



"We both insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business."

—Charlie Munger

July 28th, 2014

The two best performing sectors within the S&P 500's ten sectors for the 2nd quarter of 2014 were Energy and Utilities, returning 12.09% and 7.77% respectively. Boyar Asset Management has no exposure to either of those areas, which obviously negatively impacted our relative performance when compared to that benchmark.

For many Boyar Asset Management clients and especially for newer accounts our cash position remains elevated. As we indicated to you in previous letters, a stock market that has experienced an upward bias for more than two years without a meaningful correction, and with a large cash position that generates virtually no return; it becomes exceedingly difficult to beat an index that is 100% invested at all times.

Although the S&P 500 is not blatantly overvalued, it is clearly not as cheap as it was a few years back when our cash position was significantly lower. Hopefully, in the not too distant future, Mr. Market will accommodate us with a meaningful stock market decline, so we can put some of our excess cash to work.

Normally, before bull markets end and bear markets begin stock market valuations reach excessive levels. Sometimes however, some exogenous event occurs that shocks the system. Legendary investor John Templeton probably said it best, "bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." It is very difficult if not impossible to determine when a bull market will end; however, one must pay attention to history for clues.

We know for example, that this bull market is somewhat long in the tooth. The current bull market has advanced by about 180% since the March 2009 lows, which approximates the average since 1921, according to J.P. Morgan Asset Management. Furthermore, in terms of duration this bull is about 63 months old, while the average has been 62 since 1921.

So What Is an Investor to Do?

- 1) You can sell everything, and go 100% to cash. In our opinion this is probably not a good idea as we have never met a wealthy market timer.
- 2) The old adage, "it is time in the market, not market timing that counts" is worth remembering.
- 3) Since we have not experienced a meaningful correction for well over two years, we think it may be prudent to sell a portion of your equity holdings to raise cash in order to be in a position to take advantage of future market declines.
- 4) Always expect the unexpected, and remember when the inevitable stock market correction occurs don't panic! Corrections are an integral part of the investment process and without them future outsize gains could never occur.



In our last quarterly letter, we mentioned there were more than a few companies that have become the darlings of the hedge fund crowd and sell at unfathomable valuations. Momentum stocks like Tesla, LinkedIn, and Netflix among others could do no wrong. In March, however, they experienced dramatic reversals in their share prices, declining by 15% or more.

The swoon did not last long, however, with a number of them surpassing their recent highs. Normally, prior to a bull market's conclusion or just before a significant correction the market takes on a speculative tone. Therefore this type of leadership has us concerned.

We also cited the pickup in the new issue market as a troubling sign. Since the amount of capital that flows into the stock market is not infinite, the issuance of additional shares by a new business becomes a direct competitor to established companies already trading in the marketplace. This trend continued in the second quarter.

In that same letter, we also mentioned that since 1970, based on total returns, the average second quarter in a midterm-election year produced a 2.5% decline in the S&P 500, versus an average gain of 2.7% during the second quarter for all years, according to Sam Stovall chief equity strategist for S&P Capital IQ. Apparently history did not repeat itself this time.

We will soon be entering a period when the stock market historically has demonstrated particularly poor performance. September on average has been one of the worst months of the year for equities. October, for whatever reason has seen its share of exogenous events (i.e. the 1987 stock market crash).

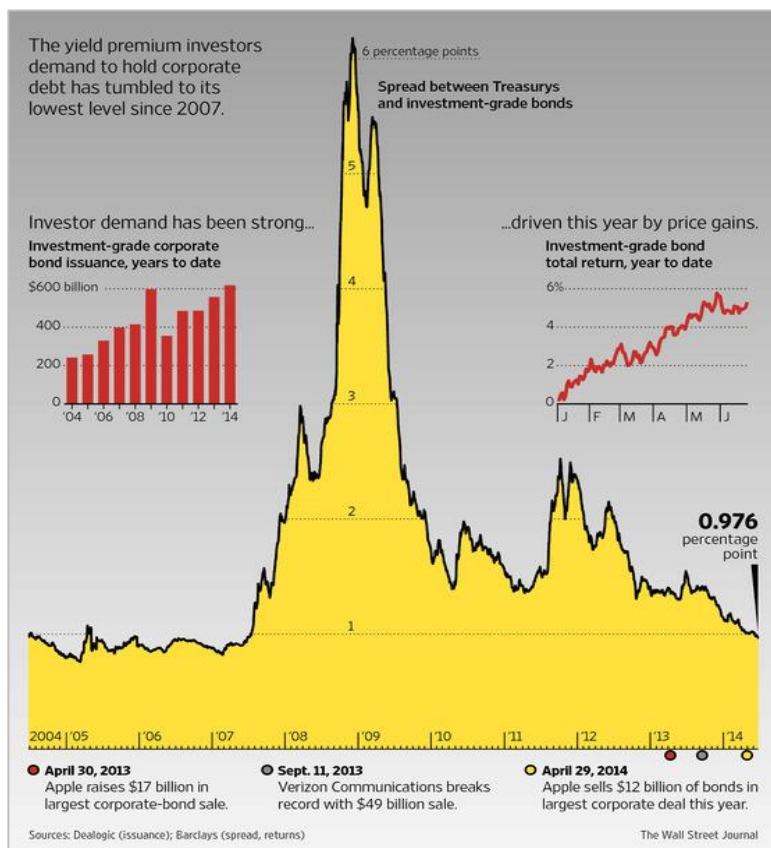
The Federal Reserve recently confirmed that it will end its purchase of stocks, bonds and other assets in October of 2014. While they have been tapering their purchases in recent months, we have no idea what if any effect this will have on asset prices.

