

HAYES ASSET MANAGEMENT LLC



Index Returns YTD 09/30/10

DOW JONES INDUSTRIALS	↑	3.45%
NASDAQ	↑	4.38%
STANDARD & POOR 500	↑	2.34%
DJ TOTAL STOCK MARKET INDEX	↑	3.91%
BARCLAYS CAPITAL AGGR. BOND	↑	7.95%

Treasury Yields on 09/30/10

6 Month T-Bill	.19%
2 Year Note	.43%
10 Year Bond	2.51%
30 Year Bond	3.69%

Commodities YTD 09/30/10

Oil	↑	0.01%
Natural Gas	↓	34.13%
Corn	↑	25.0%
Wheat	↑	51.70%
Gold	↑	18.81%

“A FOOL IS SOMEONE WHO DOESN’T KNOW WHAT THEY DON’T KNOW” - ANONYMOUS

I came across the above quote while reading tennis star Brad Gilbert’s book, *Winning Ugly: Mental Warfare in Tennis*. Of course, he applies the logic to tennis and athletics in general, writing, “I believe the most effective athletes are the ones who know their weaknesses. Of course they know what they can do. But, just as important, they know what they can’t do.” That same logic can be considered when analyzing the most effective investors.

There are many different theories to guide investing. There is no wrong or right way to invest; one can prescribe to value investing, growth investing, short-selling, or any of the many available methods and it may work for them. What does not work is trying to be everywhere and do everything. Many investors are unsuccessful, because they cannot bring themselves to pick a particular style of investing and stick with it. Discipline is an important trait to possess when making investment choices, and it is demonstrated when an investor can focus and stick with a particular style, especially if they have managed to find the style that matches their strengths.

When I first started investing in the mid-eighties, I practiced technical analysis; my investment decisions were based on my analysis of charts and graphs. Ultimately, I found that my particular investment style was value investing. Just like investment greats Warren Buffet, Martin Whitman, and Max Heine all found

value investing to be best suited to their personalities, I found that this style worked for me as well. In the end, value investing was the style that was adopted by Hayes Asset Management.

Value investing is suited to our style at Hayes Asset Management, because we understand the contrarian viewpoint, and we recognize that value can be uncovered through extensive bottom-up fundamental research, rather than choosing investments that are simply popular at a particular moment. We have the patience to take a long-term view, which results in positive gains over time. This is the backbone of value investing. At the same time, we can look outside the equity market, which is the sole focus of many other investing styles. This allows us to make equity-like returns on other types of securities, such as bonds, which we have talked about at length in previous newsletters (available at HayesAssetMgt.com).

2010 So Far

After a positive first quarter, followed by a very negative second quarter, stock prices continue to fluctuate in the third. At the end of August, the markets were down year-to-date, but by September, they had made their way back to post minor gains. Overall, we approach the end of third quarter with stocks remaining mostly flat for the year.

Continued on Back...

With investors pessimistic over long term growth and fearful of sudden drops, such as the one that took place on May 8th (when the Dow fell 1000 points before it rebounded 600-700 points by the end of the day), they continue to look to the bond market as a safer alternative. The demand for fixed income is through the roof, allowing corporations to issue debt at very low interest rates. The bond market is continuing to outperform the stock market, even though, at this point, overall the stock market looks like a wiser investment. The bond market is offering low interest rates, and little room for capital appreciation, while the stock market has a great deal of room to progress. It's an exciting time for value investors.

Hayes Asset Management Holdings Update

So far in 2010, our holdings have been outperforming the markets. Strong performers include Annaly Capital Management (NLY), CB Richard Ellis (CBG), The Chubb Corp (CB), Dillard's (DDS), Honeywell International (HON), Hutchinson Whampoa (HUWHY), Leucadia National (LUK), New York Community Bancorp (NYB), Oriental Financial (OFG), Popular (BPOP), and Barclays TIP Bond Fund (TIP).

These holdings have all performed well in 2010. Some have posted respectable gains of 5-7%, such as the TIP ETF, while others have posted large gains ranging between 20-30%, such as OFG and DDS. Even BPOP which has caused us headaches in the past is up over 25% this year. It is also worth noting that the purchase of LUK at the end of June has already produced over a 15% gain.

A few holdings have performed below expectation,

including American National Insurance (ANAT), Consolidated Water Co (CWCO), Intel (INTL), Johnson & Johnson (JNJ), Kellogg (K), Pfizer (PFE), and Tootsie Roll (TR).

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If you have not stopped at the office to see us in awhile, now is a great time to do so! Flaum Management, the owners of our building at 400 Andrews Street, have moved into the office downstairs. They bring with them heavy renovations to the lobby and elevators. The building is looking great, and there are still more changes on the way! Stop by and check it out. We'd love to see you! You can make an appointment by calling 585-730-6951.

Mark your calendar! January 6, 2011! Hayes Asset Management will be heading to Geva Theatre Center! We would like you to be our guest at the new show, "I'll Be Genesseeing You!" by Second City!

"Famous for their hilarious sketch comedy, and their equally famous alumni (Tina Fey, Steve Carrell, Stephen Colbert and Gilda Radner), Chicago's Second City is writing a show exclusively for Geva all about life in [Rochester]! Can you imagine what might be included? Local icons, current gossip and ancient history will be filtered through the brilliant comedic lens of the Second City ensemble."

-Geva Theatre Website

-Written and Performed by Second City-

Keep a look out for an official invitation containing more details, coming in November! We hope you can join us for this exciting event!

*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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