



“No ambiguity is evident when we view the past. But the history that took place is only one version of what it could have been. If you accept this, then the relevance of history to the future is much more limited than may appear to be the case.”

—Howard Marks, Chairman of Oaktree Capital Management, L.P

October 31st, 2014

A stormy September came to a quiet end on the last trading day of the month. Major indices drifted to a slight loss, leaving the Standard & Poor's 500 stock index down -1.4 % for the month, its third monthly drop this year. Historically, month number nine has often been unkind to the stock market, even during robust bull-markets: Since 1928, the S&P 500 has been down during 47 years and up during 39 years in September, according to Yardeni Research. The average gain was 3.3%, while the average loss was 4.8%. For the entire 87 year period, the average loss was 1.0%, the worst month of the year. It is interesting to note that only two other months have negative averages for the period: February (-0.1%) and May (-0.2%).

The stock market has been quite volatile in recent weeks. Lingering concerns over conflicts around the world, Ebola, corporate profitability and a potential European recession have all been contributing factors. Investors are also wary of October, a month where some of the worst market swoons have occurred. Also weighing on investors' minds is the imminent termination of the Government's bond buying program.

During the second quarter the two best performing sectors within the S&P 500's ten sectors were Energy and Utilities. In the third quarter both of them reversed course, and were the laggards losing 8.62% and 3.96% respectively. The best performer was health care advancing 5.46%.

Some Thoughts About The Market

(1) In an article penned by Vito Racanelli, that appeared in the September 22, 2014 edition of Barron's, he pointed out that the bull market that began on March 9, 2009, was 2,021 calendar days old as of September 19th. It's the fourth longest in modern history, and the fourth largest rise at nearly 200%. Despite such happy tidings, it might surprise you that the average S&P 500 stock is down some 7.2% from its 52-week high, according to Bespoke Investment Group. The fact that the S&P 500 index is hitting new highs when the average stock is down is worth paying attention to.

(2) There was a very interesting article written by Ben Levisohn that appeared in the September 15, edition of Barron's where he pointed out that a premature increase in interest rates could mean the economy never reaches full velocity. He opines that the history of central banking is littered with mistakes big and small. There were the Federal Reserve's rate hikes in 1931, which helped exacerbate the early turmoil of the Great Depression, and the rate increases later in the decade that helped prolong it. Looking overseas, we're still shocked that the European Central Bank hiked rates in 2011, doing its part to ensure that the European Recovery would never gain even the limited traction seen in the U.S.

In the 1970's, high inflation wasn't just imagined it was very real. Today, however, those clamoring for rate hikes seek to head off potential threats of higher inflation, asset bubbles, and the like and ensure that U.S. growth continues to accelerate. In fact, inflation expectations in the U.S. have been falling recently, not rising. The risk becomes that the U.S. ends up repeating the 70's in reverse. Remember in that decade, rates were not hiked enough, causing inflation to reignite quickly, which never solved anything. Today, tighter policy could mean the economy never reaches escape velocity and muddles along at 2% growth. This is a mistake we hope the Fed does not make.

Putting the Present Bull Run in Perspective

The U.S. stock market has been on an almost unimpeded march upward for five and a half years and counting, with the S&P 500 rallying ~195% since bottoming out during the throes of the recession in March of 2009. As every market pundit seems eager to note, we have not even experienced so much as a 10% correction in the S&P since October 2011. By contrast, the average bull market since 1929 has lasted 30 months and 100 percentage points—suggesting this bull market is long in the tooth. However, from a longer term perspective, it should be remembered that the S&P 500 grew at a meager 0.5% CAGR between 2000-2013 and is still up only 28% from its 2007 peak and 52% over the past 15 years.

Why its Time in the Market and not Market Timing that Counts



A raging bull market began less than two months after the infamous October 1987 stock market crash. Any investor sitting on the sidelines in the wake of Black Monday in 1987 missed an incredible buying opportunity. The resulting bull market carried all the way to March 2000—a whopping 149 months and 582% later for the S&P 500. And on the other end of the spectrum, few could have imagined that the 2008-2009 market crash would briefly take the S&P 500 all the way back to 1997 levels.

How We Spent our Summer Vacation!

The analyst team at the Boyar Value Group spent the summer producing our annual thematic piece for our institutional research publication *Asset Analysis Focus*. Each year our group identifies a theme, sector, or area of the economy that is contrarian in nature and tries to pick individual companies that we believe will benefit from the topic we select.

