

December, 2007

Dear clients and friends,

In a scene from the classic horror film “The Shining,” set in a secluded mountain hotel which is closed for the winter, a ghost bartender asks Jack Nicholson’s increasingly insane caretaker for his drink order. Nicholson, seeking a tonic for his troubles, responds:

***Hair of the dog that bit me.***

That phrase, of course, refers to a folk remedy for a hangover, based on the waggish idea that the best thing for what ails you is more of what ails you. (The origin of the phrase is literal, and comes from an erroneous medieval treatment for dog bite that involved cutting off some of the dog’s fur and placing it in the open wound to promote healing.) Of course, most people understand that consuming more alcohol to clear up the effects of overimbibing isn’t very effective, and will likely have quite the opposite effect.

We recently wrote to you about the dangers of leverage, and its excessive use in everything from subprime home loans to hedge funds. Recent stock market volatility is directly related to the **deleveraging** – or *sobering up*, if you will – of the global financial system. Today’s stock market hangover is the result of a binge-drinking liquidity party that began a decade ago, as the Federal Reserve kept interest rates too low for too long and helped foment the technology bubble of the 1990s. When the punch bowl went dry, the Fed aggressively lowered rates again and set the stage for the housing bubble of the early 2000s.

The market has been calling for the Fed to help out yet again with a fresh round of rate cuts, and Chief Bartender Ben Bernanke has acquiesced – albeit begrudgingly, with smaller serving sizes than his predecessor had used. His actions suggest **the Fed will add liquidity where needed**, but that he fully expects the market to get sober over time. That’s rough news for the market in the near term as it undergoes easy-credit detoxification, but in our opinion it will be better and healthier for the long run.

In the meantime, relative to the equity market indexes we are underweight the financial and consumer discretionary sectors, those most affected by the current malaise. Also, as you may have noted from recent transaction notices, we have changed the money market funds in which we hold cash balances at our primary brokerage firm. Our review of the money funds uncovered a number of questionable holdings, and recent action at other brokers suggests the potential problems with money market funds are widespread. Most of our “cash” holdings are now in Treasury funds, which should be the lowest risk funds available. We intend this move to be temporary, and will re-evaluate the alternatives as the credit crunch is resolved and the markets recover from the current crises of liquidity and confidence.

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This holiday season FBB Capital Partners will make two gifts in honor of the troops in Iraq and Afghanistan. We will be making a donation to the PFC Vincent M. Frassetto, USMC Memorial Fund for a scholarship to a Marine in Vince’s division. Vince was one of Col. Pete Keating’s Marines (our Maggi’s husband) and was killed in Iraq. The second will be a gift to the Semper Fi Fund which helps the families of injured troops meet the hospital planes and stay with their loved ones as they recover. The Iraq war has resulted in over 500 amputations since its inception with 2.2 percent of wounded soldiers having lost one or more limbs.

We count our blessings daily, and we wish all of you a happy and healthy New Year.

Sincerely yours,

Mitch Schlesinger  
Managing Director