

April 30th 2013

A Look Back

The current bull market which began in earnest during the spring of 2009 resumed its upward bias during the first quarter of 2013. You may recall that although all the leading stock market indices produced double digit gains during 2012, the final quarter reversed course and saw each of the major averages retreat in value.

In spite of all the economic and geo-political issues confronting the domestic and world economies both the S&P 500 and the Dow Jones Industrial average attained all time highs during Q-1 eclipsing the record closings established during 2007.

The 30-stock Dow jumped 11.93%, the best first quarter showing in 15 years, while the S&P 500 advanced by 10.61%. The technology laden NASDAQ index was the only major U.S. stock index that did not record a double digit advance, but it too posted a stellar quarter gaining 8.21%.

Performance

The return on equity experienced by the accounts managed by Boyar Asset Management during the 1st quarter of 2013 was quite good and in most instances were double digit.

Boyar Asset Management owned on behalf of our clients approximately 41,000 shares of Heinz as of the end of the 1st quarter of 2013. Heinz is being acquired by a partnership consisting of Berkshire Hathaway and 3G Capital. We will receive \$72.50 per share at closing. Our cost basis is roughly \$37.11 per share.

Now the hard part is to find something equally compelling to replace the Heinz shares. We admit this is a high class problem to have!



A Look Ahead

Could the second quarter prove to be the period when the market finally provides the correction that many pundits had begun to anticipate towards the end of Q-1?

According to CNBC, the average second quarter performance for this three-year old bull market has been a 5% decline. This is in sharp contrast to gains of 7% in the first and fourth quarters. On average, the third quarter has seen little change.

Although stock valuations are not nearly as compelling as they were in 2008 and 2009, they are also not blatantly over valued either. On a relative basis one can make the argument stocks are still one of the least expensive asset classes.

Would you rather park your money in a ten-year treasury and accept a yield of 1.8% or purchase the stock of a quality company yielding 3% or more, with the capability of raising the dividend multiple times over that time frame?

Investors have been handsomely rewarded since the financial crisis by following the old Wall Street adage of “Don't fight the Fed.” That has meant loading up on stocks and riskier corporate debt as the Federal Reserve's low interest rate policy has driven the value of those asset classes to new highs. But investors now find themselves having to look over their shoulder to see when the Fed will shift gears or risk giving back a portion of their gains.

How the Fed telegraphs a change in its accommodative stance is crucial to the future direction of the market. In 1994 a sharp unexpected rise in interest rates wrecked the value of bond portfolios. Hedge funds blew up, banks plunged into the red and the resulting shockwaves even hurt the equity market, which reversed a strong start to end down on the year.

Today, these artificially manipulated rates by central banks make people nervous, so they are uncomfortably long equities and credit. We have never seen a major central bank exit QE and you can't say fears among bond holders are not justified. One can argue rates will only rise if the economy strengthens and stocks can withstand multiple rate increases since any pick up will begin from such a low level. Only time will tell if this holds true.

A number of well known pundits who have up until now been bearish on stocks have recently turned positive. Furthermore, the market's record- breaking spree has raised a new fear in many American households- dread they are missing out on big gains. Recently, there have been a number of newspaper articles written about individuals who exited the stock market in 2008 after sustaining huge losses and are now plunging back into equities. Perhaps these are two more signs that the market might be poised for a pullback.

Lastly, the stock market has never recorded a down year when the initial quarter posted double digit gains... As we said in our year end letter to clients, “it is never a good idea to fight the Fed, so even with the robust results experienced over the last 15 months and with opaque visibility stocks could be modestly in the black for a fourth consecutive year.”

The condensed article below is an interesting contrast with an article we featured in our 1st quarter 2009 letter to clients. There we highlighted an article from The New York Times discussing the story of Dr. Marge Yanker who could not handle both the losses and the volatility of the stock market. After checking her Fidelity account balance on a daily basis she decided to go entirely to cash a few weeks before the market bottomed. She said going to cash made her able to sleep better at night. However since this article was published the DJIA has advanced by approximately 8000 points. We sometimes stop and wonder what she thinks about her decision now.

