

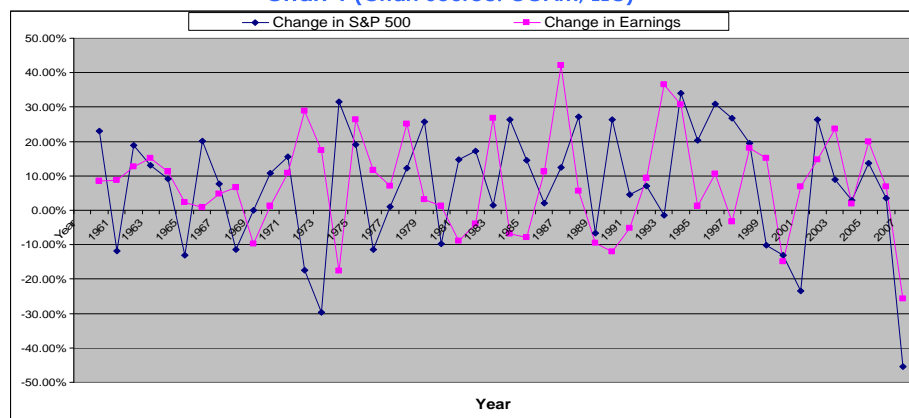
# Newsletter

As most things take their own course in life, this Newsletter is no exception. We started disseminating our philosophy and ideas which has served us and our investors well over the last year. It would be difficult to recap the information contained in the last twelve issues in our final Newsletter for the year, but if we could, a resounding echo of contrarianism would illustrate our philosophy.

Why Contrarian? Isn't that contrary to instincts? Isn't going with the flow the natural way? Wouldn't it be easy to invest where everyone else is and ride the wave of momentum? I guess that that would be a way to invest in the market, but that's not our cup of tea. We believe that in the short and intermediate term there are finite number of investors and limited amount of disposable assets that can flow in and out of global capital markets. Due to the lack of funds that can continue to inflate assets prices amalgamated with the primal instinct known as greed, a significant movement of assets takes place between various asset classes in search of higher returns. The advent in communication technology that started with the telephone and moved to the internet has added to the noise and volatility in the markets. What used to be a phone call away is now a click away. Tools that were only available to institutional investors are accessible to individual investors. Despite the sophistication of technology and access to up to the minute information, one thing continues to remain the same, the herd mentality of humans.

Let me explain!!! The major market indexes have experienced healthy gains based on the recent news illustrating economic recovery over the last two quarters. This obviously shows that investors follow the fundamental economic indicators and factor these variables in market returns. On the other hand, let me explain the herd mentality using recent events. Gross Domestic Product (GDP) growth is one of the most important economic indicators for investors attempting to gauge future market activity. On October 29<sup>th</sup> the US Commerce Department announced that the third quarter GDP grew at 3.5% rate quarter over quarter. In other words, 3.5% (even though this number is not annualized) growth is approximately \$420 billion, considering the total US economy to be approximately \$12 trillion. This bit of positive news resulted in the Dow Jones Average and the S&P 500 index gaining 2% each for that particular day. Now let's fast forward the same indicator to November 24<sup>th</sup>. The Commerce Department revised the same third quarter GDP number down to 2.8% from 3.5% initially. This meant that the revised economy grew at \$336 billion, a reduction of \$84 billion from the initial number. Major stock indexes were unchanged on this seemingly negative news. Three days later, on November 27<sup>th</sup> or Thanksgiving, the Dubai's debt problems made headlines and major market indexes lost over 2% in a single day. The total debt that Dubai is exposed to is approximated at \$60-\$70 billion. We believe that the difference in the reaction of investors between the two events has to do not so much with the magnitude of the dollar amount involved but the connotation of the news. The reduction in US GDP was obviously negative, but still a positive step towards recovery. In addition, the overall market sentiment has been gaining momentum in a positive direction and hence the tendency to ignore negative news. On the other hand, the Dubai scenario reminded us of the main reason for the 2008 debacle, and hence an exaggerated negative reaction.