Another item that we have been writing/warning about for years and admittedly have been proven wrong (thus far), is what we perceive to be a fixed income bubble. Currently according to investment bank Barclays, the bonds of highly rated U.S. companies are yielding less than one percentage point more than comparably dated U.S. government bonds.

This implies investors believe highly rated corporations are almost as safe of a credit risk as the U.S. government. Once interest rates start to rise, holders of these type of investments will begin to experience large losses on their so-called "safe" investments.

As we mentioned earlier, the second quarter in a midterm election year historically has produced negative returns. This did not occur in 2014. So let's try another little known stock market anomaly on for size.

According to Ken Fisher, in a column he wrote for Forbes, he stated that since 1925 the S&P 500 has risen in 19 of 22 midterm - election year fourth quarters. That's an astounding 86.4%. Positive fourth quarters are not necessarily huge. They have varied from 2% to 21.3%, averaging 9.5%. However 9.5% on average isn't half bad.



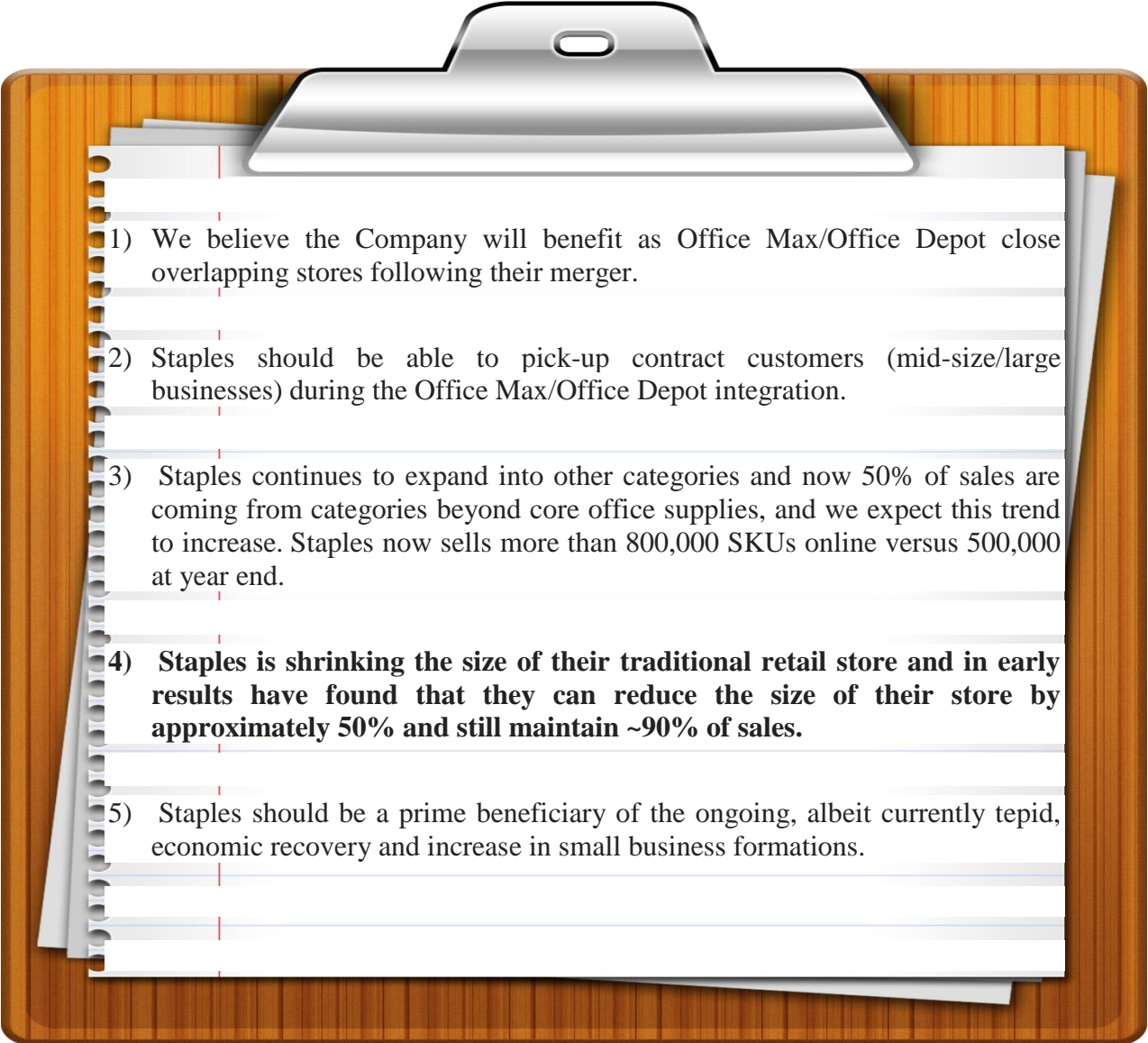
So Where are we Finding Value?

In the current stock market environment it is increasingly hard to find companies or industries that are intrinsically undervalued. The battered retail industry is one of the few areas of the market where we are finding significant mispricing between current market prices and our intrinsic value estimates. In our view, the bear case for retailers is well known and goes something like this: Consumer purchases that were traditionally made at brick and mortar retailers will increasingly be made online (i.e. at Amazon, et al.). As sales migrate to online retailers, traditional retailers will experience margin compression as a result of fixed cost deleveraging.