While we still think the stock market is a great place to invest for someone with a long-term time horizon, it never ceases to amaze us how human nature works. Investors in March of 2009 when the Dow Jones Industrial Average was at approximately 6600 did not want to purchase equities, but now **after** a huge stock market advance, they are deciding equities are once again safe.

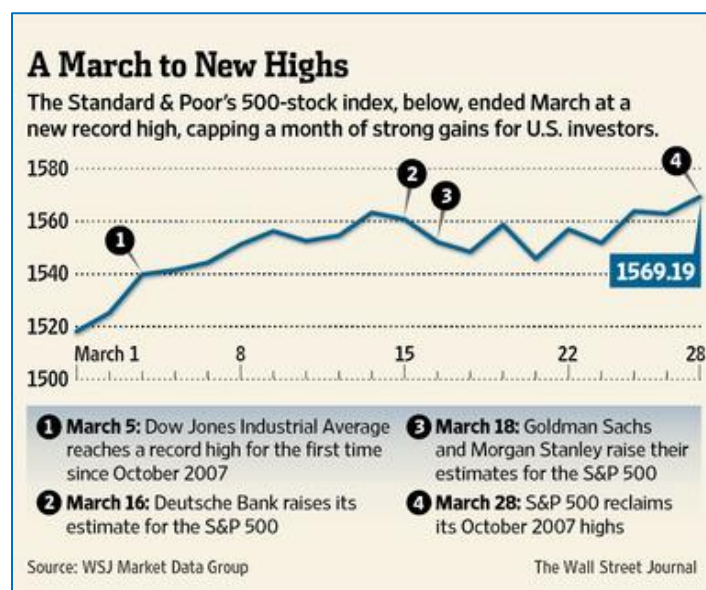
Mom and Pop Run With the Bulls

The market's record-breaking spree has raised a new fear in many American households—dread that they are missing out on big gains. When stock prices collapsed in 2008, the bear market wiped out half of the savings of Lucie White and her husband, both doctors in Houston. Feeling "sucker punched," she says, they swore off stocks and put their remaining money in a bank.

This week, as the Dow Jones Industrial Average and Standard & Poor's 500-stock index pushed to record highs, Ms. White and her husband hired a financial adviser and took the plunge back into the market. "What really tipped our hand was to see our cash not doing anything while the S&P was going up," says Ms. White, a 39-year-old dermatologist in Houston. "We just didn't want to be left on the sidelines..."

So far this year, U.S. stock-focused mutual funds—the traditional domain of mom-and-pop investors—have taken in a net of \$33.6 billion, according to Lipper. That is a small reversal compared with the \$445 billion that they pulled from domestic stock mutual funds from 2007 through the end of 2012.

But many on Wall Street think that trend will likely accelerate in coming months, particularly if the stock rally continues. So far, most of the gains have been powered by big institutions and professional traders, whose buying helped push the blue-chip Dow to a gain of 11% in the first quarter of the year, which ended last Thursday.



That rally, which also pushed up the S&P 500 to a record last Thursday, is the best start for the Dow since 1998.

Providing some comfort to small investors are fading concerns about the health of the U.S. economy. While growth is far from vibrant, unemployment is falling.

Crucially for individual investors, the values of homes—the biggest single investment for most Americans—have started to inch higher. Corporate profits are at record levels, and confidence is rising among consumers and businesses.

But there is nothing like bad returns to scare away investors, and good ones to bring them back. After the long bull market of the 1980s and 1990s, the first 10 years of this century have become known on Wall Street as the "lost decade." The S&P 500 finished 2009 down 24% from where it was a decade earlier, thanks to a pair of vicious bear markets.

First came the collapse of the technology stock bubble starting in March 2000, which saw the S&P 500 tumble 49% to its nadir in October 2002. Then from its peak just before the financial crisis in October 2007, the S&P 500 slid 57% to its March 2009 low. Some market watchers point out that Main Street investors tend to embrace stocks with enthusiasm only after major rallies like this one. That exposes such investors to the risk of buying near the end of a rally—and suffering when stocks turn lower...

