is currently in a cash position. We returned to cash in mid April when the risk parameters increased.

Right now we're patiently pursuing the next opportunity to participate in the market. We continuously monitor the economic conditions and the fundamentals and technicals of the ETF's that we invest in. As most of you know we can go to any asset class at any point in time we deem appropriate. We highly recommend that our investors look at the long term investment cycle, that's the 5 year cycle, not the short term, as we are investors. The media always likes to put our focus elsewhere and they always suggest we should be in the market at all times. We also want to let you know MCS does not predict where the market is going. We do daily research on what may occur and we have many what if scenarios as to where we can invest our client's funds when the risk is low. As you know from our approach, we do not stay in the market and let profits deteriorate.

I also want to emphasize each client's personal performance from inception to date. Each client should look at their account for the time frame they have been invested with us and compare that to the market performance during that time. We have a five year time horizon for each client's funds and that time horizon repeats itself once we've met our goal. Again, our goals are always first and foremost, to protect your principle and appreciation. Despite some serious issues, globally and in the US, we are anticipating low risk opportunities to get back in the market. Some of these issues include debt, delinquency, down grade, deficits, and default.

I also want to let you know that Dave will be presenting a brief risk paper at an emerging manager conference in Chicago next week. We have that presentation on our website for you to review. Let me turn it over to Dave to elaborate more.

Dave Schombert:

Good afternoon everyone and thank you for joining us today. Basically, I'm going to give about a 12 point bullet presentation with respect to those areas that we feel are most pertinent to what is occurring in today's market place, and as importantly what is probably going to occur within the next year, two years, and so on.

As most of you know there are hundreds of items or factors we can talk about today but because of the time constraints, I tried to whittle it down to about a dozen. I'm going to give a brief historical assessment of where the market has been in terms of a fundamental and technical stand point. As far as I can tell, the grade I would give in the market place and the economic environment for 2008 was an F minus. 2009 I was able to upgrade to an F. This year at this current point in time I would give it an F plus. With the current trend by the end of the year it would be a D minus. These grades are not exactly stellar but as the media has repeatedly said, it is an improvement, but it at best, is a very slow anemic increase or an improvement.

As far as predicting, we don't normally do that but I'll remind our listeners from our last conference call, we had suggested 2010 look like about a 6 to 12% upside potential which would put the S&P 500 at 1175 to 1250 on the last day of this year. Our assessment at this point in time as of today remains the same; we still think on the last day of this year the S&P 500 would be at 1175 to 1250 range. Those of you who are really familiar with me, you know already that tomorrow I could be telling you an entirely different scenario. Again, as we get new information or unexpected information, we adjust our forecast at that point in time. As far as the correction is concerned, in terms of where we see the market within the next 12 months, meaning anytime between tomorrow and a 12 month cycle - at least a 10% correction with the S&P 500. Over the last few weeks we have seen a roughly 5% downturn in the S&P 500 index. But the 10% plus correction could occur this month, next month, next quarter, we just don't know. The reason I bring about the correction is that, that may present a fabulous opportunity for us to exploit and take another double digit return at that point in time. But again we have to reiterate, remember it does not take a correction, it does not take a downturn in the market place for our risk factors to allow us to get into an investment in any point in time. The market can go sideways, or the market can actually be going up. If an opportunity presents itself with a low risk environment, with a potential for a double digit returns, we will step in.

Another factor I wanted to touch on was inflation, the good news is on the inflation front at this point in time, it's in our opinion, not a threat at all to the US economy. Again, that doesn't mean in a few weeks, few months, or even a year from now I that it won't be changing tune that quickly. As far as the current problems which could cause future problems, I'm looking at the US debt and US deficit. In our opinion both of these two factors are probably the biggest threats to a stable economic environment in the coming years. Number one on the list, as far as what is causing these deficits and debts to occur, are the entitlement programs. For some unknown reason, I am not going to mention any party names, and I'm not going to get into politics, elected officials in Congress continue to ignore the pending bubble that the entitlement programs could produce. The reason for that is not only the additional entitlement programs, but most importantly is the cost of living increases associated with those entitlement programs. That's going to continue to cause additional debt and additional larger deficits each and every year. Right now, I think the projection for the next 5 to 10 years is about \$1 trillion dollars plus deficit per year. These are enormous numbers.

As we move on to world demand. Right now the fastest growing Asian countries and emerging market countries remain heavily dependent on US and European consumers to continue to buy their exports. They face an enormously high risk in that, for some unknown reason, if a new crisis or downturn occurs among the matured economies of the world, including the US, this could significantly undercut the demand for their product, and therefore, diminish significantly their growth going forward.

