

INVESTMENT COMMITTEE PERSPECTIVE



TO SAY THE LEAST, the first quarter of 2008 has been challenging for investors. The best way to endure these environments is to know they will come and that you will survive. To borrow a quote from Royce Funds, “Down markets...are as inevitable as they are unpleasant. They are also finite.”

It is our strong belief that market participants are overestimating the likelihood of a severe, prolonged global recession. Yes, previous credit excesses have wrought

serious problems, but we don't feel this warrants the current gloomy perspective of the *global* economy. Investors are assuming that the problems in the U.S. housing and mortgage sector will trigger a deep consumer-led U.S. recession, leading to a significant slowdown in the global demand for everything. Based on this argument, they have sold equity securities across the board. (As an aside, it is interesting to note that commodity prices have remained firm.) We believe there is a potentially profitable disconnect here given the continued economic progress of many emerging economies around the world and the accumulating prosperity of their populations. (For more on this discussion, see *Marketpoint* on pages 2 and 3.)

Our Investment Committee continues to look ahead and sees opportunities that appear very promising. Several sectors of the investment marketplace look attractively oversold in our eyes (for example, base metals companies, even though metal prices have stayed firm), so we are working to capture what we see as compelling values today in anticipation of a profitable long-term experience in the years to come.

It is impossible to predict short-term market outcomes with any certainty. What *is* certain, however, is that the long-term opportunity set is improving. It is in this type of difficult environment that disciplined investment managers can differentiate themselves—by staying focused and identifying opportunities that can lead to much higher portfolio values over time. We welcome this challenge as we are confident that our rigorous investment approach and experienced team is equal to the task. Our goal is to craft portfolios of high quality companies that create real products of value for their customers and whose share prices are positioned to excel once normalcy returns to the marketplace. ■

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10th Anniversary



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ASSET MANAGEMENT COMPANY

MARKET POINT

AT THE MOMENT, the U.S. Federal Reserve is locked in a death-grip with the dollar. On one hand, in order to save the banking industry and to get the yield curve back towards its normal, healthy upward slope (i.e., long-term rates higher than short-term rates), the Fed has had to reduce short-rates well below the *official* rate of inflation. On the other hand (and as a result of policy decisions and loose credit), the dollar has declined precipitously versus all other major currencies as well as gold, meaning that the U.S. has lost a significant share of both its global wealth and GDP in a short period of time.

“Recession” is on the lips of many TV commentators and financial markets have been buffeted in a disquieting fashion since last August. The stock market has experienced many trading days this year where the margin clerks took over and forced mass sales of even the highest quality investments—which can rattle even the most seasoned of investment managers.

Just six months ago it was easy to look out into the world and know that the spigot of cheap, easy credit would eventually be turned off and wreak havoc upon speculative markets. Those days are now upon us.

In past debt crises, the defaulting debtors were big corporate borrowers, commercial real estate developers, kleptomaniacal Third World governments, or hedge funds managed by Nobel Prize-winning economists. This time around the defaulters are average citizens who thought they were being prudent by investing their hard-earned savings in the only asset class that has never had a down year since World War II: Real Estate.

