

October 31, 2013

A Look Back

The month of September marked the five year anniversary of the collapse of Lehman Brothers. Stocks certainly have had quite a run since that period, advancing by approximately 155%, as measured by the S&P 500 from their March 2009 lows.

It is clearly more difficult to find bargains today than when stocks like CBS traded for \$6 per share (current price ~\$59.00), or when Saks was trading at a \$1.85 (current price ~\$16.00) and is on its way to being acquired. For the moment, the days of six or seven baggers (stocks rising six-or- sevenfold) are over.

The CBS logo consists of the letters "CBS" in a bold, black, serif font, followed by the CBS eye symbol, which is a black circle with a white dot in the center, resembling an eye.

Politics and policy dominated the markets in the third quarter, especially during the eventful, nerve racking and surprising final weeks that left the markets in a state of heightened uncertainty.

A trifecta of events, that included the Federal Reserve's decision not to commence the tapering of its \$85 billion per month bond buying program, which surprised most pundits; the government shut down, and the potential for the debt ceiling not to be raised which almost contributed to a technical default on U.S. debt obligations, all contributed to the uncertainty.

The Saks Fifth Avenue logo is written in a highly decorative, black, cursive script font. The words "Saks", "Fifth", and "Avenue" are stacked vertically, with "Saks" on top, "Fifth" in the middle, and "Avenue" at the bottom.

After closing at 1,725.52 on September 18th, the day of the Fed decision to continue with tapering; the Standard & Poor's 500- stock index fell on seven of the last eight trading days of the quarter. Even with the weakness at the end of the quarter, the S&P 500 gained a very respectable 5.24% for the past three months. The more speculative Russell 2000 and the NASDAQ Composite fared even

better advancing 10.21% and 10.82% respectively. The Dow Jones Industrial average was the laggard advancing 2.12%.

Where Do We Go From Here?

- The current bull market is approximately 54 months long and the average bull market since 1921 has been 29 months.
- The average price increase from the bottom in the past 17 bull markets has been ~153% vs. the ~155% jump in the S&P 500 from March 9, 2009.
- The longest and strongest bull market which ended with the bursting of the tech bubble lasted 113 months and climbed 417%.
- The six bull markets of the 17 that have occurred since 1921 have seen better stock gains than the current one.
- The average price to earnings ratio since 1999 has approximated 16.6x. The projected 2014 P/E of the S&P 500 is currently around 14.5x.

Typically bull markets come to an end following a period of extraordinary performance. In other words, some of a bull market's best returns occur right before it dies. Remember the NASDAQ's performance in the 4th quarter of 1999 when it advanced ~48%? The NASDAQ hit its all-time high four months later, just before the bubble burst. In the months leading to market tops there are striking similarities that often occur. Growth stocks outperform value stocks and small capitalization stocks outperform their larger brethren. There are early signs today that such a trend has commenced.

So let us revisit the grand daddy of all bull markets, the Internet craze and NASDAQ 5000 to see if there are any similarities with today's richest companies in terms of stock market valuations and the leaders of that era. Bill Gates stated at that time:



"I think the multiples of technology stocks should be quite a bit lower than the multiples of stocks like Coke and Gillette, because we are subject to complete changes in the rules. I know very well that in the next ten years, if Microsoft is still a leader, we will have to weather at least three crises."

of 418, the 95x earnings Polaroid sold for in the late 1960s was a model of value investing.

Currently there are a number of companies that have captured Wall Street's fancy each with multiples of 100x or more. They include names like Netflix, Zillow and LinkedIn. Tesla is another example of a high multiple stock. The company delivered just 1400 cars in July or about 1% of Ford Motor Company's sales for the same month. Today Tesla commands a market valuation of over \$21 billion. This is about a third of Ford's market cap and approximately triple that of Fiat which is the majority owner of Chrysler.



