

HAYES ASSET MANAGEMENT LLC



<u>Index Returns for 2008</u>	<u>Treasury Yields</u>	<u>Commodities for 2008</u>
DOW JONES INDUSTRIALS ↓ 33.8%	6 Month T-Bill .26 %	Oil ↓ 53.5%
NASDAQ ↓ 40.5%	2 Year Note .77 %	Natural Gas ↓ 24.7%
STANDARD & POOR 500 ↓ 38.5%	10 Year Bond 2.21%	Corn ↓ 11%
WILSHIRE 5000 ↓ 38.7%	30 Year Bond 2.68%	Wheat ↓ 39.3%
BARCLAYS CAPITAL AGGR. BOND ↑ 5.2 %		Gold ↑ 3.9%

“Life is really simple, but we insist on making it complicated.” - Confucius

I came across the above quote in the most recent issue of Sierra magazine. It made me think of the current market environment. We could change the quote to: “Investing is really simple, but we insist on making it complicated.” What ever happened to investing in stocks, bonds, and treasury bills? Instead we made things complicated by inventing Collateralized Debt Obligations (CDOs), Collateralized Mortgage Obligations (CMOs), Credit Default Swaps, Adjustable Rate Mortgages (ARMs and Alt-As), all securities created by Wall Street. Let’s hope this bear market gets us back to the basics.

Fallacy of Being Fully Invested

Nifty 50: The 50 stocks that were most favored by institutional investors in the 1960s and 1970s. They became known as “one-decision” stocks because investors were told they could buy and hold forever. Two of our local companies made that list: Eastman Kodak and Xerox; we know how they have performed. The list also included Dow Chemical, General Electric, JC Penny, and other well known companies.

Age of Conglomerates: Another 60s-70s investment that couldn’t miss. It was thought that building a company comprised of many different businesses would create one that was greater and better than the individual pieces. Reckless buying for the sake of diversifying came to a bad end. It turned out that you still needed to

know how to run all those different businesses!

P/E expansion of 1987: Mid to late 1980s. “It’s different this time.” Run when you hear those words. Stocks are reasonably priced when they are at 12-15 times earnings (P/E ratio). During that period, P/E ratios were in excess of twenty on major stock indexes and above 30-40 times earnings for some favorite stocks. P/E expansion ended when so called “portfolio insurance” sold to institutional investors back fired on “Black Monday” in October of 1987.

Internet craze: The late 1990s to the early 2000s. It didn’t matter what you did, much less if you were profitable, as long as you had .com in your name or a business plan centered on the internet there was money available. However, as is often the case, there was too much money chasing too few really good investments, and most of it ended up in the really bad investments.

Leverage 30-1 & 40-1: Late 2007-2008. This was the era of the hedge funds and private equity.: They raised money, charged 2% and took 20% of the profits. The fund managers were making money but not the client. To juice up returns, the funds would leverage up the portfolios to try to improve their performance, generating higher fees. For every dollar raised, some funds would borrow \$30 and invest \$31. Great when the market is moving your way. Deadly when it moves against you. Just look at Lehman Brothers.

(Continued on Back)

As always, we would like to thank you for your business - Hayes Asset Management Team

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As investors, we all need to recognize that there are times when the chips are stacked in our favor and times when they are not. We need to be students of history and understand that when *greed* takes over in the stock, bond, and commodity markets, that is when the chips are stacked against us, and it is time to sell. Then there are times, possibly now, when *fear* rules, and the chips are stacked in our favor. There is one thing we know; this bear market/financial crisis will end. While we work our way through it, attractive investment opportunities will present themselves, and we will act on them regardless of the current economic outlook.

Purchases and Sales Made During the Fourth Quarter

Purchases:

StreetTracks Gold Trust (GLD)

With the shunning of paper assets we felt that hard assets would again appeal to investors. In times of distress in the financial markets gold has been a traditional safe haven. So far it hasn't worked out that way but with the de-leveraging going on in the investment world, and starting to slow down, gold may again go back to its usual role as a safe haven. Stocks and mortgages were not the only asset class to attract the hot money. Commodities also saw their share of speculative money. As those speculative investors liquidated their positions, the price of gold has fallen, but it is now set to rise.

Honeywell (HON)

Honeywell is a large diversified manufacturer. Its annual revenues are roughly \$35 billion. We've owned Honeywell in the past, bought it in the mid-high 20s and sold it around 50. When the market offered us the opportunity to buy HON again in the mid to high 20s, we did. At those prices we were

able to purchase it at a single digit P/E (price earning ratio), yielding 4%, and got a strong balance sheet to boot.

Intel (INTC)

This is the first time we've bought INTC, a global manufacturer of computer chips. It has always been too expensive for us. Like our Honeywell purchase, it has a low multiple P/E, 4% dividend yield, and a rock solid balance sheet (over \$8 billion in cash in the bank). This is a large cap company that will weather the storm.

CB Richard Ellis Group, Inc (CBG)

CBG is a huge real estate company. It provides services to owners, developers, lenders, and investors in real estate. Real estate is a four-letter word right now, but we feel that in this case, the sentiment is exaggerated. CBG has continued to expand overseas buying up real estate brokerages. This is a global real estate operation, which does business in the US, Europe, Africa, Asia Pacific, and the Middle East.

Sales:

Calgon Carbon (CCC)

We sold off part of our position in CCC in late October. Our average cost was about \$6 and the sales were made at about \$18. We still like the business prospects for CCC, but profits are nice to lock in every once in a while.

During these roller coaster times, we appreciate your support and confidence. As always, if you have any questions, please call, and we would be happy to discuss them with you. Here is to what we hope will be a profitable 2009.

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- Balanced Accounts
- Mutual Fund Accounts

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Hayes Asset Management, LLC

400 Andrews Street Suite 600 Rochester, NY 14604

Phone: 585-730-6951 Toll-Free: 866-772-9434 Fax: 585-730-6944

Website: www.HayesAssetMgt.com Email: LFarmer@HayesAssetMgt.com