Alan Miretzky, a 58-year-old sales executive for a packaging company, recently pushed his stock allocation higher, in part because he has seen the value of his downtown Chicago condominium climb steadily in recent months. "I've been sitting here the past five years [tracking the housing market], and now I'm watching what I expected would happen actually happen," Mr. Miretzky says.

He estimates his condo has risen about 10% in value in the past six months. Last year, Mr. Miretzky raised his allocation to stocks from the "low 40% range" to 60%. As the economic recovery accelerated in January, he bought more stocks, pushing his exposure to 65%—what he considers the "maximum" level he would be comfortable allocating to stocks, given his age...

Not everyone is convinced. Suzanne Coleman, a 43-year-old artist and former doctor who lives in Chicago, has been watching the market move steadily higher, but she remains too fearful to jump back in. Ms. Coleman, a former amateur day trader who used borrowed money to magnify big bets on Amazon.com and Yahoo during the 1990s heyday, now has all of her money stashed in a bank account, earning a paltry 0.9% each year, in part because she doesn't trust the market.

Ms. Coleman says she doesn't like the return, but doesn't feel like she has any alternative. "Where else can I put it?" she says. "I don't want to lose all my money in the stock market." Even though stocks have been marching to all-time highs, "I look at it with a lot of hesitation because of the whole world economy," she says, pointing to the continuing crisis in Europe, aggressive central-bank stimulus measures and the slow recovery in the U.S. In addition, Ms. Coleman's memories of the dot-com bubble and the financial crisis have trained her to be wary when ordinary investors start to get too bullish.

Ms. Coleman says she fears that anyone getting into the market now "could be hurt very badly." Then again, she adds: "I might have said that two years ago and look where they are now. That's the thing about investing: you just don't know..."

In Houston, Ms. White says any worries about another downturn are tempered by confidence in the Federal Reserve, which she believes will continue to support the economy with aggressive stimulus policies. "We feel like the Fed, if there is a recession, they're going to stimulate. They're going to throw money at it," she says. So far, Mr. Villa and Ms. White are happy about their decision; though they worry they may be getting in a little late. But, she adds: "We have better advice, we're better diversified and I feel like we can tolerate a little risk."

—Condensed from the *WSJ* March 30, 2013

*The condensed version of the article below demonstrates the dangers (in our opinion) investors are taking in their quest for yield. The Federal Reserve by encouraging a low interest rate environment is forcing investors to purchase riskier assets. Unfortunately this has the unintended consequence of punishing savers who are earning next to nothing in their savings accounts or into the perceived safety of long-dated Treasuries (with no thought of what happens to the value of these bonds when interest rates rise). Investors, particularly individuals saving for or financing their retirement should not compound their problems by investing in riskier assets to generate a greater income stream (it is far better to temporarily have less income than to permanently lose principal). We believe investors are much better off sitting on the sidelines in cash, than investing in a security just because it promises an attractive yield. **Remember purchasing emerging market debt, MLPs, and REITs is very different and in most cases involves much more risk than traditional fixed income investing. In order for these securities to be attractive for investors on a risk adjusted basis, the yield must be significantly greater than one could achieve by purchasing U.S. Treasuries.***

Emerging Markets: Should You Bond With Azerbaijan



Mega-Flags.com

When you reach for yield, think about how far around the globe you should stretch. Lately, investors haven't been able to get enough emerging-market bonds, issued by governments and companies in dozens of countries in Latin America, Europe, Asia and Africa. In the year ended Jan. 31, \$28.7 billion poured into mutual funds and exchange-traded funds that specialize in emerging-market debt, on top of the \$53 billion in assets they started with, according to Morningstar. That is the highest growth rate of any bond-fund category.

Such funds yield an average of roughly 4%, more than twice the yield on the Barclays Aggregate index of U.S. government and corporate bonds. So it is no wonder investors are scurrying to Peru, Kazakhstan and even Zambia for higher income. But these are places only for the brave. Bonds in emerging markets have a long, often dangerous, history. British investors were enamored of Latin American bonds in the 1820s—right before several Latin countries defaulted. Baring Brothers, the great merchant bank, had to be rescued by the British government in 1890 after overinvesting in Argentine debt.