Before the dot com bubble imploded Yahoo! commanded a price earnings multiple of more than 400x earnings. So when it purchased Mark Cuban's fledgling Broadcast.com for \$5.9 billion during that period the

acquisition price, based on future potential was not widely criticized. This site is now defunct and redirects to Yahoo's home page. Yahoo also purchased GeoCities during that era, paying \$3.65 billion for a company that is no longer in business. Did Yahoo! make the same mistake yet again? Just recently it purchased blogging site Tumblr (**\$13 million in sales last year**) for \$1.3 billion.

Although there are some early indications that the U.S equity market is getting somewhat frothy, it could still have some more room to run. Yes, it is true the more speculative technology laden NASDAQ, and the small capitalization Russell 2000 have become the market leaders. Momentum stocks, such as Tesla and Netflix, each with triple digit P/E ratios, have also become market darlings. On the other hand during the 1990's large capitalization stocks such as Microsoft, Pfizer, Cisco and Intel to name a few commanded outsized price/earnings ratios of 40x to 150x. Today, the P/E ratios of those companies average approximately 12x, well below the multiples of most of the companies within the S&P 500. These companies also yield 3% or more, with the capability of multiple dividend increases during the next five years.

There are a number of other factors that could help continue the stock market's advance for a while longer. The Federal Reserve's low interest rate policy, which includes the purchase of \$85 billion per month in U.S. Government obligations, shows no signs of abating. The Fed in fact has green lighted asset purchases with its easy money bias.

The individual investor has not taken the Fed's bait, and has not returned to the equity market as measured by significant mutual fund inflows. And who can blame them? Over the last decade or so they have been badly bruised by three financial bubbles bursting: First came the Internet bubble, followed by a real estate collapse of monumental proportion and finally the financial meltdown which almost destroyed the entire economic system.

<u>Today's High Flyers</u>		
Company	Market Cap (in billions)	PE Ratio
Netflix	\$20	227x 2013
Amazon	\$149	379x 2013
Tesla	\$21	303x 2013
Zillow	\$3.6	150x 2014
LinkedIn	\$28	161x 2013

Individual investors usually show up late for the party, but they usually do show up. As a result of both individual and institutional investors fleeing the equity markets en masse during the 2007- 2009 period, common stocks are currently under owned, while bonds have a much higher weighting than normally is the case. A higher asset allocation into stocks could prolong the stock market advance.

To summarize, the overall stock market is probably fairly valued. Stocks are not on the bargain basement table as they were in 2008-2009. Temper your expectations in terms of expected future returns, and be wary of momentum stocks with triple digit P/E ratios. A higher cash balance might also be appropriate.

Seinfeld Turns ‘Nothing’ Into a \$3bn Sale

It never ceases to amaze us the value of popular content. Below is an excerpt from a Financial Times article detailing the enormous monetary success the television show Seinfeld is still achieving well more than a decade after its series finale. As the saying goes, “content is king.”

Following its latest round of licensing deals, the sitcom has generated a total of \$3.1bn in syndication income since it was last aired on NBC in 1998...The latest round of deals-the fifth time that the show has been syndicated-brings total earnings from the show for co-creators Jerry Seinfeld and Larry David to \$400m each...The show’s profitability-syndication revenues are almost all profit because no costs are associated any longer with producing the program--is impressive when compared to some media companies. ***Amazon, which began trading as a public company the year before Seinfeld finished its NBC run and now has a market value of \$119bn has generated total net income of \$4.9bn since 1997.*** [emphasis added]

Excerpt from the From Financial Times 4-3-13 by Matthew Garrahan

Sometimes It’s Better To Be Rejected!

The Dow Jones Industrial Average which supposedly is a bellwether for the overall economy and is the index most recognized by retail investors, recently underwent a reshuffling where Bank of America, Alcoa, and Hewlett-Packard were replaced with Goldman Sachs, Nike, and Visa. According to a recent study by three researchers at Pomona College and reported in the Wall Street Journal on October 7th 2013, it is better (at least in terms of stock market performance), to be kicked out of the index. According to their research which dates back to 1929 and extends through 2005: The companies that were kicked out of the index gained an impressive 173% on average over a five year period as opposed to a mere 65% for the new entrants.

If Obesity Were a Stock We Would Want to Own It.