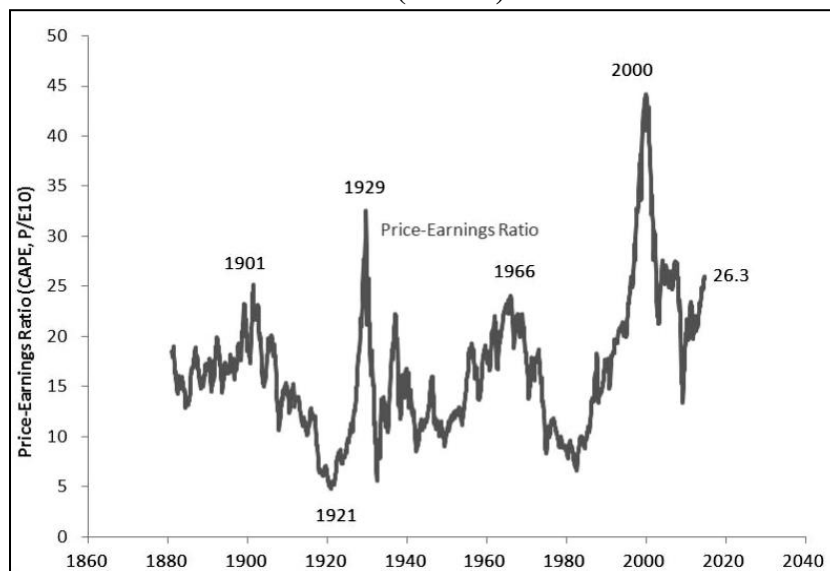
Some very profitable ideas for both our money management and research clients have been uncovered via this issue. This summer we focused on conglomerates as a fertile ground to uncover value. We also spent a large part of the report discussing our views on U.S. stock market valuations as a whole. Below are some excerpts from this report.

Our Thoughts on Current Stock Market Valuations

- So what are we to make of the current bull market? It seems the only real takeaway is that, as J.P. Morgan famously stated about the market and Ben Graham recited in his 1974 essay *The Future of Common Stocks*, “it will fluctuate.” Historical trading patterns are no substitute for patient, long-term fundamental value investing. The better question is, “Where are we today in terms of stock market valuations?” By several measures, current valuations appear stretched, though not at blatantly widespread bubble proportions.
- The S&P 500 currently trades at approximately 19x trailing reported earnings and 17.9x trailing operating earnings (excluding supposed one-time items), falling to 16.8x current consensus 2014 operating earnings estimates. This is roughly in line with historical medians of 19.5x P/E (trailing reported earnings basis) and 17.6x operating earnings for the index looking back to the close of 1988. However, the past 25 years included two historic stock market bubbles and the longer term, post-war S&P average P/E is far below current levels at closer to 15x.
- As corporate profits are volatile and earnings multiples should (in theory) be inversely correlated with the contemporaneous stage of the economic cycle, alternative measures like the cyclically adjusted P/E (CAPE) ratio popularized by Robert Shiller may be useful references. The S&P 500 CAPE currently stands at 26x based on inflation-adjusted trailing 10 year average earnings, far above its 20th century average of just 15.2x and at a level only breached in 3 prior periods looking back to 1881. Unnervingly, two of these periods include 1999 and 2007.¹



1 CAPE (P/E 10) Ratio

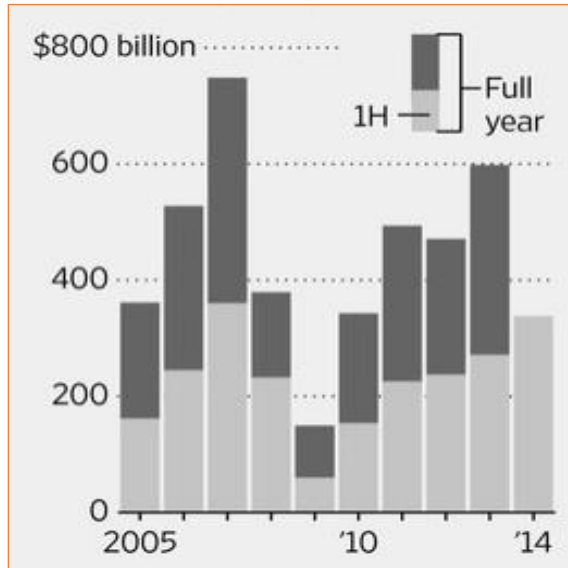


Contra Indicators Suggesting Elevated Equity Market Valuations

¹ Robert Shiller, “The Mystery of Lofty Stock Market Elevations.” *New York Times*, August 17, 2014

- Robust Share Repurchases** – Publicly traded companies, not unlike individual investors purchasing stocks, have shown an uncanny ability to pursue share buybacks when market valuations are at peak levels. As illustrated in the following graph, share repurchases during the first half of 2014 have surged and were the most for any 6 month period since 2007, the year of the last market peak. It is also worth noting that share buybacks plunged to their lowest level in recent years in 2009, a year in which share price valuations were arguably their most compelling.

