

HAYES ASSET MANAGEMENT LLC



Index Returns YTD as of 06/30/09

| | | |
|-----------------------------|---|---------------|
| DOW JONES INDUSTRIALS | ↓ | 3.75% |
| NASDAQ | ↑ | 16.36% |
| STANDARD & POOR 500 | ↑ | 1.78% |
| DJ TOTAL STOCK MARKET INDEX | ↑ | 7.61% |
| BARCLAYS CAPITAL AGGR. BOND | ↑ | 1.90% |

Treasury Yields 06/30/09

| | |
|----------------|--------|
| 6 Month T-Bill | .35 % |
| 2 Year Note | 1.11 % |
| 10 Year Bond | 3.54 % |
| 30 Year Bond | 4.33 % |

Commodities Returns for 06/30/09

| | | |
|-------------|---|---------------|
| Oil | ↑ | 56.70% |
| Natural Gas | ↓ | 33.99% |
| Corn | ↓ | 10.68% |
| Wheat | ↓ | 11.86% |

“Let Wall Street have a nightmare and the whole country has to help get them back in bed again.” - Will Rogers

If ever there was a quote that resonated with current events this one sure does. This has been a very expensive nightmare: The government has pledged nearly \$10 trillion dollars to prop up the economy. (Yes, that is *trillions*, twelve zeros after the 10.) Put another way, it's enough to pay off 90% of all the mortgages in the U.S. or for the U.S. government to send every man, woman and child on earth a check for \$1,430. In addition, interest payments on our national debt cost us \$452 billion last year and will surely rise this year. The Medicare, Medicaid, Social Security and Defense budgets are larger than the current interest tab. And California is paying vendors with IOUs to conserve cash. This madness has to stop somewhere.

Our recent conversations and meetings have centered on when the economic slowdown will end. Economic forecasting is not the major focus of our research. Hayes Asset Management seeks depressed or undervalued assets poised for recovery. An analogy that came to mind in a recent meeting exemplifies our point of view. To us, the economy is like a patient. Its recovery is dictated by the seriousness of the injury. The U.S. economy has incurred a terrible injury and it will take time for us to recover and get back to our old selves. Right now we're at the beginning of the recovery period.

Despite all this, the markets were able to turn in respectable returns for the second quarter. Dow Jones Industrials were up 11%, S&P 500 were up 15%, and the Barclays Aggregate Bond Index (broad bond market benchmark) was up 1.77%.

We continue to find value in the corporate bond market. Purchases we made during the second quarter carried yields ranging from 6.34% to 10.37%. Maturities ranged from 2010 to 2019. We bought Land O' Lakes debt because it's a fundamentally sound company and we thought sales of butter, margarine and cream would hold up well even in hard times. Municipal bond yields have dropped dramatically from earlier in the year. July 1st of this year was a huge maturity date across Wall Street, and right now with fewer bonds around it is hard to find enough bonds for the many who want to buy them. The Build America Bonds (BAB) program, part of the government's \$787 billion federal stimulus package signed in February, is having an enormous effect on the municipal bond market. This program gives state and local issuers a 35% rebate on interest payments for new debt. This rebate is for taxable debt and that's the catch. Municipalities are issuing more taxable debt and that is not attractive to investors in high tax states like New York. As many as 25% of newly issued municipal bonds have been BAB

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

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bonds. Like many others, most of our clients prefer tax-exempt bonds and there is still a huge demand for them. But as long as the supply/demand equation stays in favor of the issuer, yields will stay low. Another area of strength in the fixed income market has been in TIP securities. We have exposure to TIP, (Treasury Inflation Protected Securities Fund) through the iShares Barclays US TIP Securities Fund. These AAA government securities with a provision for inflation protection sound good to us.

We did not open any new equities positions during the second quarter. Most of our recent first quarter purchases, Honeywell, Intel, and CB Richard Ellis have performed well since we bought them. Manitowoc has been the sole loser. Our 2008 purchase of the StreetTracks Gold Trust continues to serve its purpose as a hedge against inflation, financial stresses and meltdowns, and US dollar weakness. Going forward we will stick with the basics, essentials that we all need in our every day lives such as food, utilities, and cell phones. We sold our Xerox common stock because we felt the recent change in management did not represent the kind of dynamic leadership needed to move the company out of its recent slump. We think we can find a better place for those dollars.

We would like to highlight one of the acquisitions we made at the end of last year to gain exposure to China. Hutchinson Whampoa Limited is a Hong Kong based international conglomerate with operations in 54 countries and approximately 240,000 employees worldwide. The company has a market value of \$30 billion dollars and annual revenues of \$39.5 billion dollars. They operate in five segments: 1.) Port and Related Services has interests in 49 ports in 25 countries. 2.) Property and Hotels owns 12.6 million square feet of landmark office buildings in Hong Kong and 2.6 million square feet

of luxury residential properties in China and the U.K. 3.) Retail operates over 8,300 stores in 31 countries, and is the largest health and beauty retailer in the world. 4.) Energy, Infrastructure, and Investments owns 34.75% of Canadian based Husky Energy Inc., with operations in transportation, energy, infrastructure, materials and water plants worldwide. 5.) Telecommunications offers a wide range of services in 14 countries including 3G technologies. We felt Hutchison Whampoa presented a great investment for many reasons. After the steep drop in equity prices over the last year, Hutchinson's stock was severely undervalued. We like that they are a conglomerate because analysts usually fail to properly value the different parts of the business and with Hutchinson operating in many industries they are less likely to be affected by industry specific events. The legendary investor Mr. Li Ka-shing is the chairman of the company. Mr. Li Ka-shing, is considered by many to be China's Warren Buffet and was named entrepreneur of the millennium by "The London Times".

The Schering Plough/Merck special merger meeting is scheduled for August 7, 2009. Shareholders of both companies should vote in favor of the merger. Schering Plough shareholders will receive \$10.50 in cash and 0.5767 shares of Merck.

Stocks continued to rally through July. Most of the major indexes had the best July in years if not decades. Also just announced is that the Champion Intl. bonds we wrote about in our last newsletter are being called early at \$108.

Thank you again for your business. If you have any questions or thoughts about your portfolio or the newsletter, please give us a call, toll-free at 1-866-423-5332.

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