**Chart 1 (Chart Source: CGAM, LLC)**



Now that we have utilized a major portion of the front page explaining our contrarian philosophy based on irrationality of investors, we would like to dedicate the rest of the section with our view and projection of the capital markets for the rest of the year.

A year ago, our December 2008 Newsletter focused on the movement of the S&P 500 index in relation to US corporate earnings. Chart 1 clearly shows that the market

had followed the reduction in corporate earnings and bottomed out by early 2009. The markets have since gained over 22% on an average for the year as shown in Table 1 below. These gains have factored in the expected growth in the earnings for the next fiscal year.

The average price earnings ratio of the S&P 500 stood at approximately 14-15 in March 2009. The long term (83 year average) price earnings average has been in the range of 15-16, shown in Chart 3.

The average analyst estimated \$55 in corporate earnings for S&P 500 for the fiscal year 2008. As earnings started to show better than expected growth, markets started to react and investors took upon higher risk. It can be clearly seen from Chart 2 that the price earnings ratio of the S&P 500 has now risen to approximately 20 following a 25-27% increase in earnings projections. This ratio is close to the 25 year average as seen in Chart 3.

Chart 2

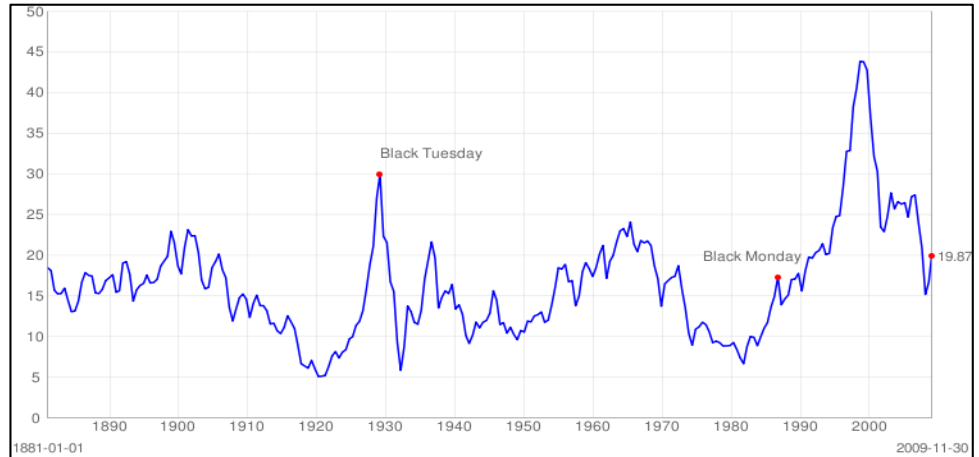
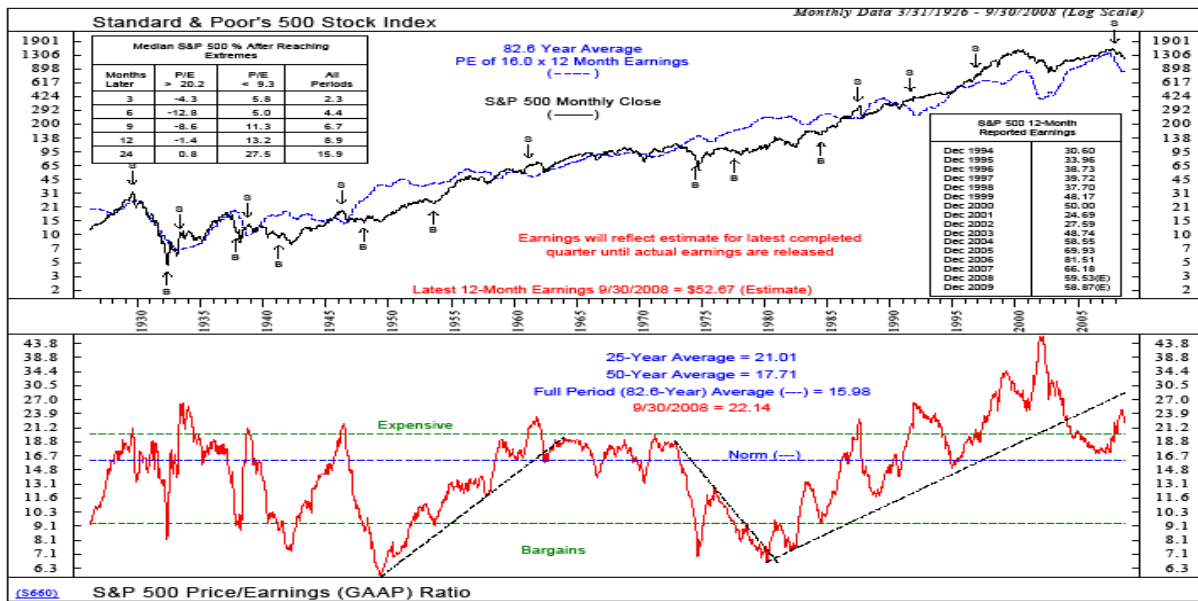


