

# HAYES ASSET MANAGEMENT LLC



<u>Index Returns (Year to Date)</u>	<u>Treasury Yields*</u>	<u>Commodities (Year to Date)</u>
DOW JONES INDUSTRIALS ↓ <b>7.55%</b>	6 Month T-Bill 1.486%	Oil ↑ <b>5.8%</b>
NASDAQ ↓ <b>14.07%</b>	2 Year Note 1.622%	Natural Gas ↑ <b>35%</b>
STANDARD & POOR 500 ↓ <b>9.92%</b>	10 Year Bond 3.430%	Corn ↑ <b>33%</b>
WILSHIRE 5000 ↓ <b>10.04%</b>	30 Year Bond 4.299%	Wheat ↓ <b>6%</b>
LEHMAN BROS AGGR. BOND ↑ <b>2.17%</b>		Gold ↑ <b>9.7%</b>

\* for March 31, 2008

Is the United States in a recession or are we on the verge of one? The average American probably feels we are in a recession, and we would agree. But by the time the United States government gets around to admitting it, we will be well on our way out of it.

Most recessions are preceded by spikes of inflation and we are seeing a lot of that right now. Sub prime mortgage write downs by banks and investment houses totaled over 215 billion dollars, wiping out that much value on investments and corporate balance sheets. Recently ATA Airlines, Skybus, Aloha Airgroup and Champion Air all declared bankruptcy and shut down entirely, putting nearly 5000 people out of work. Shareholders of Bear Sterns, the legendary investment house, saw their stock drop 90% in six weeks. Bear's demise was like that of many of the failed hedge funds; they were over leveraged and in the end, for every dollar they invested, they borrowed thirty more. When the markets moved against them, and then froze, it was all over and Bear joined the ranks of Long Term Capital, Amaranth, and Aman Capital, all colossal hedge fund failures. They had violated their fiduciary responsibility and the trust of their stockholders. With these debacles, and gasoline and agriculture prices taking up increasing amounts of our personal income, we are bound to feel less optimistic about the current prospects for jobs and the economy.

At Hayes Asset Management it's not our job to forecast the economy. It is our job to find and purchase under-

valued securities. Our long term clients understand that. Probably many of you groaned when you saw cash balances in your accounts grow at the end of 2007 and into 2008. Hopefully you realized that was because several of our long term holdings were acquired and taken private. At that time it was difficult to find undervalued stocks to replace them. However, those cash balances helped us weather the current downturn and now give us the ability to buy when others are selling.

This quarter we opened a new position, Federal National Mortgage, better known as Fannie Mae (FNM). Fannie is a government sponsored enterprise (GSE) that provides funds to mortgage lenders through its purchases of mortgage assets. It issues and guarantees mortgage related securities that facilitate the flow of additional funds into the mortgage market. We bought Fannie Mae because it is a world renowned, highly respected, solidly based franchise. Its government charter gives it a funding advantage over its competitors. We believe it should benefit from the current turmoil in the mortgage arena. Fannie is gaining market share, increasing credit guarantee fees, implementing stricter underwriting standards and generating higher rates of return on new investments because of the wider spreads between mortgage rates and borrowing costs. Fannie's potential earning's power down the road could be \$6-\$7. When those earnings materialize, Fannie will be a \$60-\$70 stock.

**(continued on back)**

*As always, we thank you for your business and our continuing relationship - Hayes Asset Management Team*

Two of our holdings, Dillards and The New York Times are being targeted by activist shareholders who are trying to create greater shareholder value.

Dillards faces increased scrutiny from the Barington Capital Group, which collectively controls about 5.6% of Dillard's outstanding Class A stock. In a March 20 letter, Barington demanded information that will allow it to investigate company matters, and communicate with shareholders. They intend to examine Dillards' use of corporate assets, types of compensation, and benefits for directors and executive officers. They will also look into the nature of all relationships between the company's executive officers and directors, press for stronger board oversight and monitor decisions affecting the interests of stockholders. In particular, Barington wants to review the board's decision to keep CEO William Dillard II and three others as the top executives of the company. They think new and more effective management will help increase shareholder value.

The New York Times has been receiving increased attention from Harbinger Capital Partners and the investment firm, Firebrand Partners. Since December 2007, they have purchased more than 500 million dollars worth of NYT stock. Most recently, Harbinger bought 150,000 more Class A stock, bringing its stake to 19.8%. Harbinger and Firebrand have been pushing to get four nominees on the board. Recently, the Times agreed to support two of the Harbinger nominees. The nominees will push for sale of some of the Times' assets, such as its stake in the Boston Red Sox and its regional newspapers, in order to invest more in digital technology.

Also on the bright side, in the first quarter of 2008, the Puerto Rican banks have had a strong impact on our clients' portfolios. In 2007, when faced with serious problems, they made difficult but positive decisions which led to greatly improved performances

this year. This occurred despite all the negative news surrounding financial stocks of all kinds. Our basket of eight PR banks is up over 28% for 2008. Leading the pack is Oriental Financial with a gain of 49%, followed by First Bancorp up 37%, Eurobancshares up 34%, Santander Bancorp up 27%, R&G Financial up 24%, Doral up 9%, and Popular up 8%. Only W Holdings is down 5% year to date. Whether these stocks can continue to outperform is yet to be seen but they are currently bucking the trend. We believe the worst is over for these investments.

As we look forward to the rest of 2008, we believe that our clients are positioned to weather the current market turmoil. These types of markets ultimately provide excellent opportunities for long term investors, and we are beginning to see more investment opportunities approach our buy targets. For example, as we have often said, we love the water industry. Now, for the first time in years water companies are becoming more reasonably priced and we look forward to making additional investments in this area.

Hayes Asset Management will:

- Maintain a highly focused value investing methodology that is tailored to the investment goals of each client.
- Protect our clients' principal investment from the market's risks and volatility.
- Deliver exemplary personal service.
- Seek superior performance over the long run.

As always, we will continue to search for above average performance in bear or neutral markets and normal performance in bull markets. It is on this basis that we hope to be judged. If you have any questions, feel free to ask them. We will write again at the end of the second quarter.

Special thanks to "Bibi" for all the help on the newsletter.

### *Find the Value of Hayes Asset Management*

**Specializing in:**

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