

June, 2006

Dear Clients and Friends,

If you'll pardon our proclivity for tasteless puns and bland clichés, we'd like to serve up some fast food for thought.

In a world seemingly obsessed with small and thin (check out the slender new iPod *nano*, the latest razor-slim cell phones and the stars of hit TV series *Desperate Housewives*), we can't help but notice the growing demand for certain things that are outright large. Like *venti* coffees, wide-screen LCD televisions (though one could argue their slenderness puts them in the former group), and especially tires.



Not the spare type of tire encircling friend Ronald's midsection. Nor the ones on those popular half-pint hybrid-electric cars that whoosh past us in the HOV lane every morning. We're talking *BIG* tires. Twelve feet in diameter and retailing for as much as \$40,000 each. Carbo-loaded, stuffed-crust, Super Size Tires.

Why concern ourselves with tires, big or otherwise? There is a good reason. You see, we get conflicting reports on the economy: massive layoffs vs. low unemployment; a receding housing market vs. strong consumer confidence; low inflation expectations vs. rising commodity prices. But the tight market for big tires confirms that the global economy is strong. Indeed, a recent New York Times article discussed the inability of tire makers to meet growing industrial demand, in turn driven by the world's insatiable hunger for stuff from the ground – copper, coal, oil. When times are good, big industry buys big wheels, and they're doing that in a big way right now.

But is the feast coming to an end? That certainly seems to be the question in the minds of investors, as the equity markets have cooked up only mediocre returns over the past eighteen months. As we've discussed previously, the market's chief concern is that the Federal Reserve will go too far in raising short-term interest rates, hurting the economy. Indeed, many economists are now forecasting slower growth in the second half of the year – but this should not be surprising given the stronger-than-expected results so far, coupled with the 4% rise in the Federal Funds rate.

Meanwhile, corporate profits continue to expand at a double-digit pace, and corporate balance sheets have never looked more appetizing. The pace of mergers and acquisitions has also accelerated, suggesting that corporate buyers – those who know their industries best – are finding value in publicly traded companies. We continue to believe that stocks are under-priced, even if the possibility of higher interest rates is factored in. In time, prices should reflect the underlying values.

Sincerely yours,

Mitch Schlesinger
Managing Director