Mitchell O. Goldberg, AAMS
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To my investors: January 5, 2011

Thank you for your continued vote of confidence.

The key lesson to be learned, or should we say reinforced, from 2010 is that it paid big time to be patient. The stunning recoveries in the economic stats that I follow have caught the sellers off guard. ISM (Institute of Supply Management) figures for manufacturing and services, Durable Goods Orders, automobile sales, mining equipment sales, industrial metals demand, and even private sector employment gains are now, in my opinion, indisputable evidence that the U.S. economy is in recovery. I've been saying that for some time, but doubters' minds take a long time to change. I believe the most important factor that contributed to the recovery in both the stock market and the economy is that the U.S. banking system emerged in better shape and more quickly than pundits could've imagined. The Fed gets high praise, in my opinion, for taking such an aggressive stance on Zero percent interest rates, which aided banks' balance sheets with extraordinary NIM's (net interest margins). Kudos to the Fed and Treasury for the wildly successful TARP (Troubled Asset Relief Program). Warren Buffet wrote what he described as a "great big thank you letter" to both agencies in a full page ad in the New York Times, heaping praise about the program. Of course, his huge positions in bank stocks were aided tremendously. The TARP program not only breathed oxygen into the blood stream of the banking system, but is estimated by The Congressional Budget Office to cost a measly 25 Billion Dollars. But with stakes in GM and other investments, it may yet prove to be profitable. Either way, the benefit to the economy and investors really is in the Trillions.

To be sure, the stock market has recovered in better form than the economy. High unemployment, job insecurity, and a bulgy foreclosure pipeline stand in the way of prosperity for all. For this reason, many economists have said that you cannot have a rising stock market with such persistent economic problems weighing down GDP. My response to them is simply that <u>companies are valued based on earnings and not on how many employees they have</u>. And earnings have been ever so strong!

But we can't blame anyone for walking away from the table. In addition to the aforementioned issues; Euro debt concerns, double dip fear, huge federal deficit, state budget gaps, commodities inflation…we mustn't think for one second that these risks have gone away. They simply move forward and backward between the front and back of investors' collective minds. 2010 was a roller coaster ride for all asset classes, but for patient investors, the result was something they could cheer about, rising wealth.

The theme for 2010 is one I expect to see more of in 2011. Big companies that can cut costs in developed markets (Western Europe, U.S., and Japan) and reinvest in emerging markets will continue to post strong earnings growth.

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As I began to write this (1/5/11), the outsourcing firm Challenger Gray & Christmas reported that firing plans by corporations was at their lowest since 1997…remember those days of sub 5% unemployment rate? The same day, ADP reported a whopping 270,000 private sector jobs were created in the last month. Just by the auto and retail industries halting their respective hemorrhaging of jobs in '09 and hiring in '10, that was enough to push the nation into hiring mode. Again, we pay attention to facts and we tune out background noise. Why don't people feel like hiring is improving? My sense is that companies are reluctant to broadcast hiring because they don't want investors to sell their stocks due to concerns of rising costs. So, we'll continue to pay attention to what they do and not what they say (or don't say) when it comes to hiring.

In writing my finishing touch for this letter, 1/7/2011, the Labor Department reported that103,000 jobs were created in December of '10. It was a below expectations number, but private hiring created 113,000 jobs versus the Government shedding 10,000 jobs. My take is that private sector hiring is coming back and the economy is strong enough so that the pull back in Government hiring won't take us off the recovery track.

Conservative investors did best heading into the financial crisis that began the very end of 07 and recovered the fastest. Coming out of the crisis, beginning in March of 2009, risk oriented clients began a recovery that was akin to the upward slope of the parabolic stock market move of the last 22 months. Having said that, my clients' portfolios are diversified (*Diversification does not guarantee against market losses. It is a method used to manage investment risk)*; some weighted more heavily toward fixed income and some more into equities. This is the reason we held up better than the overall major stock averages and why we were all able to recover so well. I've said to many of you that if you just looked at your statement and not what was on TV everyday during the peak of the financial crisis, you mightn't have even noticed we were in crisis.

Another investible theme I expect for 2011 is the recycling of former growth stocks. Busted growth stocks often go through long periods of decline/flat line, in which they become value stocks. My definition of a value stock is when the value stock in mind has potential to become a growth stock again. When that happens, that is when I want to take positions in them. Examples are a few well known resurgent tech stocks…dead money for 10 years after the NASDAQ bubble popped in the year 2000; some are now reemerging as growth stocks once again. I have positions in clients' portfolios in a few old line tech stocks. I like the play on the reemergence of a few large pharma and industrial companies as well. I especially like the reemergence of bank stocks. I want to round out positions in less followed but high quality names…ones that are ripe to be acquired by larger companies.