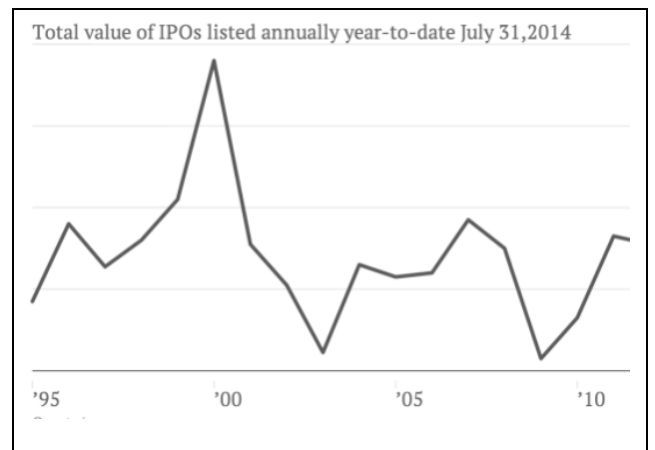
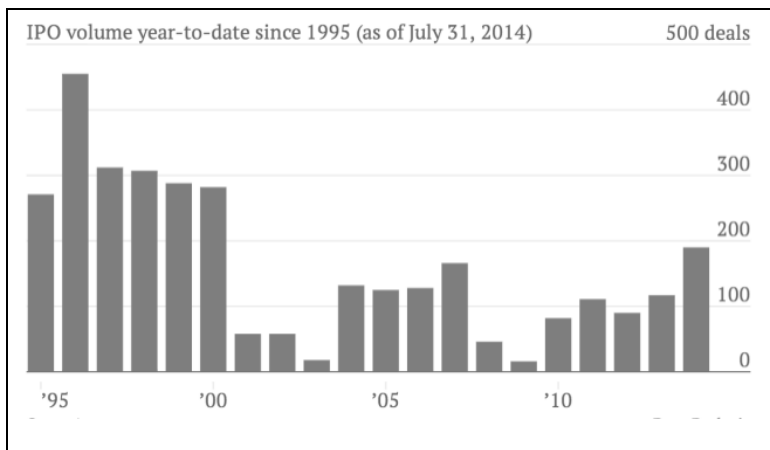
Share Repurchases Have Surged This Year as Cash Rich Companies Seek to Reward Stock Investors



- Increased IPO Activity** – According to data from Dealogic, there were 190 IPOs through July 31, 2014, which represents the most new stock offerings since 2000 for that YTD time frame. It should also be noted that 2014 marks the most money raised by IPOs (\$44 billion) in the first 7 months of the year since 2000 when \$76 billion was raised. It is not uncommon for the number of IPOs to increase prior to market peaks, and we believe that IPO activity will only heat up following the successful debut of Alibaba, the largest IPO in history.

Yearly IPO Volume Through July 31st by Year

IPO \$ Raised Through July 31st by Year



Source: Quartz qz.com, Dealogic

Source: Quartz qz.com

- **Increased M&A Activity** – Many stock market indices have advanced by 150% or more since the 2009 lows. After this robust appreciation, corporate managements believe now is the correct time to aggressively pursue acquisition opportunities in the marketplace. According to Thomson Reuters, global deal volume for the first half of 2014 increased by 75% relative to the same period in 2013. Moreover, overall deal volumes are now at a 7-year high. Also, the number of hostile or unsolicited bids doubled between the 2013 and 2014 periods. In our view, these data points represent additional contrarian indicators regarding equity market valuations.