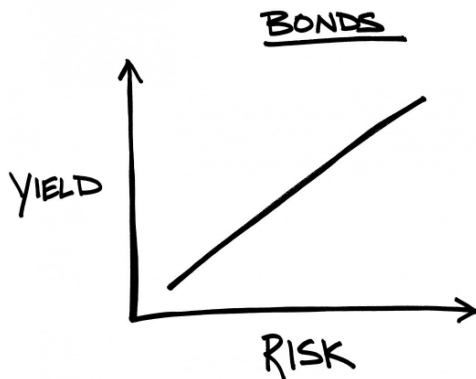
What is different now is the credit quality of these bonds. As credit ratings for the U.S. and Europe have fallen, emerging countries have been upgraded. Their economies generally are booming, and their borrowing is under control...

The bonds of developing countries used to act more like stocks. In 2008, the average emerging-market bond fund fell about 18%, while medium-term U.S. government bond funds gained 4.8%. Now, however, bonds from developing countries with steadily improving economies "function more like safe havens," says Pablo Goldberg, head of emerging-market research at HSBC Securities.

But the perception of safety has its price. Edgardo Sternberg, who manages roughly \$800 million in emerging-market debt at Loomis Sayles in Boston, says the most popular emerging-market government bonds priced in dollars have risen so much lately that they have "nowhere to go."

Consider the bonds due in March 2023 issued by the government of Colombia. They yielded 3.1% as of Friday. Colombia has recently been upgraded by all three major credit-ratings firms, and its economy is expected to expand by at least 4% this year.

But that yield on the Colombian bonds is just 1.1 percentage point more than the 2% you get on bonds of similar maturity issued by the U.S. Treasury, even though a Marxist rebellion has long simmered in Colombia.



Or look at bonds from the Russian government that are due in April 2022. They yielded 3.2% this week as of Friday. Russia is awash in oil money, and its government is far less indebted than Uncle Sam. Still, Russia defaulted on its debt in 1998. The April 2022 bonds yield only about 1.1 percentage point more than U.S. Treasury bonds maturing around the same time, although some investors are uncomfortable lending to a government they see as autocratic and capricious...

Mr. Rohatyn of the Rohatyn Group points out that with governments in Europe and Japan determined to depreciate their currencies; emerging markets are bound to benefit from better exchange rates. That would make their government bonds—if denominated in local money—more valuable to U.S. investors. But such debt issued in dollars will remain vulnerable to any sharp rise in U.S. interest rates, he says.

Analysts say that in emerging markets, corporate debt is often more attractive than government bonds. Aziz Sunderji, a credit strategist at Barclays, says the valuations on emerging corporate bonds "are certainly not stretched" in general. The market, dominated by big global firms like Brazilian mining giant Vale and Russian energy company Lukoil Holdings, is approaching \$1 trillion in outstanding debt...

While the future for emerging-market debt looks bright, the past should give you pause. Invest in these bonds only if you know you are as brave as you think you are. Sooner or later, you are going to find out how much risk you can withstand.

—Condensed from the WSJ March 9, 2013 written by Jason Zweig

Many of our clients over the past few years while gold was continuing its meteoric ascent in value asked us our opinion in investing in gold. We advised them that since it was impossible to place a value on gold that we in good conscious could not recommend investing in this asset class. We were so bearish on the yellow metal that in our 2012 1st quarter letter to clients we enclosed an excerpt from Berkshire Hathaway's 2011 shareholder letter where Warren Buffett makes a well reasoned argument for why investors should avoid gold. When Mr. Buffett wrote this letter gold was selling at approximately \$1,750 per ounce: today it is selling at around \$1,400 per ounce. We have once again inserted Mr. Buffett's opinion piece on gold into this letter with the hopes that our clients will continue to avoid this asset class.

