

HAYES ASSET MANAGEMENT LLC



Index Returns as of 06/22/10

DOW JONES INDUSTRIALS	↓	1.3%
NASDAQ	↓	0.3%
STANDARD & POOR 500	↓	1.0%
DJ TOTAL STOCK MARKET INDEX	↓	0.7%
BARCLAYS CAPITAL AGGR. BOND	↑	4.71%

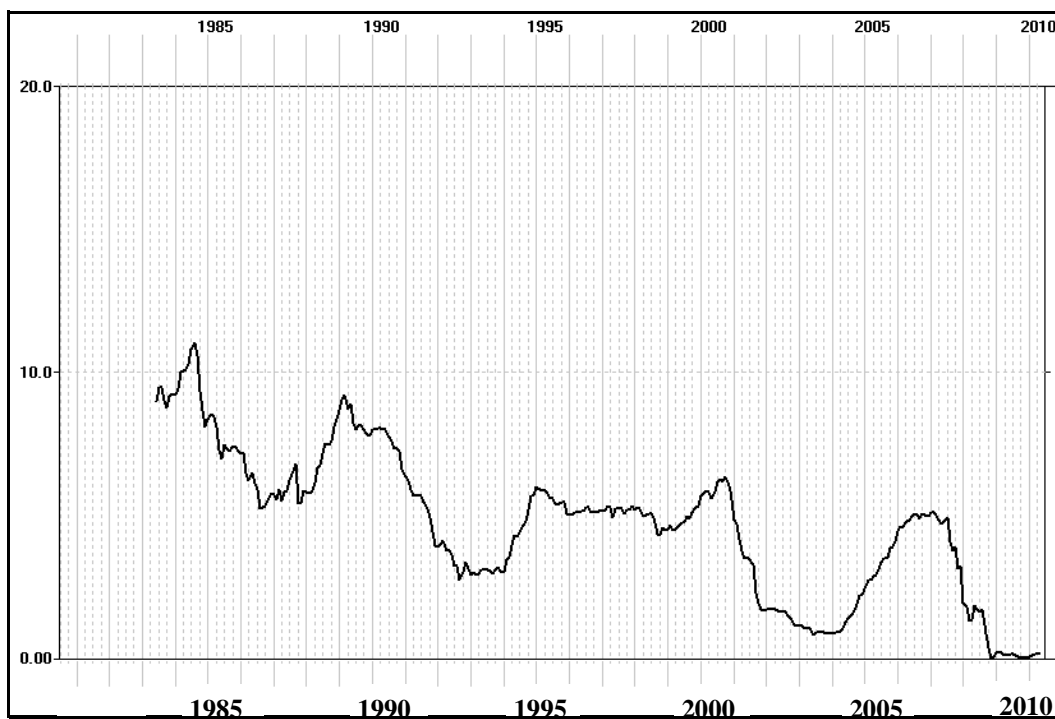
Treasury Yields for 06/22/10

6 Month T-Bill	.18 %
2 Year Note	.68 %
10 Year Bond	3.16%
30 Year Bond	4.09%

Commodities for 06/22/10

Oil	↓	2.71%
Natural Gas	↓	10.85%
Corn	↓	11.70%
Wheat	↑	15.37%
Gold	↑	14.05%

The accompanying chart is of the 3-month Treasury bill. It's a snapshot of a 26 year bull market for bonds. It has not been a straight line down, but the trend has been for interest rates to move lower. As the chart shows, there are only two directions for the interest rates to go at this point: remain the same or move up. If history repeats itself, then higher short-term interest rates shouldn't be that far off. After significant declines in interest rates (Sept '84 - Aug '86, Mar '89 - Sept '92, Oct '00 - July '03), they remained depressed for between 12-16 months before heading higher. We are currently into our 17th month of historically low interest rates, Dec 2008-present. After 26 years of rates trending lower, we may be approaching the turning point, where interest rates begin to trend higher.



Fixed Income:

We took profits on several of the **corporate bond holdings**. Most were bought in the second and third quarters of 2009 and sold in late May and early June 2010. Between price appreciation and coupon payments, we generated double-digit returns. As we have mentioned in previous newsletters, bonds will sometimes offer us opportunities in which we can realize equity type returns, and this was one of those times.