We would note that a notable smart money survey is pointing toward unattractive valuation levels. According to the Market Meter index, which surveys a group of savvy institutional investors, professionals are having a hard time finding value in the market with 69% of respondents recently indicating that they are finding few bargains in the market, well above the 49% long-term average reported by the survey. ***While there are many indicators flashing caution, it is interesting to note that individual investors have continued to shun equities in favor of bonds.*** Individuals chasing stocks are typically a very reliable contrary indicator. According to data from Morningstar, Taxable-bond fund flows exceeded flows into U.S. equity funds for every month this year through August. In addition, U.S. equity mutual funds and ETFs have attracted just \$3.5 billion of new assets this year while Taxable-bond fund mutual funds and ETFs have garnered \$99.2 billion of new assets. ***Perhaps individual/retail investors have been permanently scarred from the 2008/2009 financial crisis, which saw markets decline by nearly 50% (peak to trough). However, never underestimate the power of greed and it is possible that the return of the individual investor could help sustain valuations for an extended period of time.*** (emphasis added)

Below is an interesting op-ed penned by well respected financial publisher James Grant. Mr. Grant discusses the long-term risks that have been created by The Federal Reserve's quantitative easing program. He discusses in detail why interest rates need to be set by market forces and not administrated by the Federal Reserve. The consequence of QE he believes is that investors are being forced into riskier assets in order to achieve an adequate yield. However since interest rates are artificially low, the current yields being offered are not commiserate with the risks investors are undertaking. While this may inflate "riskier" assets in the short-term: This is not healthy for investors in the long run as this will only serve to magnify the eventual pain that investors reaching for yield in fixed income securities will feel once market forces take over and interest rates rise. For readers of our quarterly letters these will be familiar thoughts as we have been warning about the dangers of the Fed's low interest rate policy for years and the eventual dire consequences for fixed income investors. Admittedly thus far our warnings have been unwarranted. However, we are still confident that we will eventually be proven to be correct.

Low Rates are Jamming the Economy's Vital Signals

It will take many cranks on the interest-rate winch before the Federal Reserve lifts borrowing costs off the floor. The intended consequences of ultra-low interest rates are seemingly benign. ***It is the unintended ones that make the mischief.*** (emphasis added)

Rock-bottom rates themselves are hardly new. Victorian creditors suffered under them. As Walter Bagehot quipped in 1852 about John Bull, he “can stand many things, but he can’t stand 2 percent”. What is new today is the overlay of officially sponsored bull markets on governmentally suppressed interest rates. To muscle up stock prices (and bond and real estate prices) central banks have been pushing down the cost of capital. It is a species of price control.

True, many people today are richer thanks to the new monetary experiments – “learning by doing”, as former Fed chairman Ben Bernanke candidly characterized them. Even a profligate state can afford to finance its burgeoning public debt at interest costs of 2 percent or less. The financial classes, especially, have gained by zero percent funding costs and purely nominal junk bond yields. Savers have suffered, yet – remarkably enough – they have mainly suffered in silence. So much for the immediate, seemingly wholesome consequences of interest rate control. Just over the horizon are the consequences that the mandarins did not think of.

It is not just any set of prices that the central banks are fiddling with. Interest rates are the traffic signals of a market economy. They serve to calibrate risk and reward, to establish investment hurdle rates and to discount projected future streams of business income. Reduce the rate at which those cash flows are discounted and you raise the value of the anticipated income. Raise the value of that income and you inflate the level of stock prices. It is the kind of inflation that investors cheer. *It is equally the kind of inflation that misdirects investments.* (emphasis added)

True prices are discovered, not administered. They are set in the open market. Revelations concerning the private sector’s corruption of the London interbank offered rate rightly kicked up a storm of indignation. The world should spare some censure, too, for the central banks’ manipulation of money market interest rates, their heavy-handed administration of longer-dated bond yields and their sponsorship of rising share prices. Just because the public servants do their well-intended work under the banner of the law does not make the results any less subversive. In 2005-07, it took a professional securities analyst to crack the code of subprime mortgage securities. No such technical facility is needed today to grasp the risks presented by governmentally shrunk interest rates. Warning signs abound. To sate a raging yield hunger, many take risks that will be revealed as such only after the speculative tide has turned. In the US, margin debt, used to speculate on the stock market, tops 2.5 per cent of gross domestic product – close to the highest reading in decades.

The European Central Bank’s decision to push its deposit rate below zero has put at risk upwards of €500bn of money market fund balances. Money fund investors ask only that their accounts hold par value – that they not “break the buck”. Plainly, interest rates of less than zero necessitate a loss of principal value. To obscure this unpleasant truth, money fund managers are preparing what they like to call a “reverse distribution mechanism”. This allows the sponsors to return 99 shares at \$100 a share, instead of 100 shares at \$99 each, preserving the cosmetic sanctity of the idea that the value of these funds never goes down. Yield is not the only thing that people are reaching for these days.

As a result of near-zero interest rates, notes Esther George, president of the Federal Reserve of Kansas City, bankers strain to make money on good credit. Not a few accordingly turn to discredit. With net interest margins at their lowest for 30 years, she adds, banks are responding as expected: “They are engaging in riskier activities.”