One of the stocks we have recently added to many of the accounts we manage is Weight Watchers. Part of our investment thesis is that obesity is currently a serious epidemic in the U.S. (almost 70% of Americans are classified as obese or overweight according to the National Institutes for Health) and the Weight Watchers program is one of the most scientifically proven methods to combat this problem. Due to some recent company missteps involving capital allocation as well as the misperception at least in our view that free apps available on the internet will continue to take market share away from Weight Watchers (we believe these apps do not lead to a sustained weight loss for most people and therefore are not a long-term competitive threat): This has caused the stock to sell at a significant discount to our estimate of intrinsic or private market value. Our thesis about the efficacy of the Weight Watchers program compared to the free apps available on the internet was reaffirmed by a recent study conducted at Baylor College of Medicine that was reported in an article in *The American Journal of Medicine* that said,

“that overweight and obese adults following a community-based weight loss intervention, namely Weight Watchers, lost significantly more weight than those who tried to lose weight on their own (10.1 lbs. vs. 1.3 lbs. at six months). Those in the Weight Watchers group were provided with three access routes - group meetings, mobile applications, and online tools - and further analysis found those who used all three access routes together lost the most weight.

Of the 292 overweight and obese adults who participated in the six-month trial, those assigned to the Weight Watchers group were eight times more likely to achieve at least a five percent weight loss than those assigned to lose weight on their own. The five percent weight loss threshold is important because, according to the CDC, it is the amount associated with improved health markers, such as cardiovascular risk factors and blood sugar levels. **While there are more than 80 peer reviewed publications that establish the efficacy of the Weight Watchers community-based approach, this is the first study that included the three complementary ways to access the program - meetings, mobile applications and online tools - in the study design.**” [emphasis added]



Among the 147 participants assigned to the Weight Watchers group, those using all three access routes to a high degree (defined as more than 50 percent of the weekly meetings and using the mobile applications and/or online tools two or more times a week) had the greatest weight loss at 19 lbs. Those using two access routes to a high degree lost 9.5 lbs. and those using one lost 9.3 lbs. Meeting attendance was the strongest predictor of weight loss compared to usage of the other access routes.

Text excerpted from a Weight Watchers Company Press release dated October 15, 2013

Regulators Have Very Short Memories.

As you may remember approximately a decade ago, many of Wall Street’s largest banks were forced to enter into a settlement that totaled well over one billion dollars due to the fact that analysts employed by the firms’ equity research divisions promoted companies going public, even though privately they were quite bearish on the same companies. This bad behavior took place to help the banks secure lucrative investment banking relationships with the issuing companies.

Now as a result of the recently enacted JOBS Act, many of the restrictions that were in place which were designed to protect investors have been removed or significantly restricted for “emerging growth companies.” An emerging growth company is defined as a company with under \$1 billion in annual revenue. While this regulation will not affect large capitalization companies: Do not think this is a small exception that can only be taken advantage of by micro cap companies. For example, well-known and soon to be public company Twitter, has already taken advantage of some of the JOBS Act’s loose restrictions involving financial disclosures related to its upcoming I.P.O.

This may just be the beginning of less regulation on potentially fraudulent behavior. As detailed on Integrity Research’s blog, top tier law firm Davis Polk wrote in a note to clients that the JOBS Act is, “the most significant legislative loosening in memory of restrictions around the I.P.O. process and public company reporting obligations.” Disgraced former governor Elliot Spitzer who was the architect of the original Wall Street Research Settlement said, “It is a bad sequel to a bad movie....It shouldn’t be called the JOBS Act, it should be called the Bring Fraud Back to Wall Street Act.”

We believe this helps demonstrate why investing in financial related companies is something long-term investors should not shy away from. Due to the regulations recently enacted as a result of the financial crisis, many analysts and portfolio managers are shunning financial related stocks because the post financial crisis legislation with its onerous capital requirements hampers their ability to generate high returns on equity. However as the case of the Wall Street research settlement demonstrates, nothing is forever and it is not impossible that the recently passed legislation will be loosened in the future which would have in our opinion positive implications for financial stocks.

