

HAYES ASSET MANAGEMENT LLC

Index Returns 2010

DOW JONES INDUSTRIALS	↑ 6.41%
NASDAQ	↑ 4.83%
STANDARD & POOR 500	↑ 5.42%
DJ TOTAL STOCK MARKET INDEX	↑ 5.62%
BARCLAYS CAPITAL AGGR. BOND	↑ 0.43%

Treasury Yields for 12/31/10

6 Month T-Bill	.17%
2 Year Note	.8%
10 Year Bond	3.47%
30 Year Bond	4.51%

Commodities for 2010

Oil	↑ 16.79%
Natural Gas	↓ -0.36%
Gas	↑ 10.21%
Corn	↓ -3.90%
Wheat	↑ 0.81%

"There are only two hedges in the world, knowledge and cash."

-Bruce Berkowitz, Fairholme Capital

I love that quote! It ranks up there with Marty Whitman's "Diversification is an admission of ignorance." When you really get down to it, both quotes say the same thing. Nothing replaces knowledge. Knowledge is not listening to someone on TV tout stocks and options and takeover plays or pontificate at 3:55 pm about how the market is going to close! At Hayes Asset Management, we believe one acquires knowledge by reading annual and quarterly reports (including footnotes), listening to conference calls, talking with management, tracking insider purchases, sales and institutional ownership, etc. These are just a few of the things that go into acquiring the knowledge needed to develop a thesis for making an investment. Only after doing due diligence can you calculate a company's intrinsic value and then figure out what your buy and sell prices should be.

Since we last wrote, at the end of the 3rd quarter of 2010, the stock market has been on a tear, up 14-17%, depending on the index you are watching. The same cannot be said for the bond market. Return for the Barclays Aggregate Bond Index, bell weather for the bond market, is down for the same period. Going forward for 2011, the equity markets are showing gains of 6 to 7 % while the bond market is up only a fraction. These equity returns have occurred despite very serious international events; social unrest and governments falling in the Middle East and North Africa, Japan's earthquake, tsunami and nuclear meltdown, and a debt crisis and return of inflation in Europe. However, even with our runaway budget deficits and escalating debt, the United States is still viewed as a

safe haven because of our stable democratic government and liquid capital markets. Mergers and acquisitions are also picking up, private equity investors are buying companies again, and strategic acquisitions are underway. Pfizer is selling a drug capsule-making unit to Kohlberg, Kravis and Roberts for \$2.38 billion, AT&T is buying T-Mobile, and Texas Instruments is buying National Semiconductor. Companies have huge cash levels and they are starting to put that cash to work. The only thing that bothers us is that an active mergers and acquisition market usually coincides with a market top not a market bottom.

Recent Purchases and Sales:

Statoil ASA ADR (STO)

Our search for a stable country, with solid finances, led us to Norway. It has the second largest sovereign wealth fund in the world, and is rich in natural resources. It is the world's second largest gas exporter but its position as an oil exporter has slipped to ninth. While doing our research on Norway, we came across Statoil, an integrated energy company based in Norway with locations in approximately 40 other countries worldwide. As of December 31, 2009, the company had proven reserves of 2174 million barrels of oil and 5134 billion cubic meters of natural gas, corresponding to aggregate proven reserves of 5408 million barrels of oil equivalent. The company operates in four business segments: Exploration and Production Norway, International Exploration and Production, Natural Gas, and Manufacturing and Marketing.

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Statoil is the largest company in Norway, with double the revenue of runner-up, Norsk Hydro ASA. The purchase of Statoil gives our accounts a secure and diversified addition to their portfolios with a dividend yield of 3.4%.

H&R Block (HRB)

“The only things certain in life are death and taxes.” Benjamin Franklin. In October 2010, speculation about tax reforms in Washington targeted H&R Block and the share price felt the fear as it dropped from \$14. Having good financials and sound fundamentals, the markdown only sweetened the deal. We were able to acquire HRB at less than \$12. As long as we have taxes, H&R Block will have a business. With our country’s current deficit it’s safe to say taxes aren’t going anywhere. As we enter April, HRB has surpassed \$17 and has an attractive dividend yield of 3.72%

Cisco (CSCO)

When Cisco’s recent earnings did not meet the unrealistic expectations of Wall Street, the share price was pummeled. The opportunity to buy one of America’s strongest companies below book value presented itself and we jumped. Cisco, figuratively, builds the roads where binary digits drive. Cisco foundations are the very essence of internet communication, having played a crucial role in the formation of the internet as we know it today. Cisco continues to be ahead of the curve, with cloud communication. Having completed their Globalization Center in India, Cisco will be one of the first major technology corporations to have a significant presence in a region with high growth potential. Soon after Hayes Asset Management purchased CSCO, it declared its first ever dividend.

Novatel (NVTL)

We purchased Novatel originally because of the strength of their balance sheet, attractive cash per share ratio and the Novatel MiFi. The MiFi can connect up to five devices, fit into a wallet, and create wireless internet using Sprint or Verizon’s networks. NVTL’s latest quarterly

report showed an alarming cash burn. Furthermore the wireless carriers are introducing smart phones that “tether” to laptops, tablets etc., which will make the MiFi obsolete. We sold the position, took a small loss and moved on.

Current Holdings

With the current bull market in commodities, clients have asked why we don’t have investments in commodity companies. We do, they are just hidden inside some of our core holdings. Leucadia National owns 5,600,000 shares of Inmet Mining Corp, a Canadian-based mining company traded on the Toronto Stock Exchange. Leucadia also owns 247,986,000 shares of Fortescue, approximately 8% of the company, and has extended a \$100,000,000 note to FMG Chichester Pty Ltd, a subsidiary of Fortescue that mines iron ore in Australia. Our recent purchase of Statoil is an investment in the gas and oil industry. Hutchinson Whompoa owns 35% of Husky Oil out of Canada. Both Leucadia and Hutchinson have been stellar performers thanks to their exposure to the commodity markets. Our water investments are still a drag on performance. Everyone sees a need for water infrastructure and recognizes its importance, but a lack of financing or a perception of a lack of financing is contributing to the underperformance. One positive for water is ITT. International Telephone and Telegraph will split into three companies this year. Over the years, ITT has bought many water companies and one of the three new companies will be organized around their water business. This will offer us another great opportunity since ITT bought several excellent water companies. We added to our American National Insurance investment recently. With the stock trading in the mid to high \$70s it is just too cheap to pass up. Its book value is \$135 per share. Buying that stock at 57% of its book value looks good to us. We get a 4% dividend while we wait for the market to come to its senses.

Enclosed is recent New York Times article regarding Statoil (STO). As always please call with any questions.

Find the Value of Hayes Asset Management

Specializing in:

- Equity Accounts
- Fixed Income Accounts
- Balanced Accounts
- Mutual Fund Accounts

Serving:

- Individuals
- Corporations
- Not For Profit Organizations
- Retirement Plans

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