Central bankers have met each financial disturbance of the past 20 years with lower interest rates – and now, at the frontiers of zero, with the stimulatory supplement called quantitative easing. In so doing, they have purchased short-term relief with long-term instability. Ahead lies the delicate task of lifting rates without crashing markets. John Bull is not likely to enjoy it; neither are the rest of us.

Op/Ed that appeared in The Financial Times on October 13, 2014 written by James Grant

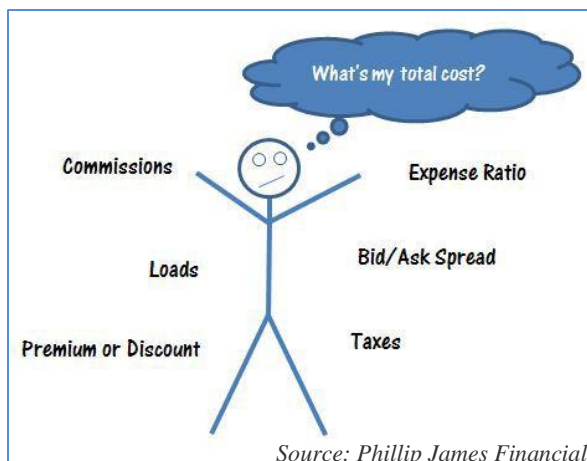
Many mutual fund investors search for funds by screening for funds with low expense ratios. However there are "hidden fees," that are quite costly to investors but are not reflected via this commonly used screening tool. We are referring to transaction costs, which are the costs mutual fund shareholders pay every time the portfolio manager buys or sells a security. These costs include not only brokerage commissions that are paid to execute these transactions but the market impact of buying or selling shares (if a large mutual fund buys a position in a security it may temporarily drive the price of that security higher making it more costly for the fund to buy that stock). Boyar Asset Management's long-term approach to investing (we trade significantly less than most money management firms) reduces transaction costs for our investors in addition to having the added benefit of minimizing our investors' capital gains taxes. Below please find an interesting article on the hidden costs of mutual funds.

Behind the Scenes at a Fundster's Trading Desk

Fund companies have a multitude of strategies to keep trading costs low—which is good, because those costs come directly out of investor returns... I was granted a backstage pass to T. Rowe Price's trading desk on a recent Friday morning. Chris Carlson, a veteran stock trader, was trying to buy shares of a thinly traded small technology stock. A trader's job, he says, boils down to "how can I move that block of stock with minimal market impact?" Carlson breaks up the order into smaller pieces, and often uses a limit order, which protects him from paying a higher price if the stock starts to move up. Unsuccessful in several attempts to find a seller at the price he wants, Carlson turns to an algorithm, a computerized system that searches various trading venues, including some dark pools, for the best price. He finds someone on the other side of the trade, and buys several thousand shares. Moments later, scanning the Bloomberg terminal on his desk, Carlson sees that the stock's price is holding steady. It's one small victory in a continuing battle.

Transactions Costs—incurred when a manager buys or sells shares—aren't part of a fund's expense ratio. The Securities and Exchange Commission requires funds to disclose annual turnover and how much they spend on commissions, but it's still hard for investors to determine how much of their returns are going to trading costs. The total transaction cost for buying a sizable block of a large and liquid U.S. stock is roughly 40 basis points, or 0.4%, say trading experts. That comes out of a fund's net-asset value, lowering returns.

There's also more to trading costs than transaction fees. Brokerage commissions and the like are explicit costs, but there are many implicit costs that are harder to quantify, such as market impact. For example, when other traders sense that an institution is buying or selling a large swath of shares, and they start buying or selling the same stock, forcing the manager to buy at higher and higher prices, or sell at lower and lower prices. Bid-ask spreads—the difference between the price at which a buyer is willing to buy and a seller is willing to sell—are another implicit cost. Securities that trade less frequently tend to come with bigger spreads...



Brokerage commissions, which account for less than half of overall transaction costs, have come down a lot in recent years, in part because there are more trading venues and, hence, more competition for commissions. But bigger fund houses do have an advantage over smaller firms, owing in part to their heftier trading volumes and negotiating power.

What's more: "Larger funds typically have robust research departments and do not rely on brokers for access to analysts or research reports," says Dave Hintz, senior vice president at Global Trading Analytics, which analyzes transaction costs.