Municipal bonds have been in the news. There are more warnings being issued in the press about the state of the municipal bond market. As with any investment (whether stock, bond, real estate, etc.), you still have to do your homework and understand what you are investing in. That goes for municipal bonds as well. With the possibility of even higher income taxes coupled with the Build America Bond issuance, municipal bonds continue to make sense for tax-conscious investors.

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CPI-Linked CDs: We already own Treasury-Inflation Protected Securities (TIPS), through an Exchange Traded Fund. The idea of a high quality security, FDIC insured, tied to the increase/decrease in inflation has grabbed our interest. With the US printing money (and we're not the only ones), it is only a matter of time before inflation returns. Like any investment, the right time to buy is when they are out of favor. For inflation related investments, that time is right now. When inflation returns, and investors are looking for investments in an inflationary environment, that is when these investments will become fashionable and profitable.

Equities:

Recent equity moves have been purchases of Novatel Wireless (NVTI) and Leucadia National (LUK) and sales of Novell (NOVL) and Dean Foods (DF).

The purchase of Novatel Wireless is a balance sheet play. Their 1st quarter 2010 balance sheet shows that they have cash and marketable securities totaling \$184 million, with *no debt*. Novatel has 31.1 million shares outstanding. By our math, Novatel currently has \$5.93 in cash and securities per share. That is the kind of "margin of safety" we like. We purchased stock at \$7 and will buy more if the stock trades down to the cash per share level.

We already own some of Leucadia National's debt. During the May stock market sell-off, we had the opportunity to purchase the common stock. Leucadia is a conglomerate, diversified holding company. Holdings include a joint venture (Berkadia Commercial Mortgage LLC with Berkshire Hathaway), manufacturing operations (Idaho Timber and Conwed Plastics, LLC), telecommunications operations (Sti Prepaid, LLC), gaming entertainment (Hard Rock Hotel and Casino Biloxi), real estate, oil and gas drilling (land based), mining, medical products, vineyards, significant investments in publicly traded companies (Jefferies Group

and Americredit Corp.), property management (ResortQuest), and the list goes on. We have found that companies like these can be severely mis-priced. For one, there is not a lot of Wall Street coverage ensuring anonymity. With investments spread over so many different industries, many analysts are not comfortable covering the company. Therein lies the opportunity. Every so often the market offers us the opportunity to buy the stock at a discount to all the underlying businesses, and we have to be ready to take advantage of those opportunities. The management team of Ian Cumming and Joseph Steinberg is excellent, and they have been creating value for shareholders for over 30 years.

Novell announced, after the close on March 2nd, that they had received an unsolicited conditional offer from Elliott and Associates, L.P. to take the company private at \$5.75 in cash. The stock closed on March 2 at \$4.75. On March 3rd, the stock traded above the offer price and we sold our position at prices above \$6 per share. Our reasoning was: 1) the offer was a premium to the current market price, and 2) we had the opportunity to sell above the offer price. The price trading above the offer price signals that another bidder may be out there. Well, no bidder has surfaced yet, and we have that money in the bank. On March 20th, Novell's board rejected Elliott's offer as inadequate. In this environment, you never know if the deal will get done.

Dean Foods is another story. We had purchased Dean when they purchased the successful New England Dairy (who we knew the owners of). The original owners have moved on, and so did we. That was mid April and we sold the stock at \$16.75. On May 10th, Dean announced first quarter earnings that disappointed Wall Street, and the stock is currently trading around \$10.75.

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.



The USTA has announced that The Tennis Club of Rochester was chosen to repeat as host of a USTA Men's \$10,000 Clay Court Futures Tournament. The 2010 summer event will take place June 26th to July 4th. The tournament, a USTA Pro Circuit event, is the largest tennis event in Western New York and attracts players from all over the world.

Hayes Asset Management helps sponsor the tournament and would welcome you to stop down, say hello and watch a couple of sets. The matches are free to watch, but you need a pass to relax in the shaded viewing area. If interested, call our office to arrange for a pickup of one of these passes. We will have them available in advance, at the office, or at the tournament, for your convenience.

More info about the tournament at http://www.tennisclubofrochester.com/buffalo_bills_future.cfm

Hayes Asset Management, LLC

400 Andrews Street Suite 600 Rochester, NY 14604

Phone: 585-730-6951 Toll-Free: 866-423-5332 Fax: 585-730-6944

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