

October 12, 2009

Former Federal Reserve Chairman Paul Volcker made a statement in a recent interview with Charlie Rose that we feel best summarizes our perception of global financial markets and the future of the US economy.

The rise and growth of global economies is “symbolic of the relative, less dominant position the United States has, not just in the economy but in leadership, intellectual and otherwise ... I would like to think that given the history of the past, given the strength, actual and potential of the American economy, we can and still provide a kind of indispensable element of leadership here. But it’s not going to be dictatorial, I’ll tell you that. It is very hard to herd these cats together”.

Paul Volcker - September 28, 2009

Any significant economic recovery is dependant on our understanding of Volcker’s assertion. Having been the world’s leader we must learn to appreciate our evolving role in the eventuality of an “emerging global economy”. Acceptance and collaboration by the public and the private sectors will determine the pace of recovery and durability of our economic future.

The global economic meltdown of 2008 proved the world can and did survive without financial dependence on the US; rather through our coordinated efforts with other central banks we were a part of the solution. Having skirted disaster, industrialized and emerging countries (and for that matter undeveloped nations) have identified domestic growth as the principal factor in their economic stability.

Our challenges are more complicated. Both as a country and individually we are over leveraged. The US is a mature economy that in many sectors no longer produces goods and services that are price competitive with emerging nations. Our workforce will need to be re-educated and trained as new work opportunities are created before realizing the prospects of reducing our high level of unemployment. In addition the current deficit and prospects of additional spending threaten the dollar’s role as the international currency of exchange. Future economic expansion will be dependent on US businesses finding new domestic and global avenues of growth.

In many instances companies have worked through the difficulties of the last twelve months and restructured their businesses to better compete in the global markets. This is evidenced by their strengthened commitment to overseas economies such as China and India. We see evidence supporting this course of action as key economic measures have bottomed and now show signs of slow but steady progress. Corporate profits have also shown signs of improvement with positive outlooks for the remainder of the year and into 2010.

Our investment thesis and outlook remains unchanged, and we remain committed to investing in well run US companies with strong international exposure and solid business plans. We feel that our all-cap value strategy will continue to perform well during the recovery from this economic downturn. Only time will tell how this recovery will evolve; for our part we believe in the American leadership Volcker describes and that the US will remain a strong presence in the “emerging global economy”.