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# Steeplechase Investments

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**H**appy New Year. The world did not come apart at the seams. Although me thinks if we give GW and his marauders any more time, they could probably be successful causing more havoc not only at home but overseas. The history books are not going to speak too kindly of this administration and all of their hijinks. Of course, Voltaire once said, "History is a chronicle of agreed upon lies". So, who knows?

This past 6 years has made Bill Clinton look awfully good. And could anybody possibly have foreseen this?

In October of 2005, I opined that the market would not do anything until real estate went into the tank. At that time, I said we were in the middle of a bubble.

Well, real estate has surely imploded. The soothsayers are now saying that it has had a correction and has bottomed and there should be smooth sailing come the 1st or 2nd quarter of 2007 or at the very latest 1st quarter of 2008. Now, the housing stocks do look like they might have found a bottom having fallen around 40%. But bottoms don't act quite that orderly. It looks like more of a "dead cat bounce" to me. You have all read the newspapers, magazines, and the internet blogs about the demise of real estate. Consequently, I need not revisit all the horror stories. Suffice it to say, that I am in the camp that believes property values will stay stagnant at best, or correct ("drop like a rock") at the worst.

Coinciding with the bust in real estate has been the rebirth of investing in equities. You remember that pastime, don't you? Yes, the stock market is on pretty firm footing for NOW. We have not seen the turbulence and volatility that accompany a change in trend. So, we

are still in a bull market. There is still a nice, comfy "wall of worry" which has to exist in order for the market to continue on its upward ascent. And there does not look to be anything in the near term that is going to transform the average investor from fear and anxiety into any kind of giddiness that would be very worrisome to our pocketbooks. Frankly, the average investor is probably stuck in real estate and can't get out of his position or won't get out until the friendly banks and finance companies "help him" get out! And you remember what the definition of a banker is "they lend you an umbrella when it is sunny out but want it back as soon as it starts raining". Right now it's a pretty steady drizzle! Returning to signs of tops, Wall Street bonuses are ridiculously high and the private equity deals are all the rage (a lot like the LBO's of yesteryear) LBO=Leverage buyout. So, I am a bit concerned about these events. Speaking of private equity deals, we profited by just such an occurrence. We bought Freescale Semiconductor at the beginning of 2006, which was spun off by Motorola, for the price of \$25.92. In late December it was taken private for \$40.00 in cash, a 54% profit. And about the same time, Verizon spun off Idearc Inc. (symbol IAR) 5 shares for every hundred shares owned. It was a decent year in the market for us. The average account made around 13%, about the same as the S&P 500, with about half the risk. We were invested about half equities, half bonds. When any index, such as the Dow, the NASDAQ, or the S&P 500 earns a certain percentage, it means to arrive at such a return, one would naturally be 100% invested in that index. The 1st quarter was up nicely, the 2nd quarter the market went into a correction, the

3rd quarter rebounded and then some, and the 4th quarter kind of glided home. We had 17 realized gains and 10 realized losses. Big was somewhat beautiful in the market this year. AT&T was up 44.56%, Raytheon 57.94%, McDonalds 33.52%, Merrill Lynch 30.68%, Disney 23.45%, JP Morgan 27.44%, and Caterpillar 33.11%. In the mideap arena, Bucyrus was up 75.5%, Cognizant was up 69.1%, NVIDIA 42.36%. This is just to name a few of our holdings and how they did. The market has weathered a lot of uncertainty this past 12 months. The Iraq war, the high price of oil, 17 interest rate increases, the lack of any leadership in Washington, the housing glut were a few of the more overt events. Yet, it still climbed that wonderful "wall of worry" we talked about earlier. I do not sense any complacency out there; I do not sense any greed YET. The most recent Bull Run is getting mature, that is for certain. But I believe it still has some legs to it.

I have included the newsletter of October 2005 with this mailing. Please read it again and see what my comments were at that time. It seems very prescient to what is occurring now, not only in the market but in the economy.

I want to thank each and every one of you that sent cards and flowers during my stay in the hospital and the rehab after. It was truly gratifying to Mary and me. I found out first hand what it means when they say "if you don't have your health, you don't have anything." But that was then and this is now. I expect a healthy new year, physically and financially for all of us.

Ed

*There is only one side of the market and it is not the bull side nor the bear side*