Utilizing the Government to Obtain Inside Information

Insider trading has been in the headlines recently, as the government has undertaken an aggressive crackdown on insider trading the scope of which that has not been seen since the days of Michael Milken and Drexel Burnham Lambert. Hedge funds have been at the center of this probe and the most high profile investigation has been that of SAC Capital.

As detailed in a recent article that appeared in the Wall Street Journal on September 23, 2013, one source the hedge fund industry is gravitating towards to obtain material non-public information (which is perfectly legal in this instance), is the U.S. government via the Freedom of Information Act (FOIA).

According to the article, hedge fund firms such as SAC Capital have used this act as part of their investment process. The article stated that SAC Capital and its affiliates from 2008-2012 filed a total of 92 FOIA requests with the FDA. This is more than any other firm that files requests on their own behalf (some firms utilize outside consultants that make requests for them, due to the fact that it is public record what requests are made and by whom).

“A review by the Wall Street Journal of more than 100,000 of the roughly three million FOIA requests filed over the past five years, including all of those sent to the FDA, shows that investors use the process to troll for all kinds of information.

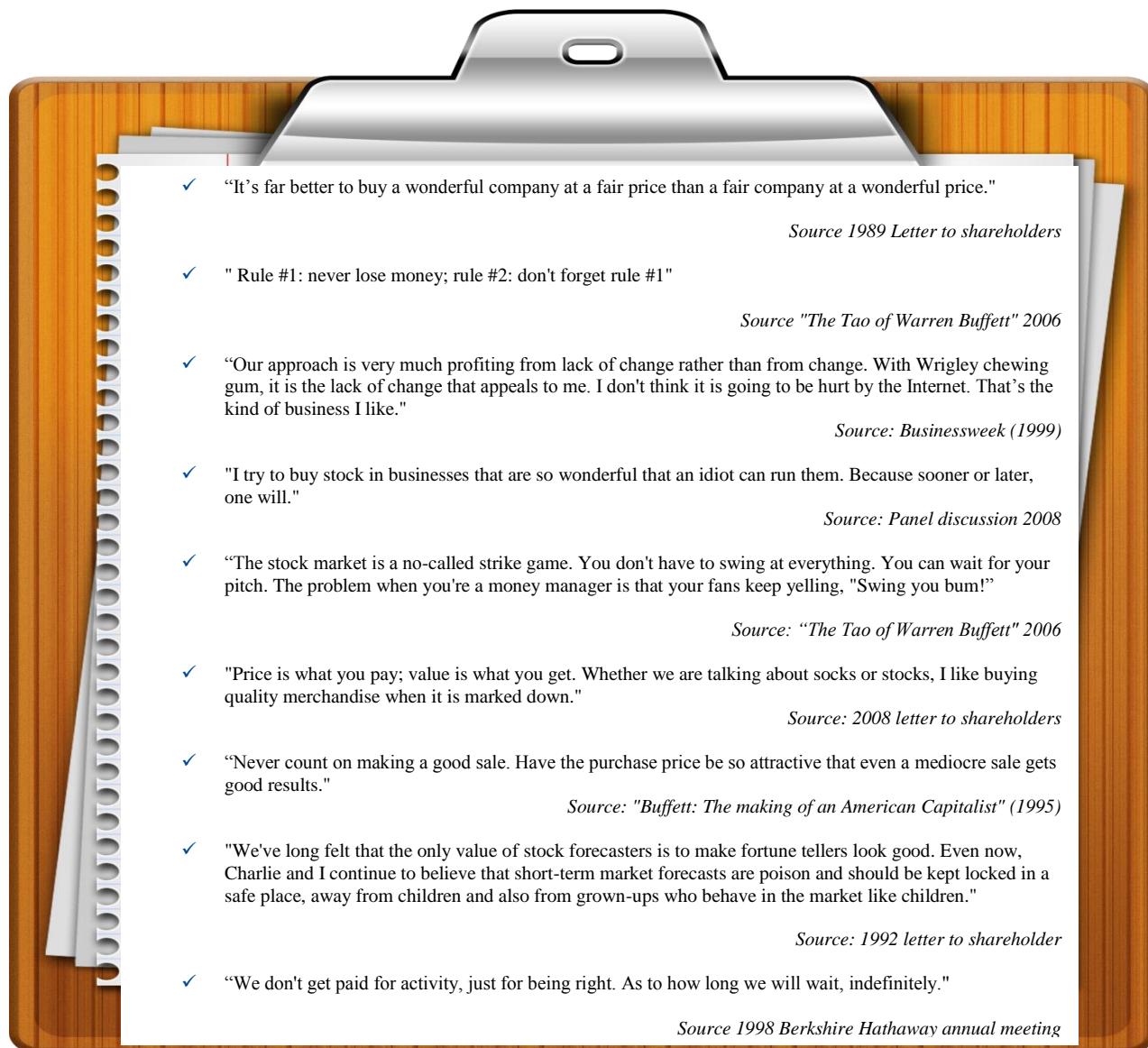
They ask the Environmental Protection Agency about pollution regulations, the Department of Energy about grants for energy-efficient vehicles, and the Securities and Exchange Commission about whether publicly held companies are under investigation.”



