

HAYES ASSET MANAGEMENT LLC



Year to Date Index Returns*

DOW JONES INDUSTRIALS	↑ 7.29%
NASDAQ	↑ 10.17%
STANDARD & POOR 500	↑ 4.43%
WILSHIRE 5000	↑ 4.74%
LEHMAN BROS AGGR. BOND	↑ 7.22%

Treasury Yields*

6 Month T-Bill	3.37%
2 Year Note	3.01%
10 Year Bond	3.94%
30 Year Bond	4.38%

* for November 30, 2007

“Marked to Market”

Over the past several months, “Marked to Market” has bedeviled many a hedge fund, trading desks at big brokerage houses, and private equity firms. “Marked to Market” prices securities at the current market price. At Hayes Asset Management, we deal in publicly traded common stocks listed on the major stock exchanges. Many hedge funds, trading desks, etc., trade in exotic securities, created by Wall Street as huge fee generators, which do not trade on any exchanges. Instead of “Marked to Market” these securities were “Marked to Model”. Claiming there was no readily available quote for these securities, investment managers instead used computer models to come up with prices for them. The Model says \$100. That’s fine until it is time to sell, often at an inopportune moment. The model may say \$100, but the market’s saying \$20-\$30!

“Marked to Market” is no different today than it was in 1987 & 1998, when computer programs and leverage also ruled the day. In 1987 “portfolio insurance” was supposed to protect

portfolios from losses when the market declined but actually intensified the decline with a flood of sell orders. In 1998 Long Term Capital, run by two Nobel Prize winning economists, also fell prey to decisions made by computer models. Today’s hedge funds are repeating these mistakes. The other common thread is the massive use of leverage. All these market corrections were exaggerated by investors’ ability to borrow ten dollars for every one dollar of their own capital. Leverage is a great thing in a rising market, but devastating in a bear market – just look at the big brokerage houses whose names were on the front pages nationwide.

Speaking of leverage, there are two other areas we are keeping an eye on that could have a big impact on the stock and bond markets. As investors deal with the subprime mortgage crisis, next up could be credit card debts and debt issued which was used to fund many private equity buyouts earlier this year. Stay tuned.

(continued on back)

We would like to wish you Happy Holidays, and as always, we thank you for your business and our continuing relationship - Hayes Asset Management Team

Hayes Asset Management sold our high yield bonds before the credit crisis hit. Lax guidelines, underwriting, and lack of regard for risk persuaded us to sell these positions in June of this year.

The Puerto Rican bank stocks continue to be dogged by the macro-economic forces. When we purchased these investments, we knew there was an inverted yield curve, restatement of financial statements, and turmoil with the local Puerto Rican government. What we did not foresee was the subprime mortgage debacle. The entire financial sector has been affected, however we are starting to see the first signs of light at the end of the tunnel for these investments. During November, First Bancorp saw 15 insiders buy over 5 million shares.

We have purchased additional shares of Tribune. There is a deal on the table to take them private by Sam Zell and the employees ESOP (employee stock option plan). The buyout is for \$34 per share. The Zell group has already bought half the outstanding stock and the other half is left to be bought. Additional shares were bought at \$28-\$29, a 17% discount to the current offer price. The Federal Communications Commission (FCC) is speeding up its review of media ownership rules, specifically the rule that prohibits one company from owning a television station and newspaper in the same city. This rule change would increase the value of any properties that Tribune may want sell.

Many of our clients have or will soon benefit from the following: Topps deal closed and

shareholders received \$9.75 per share. SCPIE Holdings (SKP) announced that they have agreed to be bought out by a competitor for \$28 per share in cash. Prior to this announcement SKP was trading around \$22. The Florida Rock transaction has closed since shareholders at Florida Rock and Vulcan Materials approved the merger. Biogen has recently announced that they may put themselves up for sale.

Recently we had the opportunity to purchase two investments in the water industry. As most of you know, we like this area. One is Watts Water Technologies, Inc. (WTS). Watts was founded in 1874, has sales of over \$1.2 billion with operations in North America, Europe, Asia and Africa. Watts designs and manufactures valves and related products for the water quality, water conservation, and water control for commercial, residential, industrial and municipal markets. The other investment is Cadiz, Inc. (CDZI). Cadiz is a land and water resource development company located in San Bernardino County, California. The land has high quality groundwater resources with demonstrated potential for various applications, including water storage, agriculture, recreation and residential uses. Cadiz owns approximately 45,000 acres in three blocks. Two of the properties are located in close proximity to the Colorado River Aqueduct, the major source of imported water for Southern California. The third property is located near the Colorado River.

In 2008, we look forward to sending the investment update on a quarterly basis. Should you have any questions, we would be happy to hear from you.

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Specializing in:

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- Mutual Fund Accounts

Serving:

- Individuals
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