Chart Source: <http://www.mulpl.com/>

Chart 3



Source: Ned Davis Research

It is crucial that earnings guidance keeps up with the markets but more importantly, the perception and I repeat "THE PERCEPTION" that earnings will continue to grow can keep the markets frothy. Even though basic fundamentals like price earnings ratio indicate that the markets could be in the overbought area, we know from experience that the markets can overshoot reasonable levels on the upside just as they do on the downside during periods of economic slowdown. We believe that the markets can experience 5-7% corrections in the continuum of this bullish phase. We encourage investors to gravitate towards larger dividend paying stocks that have not participated in the recent market move. In addition, we believe that international companies involved in the healthcare, financial and material sectors shall do particularly well as the basic demand in these areas should consistently grow over the next 5-10 years.

Table 1 illustrates the change in U.S. broad based equity indexes since the beginning of the year 2009. This is followed by the performance of the recommendations CGAM has provided via the monthly Newsletters for the same time frame.

Table 1<sup>1</sup>

<b>Broad Based US Indexes</b>	<b>Dec 31<sup>st</sup>, 2008</b>	<b>Nov 30<sup>th</sup>, 2009</b>	<b>Gain/Loss (%)</b>
Dow Jones Industrial Average	8,776.00	10,344.84	17.88%
NASDAQ COMPOSITE	1,577.00	2,144.60	35.99%
S&P 500 INDEX	903.00	1,095.63	21.33%
RUSSELL 2000 INDEX	499.51	579.73	16.06%
<b>Average Return</b>			<b>22.82%</b>

<b>CGAM Recommendations Since December 31<sup>st</sup>, 2008</b>	<b>Security Price at Recommendation Date (\$)</b>	<b>Nov 30<sup>th</sup>, 2009</b>	<b>Gain/Loss (%)</b>
UltraShort 7-10 Year Treasury ProShares	52.66	49.78	-5.47%
Blackrock Corporate High Yield Fund Inc (Sell Recommendation October 2009)	4.08	6.40	56.86%
Eaton Vance California Municipal Income Trust (Sell Recommendations July 2009)	7.99	10.12	26.66%
Western Asset Managed Municipals Fund Inc	9.40	12.16	29.36%
Boulder Growth & Income Fund Inc	4.47	5.63	25.95%
Ultra Financials ProShares	3.28	5.65	72.26%
CGM Focus	25.56	29.54	15.57%
Bank of America Corp	6.82	15.85	132.40%
Caterpillar Inc	27.96	58.39	108.83%
Corning Inc	14.62	16.68	14.09%
Manitowoc Co Inc	5.95	9.82	65.04%
E TRADE Financial Corp	1.44	1.64	13.89%
Blue Nile Inc (Recommendations: Sell Short)	45.90	55.89	-21.76%
Wendys/Arbys Group Ord Shs Class A	4.00	4.10	2.50%
Foster Wheeler Ltd	23.10	29.84	29.18%
Akamai Technologies Inc	16.44	24.00	45.99%
Immersion Corp	4.30	4.00	-6.98%
United States Natural Gas	11.74	9.15	-22.06%
Progressive Corp	16.00	16.77	4.81%
Banco Santander ADR Rep 1 Ord Shs	16.11	17.30	7.39%
<b>Average Return</b>			<b>29.73%</b>

<sup>1</sup> Source: CGAM, LLC., [www.fidelity.com](http://www.fidelity.com) Note: The average return for the CGAM portfolio does not include dividends and interest income.