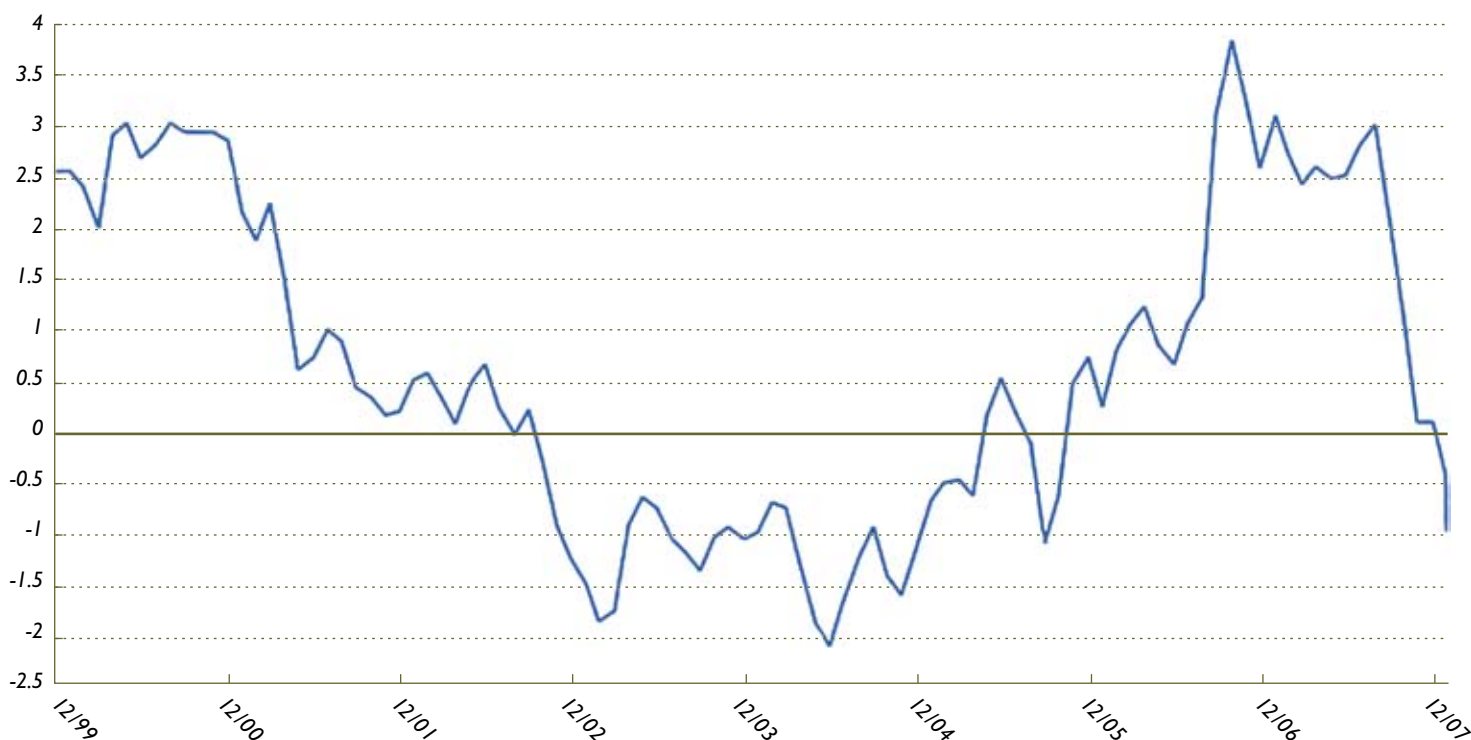
This crisis is particularly disgraceful because it shouldn't have happened. It was caused by a handful of elite bankers who authorized and financed a large-scale debauchery of the U.S. home mortgage market. As a result, their *former* employers' balance sheets are now sullied by masses of rapidly rotting receivables.

(It would be unfair to suggest they only made bad mortgage loans. These same bankers underwrote other investments as well, including the loans that financed this decade's other mania: the Private Equity Leveraged Buyout Craze!)

It is said that “the evil that men do lives after them.” The blight of subprimes, SIVs, CDOs and Cov-lites continues to weaken the international financial system. The abundance

U.S. REAL INTEREST RATES: 2000 – 2008

Source: Bloomberg. Real rates = U.S. Fed Funds Rate minus CPI.





of this toxic debt has handcuffed the Fed and (to a lesser extent) other central banks, keeping them from their basic jobs of fighting inflation and letting the capitalist system work by allowing bad bettors to lose their shirts. Ben Bernanke and his colleagues have been forced to revive the Greenspan Put, thereby sending gold to all-time highs and laying the seeds for a major uptick in *official* inflation statistics.