"Bandwagon Investing" Is Gold a Bubble?

There is a category of investments that involves assets that will never produce anything, but that are purchased in the buyer's hope that someone else- who also knows the assets will be forever unproductive - will pay more for them in the future. Tulips, of all things, briefly became a favorite of such buyers in the 17th century.

This type of investment requires an expanding pool of buyers, who in turn, are enticed because they believe the buying pool will expand still further. Owners are not inspired by what the asset itself can produce - it will remain lifeless forever - but rather by the belief that others will desire it even more avidly in the future.

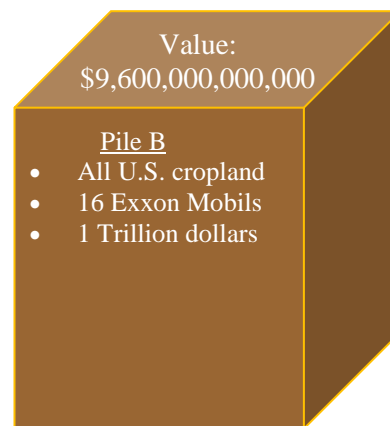
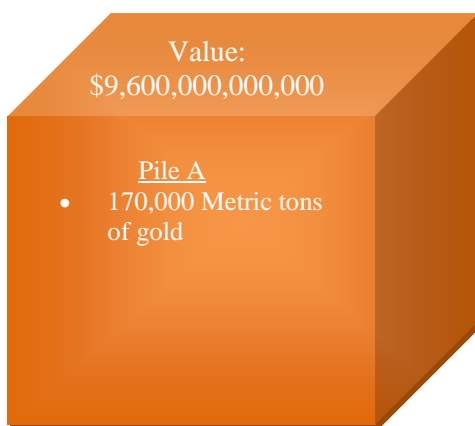
The major asset in this category is gold, currently a huge favorite of investors who fear almost all other assets, especially paper money (rightfully so, considering the paltry returns an investor currently receives). Gold, however, has two significant shortcomings, being neither of much use nor procreative. True gold has some industrial and decorative utility, but, demand for these purposes is both limited and incapable of soaking up new production. Meanwhile, if you own an ounce of gold for an eternity, you will still own one ounce at its end.

What motivates most gold purchasers is their belief that the ranks of the fearful will grow. During the past decade that belief has proved correct. Beyond that, the rising price has on its own generated additional buying enthusiasm, attracting purchasers who see the rise as validating an investment thesis. As "bandwagon" investors join any party, they create their own truth-- for a while.

Over the past 15 years, both Internet stocks and houses have demonstrated the extraordinary excesses that can be created by combining an initially sensible thesis with well-publicized rising prices. In these bubbles, an army of originally skeptical investors succumbed to the "proof" delivered by the market, and the pool of buyers- for a time- expanded sufficiently to keep the bandwagon rolling. But bubbles large enough inevitably pop. And then the old proverb is confirmed once again: "What the wise man does in the beginning, the fool does in the end."

Today the world's gold stock is about 170,000 metric tons. If all this gold were melded together, it would form a cube of about 68 feet per side. (Picture it fittingly comfortably within a baseball infield). At \$1,750 per ounce- gold's current price - its value would be \$9.6 trillion. Call this cube A.

What would you choose?



Let's now create pile B costing an equal amount. For that, we could buy all U.S. cropland (400 million acres with output of about \$200 billion annually, plus 16 Exxon Mobils (the world's most profitable company, one earning more than \$40 billion annually). After these purchases we would have about \$1 trillion left over for walking-around money. Can you imagine an investor with \$9.6 trillion selecting pile A over pile B?

Beyond the staggering valuation given the existing stock of gold, current prices make today's annual production of gold command about \$160 billion. Buyers - whether jewelry and industrial users, frightened

individuals, or speculators - must continually absorb this additional supply to merely maintain equilibrium at present prices.