## Investment Themes

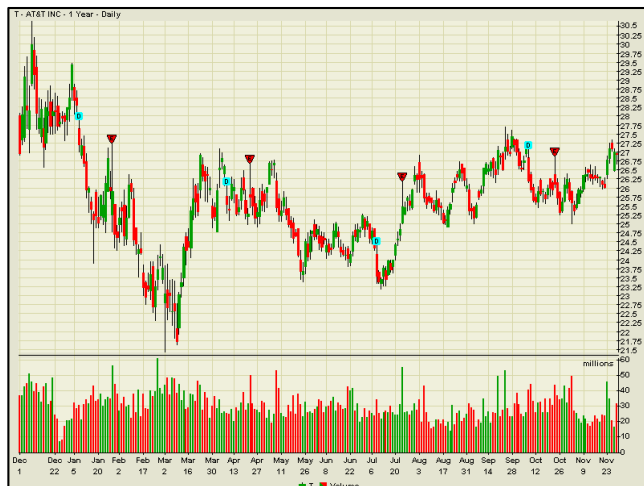
**Corning Inc. (GLW)**<sup>2</sup>: Initially recommended at \$14.62 as of April 30<sup>th</sup>, 2009. Recommendation: **Buy (Add to existing positions)**.

1. Corning Inc., has evolved from a glass ware manufacturer to a leading technology based manufacturer in five business segments: Display Technologies, Telecommunications, Environmental Technologies, Specialty Materials and Life Sciences.
2. 52 week High and Low: \$17.22-\$7.36.
3. As Corning generates a major part of its revenues from glass substrates used in LCD TVs and monitors, globalization will help its margins and product reach.
4. The company enacted a cost cutting plan to conserve cash during the period of global slowdown last year. This combined with a lower than expected slowdown in global sales of LCD monitors should boost Corning's revenue growth. In addition, the recent growth in LCD and plasma TVs is benefitting the company and will continue to do so during the holiday season.
5. We expect that the company will be able to generate \$1.25-\$1.30 per share for FY 2010. Based on a PE expansion of 15-17, the stock could reach \$20-\$21 within the next 12-15 months; approximately 25% growth in addition to the 14% growth since our initial recommendation.



**AT&T Inc (T)**: \$26.94 as of November 30<sup>th</sup>, 2009. **Buy**

1. AT&T Inc. (AT&T) is a communications holding company with its subsidiaries providing services in the United States and around the world. Their offerings include Internet protocol (IP)-based business communications services, third generation (3G) network and wireless coverage worldwide, and Internet access and voice services. The Company operates in four business segments: wireless, wireline, advertising solutions and other.
2. 52 week High and Low: \$30.65-\$21.44.
3.  The company is a major beneficiary of its exclusive agreement with Apple and the hot iPhone. This agreement will expire in 2011 but most of this news has already been factored in the stock price.
4. The stock trades at a discount to most of its competitors and should take wireless share away from Verizon, Vodaphone and smaller players.
5. We believe that the company will grow in excess of 10-12% per year for the next 5-7 years. It is expected to earn \$2.25 in FY 2010, which should translate to a share price of approximately \$31-\$32 at a reasonable price earnings multiple of 13-14. This in addition to a **6% dividend yield** should provide an attractive return of over 25% for the next 12-15 months.



**Each investor is unique and should invest to compliment their respective financial conditions and objectives.**

<sup>2</sup> Source: Charts and quotes from [www.fidelity.com](http://www.fidelity.com)

## Please review the following disclaimer

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