While clearly the Amazon threat cannot be taken lightly, we think in certain instances, the Wall Street community is extrapolating current trends into eternity. We admit that the retail business is certainly not without its challenges; however we have in our opinion identified a basket of retailers that we believe are selling significantly below our estimate of intrinsic value. Many of these retailers not only pay an above market dividend (that we believe to be sustainable), but in many instances own real estate that we believe comprises a significant portion of the Company's market capitalization. A few of these names are currently in your portfolio and some may be added shortly.

Staples is currently out of favor within the investment community. While the Company's turnaround efforts will certainly have its share of ups and downs, we see reasons to be somewhat optimistic for long-term patient investors. The Company, which yields over 3%, is still a strong free cash flow generator and expects to generate over \$600 million in FCF this year.

Reasons for optimism include:

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- 1) We believe the Company will benefit as Office Max/Office Depot close overlapping stores following their merger.
 - 2) Staples should be able to pick-up contract customers (mid-size/large businesses) during the Office Max/Office Depot integration.
 - 3) Staples continues to expand into other categories and now 50% of sales are coming from categories beyond core office supplies, and we expect this trend to increase. Staples now sells more than 800,000 SKUs online versus 500,000 at year end.
 - 4) **Staples is shrinking the size of their traditional retail store and in early results have found that they can reduce the size of their store by approximately 50% and still maintain ~90% of sales.**
 - 5) Staples should be a prime beneficiary of the ongoing, albeit currently tepid, economic recovery and increase in small business formations.

We continue to believe that the Company's intrinsic value is ~\$20 per share versus the current share price of ~\$11. If shares continue to languish, we would not be surprised if private equity took a serious look at the Company due to the lack of significant insider ownership and its strong FCF.

Kohl's (KSS: \$51.66)

KOHL'S

Kohl's shares have not participated in the stock market rally. The shares are currently yielding approximately 2.98% and we believe the Company's intrinsic value is ~\$72 per share. **Importantly, we estimate approximately 50% of the Company's current market capitalization is represented by Company owned real estate, giving investors a margin of safety. It is worth noting that roughly 52% of the Company's sales are from private or exclusive brands (up from 42% in 2009) which should help mitigate the Amazon threat.** If share price performance results continue to be disappointing, KSS could attract the attention of private equity investors, due to the Company's low valuation, unique offerings, owned real estate, and solid balance sheet.

Target: (TGT: \$59.38)



Target is a new position for Boyar Asset Management Clients and is a company that is certainly out of favor on Wall Street. We initially profiled the company in March of 2014 in our institutional research service *Asset Analysis Focus*. Since the report was released, the CEO was forced to resign (a positive change in our view) as their recent foray into Canada, which was done under the previous CEO's watch, has been nothing short of an unmitigated disaster. We think with the right leadership (and we believe there will be no shortage of qualified retail veterans clamoring for this position), this ship could be righted. In addition, on June 11, 2014 the Company announced a 20% increase in their dividend, making the yield ~3.7%, which should help to create a floor on the stock price. In 2007 activist investor William Ackman conducted a highly public campaign where he proposed that the Company monetize their real estate holdings (he estimated Company-owned real estate was worth \$42 billion: The company's current market capitalization is ~\$38 billion). Shareholders supported management, and Ackman's proposal was defeated in 2009. It is now 5 years later, and the Company's stock price has achieved only modest gains and has significantly trailed the broader market. Perhaps shareholders are growing impatient and would now be more receptive to the suggestions of an activist investor? Although the firm does face near-term challenges, we believe the shares offer a very attractive opportunity for long-term investors.

Coach (COH: \$34.60):

COACH

Coach is another name that is currently very much out of favor on Wall Street. Admittedly, the Company has significant problems (i.e. Michael Kors has been taking significant market share away from them in North America). However, the Company has been taking steps to address their issues. They have brought in a new creative director and there is a new CEO at the helm. In addition, the Company is starting to branch into ancillary categories as well as beginning to target male consumers. At their recent analyst day, they described 2015 as an investment and reset year and outlined a significant ramp up in store renovation and marketing spend. In addition, the Company's Asian business is growing rapidly and has become and will continue to be a significant growth driver. Many investors are taking a wait-and-see approach on the name in order to assess if the brand can be re-invigorated. However, with an ~4% dividend yield, and a P/E ratio of around 10x, we think the current risk/reward is compelling at these levels.

It has always puzzled us how illiquid and opaque the \$9.6 trillion U.S. corporate bond market is, especially when compared to the equity market. Prices for major U.S. stocks are readily available to both institutional and individual investors, and are in most instances quite liquid. In normal market periods, the illiquidity and lack of transparency does not cause major harm to corporate bond investors (with the major exception being that many brokerage houses exploit these factors to keep brokerage commissions high), but what about during a crisis when bond investors via bond funds try to sell their holdings? What would happen if bond mutual fund investors went for the exits at the same time where they expect to be paid in full immediately? With the growing popularity of bond funds (as opposed to investors just owning individual bonds) and the amount of individuals who have a high exposure to fixed income investments, this has become a real possibility and is something the Federal Reserve is contemplating. Below is an article that discusses this issue and one possible solution.

All it takes is a few mouse clicks to buy shares in the Scout Unconstrained Bond Fund an open-end fund that tracks a concoction of debt tied to the government, financial firms, mortgage pools, and other entities.

And all it takes is a few mouse clicks to sell—something that has begun to worry Wall Street. Since the financial crisis, \$900 billion has flowed into ETFs and bond mutual funds, bringing the industry’s total holdings to \$3 trillion. Fund investors who sell shares get their money back almost immediately, as if they were making a withdrawal from a money-market fund.