Portfolio managers often acquire research by paying “soft dollars,” which are typically included in a brokerage commission. Smaller funds, Hintz says, pay higher commission rates of at least 3.5 cents per trade to get research from a broker’s firm. Large firms, which boast bigger technology budgets and better access to dark pools and other alternative-trading venues, pay less than two cents a share on average. However, small firms do have an advantage. “Two firms might have the exact same investment idea, but the larger one, just because of the sheer number of shares they have to buy or sell, might take several days to fill that order, while the smaller firm can get it done in half an hour,” says Steven Glass, CEO of Zeno Consulting Group...

This article appeared in Barrons on October 11th, 2014 and was written by Lawrence Strauss

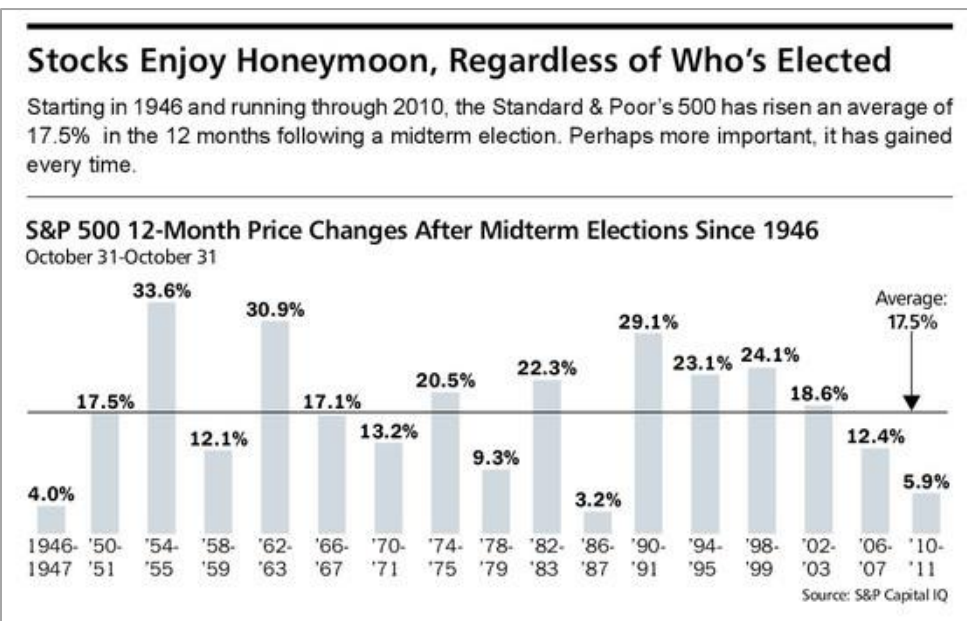
As you know we are fundamental long-term investors. While we are obviously aware of what is happening in the economy as well as the geopolitical events that are occurring, we do our best to put blinders on and pay attention solely to the intrinsic value of businesses we buy. Although we do not base our investment decisions on historical patterns, it is helpful to be aware of what occurred in the past as Mark Twain once said, "history does not repeat itself but it sure does rhyme." Whatever your beliefs are on the importance of history in terms of investing, we thought you would find the following excerpt from a recent issue of Barron's to be interesting.

Midterm Elections Usher in Stock, Bond Gains

In the 12 months after these elections, equity prices have gained every time, regardless of who wins. Bonds have thrived as well. Falling stock averages be damned! Move money off the sidelines! A midterm election is coming—and historically this means a bounce for stocks and bonds, regardless of who wins. If the past is prelude—always a big “if”—stocks and bonds will be higher on Oct. 31, 2015, than on Oct. 31, 2014. It doesn’t matter whether Nevada’s Harry Reid or Kentucky’s Mitch McConnell reigns as lord of the Senate following the Nov. 4 election. The bounce has been apolitical.

Look at the record book: Since World War II, Standard & Poor’s 500 stock prices have cumulatively gained an average of 15.3% in the six months from the Oct. 31 just before each midterm election year through

the following April 30, says Sam Stovall, chief equities strategist at S&P Capital IQ. And this has happened 94% of the time. “I am very much a student of history. I like extracting emotion from the equation. I say, ‘Let me see what stocks’ average performance has been, as well as what their batting average has been for this kind of an environment,” Stovall adds.



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From Oct. 31 of the midterm year to Oct. 31 of the following year, the S&P has gained an average of 17.5%—rising 100% of the time.