A century from now the 400 million acres of farmland will have produced staggering amounts of corn, wheat, cotton, and other crops - and will continue to produce the valuable bounty, whatever the currency may be. Exxon Mobil will probably have delivered trillions of dollars in dividends to its owners and will also hold assets worth many more trillions (and remember you get 16 Exxons). The 170,000 tons of gold will be unchanged in size and still incapable of producing anything. You can fondle the cube but it will not respond.

Admittedly, when people a century from now are fearful, it's likely many will rush to gold. I'm confident, however, that the \$9.6 trillion current valuation of pile A will compound over the century at a rate far inferior to that achieved by pile B.

—Excerpt from Berkshire Hathaway's 2011 Letter to Shareholders

Warren Buffett in our opinion said it best, “Be fearful when others are greedy and be greedy when others are fearful.” Having stock market “gurus,” prognosticate that the market will continue its ascent is in our opinion almost as good a contra-indicator for stocks as individual investors once again becoming bullish on equities. So it certainly gives us pause that Barron’s in a recent survey of professional investors found that 74% of money managers identify themselves as bullish or very bullish about the prospects for U.S. equities. It is worth noting that this survey has been conducted for twenty years, and this is the highest recorded score in its history.

Bulls Get a New Club Member

One of Wall Street's more notable bears has joined the ranks of bullish stock-market strategists with a call that the rally in U.S. stocks has plenty of room to run. Morgan Stanley's Adam Parker, who has been among the gloomiest of the major brokerage house stock strategists, planted his flag Monday in the bullish camp, though not without caveats...

Mr. Parker's sunnier outlook joined more optimistic forecasts also released Monday by Deutsche Bank AG's David Bianco and Goldman Sachs Group Inc.'s David Kostin, both of whom lifted their S&P 500 price targets for the year. Another former bear, Meredith Whitney, founder and chief executive of Meredith Whitney Advisory Group, also has changed her tune on U.S. stocks.

"I have not been this constructive, this bullish on the U.S., on equities in my career," she said in an interview on CNBC on Monday. The rosier views came with the S&P 500 already up 8.8% this year... The rally, which already has pushed the Dow Jones Industrial Average to a record, has left investors debating whether stocks have run too far, too fast. Some are trimming their stockholdings on expectation of a pullback, citing the steep tilt of the latest run and widespread investor optimism.

But with stocks grinding higher, bears are on the defensive and, increasingly, throwing in the towel. For the first time since he was named Morgan Stanley's chief U.S. stocks strategist in 2010, Mr. Parker is a member of the bullish crowd.



"Given our economics team's view of improving U.S. growth and ample liquidity still being provided by the Fed, it is hard to see what causes a major market correction," Mr. Parker wrote in his "Spring Cleaning" note.

But in an interview, Mr. Parker said his call comes with some reservations. "We've been saying for some time that the market's ahead of itself by any historical measure," he said...

Although he raised his forecast for 2013 earnings, he left his call for 2014 flat. For him, the driver for higher stock prices will be a willingness among investors to pay more for earnings thanks to the Fed's efforts to keep interest rates low, rather than an improvement in corporate profits. Still, Mr. Parker's latest forecast marks a big change from his 2013 predictions unveiled in November, when he called for the S&P 500 to finish 2013 at 1434. From where the S&P 500 finished in 2012, that target would have meant a gain of just 0.5% over a year. From current levels, it would require stocks to fall 7.6% over the remainder of this year.

For Mr. Parker, even his previous forecast was something of a departure. It marked the first time he called for stocks to move higher in any year in his tenure as Morgan Stanley's strategist.

"We wish we didn't have to set a year-end target," he wrote in that note, published Nov. 26, 2012. "We felt little joy in 2011 and lots of pain in 2012 related to the target, and find few credible investors really care where we think the market is going to be on a particular day one year in the future..."

At Deutsche Bank, Mr. Bianco now expects the S&P 500 to hit 1625 this year, up from an earlier forecast of 1600. That would take the S&P up 14% for 2013. Mr. Kostin also raised his S&P 500 target to 1625, but from a previous goal of 1575. Both are now among the most bullish of the major bank strategists, who expect, on average, a rise to 1558 by the end of 2013, according to Birinyi Associates...