The bonds that the funds own are far less liquid, often trading in telephone conversations or e-mails between brokers, away from exchanges. If too many people decide to get out of bond funds at the same time, the wave of selling could lead buyers to sit on their hands, bringing the system to a halt. {emphasis added}

In the aftermath of the financial crisis, the Federal Reserve has kept short-term interest rates near zero to spur borrowing and boost economic activity. The unemployment rate has fallen to 6.3 percent, below the Fed’s target of 6.5 percent, and the central bank is curtailing its easy-money policies, reducing the amount of bonds it buys each month and getting closer to raising its benchmark interest rate. Economists surveyed by Bloomberg say rates could rise as soon as the end of this year.

The Fed’s low-interest-rate policy reduced the yields on safe, short-term vehicles such as money-market funds, savings accounts, and CDs, and led investors to seek higher returns from bond funds, including ones that invest in risky high-yield debt and other speculative issues. Unlike money-market funds and CDs, though, bonds lose value when rates rise, depressing the prices of bond mutual funds and ETFs. And the riskier the bond, the more vulnerable it is to rising rates. Wall Street firms are warning clients that if fund investors who view bonds as safe are hit with sudden losses, there could be something akin to a run on the bond market. {Emphasis added}

The worry isn’t only that investors’ bottom lines would take a hit. It’s that a mass selloff could swamp the market, with demands for redemptions forcing fund managers to unload their bonds at rock-bottom prices. The ensuing losses would encourage even more investors to redeem, perpetuating the downward spiral.



There's a risk "that when the Fed starts hiking in earnest, outflows from high-yielding and less liquid debt will lead to a free fall in prices," wrote Jan Loeys, chief market strategist at JPMorgan Chase, in a June 20 report. "In extremis, this could force a closing of the primary market and have serious economic impact." Companies might have trouble raising the money they need to function, in what would be an echo of the credit freeze of 2008.

BlackRock the world's largest asset manager, with \$4.4 trillion under management, suggested in a May paper that regulators consider redemption restrictions for some bond mutual funds, including fees for large redeemers. The Financial Times stoked Wall Street chatter with a June 16 report that the Fed was studying exit fees to reduce the chances of a run on the corporate bond market; Fed Chair Janet Yellen said at a press conference on June 18 that she was "not aware" of any such discussion.

Some market analysts say the fears are overblown. "Many funds already carry a fair amount of cash" to meet redemptions, Ira Jersey, director of U.S. rates strategy at Credit Suisse, wrote to clients on June 24. Taxable bond funds have 9.5 percent of their portfolios in liquid assets such as cash and U.S. Treasuries, according to Credit Suisse, more "than most would assume."

Brian Reid, chief economist at the Investment Company Institute, says interest rate shocks are nothing new, and the system has held before—as in 1994, when the Fed doubled its benchmark rate to 6 percent over 12 months, catching many investors unprepared. "Markets aren't nearly as fragile as people worry about," Reid says. "I would put 'massive outflows from bond funds' at such a low level of probability—even during the financial crisis we didn't have that—it doesn't rise to the level of systemic risk that has been portrayed." Regulators and market commentators who warn about systemic risk too often could numb investors to actual problems, he says—the Chicken Little syndrome.

From Bloomberg Businessweek by Nick Summers and Lisa Abramowicz July 3, 2014

Financial history is filled with tales of booms and busts. From tulip mania to the South Sea bubble: History is filled with cautionary tales of the dangers of excessive greed and rampant speculation. While the actual goods or services that underpin each particular crisis changes, one thing remains constant: Society over the long-term learns very little from past crisis and investors (after a brief pause) continue to make the same mistakes albeit in a slightly different way. Sure there are regulatory fixes immediately following each crisis, but overtime they get watered down as people's memories of massive losses fade. There are many reasons why this occurs. The main ones have to do with greed and our short term memory when it comes to remembering financial pain. While it has only been five years since the last financial crisis, individuals and institutions are already partaking in some of the bad behavior that put the financial system on the brink of disaster. Below is an interesting op-ed written by Alex J. Pollack that discusses our financial crisis amnesia.

Our Financial Crisis Amnesia

It is now five years since the end of the most recent U.S. financial crisis of 2007-09. Stocks have made record highs, junk bonds and leveraged loans have boomed, house prices have risen, and already there are cries for lower credit standards on mortgages to "increase access."

Meanwhile, in vivid contrast to the Swiss central bank, which marks its investments to market, the Federal Reserve has designed its own regulatory accounting so that it will never have to recognize any losses on its \$4 trillion portfolio of long-term bonds and mortgage securities.

Who remembers that such "special" accounting is exactly what the Federal Home Loan Bank Board designed in the 1980s to hide losses in savings and loans? Who remembers that there even was a Federal Home Loan Bank Board, which for its manifold financial sins was abolished in 1989?

It is 25 years since 1989. Who remembers how severe the multiple financial crises of the 1980s were? The government of Mexico defaulted on its loans in 1982 and set off a global debt crisis. The Federal Reserve's double-digit interest rates had rendered insolvent the aggregate savings and loan industry, until then the principal supplier of mortgage credit. The oil bubble collapsed with enormous losses. Between 1982 and 1992, a disastrous 2,270 U.S. depository institutions failed. That is an average of more than 200 failures a year or four a week over a decade. From speaking to a great many audiences about financial crises, I can testify that virtually no one knows this.

In the wake of the housing bust, I was occasionally asked, "Will we learn the lessons of this crisis?" "We will indeed," I would reply, "and we will remember them for at least four or five years." In 2007 as the first wave of panic was under way, I heard a senior international economist opine in deep, solemn tones, "What we have learned from this crisis is the importance of liquidity risk." "Yes," I said, "that's what we learn from every crisis."