Wait, there's more. Bonds often enjoy a bounce, too, averaging a six-month total return of 6.5% in eight of the nine midterm cycles since 1978 (Oct. 31 to April 30). "There are so many people who don't like this market! And because so many dislike it, we're likely to have a surprise to the upside," observes Stovall... Investing in accordance with market adages obviously can be as unsound as relying solely on the 223-year-old Old Farmer's Almanac to plan your winter vacation in Florida. (The almanac predicts the Sunshine State will be unusually cool and rainy this winter, promising scant relief for the snowbirds). And if you had followed the adage to "sell in May and go away," you would have missed the recent running of the bulls, which saw the S&P 500 rise 5.4% between Memorial Day and Labor Day.

Excerpt by Jim Mctague of Barrons from October 6, 2014

Why Peak-Oil Predictions Haven't Come True

Have we beaten "peak oil"?

For decades, it has been a doomsday scenario looming large in the popular imagination: The world's oil production tops out and then starts an inexorable decline—sending costs soaring and forcing nations to lay down strict rationing programs and battle for shrinking reserves. U.S. oil production did peak in the 1970s and sank for decades after, exactly as the theory predicted. But then it did something the theory didn't predict: It started rising again in 2009, and hasn't stopped, thanks to a leap forward in oil-field technology.

To the peak-oil adherents, this is just a respite, and decline is inevitable. But a growing tide of oil-industry experts argue that peak oil looks at the situation in the wrong way. The real constraints we face are technological and economic, they say. **We're limited not by the amount of oil in the ground, but by how inventive we are about reaching new sources of fuel and how much we're willing to pay to get at it.** (emphasis added). Whether peak oil exists is more than just a point of intellectual debate—although it certainly has proved to be a heated and divisive one for decades. The question—and how we think about it—also has a big potential impact for governments, oil producers and ordinary people across the globe, all of whom depend on the vagaries of oil production and would be threatened by soaring costs and shortages. The peak-oil boosters argue that instead of plowing money into new ways to find oil, we should be conserving what we have and investing in alternative energy sources so that we're prepared when supplies run low and costs soar. Most of the naysayers agree that we shouldn't stick with oil forever. But they think it's wiser to invest in technology to keep expanding the available supply, until it gets too expensive to do so. At that point, they're confident; we'll be able to come up with an economical alternative.

The History of an Idea

Peak oil was most widely popularized by M. King Hubbert, a brilliant—and egotistic, by some accounts—geologist who worked for years at Shell Oil. In a 1956 paper, he predicted that U.S. oil production would peak, probably in the early 1970s, and then decline. It would resemble a bell curve. This came to be called Hubbert's peak and later peak oil. The idea gained enormous popularity when U.S. oil output did in fact peak in the early 1970s. It took hold at a time when the nation was prepared to believe the worst: Drivers were waiting in long gas lines, and the nation felt it was groaning under the yoke of OPEC. Forecasters like Paul Ehrlich became celebrities with dire warnings of overpopulation and exhaustion of natural resources. As the theory took hold, it helped justify increased investments in alternative energy, and informed some expert thinking about the future of energy. More recently, the theory saw a surge of interest a few years ago when oil prices were high and seemed stuck there...

Then the data took a detour from the bell curve. In 2008, the U.S. produced five million barrels a day. In 2009, U.S. oil production began to rise—at first slowly, then quickly. It is still rising today. Through the first half of 2014, it averaged 8.3 million barrels a day.

What changed?

NOT THERE YET

Notable past predictions of peak oil that didn't turn out

1885 The state geologist of Pennsylvania warns that the "amazing exhibition of oil" is only a "temporary and vanishing phenomenon." And John Archbold, John D. Rockefeller's partner in Standard Oil, sells some company shares at a discount, fearing that oil will run out.



Source: "The Quest" by Daniel Yergin, 2011

Photo: Library of Congress(2)

NOT THERE YET

Notable past predictions of peak oil that didn't turn out

2005 Energy tycoon T. Boone Pickens tells a conference of alternative-fuel advocates:



"Global oil [production] is 84 million barrels [per day]. I don't believe you can get it any more than 84 million barrels. I don't care what Abdullah, Putin or anybody else says about oil reserves or production. I think they are on decline in the biggest oil fields in the world today." Once you start declining, "it's a treadmill that you just can't keep up with."

> In 2013, global oil production will top 90 million barrels a day.

Source: Washington Monthly

Photo: Getty Images

An innovation in oil-field technology, which peak-oil theory didn't anticipate. Energy companies combined hydraulic fracturing and horizontal drilling to wring oil out of super-tight rock formations in North America. The industry figured out that pumping chemically slickened water and sand into shales could create thousands of fractures, each one a tiny path for energy molecules to travel into a well. At first, drillers targeted natural gas because they thought oil molecules were too big to be extracted. But fracking worked to make oil wells, also. Innovations allowed the industry to locate its frack jobs better and increase density. Now other countries are starting to apply the same techniques and may see the same kinds of gains.