According to the article anyone can file an FOIA request, and Federal agencies that receive these requests are required to turn over information using the “most efficient and least costly methods.” However this particular freedom does not come cheap to the American tax payer. According to the article, “about 125 full-time workers process requests sent to the FDA according to an annual report compiled by the agency. **Handling the roughly 10,000 requests sent to the FDA in fiscal 2012 cost the government \$33 million, more than three times what it cost a decade earlier.**” [emphasis added]

Investment Advice from the World's Most Successful Investor

Warren Buffett, the fourth richest person in the world and in my book, the greatest investor of the past century, recently celebrated his 83rd birthday. As well regarded for his folksy wisdom as his monetary acumen, Mr. Buffett has been regaling investors with helpful nuggets of advice for decades. We have listed below some of his gems.



Excerpted and condensed from The Christian Science Monitor

There probably have not been many Boyar Asset Management quarterly letters that do not contain at least one reference to Warren Buffett, the undisputed greatest value investor of all time. In fact the section above contains some of his pearls of wisdom, and the section below also contains a reference to him! Little in these pages however has been written about his partner Charlie Munger who is also one of the world's most successful investors. Below please find excerpts from an article written by Jason Zweig that appeared in the Wall Street Journal that gives some of Mr. Munger's insights into what makes a great investor.

Charlier Munger: Lessons from an Investing Giant

One of the least appreciated virtues in investing is courage. Filings with the Securities and Exchange Commission in March and again this month show the extraordinary gumption of Charlie Munger, Warren Buffett's business partner and vice chairman of Berkshire Hathaway.

Mr. Munger, who will turn 90 years old next Jan. 1, is a model for individual investors who wonder how they can possibly beat the professionals at their own game. The pros have more information than you, and their trading machines are faster. But you still have an edge over them—so long as you play a different game by your own, more sensible rules. You can be patient; the pros can't. You don't have to be part of the herd; they do. Above all, you can be brave; they almost never are. What makes Mr. Munger a model for individual investors?

In the first quarter of 2009, during the most desperate days of the financial crisis, Mr. Munger took 71% of the cash at Daily Journal, a small publishing company he chairs, and poured it into the bank stocks that so many other investors were fleeing. By March 31, 2009, his bet already had gained 60%. With other purchases he made later, Mr. Munger invested \$49.7 million into stocks and bonds that today are worth \$128.4 million, according to financial statements Daily Journal filed on Aug. 20...

At Good Samaritan Hospital, a Los Angeles medical center whose board Mr. Munger leads, the endowment had long been invested in cash and short-term debt—until corporate bonds got hammered during the financial crisis. At that point, Mr. Munger plunked most of the money into corporate bonds, according to two people familiar with the matter. A Good Samaritan spokeswoman didn't return a request for comment, but the hospital's financial statements show that its endowment earned more than \$12 million in income and unrealized gains in the year ending Sept. 1, 2009—roughly a 20% return over a period when cash earned 0.5% and the overall bond market returned less than 8%.