The political reactions to the 1980s included the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the FDIC Improvement Act of 1991, and the very ironically titled GSE Financial Safety and Soundness Act of 1992. Anybody remember the theories behind those acts?

After depositors in savings and loan associations were bailed out to the tune of \$150 billion (the Federal Savings and Loan Insurance Corporation having gone belly up), then-Treasury Secretary Nicholas Brady pronounced that the

great legislative point was "never again." Never, that is, until the Mexican debt crisis of 1994, the Asian debt crisis of 1997, and the Long-Term Capital Management crisis of 1998, all very exciting at the time.

And who remembers the Great Recession (so called by a prominent economist of the time) in 1973-75, the huge real-estate bust and New York City's insolvency crisis? That was the decade before the 1980s. Viewing financial crises over several centuries, the great economic historian Charles Kindleberger concluded that they occur on average about once a decade. Similarly, former Fed Chairman Paul Volcker wittily observed that "about every 10 years, we have the biggest crisis in 50 years."

What is it about a decade or so? It seems that is long enough for memories to fade in the human group mind, as they are overlaid with happier recent experiences and replaced with optimistic new theories... Former Treasury Secretary Tim Geithner, for all his daydream of the government as financial Platonic guardian, knows this. As he writes in "Stress Test," his recent memoir: "Experts always have clever reasons why the boom

they are enjoying will avoid the disastrous patterns of the past—until it doesn't." He predicts: "There will be a next crisis, despite all we did." Right. But when? On the historical average, 2009 + 10 = 2019. Five more years is plenty of time for forgetting.

From The Wall Street Journal July 9th 2014. Mr. Pollock is a resident fellow at the American Enterprise Institute and was president and CEO of the Federal Home Loan Bank of Chicago 1991-2004.

Global M&A deal volume reached \$1.83 trillion for the first half of 2014 which is the highest start to the year in terms of volume since 2007 when that number reached \$2.59 trillion. There are multiple reasons to explain this high level of merger activity; interest rates are at an all-time low making acquisitions cheap to finance for both corporations and private equity; corporate confidence is increasing and corporate balance sheets are in good shape; many company's share prices have increased dramatically since 2009 giving corporate executives (many of whom have stock options and change of control provisions in their contracts that would greatly enrich them in the event of a sale of their company) a valuable currency to facilitate deal making; and corporations are having difficulty growing organically so they are "buying growth" by purchasing other companies. Another reason for the increase in deals (and the larger than normal premiums that resulted from some of them) has to do with U.S. based corporations desire to lower their tax bill. Many U.S. domiciled companies are merging with foreign corporations in order to escape the U.S. government's punitive taxation regime. This is a process called inversion. Below is an article that discusses inversion and how it is changing the M&A landscape and increasing the value of deals.

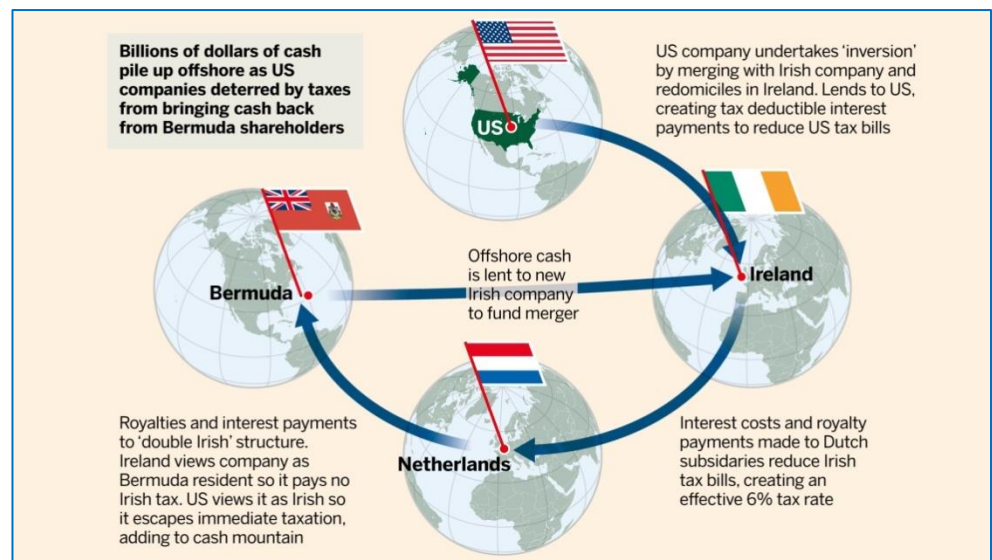
Acquirers Plot Escape from a Turn on Taxes

Company executives may not flaunt the tax benefits that come with some overseas deals, but their importance is coming through loud and clear in the fine print of merger documents. Inversion deals—in which a U.S. company buys a foreign target and adopts its home country's domicile and lower tax rate, or establishes a holding company in a country with a low tax rate—have become bigger and more popular lately. Pfizer Inc.'s \$120 billion failed bid for the U.K.'s AstraZeneca PLC earlier this year highlighted the benefits of such deals, which can reduce a company's tax rate into the single digits compared with 35% in the U.S.

But pitfalls abound. The effort by companies to lower their taxes through deals has sparked outcry from U.S. policy makers, some of whom are threatening to change the rules to limit the tax advantage of these tie-ups.

To protect themselves, companies increasingly are adding details to merger agreements that allow them to walk away from a deal without paying a penalty, or breakup, fee should the tax advantage suddenly be taken away... Lawyers say clients are worried about drawing attention to deals as potential inversions, given the level of scrutiny in Washington. The word "inversion" seldom appears in news releases announcing deals. In private, some deal makers have even started talking about such acquisitions as "migrations," lawyers say.