A Different Take

With the recent boom have come arguments that peak oil underestimates the power of innovation. Indeed, many oil experts say, the industry has a history of turning up new supplies just when prospects look bleak. A century ago, the energy industry found giant new oil fields in Texas and California just as fears spread that oil output had peaked. As production in the U.S. began to decline, other regions picked up the slack: the North Sea, Nigeria and Saudi Arabia. Technical innovations such as using sound waves to locate oil fields through thousands of feet of water and rock spurred a boom in deep-water drilling.

More broadly, peak-oil naysayers argue, the theory looks at the problem in the wrong way—focusing on the physical supply instead of our ingenuity in being able to reach it. "There has to be a finite limit" of oil and gas in buried reserves, says George King, a global technology consultant for Apache Corp. But the constraint on how much oil can be produced isn't geological, he believes: "We face technical and economic limits more than anything else." And Mr. King is an optimist about our ability to overcome technical limits. "This is an inventive industry," he says...

What Next?

To be sure, the peak-oil naysayers don't think we should wholly embrace oil for all time, just that we shouldn't try to speed up any transition to alternatives in anticipation of short supplies. After all, misguided energy policy can have very bad outcomes. For instance, in the 1970s, the U.S. thought it was running out of natural gas, and Congress prohibited building any new power plants that used it. Instead, we built lots of coal plants—about half of the modern coal fleet—that burdened us with a legacy of dirty air in some cities. Not to mention that in the past few years, we have tapped an abundance of natural-gas supplies.

And naysayers agree that while they don't believe supply limits loom, economic limits remain. When the oil industry overcomes an obstacle and boosts oil production, costs typically increase. That opens the door for a better and cheaper energy source that will eventually displace crude oil. So at some point, the cost of getting more and more oil likely will get so high that buyers can't—or won't—pay. This is an issue the late petroleum economist Morris Adelman wrestled with. "No mineral, including oil, will ever be exhausted. If and when the cost of finding and extraction goes above the price consumers are willing to pay, the industry will begin to disappear," he wrote in "The Genie out of the Bottle: World Oil Since 1970," a book published in 1995. Mr. Adelman, a professor emeritus of economics at the Massachusetts Institute of Technology, died earlier this year at 96.

Already, economics is bringing about some changes. Despite the abundance of oil that fracking has delivered, global oil prices remain high. This has kept the door wide open for alternative sources of energy and spending on energy efficiency. Natural gas has been grabbing market share from oil for years. A few decades ago, heating oil kept American homes snug; now it's natural gas. And gas is making inroads in transportation—trucks and trains—as are electric cars.

What's more, climate change has altered the calculus. More advocates are pushing for alternative, low-carbon fuels to slow the rising level of carbon dioxide in the atmosphere. They argue that the possibility of running out of oil isn't the only reason to reduce its use; in fact, they worry that the expansion of supply is dangerous, hindering efforts to take action on the long-term threat of climate change. "There will be peak oil, but it will be [because of] peak consumption," says Michael Shellenberger, president of the Breakthrough Institute, an energy and climate think tank in Oakland, Calif. "What we all want is to move to better, cheaper and cleaner sources of energy."

Mr. Shellenberger suspects that oil's long dominance in transportation is weaker than most people suspect. When something better comes along, he says, oil's days are numbered. "We will be leaving a lot of oil in the ground, in the same way we are leaving coal in the ground," he says. Hubbert's Take

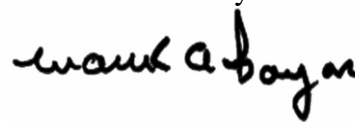
If M. King Hubbert were alive today—he died in 1989—would he admit defeat? Probably not, says Mason Inman, who has written a biography of Mr. Hubbert that will be released next year. He argues that the recent shale boom is just a temporary respite in a long march downward. U.S. oil production could be about to hit a second peak, and then return to its terminal decline... There will eventually be diminishing returns, Mr. Inman says, since oil is a finite resource, even though we don't really know its limits. "He would probably say, 'You guys are crazy to be drilling this so fast and using it up and pretending it's a solution,'" says Mr. Inman.

Excerpt from WSJ by Russell Gold on September 29, 2014

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

Best regards,

Mark A. Boyar



Jonathan I. Boyar



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