—Excerpt from an article in *The Wall Street Journal* on 3-19-2013 by Alexandra Scaggs

While it may seem almost like blasphemy to criticize Warren Buffett in a quarterly letter written by a value investor who is also a disciple of the Oracle of Omaha; we take issue with an opinion piece Mr. Buffett wrote in the New York Times in November of 2012. In the piece, he argued that tax rates do not affect investment decisions. We are not arguing or criticizing his view on the size of government (reasonable minds can differ on this). We do however take issue with his assertion that the tax rate does not affect an investor's behavior. Below please find an excerpt from an op-ed written by Clifford Asness of AQR Capital Management that gives in our opinion a strong rebuke to Buffett's argument.

Warren Buffett Knows that Tax Rates Matter

There are important questions we need to answer about taxes. How progressive or regressive? How should rates vary on different forms of income? How much of fixing our fiscal problems should come from raising revenue versus cutting spending? I have my opinions and you are entitled to yours. But some basic truths, old fashioned as it may sound, really aren't subject to opinion. Nevertheless, in an effort to support raising taxes, particularly capital-gains taxes, and to head off the argument that such hikes would be a drag on the economy, billionaire investor Warren Buffett argued in a New York Times op-ed last month that tax rates don't matter to investment decisions. He wrote that if someone comes to you with a good investment idea, no one says, "If the taxes are too high, I would rather leave the money in my savings account, earning a quarter of 1 percent." **In the field of economics and finance you would be hard-pressed to find something more patently wrong** [emphasis added].

Consider how every business-school student, investment banker and investment analyst on Earth has been taught to choose whether to invest in a specific project or company. You make a spreadsheet (a napkin will do sometimes). You put in your best guess of the future cash flows, and you discount those cash flows back to the present at some required rate of return you believe reflects the risk entailed. Of course, opinions about the future cash flows and the proper discount rate can vary widely, but the essential methodology is ubiquitous.

Now here's the kicker: Nobody who pays taxes and has ever done this exercise has failed (while sober) to use after-tax cash flows in this calculation. Somewhere in the spreadsheet there is a number, say 20%, or 28%, or a Gallic 75%, representing the taxes you'll pay on the assumed cash flow—and you only count the amount you'll get after paying this tax. If you turn the tax rate up high enough, projects or companies that looked like good investments become much less attractive and vice versa.

Mr. Buffett is undoubtedly right that rich people will continue to invest some amount in something regardless of the tax rate (except for a 100% rate!). He's also undoubtedly right that an investment that easily clears all hurdles will likely still be attractive after a small tax increase. But life, and the investment decision, occurs at the margin. Fewer and smaller investments will be made if the after-tax prospects are worse. It's just math and logic, unassailable and commonly accepted regardless of one's political persuasion...

The bond market offers particularly compelling evidence that people focus on after-tax cash flows when making investments and that they will, contrary to Mr. Buffett's assertion, alter their investment behavior based on tax rates. The yield on tax-free municipal bonds is almost always considerably lower than the before-tax yield on taxable corporate bonds of similar risk. Despite his claim that taxes don't matter, we can be sure that Mr. Buffett would not hold corporate bonds in his taxable portfolio if, before taxes, they yielded only the rate on otherwise similar tax-free munis...

Also consider the choice of where to retire. Opinions vary widely on how much state tax rates, high or low, affect this decision, but does anyone claim there is no effect? One simple visit to Florida dispels this misconception. When retirees choose Florida over California, it's not the heat—it's the progressivity. I have great admiration for Warren Buffett as an investor. He has also been smart about minimizing his tax bill. From making sure his profit is in the form of long-term capital gains and not, for instance, dividends, to how he structures his bequests and

charitable contributions, Mr. Buffett is perhaps our premiere national example that tax rates and tax structure affect people's investment decisions in a very real way. Taxes matter. They matter to business and life decisions alike. They matter to the rich and to the poor. They are, or at least they should be, incorporated into nearly every financial decision made. Discussing tax policy without acknowledging this fundamental reality is bizarre. Actually asserting the opposite is willful ignorance.