The easy outs in deal agreements are especially important because companies pursuing inversion deals recently have been offering prices sometimes 50% above their targets' share price, more than double the average



deal premium last year for U.S. acquisitions of public companies, according to Dealogic. "Because the benefit the buyer will get from an inversion is so important to a deal, if there were a change in law, the original price wouldn't make sense for the acquirer," said Kevin Rinker, a partner and co-head of the health-care group at law firm Debevoise & Plimpton LLP...

For a deal to qualify as an inversion, shareholders of the

acquired foreign company must receive stock amounting to at least 20% of the resulting entity. In May, Sen. Carl Levin, a Michigan Democrat, introduced a bill that would require the foreign target's shareholders to own at least 50% of the combined company. The bill also seeks to prevent companies such as Medtronic from escaping the U.S. tax regime if at least 25% of its sales or assets are in the U.S.

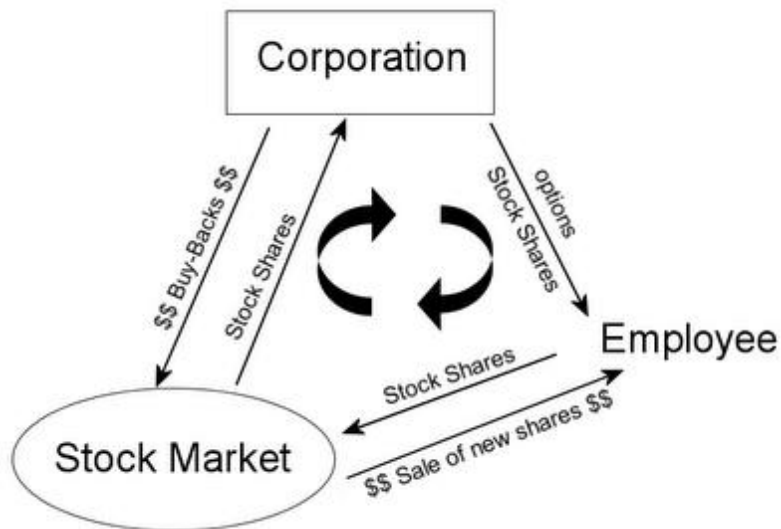
Companies have limited options on what do to with the cash flow that they generate. They could either pay a dividend, invest within their company for future growth (buy equipment, hire employees etc.), acquire other companies, or buyback their own stock. When a company buys its own stock it "retires" the shares that were purchased. This results in existing shareholders owning a larger piece of the company (there are less shares outstanding. So for example, if you owned 100 shares of a company with 1,000 shares outstanding, your percentage ownership is 10%. If the company bought back 500 shares, you would now own 20% of the outstanding shares of the company because you now own 100 shares out of a possible 500 outstanding shares), and the company's earnings per share (which many Wall Street analysts use to determine what a company is worth) increases. Buying back shares is a good use of a company's capital when a particular company's stock price is cheap, and is a poor use of capital when the shares are overvalued. Unfortunately companies, like individual investors, tend to buy stock at exactly the wrong time and buy high and sell low. **Therefore it is somewhat worrying that corporations this year have been aggressively buying back company shares. In fact in the first quarter of 2014 companies had the greatest number of share buybacks since 2007.**

Stocks' Biggest Gains Are an Inside Job

Quick, what is the stock market's biggest driver today? Corporate earnings? Interest rates? The Federal Reserve? Some say the correct answer is something people rarely discuss: companies buying back their own stock. Companies purchasing their own shares represent the single biggest category of stock buyers today, according to a study this month by Jeffrey Kleintop, chief market strategist at brokerage firm LPL Financial.

Only one other major group, individuals, is a net stock buyer now and individuals are buying less than corporations, Mr. Kleintop found. Of six major groups he identified, hedge funds, foreigners, insiders and investment institutions such as pension funds and insurance companies all are net sellers, he found. He used data from the Fed, the U.S. Treasury, FactSet, the Investment Company Institute and other sources...

He points out that stock buyers tend to wax and wane over time. In the future, corporations may find more productive investments and buy less stock, and traditional investors may become more active again.



Companies spent \$598.1 billion on stock buybacks last year, according to Birinyi Associates in Westport, Conn. That was the second highest annual total in history, behind only 2007, Birinyi calculated. The pace picked up in the first quarter of 2014, when companies spent \$188 billion, the highest quarterly amount since 2007...

Despite several benefits, buybacks also are a source of controversy. Some money managers and analysts say they permit companies to provide artificial support for stock prices. The most direct impact of stock purchases is to increase demand for the shares, which supports their prices. But buybacks also have a more subtle impact: If a company reduces its number of shares, simple math dictates that earnings per share will rise even if total earnings go nowhere. Analysts and money managers look mainly at earnings per share, so buybacks can improve a company’s apparent earnings performance even if overall earnings aren’t rising at all.

Some critics go so far as to say executives use buybacks to manipulate share prices, which helps them hit earnings targets, please investors, receive bonuses and avoid scrutiny from shareholders and boards.

Mr. Kleintop of LPL Financial and Scott Clemons, chief investment strategist at Brown Brothers Harriman Private Banking, both calculate that half of the first quarter’s S&P 500 per-share earnings gains came from declining share count, not from increases in actual earnings. {emphasis added}

“If a company is buying shares to hit earnings-per-share targets, that is not good capital allocation and there is a lot of that going on. For the market as a whole, there is too much of it,” Mr. Clemons said. “There are an awful lot of buybacks taking place that aren’t adding value to shareholders.” That doesn’t mean all buybacks are misguided, he added. In some cases he likes buybacks better than dividends as a way to return money to shareholders, because investors pay taxes on dividends and don’t on buybacks unless they sell shares.