Where does Mr. Munger get his gumption? In the late 1980s, he recalled in a magazine interview, a guest at a dinner party asked him, "Tell me, what one quality accounts for your enormous success?" Mr. Munger's reply: "I'm rational. That's the answer. I'm rational." Mr. Munger favors what he calls "sitting on your a—," regardless of what the investing crowd is doing, until a good investment finally materializes. In the panic that typically produces such an opportunity, Mr. Munger ruminates. If he likes what he sees, he pounces.

Many money managers spend their days in meetings, riffling through emails, staring at stock-quote machines with financial television flickering in the background, while they obsess about beating the market. Mr. Munger and Mr. Buffett, on the other hand, "sit in a quiet room and read and think and talk to people on the phone," says Shane Parrish, a money manager who edits Farnam Street, a compelling blog about decision making. "By organizing their lives to tune out distractions and make fewer decisions," he adds, Mr. Munger and Mr. Buffett "have tilted their odds toward making better decisions." Mr. Buffett declined to comment other than to say, "Charlie is indeed rational."

Excerpt from The Wall Street Journal August 30, 2013

A Buffett Fortune Fades in Brooklyn

Below is an article that appeared in the Wall Street Journal about a husband and wife that were original investors in Warren Buffett's limited partnership which they subsequently invested in Berkshire Hathaway stock after the partnership was dissolved. Needless to say they made an absolute fortune. They lived modestly and donated their estate to various charities including Long Island College Hospital where they created a \$135 million endowment to be held in perpetuity. Unfortunately by utilizing various legal loopholes the hospital did not use the funds in the way that the Othmer's intended. This story reminds us somewhat of the tale of Mr. Kissler, a long-time client of Boyar Asset Management who worked for the post-office and accumulated several million dollars through stock market investing and extraordinary frugality.



Unfortunately, thrift ultimately worked against Mr. Kissler, because he hired the cheapest lawyer he could find to do his estate planning. When he passed away, the will in his possession was ruled invalid, so instead of his savings going to the New York Public Library, which he loved, they went to a relative who he detested. These two stories illustrate the importance of careful estate planning, and we cannot urge you enough to please make sure your affairs are in order.



As early investors with Warren Buffett, Donald and Mildred Othmer quietly amassed a fortune that they believed would sustain their favorite charities for generations. Among those organizations: Long Island College Hospital in Brooklyn, N.Y., for which the Othmers created a \$135 million endowment in the 1990s, "to be held in perpetuity," according to their wills. Less than 20 years later, much of their gift is gone.

And the hospital's owners have been cleared by state regulators to close the money-losing nonprofit, which has sparked protests because the 155-year-old facility was one of Brooklyn's largest private employers. In a series of court-approved transactions, hospital administrators repeatedly tapped the fund to serve as collateral for loans and to cover malpractice and other costs, according to court records. The transfers were permissible to keep the hospital going, the court ruled, saying that is what the Othmers would have wanted...

Natives of Omaha, Neb., the Othmers married in New York in 1950. An accomplished chemical engineer and inventor, Mr. Othmer taught at Brooklyn's Polytechnic Institute, now a part of New York University. Mrs. Othmer taught English in the 1930s...

In 1961, they each invested \$25,000 in a partnership run by Mr. Buffett, who knew Mrs. Othmer's mother. When Mr. Buffett dissolved the partnership in 1969, the Othmers ended up with roughly 14,500 shares of Berkshire Hathaway Inc. stock valued at \$42 a share, which they never sold. "They just stuck with me," Mr. Buffett said, recalling lunches of ham sandwiches at the Othmers' Brooklyn home. When the Othmers died, their Berkshire shares were valued at more than \$780 million. At today's prices, they would have been worth \$2.5 billion...

Mostly, their goal was to create permanent funds for the institutions they had loved, to ensure "they would survive and grow," Mr. Wagner said. In the case of the hospital, the wills stipulated that most of the Othmer endowment was "to be held in perpetuity and the income only to be used for general purposes." By the late 1990s, the hospital was in financial trouble, according to court records.