—From an Op-ed piece in the WSJ by Clifford Asness on 12-17-12

Fed Red-Faced as Notes Reveal Officials Failed to Grasp Dangers of 2007 Crisis

Top officials at the US Federal Reserve took months to realize that the 2007 financial crisis would rock the world's largest economy, according to an embarrassing set of meeting transcripts released on Friday. The transcripts reveal that some Fed policy makers initially viewed the market turmoil, which erupted in August 2007 on the back of problems in the market for subprime mortgage loans, as good news because markets were pricing in more risk.

The records of the Federal Open Market Committee's 2007 meetings, which are released with a five-year delay, raise the question of whether the recession would have been less severe if the Fed had reacted faster instead of continuing to forecast steady growth. On August 7 – two days before the European Central Bank made its offer of unlimited funds to eurozone banks to counter a liquidity shortage – one Fed governor described the subprime crisis as “quite a good thing” because it was forcing people to reassess the quality of financial information...

“The point of the subprime market is just that we now trust the credit-rating agencies less,” said Frederic Mishkin. “Basically what I think is happening in a way is quite a good thing: We were concerned that the markets were a little too optimistic, that there was too much opacity, and that people weren't worried about it. Now, in fact, they are worried about it, and I think that is fundamentally a healthy situation.”

Contacted on Friday, Mr Mishkin noted that he became one of the strongest supporters of easier Fed policy during the crisis. The question in August 2007, he said, was whether “very aggressive lender of last resort type action could contain the problem.”

Important information – such as the extent of giant insurer AIG's exposure to derivatives on subprime debt – was unknown at the start of the crisis, and the minutes show the Fed wrestling to understand the scope of the problem as it morphed from subprime housing to a run on parts of the “shadow banking” system such as asset-backed commercial paper.

But while some officials worried about the extent of financial market problems, they did not see much risk of recession and forecast only a modest slowdown in growth. “My forecast for the most likely outcome for output over the next few years is ... growth a little below potential for a few quarters, held down by the housing correction, and the unemployment rate rising a little further,” said vice chairman Donald Kohn in August...

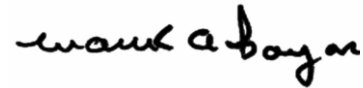
The crisis in the market for subprime loans set off a series of events that eventually led to the collapse of US investment banks Bear Stearns and Lehman Brothers. But initially the subprime market seemed far too small to cause a recession. That view was also widely held by private economists at the time.

By December of that year, Fed officials began to recognize the scale of the problem. At the FOMC’s meeting on December 11, Janet Yellen, then president of the San Francisco Fed, said: “The bad news since our last meeting has grown steadier and louder, as strains in financial markets have resurfaced and intensified and as the economy has shown clear signs of faltering ... The possibilities of a credit crunch developing and of the economy slipping into a recession seem all too real.”

*—Excerpt from an article that appeared in The Financial Times on 1-19-2013
by Claire Jones and Robin Harding*

If you have any questions or comments, please do not hesitate to call.

Best regards,

A handwritten signature in black ink that reads "Mark A. Boyar". The signature is written in a cursive, slightly slanted style.

Mark A. Boyar

Disclosures

Boyar Asset Management prepared this posting as a matter of general information and is not intended to be investment advice. We do not intend it to be a complete description of any security or company. All facts and statistics referenced herein are from sources we believe to be reliable, but we do not guarantee their accuracy and it may be incomplete or condensed. Boyar Asset Management makes no commitment to update this posting and it may remove it at anytime from its website. This posting represents the views of Boyar Asset Management as of April 30th 2013 and may change without notice.

This posting is made available free of charge for all persons that may legally view this posting regardless of whether you have a relationship with Boyar Asset Management or its affiliates. This posting does not constitute an offer or solicitation to purchase or sell a security nor is it a solicitation of a proxy or a vote. The posting is not a research report. Individuals should consult with a qualified financial professional before making any investment decisions. Past performance is no guarantee of future results. Boyar Asset Management owns shares in Heinz.