Mr. Clemons generally agrees with an argument Warren Buffett has made: Companies should consider buying back shares only if the shares are undervalued based on the company’s earnings, sales, book value or other valuation benchmarks. But Mr. Clemons also worries that the ease of buybacks, compared with the difficulty of business investment, can lead a company to avoid seeking opportunities and taking risks in uncertain times. That can hold down profits and overall economic growth, he said...

Last year, owning the stock of companies with significant share-buyback programs was one of the most successful investment strategies tracked by Goldman Sachs, according to its research reports. As of June 20, buyback-related stocks had risen more than 115% since the end of 2012, Goldman found. Some analysts project that 2014 could be the third-biggest buyback year ever. But there also are signs the buying could begin

to wane, said research analyst Michael Amenta of FactSet Research Systems in a June report. Most of the 10 biggest big corporate buyers of their own shares slowed their buying pace in the first quarter and many indicated that they expect to further reduce spending as the year goes on, he said

On Wall Street like in every other business, there are always going to be bad actors that break the law and they should be appropriately punished. As a result of all of the investor losses and massive government bailouts that occurred during the last financial crisis, combined with the fact that very few people have been held responsible: There has been increased pressure on regulators to obtain convictions to placate the public's understandable outrage. Unfortunately instead of prosecuting the major institutions and individuals that caused investors substantial harm, they have been focusing largely on smaller players. Perhaps a reason for this is because large companies have access to top legal talent and are staffed to handle these types of matters without disrupting their business. Therefore by going after large firms it is much more difficult for regulators to gain convictions and show the public that they are doing something. Smaller firms however usually cannot afford protracted litigation and cannot take the business risk of a conviction and are forced to settle even if they are innocent. This has made smaller firms easy targets for government regulators to pad their conviction/enforcement record. Fortunately there have been some individuals who have stood up to the regulators. Below is the story of Nelson Obus who fought the SEC and won. Although in his case it cost him 12 years and \$12 million in legal fees to clear his name.

On May 30, I stood outside the federal courthouse in Manhattan after a jury unanimously found me, my investment fund and all of my co-defendants innocent of insider trading. Although we had done nothing wrong, we were the target of a 12-year campaign by the Securities and Exchange Commission to intimidate us into settling the case. The campaign led to a courtroom battle with our small firm used as political cover in a war involving much larger players.

We won the case, after incurring more than \$12 million in legal and trial expenses. But this story isn't only about us. Our story is only one example of unbridled regulatory overreach without accountability. It's about an abusive system that threatens the nation's economic vitality by jeopardizing small business and its entrepreneurial spirit. America and its business community need assurances that regulators can't wrongly bully small enterprises into costly legal settlements or false admissions of guilt. Yet such tactics are being used today, and the costs are high.

My firm, Wynnefield Capital, is a small investment fund with eight staff members. We invest in small-cap companies and have a range of investors, from individuals to institutions including pension funds. Our run-in with the SEC began in 2002, and it involved our trading in a single stock. The SEC requested information about our trading the previous year in a company named SunSource. We provided the information, confident that a review would show we had behaved appropriately. And with that, the SEC commenced its campaign. Days turned into weeks. Weeks into months. As years passed, we remained astonished that the matter hadn't been resolved expeditiously from the start.

For a small fund such as ours, the potential cost and distraction of an extended investigation could be intimidating. Then there was the possibility that investors could depart, risking our very existence. Imagine the weight on one's shoulders day after day while the process grinds on. This pressure is a powerful tool that can be easily abused by regulators. Even when the facts demonstrate the innocence of the investigated parties, it can be used to force wrongful settlements and false admissions—not least because firms fear the costs of a drawn-out investigation. Although the evidence showed that we had acted properly, the SEC kept up the pressure and proposed that we settle. We viewed a settlement as tantamount to an admission of guilt and told the SEC that we had no interest in settlement talks.

By late 2005 and early 2006, the SEC had come under intensifying scrutiny for failed oversight of hedge funds. Critics questioned how the regulator could have missed major fraud at firms such as Bayou and Wood River... By the time the committee called then-SEC Chairman Chris Cox to testify at a July 2006 hearing to defend his agency's reputation, the SEC had filed three cases against three small hedge funds that it highlighted in his testimony. One of those was a lawsuit against me, my firm and my staff alleging insider trading that led to \$1.3 million in profits for trading in advance of a merger agreement's public announcement.

The timing was noteworthy: The SEC filed that case on April 25, 2006—just as the expiration of the statute of limitations approached. We learned that the SEC had filed its lawsuit when we saw its press release. Before we even received our copy of the suit, the SEC and its public-relations team were in full spin mode, giving interviews to journalists attacking us and defending the SEC... On and on it went. Eight grueling years passed before we had our day in court. Even after a U.S. district court dismissed the case in 2010, ruling in our favor on all claims made by the SEC, the agency appealed. On May 30, 2014, our 12-year odyssey ended when a federal jury unanimously found in favor of every defendant and against the SEC. Our names were finally cleared. But the victory was not without cost, beyond the millions of dollars in legal fees. The price also was inordinate amounts of time and distraction, and untold opportunity cost to our business.

Large firms can bear these types of costs. But not many small firms could be expected to weather such a storm from a system that provides regulators with every incentive to overreach without repercussions. The abuse is not only unjust, its potential harm to small businesses—the engine of economic growth and job creation in this country—is enormous.