In 1998, soon after Mrs. Othmer died, it handed over operations to Continuum, a private hospital operator which this week approved a plan to merge with New York's Mount Sinai Medical Center, in a bid to improve performance. In 2000, the hospital sought court permission to use the principal from the Othmer endowment.

It invoked the legal doctrine of "cy pres," which gives a court power to revise a will to save a charitable organization from failing if certain conditions are met. Although cy pres, which means "as near as possible," is a standard part of the law governing charities, it is used infrequently because the process is stringent, lawyers say.

Starting in 2000, the hospital on at least three occasions requested—and received—permission from the court to borrow against the Othmer funds, use it as collateral or allocate it to short-term expenses. A portion of the money at one point was repaid to the fund but most wasn't, the records show... The court allowed the hospital to take the last \$26.8 million of "unencumbered" money as well as \$63 million of Othmer money pledged as collateral since 2000. Also that year, \$85.7 million of the endowment was put into a trust to pay medical-malpractice claims, according to public records....

The Othmers "did not spend huge sums on themselves but instead wanted the money to go back to society," Mr. Buffett said. "And at least one institution couldn't wait to change the terms under which it received the money."

Excerpt from the Wall Street Journal July 19, 2013

Future of Cable May Not Include TV

Predicting that transmission of TV will move to the Internet eventually, Cablevision Systems Corp Chief Executive James Dolan says "there could come a day" when his company stops offering television service, making broadband its primary offering. His comments may be the first public acknowledgment by a cable CEO of the possibility of such a shift, long speculated about by analysts... If cable operators drop TV service, charging only for broadband, channel owners would have to sell directly to the public or through Web outlets....

He added that the cable-TV industry is in a "bubble" with its emphasis on packages of channels that people are required to pay for, predicting it will mature "badly" as young people opt to watch online video rather than pay for traditional TV services. To ensure Cablevision is prepared for the future, he said, he is investing heavily in the company's network connectivity and overhauling operations to improve efficiencies...

Cablevision—the fifth-biggest U.S. cable operator, serving about three million customers—is considered a likely acquisition target, given its hold on much of the New York area. Mr. Dolan's family controls the company and gives little sign of whether it is interested in selling. In the interview, asked if the Dolan family will continue to control Cablevision in 20 years' time, Mr. Dolan said: "I would not go so far as to say that..."

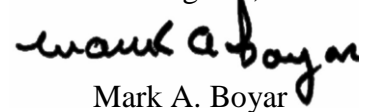
He boosted capital expenditures 32% to \$1.1 billion in 2012 and poured about \$150 million directly into the broadband network. And for this year, the company has told Wall Street that capital spending will remain at "elevated levels." The result, so far, has been higher Internet speeds, expanded outdoor wi-fi service, new modems for customers and an array of products that Mr. Dolan promised will reinvigorate subscriber growth, including a cloud-based digital video recording feature that allows 10 shows to be recorded at once—even through older set-top boxes.

He has also beefed up network-monitoring systems so the company can detect outages before customers call in to complain. Despite the investment, in the past two quarters the company lost video-subscribers, unlike in the year-earlier periods, while it added broadband and voice customers at a slower pace.

Excerpt from WSJ Article that appeared on August 5, 2013

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

Past performance is no guarantee of future results. Investing in equities and fixed income involves risk, including the possible loss of principal. The S&P 500 Index is included to allow you to compare your returns against an unmanaged capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks representing all major industries. The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The NASDAQ Composite is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The volatility of the above-referenced indices may be materially different from that of your account(s), and the holdings in your account(s) may differ significantly from the securities that comprise the above-referenced indices. Your results are reported gross of fees. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.50% annual investment advisory fee would be \$15,566 in the first year, and cumulative effects of \$88,488 over five years and \$209,051 over ten years. This material is intended as a broad overview of Boyar Asset Management's, philosophy and process and is subject to change without notice. Account holdings and characteristics may vary since investment objectives, tax considerations and other factors differ from account to account. Employees and clients of Boyar Asset Management as of the date of this letter own shares in Weight Watchers, Cablevision, and Saks.