The US interest rates as an example, in my opinion, are the second greatest risk to the US. As we pile on more and more debt, in order to service that debt we could be asking the world for more money, and that pool of investors out there is not going to grow. So as we need more money the pool of those individuals who could buy our debt either remains the same or possibly diminishes. Right now an example of that problem, as we all are aware of, Greece is on the forefront and ironically when one looks at Greece's deficit to their GDP, it's running about 12% annually, the US right now is running right around 10%. To give you some perspective, in our opinion, using historical data you look at the stability of countries, they usually maintain about a 3% rate on the GDP to deficit ratio.

I wanted to touch on unemployment versus underemployment. Many Americans will be exhausting their unemployment benefits in the near future. A lot of those or some of those people are basically just going to give up on even looking for a job. They are going to fall off the unemployment roll. Which means the unemployment number theoretically could come down just because of that fact. So what one wants to look at going forward is the underemployment rate which includes those individuals who are off the unemployment rolls and still actively looking for a job. Right now the underemployment rate is about 16% versus the unemployment rate which is about 9.7%. By the way, the new employment rate comes out on Friday for those of you who might be interested.

Now, as far as the financial reform that has been kicked around for so long, most developed countries including the US, have not agreed on measures that would prevent companies from becoming so large and interconnected that their failure would lead to a broader economic loss. Again, it's our opinion that possibly; perhaps the governments, especially the US with respect to their rules, regulations, and laws that originally allowed the financial system to exploit those opportunities that were presented by the law makers. If one wants to correct that, one should start with the root of the problem and address what I call the "byproducts" that were created by those actions later. In my opinion, we need to begin with the government's actions and laws and take a hard look at how we can modify that to ensure that this doesn't happen again.

Moving on, I'm looking at commercial and residential real estate. I could sum that up in one word, it is anemic at best. Mortgage delinquencies are at a high rate; construction spending for both residential and commercial real estate is at best at a snail's pace. Mortgage interest rates in the very near future, being in the next 12 months, in our opinion, are headed higher. To reiterate, I just can't find a good reason for real estate looking good at all this year, or possibly even next.

When we get to the heart of companies, with respect to their revenues and earnings, which in our opinion are the two top primary fundamentals that we look at, due to the enormous cost cutting over the past year, and year and a half, that these companies have been able to slash and burn so to speak, they've been able to maintain, stabilize, and even increase their profits nicely. The problem is, without the significant revenue increases, profits could begin to stagnate and that could impact the ability of stock prices to increase significantly. However, as always, we will continue to monitor on a daily basis how these revenues and earnings interact with one another in the sectors and companies as a whole.

Now sovereign debt, and again for those who are listening who aren't fully aware of what that is, it's nothing more than bonds that are issued in foreign currencies. They're wreaking havoc right now, in our opinion, because of the Greek crisis. The big picture though is that there is a fear that Greece could be just the tip of that iceberg and we could have more countries joining that meltdown in the near future. As many of you are aware, Portugal, Spain, and several others are all on the list. As far as asset bubbles are concerned, or rather the potential for them to occur, our opinion is that they're on the rise and that is primarily due to capital that is absolutely flooding the Asian and emerging countries. China has been taking some steps to try to curtail that but again investor's moneys, capital are going into those areas and it is becoming a very large problem with respect to creating asset bubbles.

The US GDP growth, in our opinion, is at best anemic. According to a general consensus of money among the economists in the US, we are currently running at about a 3 - 4% annualized growth rate. Strictly speaking GDP growth rates, we should be looking at a 7 - 8% annualized growth rate in order for us to be able to get our economy back on a solid recovery. Based on historical data, the need is great for that GDP number to be in the 7 - 8% range. Right now it is anywhere but there, it is around a 3 - 4% range not exactly anything to jump up and shout about. We are looking at a very slow moving, slow motion recovery at best. Fortunately, for the way that we do things, that presents opportunities that we can exploit going forward, and we are looking forward to doing exactly that.

So to sum up, basically in terms of head winds that we are looking at right now, in my opinion, it is the shrunken workforce, the weaker income growth, massive wealth destruction that we've seen. There is less credit available, and we are faced with probably higher taxes. Again as I said, MCS is looking at those opportunities that could be presented this year, next week, next month, next year, or the year after, and that is going to allow us to take advantage of meeting our primary goals of doubling the account values from their inception date every 5 years. As Sharon mentioned earlier, we are well on our way to doing that. If one wants to know how the mathematics work, for example, if you have four 20% returns you basically double the money, five 15% returns you basically double the money, eight 10% returns you basically double the money, and all of those or a combination of those only need to occur within a 5 year period for us to meet our goal. Again, with the clients we've had since 2007, we already had two 20% returns and they basically need 2 more. Those who joined us late in 2007 through February 2010, they only need 3 more 20% returns or 4 more 15% returns because of the amount of money we already received and return for this year.

I want to thank everyone for their time, and remember there is only one key element that we all possess and that we all have to be successful investors, and that is patience. Thanks again and we'll talk to you soon.

Sharon Snow:

Have a great summer.

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