

# HAYES ASSET MANAGEMENT LLC



## Index Returns as of 04/31/09

DOW JONES INDUSTRIALS	↓	13.3%
NASDAQ	↓	3.07%
STANDARD & POOR 500	↓	11.67%
DJ TOTAL STOCK MARKET INDEX	↓	38.7%
BARCLAYS CAPITAL AGGR. BOND	↑	.13%

## Treasury Yields for 04/31/09

6 Month T-Bill	.42 %
2 Year Note	.80 %
10 Year Bond	2.688%
30 Year Bond	3.526%

## Commodities for 04/31/09

Oil	↑	11.35%
Natural Gas	↓	35.85%
Corn	↑	1.72%
Wheat	↓	4.71%
Gold	↑	5.38%

## **“Leverage gives the illusion of wealth. Saving is wealth.” - Richard Bernstein**

In our year end 2008 newsletter, we talked about the toxic investments causing our current financial crisis. The acronyms for these investments run the gamut: CDOs, CMOs, CDS, ARMs, and Alt-A. Now our government has decided that they are not to be outdone and have gone on the offensive with TALF, PPIP, CAP, TARP, TAF, CPFF, PPIF, and the list goes on. Two examples:

### **Term Asset-Backed Securities Loan Facility (TALF):**

TALF was initially created to help finance new auto, credit card, school, and some small business loans.

It is a joint venture between the Treasury and the Federal Reserve. It was originally created with \$200B but with leverage could purchase up to \$1T in loans.

The \$200B in financing is to be lent to investors in the form of 3 year loans to purchase certain AAA rated asset backed securities to get this important part of the credit markets flowing again.

On 3/23/09 the Treasury announced they were expanding the program to include financing existing troubled asset backed securities, including those backed by commercial R/E. (So much for AAA rated)

### **Capital Purchase Program (TARP):**

The original plan was to buy toxic assets from banks. As the crisis worsened, the government changed course

and decided to invest directly in the banks themselves in hope that the market for these assets would improve. The nine largest banks each received \$25B.

All these programs have been put in place by our government to combat the debt hangover plaguing our economy. We do not know how fast our economy will react to these stimulus plans but we are glad to see our government attack this crisis w/ large sums of cash injected into the financial system. During the Great Depression credit was tightened, exasperating the already weak economy and financial markets. Our leaders will not make that mistake again.

However for these government initiatives to work it will take cooperation between the government and the private sector. The problem is that the private sector is worried that the government will then tell them how to run their businesses.

### **Opportunities in Fixed Income**

At this time municipal and corporate bonds are attractive investments. Corporate bonds have seen their values drop along w/ common stocks. Corporate bonds are currently being discounted to levels not seen since 2001-2002. Our recent purchase of Champion Int. bonds is an excellent example.

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

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We purchased these bonds, which carry a coupon of 7.2% and matures on 11/1/2026. They were purchased at 93 cents on the dollar. We can put, (sell the bonds back to Champion), at 100 cents on the dollar on 11/1/2011 in roughly 2 ½ years. This makes the return on investment 10.375%. In today's environment that looks very good to us.

In the municipal bond market after tax returns are compelling. Fixed income securities issued by New York state, Puerto Rico, and Guam offer New York state residents tax free income. We are seeing yields in excess of 3% for short-term investments, less than 2 years. Compared to Treasuries and Certificate of Deposits municipals win hands down. Municipal yields for these types of investments have shot up on concerns over states' abilities to meet their obligations. We feel these concerns are overblown. History shows that municipal bonds default/losses are negligible. Investors in Orange County, CA bonds that defaulted in 1994 still received 100% on the dollar plus interest. Investing in the fixed income markets is no different from investing in the equity markets. In both, you have to know what you are buying, especially now. How is the company or municipality going to pay you back? For example the tolls the NYS Thruway Auth. collects provide a constant stream of income backing their debt. Municipal General Obligation Bonds, GOs, are backed by the credit & taxing power of the issuer.

With risk-less returns, short term treasury bills, at 0%-0.25%, rates have no place to go but up. At the end of the first quarter there was such a demand for 1 month T-bills that the yield went negative. People were actually willing to invest \$100 knowing they would get back less than the \$100. Keep in mind the cardinal rule of fixed income investing:

interest rates and bond prices move inversely. So when interest rates begin to rise bond prices drop. You get your money back at maturity but prices fluctuate. That is why we are keeping our fixed income investments in short-term maturities. The longer the maturity the more fluctuation in the prices of fixed income securities. We will not lock up your money for 25-30 years at 4% when we get 3% to 3.5% for you going out 18 mos. or less.

### Equity Market Follow-up

Over the past five or six weeks, the equity markets have had a huge rally, up roughly 25%. The new purchases that we made during the 4th quarter are performing well. The gold trust is still being used as a safe haven by investors. Intel reported Q1 earnings exceeding Wall Street estimates and declared that the bottom in the PC market had been reached. CB Richard Ellis have seen an uptake with faint signs that the Real Estate markets are firming up. Honeywell's diversified base of businesses have helped it weather the storm. The big financial companies dragged us into this financial mess, and we will have to see improvement there before the markets being to behave better. We are starting to see the first signs of that now; JP Morgan and Wells Fargo have reported profits and plan on paying the TARP money back to the government.

We do not know how long the rally in the stock market will last, but we are starting to see a subtle shift in investor psychology which would be a big plus for the markets.

*Thank you again for the business. If you have any questions or thoughts on anything, please give us a call, toll-free at 1-866-423-5332.*

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