But all is not lost for investors.

Despite all the wailing and gnashing of teeth over whether the U.S. is in recession, the global economy continues to experience a renaissance of sorts. Disposable incomes are rising in many emerging economies and their standards of living continue to improve. The hundreds of millions of new entrants into the global middle class will serve as the price setters for most commodities—a role previously filled by North Americans and Europeans throughout the last century. As an illustration, U.S. housing starts *used to be* a primary determinant of copper prices, but if that relationship still existed, copper would be offered for \$1 per pound instead of \$4. Times are surely changing!

The economic potential of these developing economies warrants a reappraisal of risks between advanced and emerging markets. As of this writing, yields on emerging market bonds are currently below lower-quality U.S. corporate issues.¹ This implies that—in contrast to previous decades—investors believe there is now more risk of default in the U.S. high yield market relative to its global counterparts. This relationship also suggests that liquidity is still available—just not so much in the U.S.

The recent seizing-up of the credit markets will serve to bring sanity back to lending standards. This is a good thing. Liquidity will return and banks will lend again, but under more realistic terms. Also, despite its weaknesses, today's market environment provides many attractive opportunities for patient investors. In our view, this is one of those times when, if you are properly positioned, resisting the urge to sell while others panic will reward you handsomely in the long run. ■

¹Source: M&G Global

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OBERMEYER TEAM

INVESTMENT COMMITTEE

(Listed alphabetically, except for Chair)

Wally Obermeyer, President

John Goltermann, CFA, CPA
Senior Vice President,
Portfolio Management, CCO

Roger Hennefeld, CFA
Vice President,
Trading and Portfolio Management

Laurence J. Kandel, Vice President
Denver Region

Ali Flynn Phillips, Vice President
Investments and Client Advisory

PROFESSIONAL STAFF

(Listed alphabetically)

Chris Goodendorf
Finance and Business Manager

Sallie Klein
Account and Compliance Manager

Danby Seldin
Executive Assistant and Client Service



OBERMEYER NEWS

LET'S CELEBRATE!

This quarter marks the ten-year anniversary of Obermeyer Asset Management Company. A big thank-you to our clients—we couldn't have succeeded without your support. Your continued business and referrals have enabled us to grow from an initial \$55 million to our current \$700 million in assets under management. We look forward to celebrating more milestones with you over the decades to come.

New office, new team member!

It seems to be our tradition to begin new endeavors in the first few months of the year. Accordingly, we are pleased to announce the opening of a new office in Denver to serve our expanding client base. While we can not yet disclose the new address as the final touches on the lease are being made, we plan to open our new doors sometime this spring.

Joining our team is Laurence J. Kandel as Vice President, Denver Region. Lonny will manage client relationships and will spearhead our firm's marketing and business initiatives in the Denver and Front Range regions. Lonny has over seventeen years of experience in asset management. He spent the majority of his career at Janus Capital Group as a Vice President in the Institutional Sales division managing Janus' largest corporate relationships. Prior to joining Obermeyer, Lonny was a Managing Director at Bear Stearns Asset Management.

Committed As Always

Even with a new office and a larger team, our mission remains the same—to provide intelligent, profitable investment management to our clients. Our clients are the focus of our business, and our growth has been geared to ensure you receive exceptional service and personal attention. As always, we welcome comments and suggestions on how we can further enhance our services. ■

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Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be suitable for an existing or prospective client's investment portfolio. Therefore, no existing or prospective client should assume that future performance of any specific investment or investment strategy (including the investments or investment strategies recommended herein) will be profitable or equal any historical performance levels.

Certain portions of our newsletter may contain discussions of recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussions may no longer be reflective of current positions or recommendations. Information included herein should not be construed as the receipt of, or a substitute for, personalized individual advice. A copy of our current written disclosure statement discussing our business operations, services, and fees is available upon written request.

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