The SEC's behavior raises several questions:

- What accountability exists to prevent regulatory abuse? Is there any? What can be done to assure that bureaucrats are not incentivized—receiving good performance reviews, for example—to force small businesses under regulatory scrutiny into settlement negotiations?
- What is the cost to the U.S. economy of these long investigations and wrongful settlements? What are the ethical implications? How many firms feel compelled to settle or falsely admit wrongdoing?
- Are small firms treated differently? Why does this pattern continue: The SEC goes after a handful of larger firms when the agency's reputation is in jeopardy, but more often fails to act on cases involving influential and high-profile individuals and firms, instead pursuing settlements or lawsuits against smaller firms?

Security Detail for Fed Chairwoman Irks Neighbors.

Washington—In the Georgetown gated community of Hillandale, residents live in secluded calm governed by some 50 pages of rules banning fences, motorcycles, certain paint colors, tree species and excess dogs and cats (no more than two total per household).

"People come to live in Hillandale because of the quality of our residential community, and that is something that we need to maintain," says resident Sallie Forman. Then one of the most powerful economic policy makers in the world moved in and, in the words of some here, ruined the neighborhood. As neighbors tell it, earlier this year, the security detail protecting new Federal Reserve Chairwoman Janet Yellen barreled through the cul-de-sac where she lives in oversize vans loaded with guns, cameras and takeout pizza. It established an "armed camp" next door to Ms. Forman's townhome, according to a written bill of grievances presented by concerned neighbors deeming the uniformed police presence "uncomfortable for residents of various religious persuasions," such as Quakers.

Security trucks, it continued, "weighing approximately 7,000 pounds each" sit idling on the street for "approximately 22 minutes daily" at each Yellen morning pickup. When Ms. Yellen leaves her home, a second truck then "speedily pulls out of the security driveway... all the while spilling fluid onto the street, which has now left a permanent stain." Hillandale bylaws expressly prohibit car fluid spills in the common areas. Neighbors seem especially put off by the aesthetics of the security detail, in particular their blue uniforms and—in the words of one resident—"doughnut bellies..."

"The government is paying \$5,000 or \$6,000 a month or more to rent a whole townhouse in Georgetown to put cops in," says international attorney William Shawn, who lives down the street from the newcomers. Is this really necessary, he wonders, to protect an unarmed economist from Brooklyn?

The Federal Reserve said Ms. Yellen receives the same level of security as her predecessors and didn't respond to questions about the detail's cost or eating habits.

Ms. Yellen and her spouse have lived for a couple of years in this small development surrounded by rolling forest. Hillandale, built on an oil heiress's former estate, features 200-year-old oaks amid houses and dense rows of townhomes. The Fed chairwoman is a friendly member of the community, say neighbors, as is former Federal Bureau of Investigation Director Robert Mueller, a Hillandale resident who has been a guest at neighborhood block parties.

After Ms. Yellen became the nation's top banker, her security detail moved into a rented townhome down the block from hers. They mounted on the roof a camera that looked like a streetlight on an interstate and proceeded to monitor—and disgust—the neighbors. "Bob Mueller, who you would think would have a much more dangerous job dealing with terrorists all over the world, had people who were businesslike, didn't socialize and waited for him outside the gate," says one unhappy resident, sitting in a living room decorated in chintz, silk topiary and family silver. "Now we have this group, overweight, wearing the most ridiculous blue uniforms with the most ridiculous blue caps, and they have guns that are visible." She declined to be named because she is worried about federal-government reprisals...

Mr. Shawn and his family live down the street from the armed newcomers. "Some neighbors say it's great, all the security that is in the neighborhood," he says. "But these characters are only here for Janet Yellen. They're not going to be distracted by robbers, rapists or any other thing. Besides, these guys couldn't catch a thief if their lives depended on it." George Hill also lives nearby, and doesn't mind the officers. "Very intelligent and articulate and expressive people live in neighborhoods like ours, and I think sometimes they over-articulate and over-express," he says.

The Hillandale Board and Covenant Committee monitors compliance with strict community rules. Homes can't house businesses or multiple families. Residents must choose from a list of approved paint colors for doors and trim. Changes to the homes' exterior, from window boxes to fountains, must be approved by the architectural covenants committee.

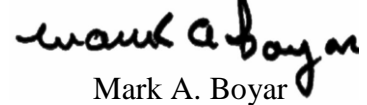
The neighbors now want the FBI, an independent consultant, or the Fed's inspector general to evaluate "what appears to be an excessive level of [Federal Reserve] security" on Ms. Yellen's street at "enormous government cost to taxpayers." The Fed has removed the camera from the townhouse roof. Neighbors say the detail's leader has offered to dress the force in button-down shirts and chinos, and conceal their weapons and fast-food deliveries. Fed spokeswoman Michelle Smith declined to confirm that... So far the Hillandale board hasn't sanctioned the Fed. A couple of the complainants suggest that is because board President Cynthia Howar is the real-estate agent who rented the townhome to the police in the first place.

Ms. Howar dismissed that suggestion, saying the Fed came to her as a Realtor, not the board president. "There are a number of people who are upset about it and an equal number who are not," said Ms. Howar. "It's not fair to the neighborhood to have this aired about publicly...I'm kind of embarrassed for the neighborhood, quite frankly."

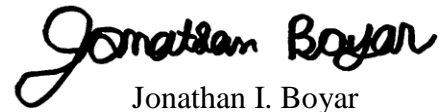
Excerpt from the WSJ June 29th 2014

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

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

Jonathan I. Boyar

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