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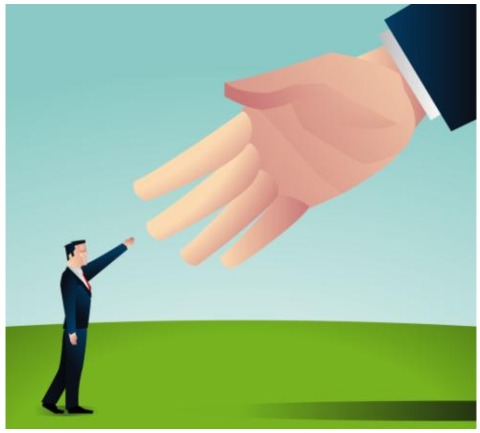

Late in 2009, in an article I wrote, “Paranoia”; I put forth my top 10 predictions for 2010. Before I rehash (and kick myself a little) I want to reiterate that I believe that anyone in financial services who manages money must be willing to put him or herself out there and make their thoughts known. Fence straddlers have no place in the securities advice industry, in my opinion. One is allowed to be wrong; it is a necessary part of investing. The key thing is to own up to one’s mistakes and adjust quickly and accordingly.

Here they are with comments:

1. The **Dollar** will stay weak through the first quarter of 2010, at which I would expect a change in direction. This should coincide when the Fed potentially raises rates by the end of the March ’10 quarter. (Right mostly…the Dollar strengthened into year end ’10. While the Fed kept short term rates at 0, real bond market rates skyrocketed year end ’10)
2. I expect the **large global companies** to continue to outperform other sectors of the markets. (Right)
3. **Institutional money managers** will continue to buy earnings stories regardless of the macro economic picture. (Right)
4. Expect the **economy** to continue to surprise on the upside. (Right)
5. Expect the **tech sector** to be a leader throughout 2010…NASDAQ Composite could potentially benefit greatly. (Right…NASDAQ was best performer of big 3 indexes)
6. UBS registered representatives will be calling **JP Morgan** their new employer (or at least someone other than UBS). (Wrong…but not really that relevant. I believe JPM is in Global Conqueror mode, so keep this one on your radar)
7. I expect a **political revival for Republicans** in the 2010 mid-term elections. (Right…keep in mind I said this a full year before the Congressional election)
8. The major averages should show positive performance for the full year 2010. (Right…this was the most important one!)
9. **The budget deficit** won’t be as enormous as investors expect due to the revival in corporate earnings…earnings are taxable, remember? Tax receipts will be higher than many expect. It’ll still be enormous! (Wrong mostly…QE2 at year end ’10 didn’t help too much for this one. I am putting this one on my list for 2011)

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10. **Inflation will continue to remain low.** This is because “wage push inflation” is the biggest contributor to inflation. With an over supply of available workers, wages should remain low for years to come…bad for workers but good for corporate productivity gains and earnings. Since companies are valued on the earnings they generate, this should potentially be good for investors…refer to # 8. (Right)

Here they are for 2011:

1. The major averages will be higher for 2011. The majors lost a decade and are just back to even with the year 2000…oh yeah…except for the NASDAQ! I will use several large capitalization old line tech names as my proxy when I compare the tech laden index to 10 years ago.
2. The best place to be will continue from last year…large U.S based global companies.
3. Tech is, in my opinion, a real “buster outer”. Look for the old line techs to go higher.
4. A metaphorical food fight will break out within the halls of the Federal Reserve as Fed Head Bernanke focuses on wage push inflation and other voting members focus on food and energy inflation. Bernanke will move toward conciliator with the new voting members who are inflation hawks. This is the year that the Fed starts to hike the Fed Funds rate.
5. Long term Treasury Securities go down and rates go up in ’11.
6. Sonic boom…from companies colliding in the form of hyper mergers and acquisitions activity. With over a Trillion Dollars on corporate balance sheets, deals should close quickly too as deals will likely involve cash instead of issuing stock which is dilutive to per share earnings.
7. Stock mutual funds will be the favorite of retail investors as opposed to bond funds.
8. The new investors that will replace retail investors will be the companies mentioned in #6. So, when pundits say there isn’t enough retail money going into stock mutual funds, don’t worry because it won’t matter.
9. The Dollar strength that began in late ’10 should continue…not in a straight line! But I do think the Dollar will reassert itself as the global currency of choice because of desire and not by defacto.
10. Both big and small banks alike will raise their dividends...yeah I know, that one is an easy call…but anyone who purchased JPM for that reason knows I said it last year!
11. One more as a follow up…increased tax receipts from increased economic activity and employment will help bring down the deficit, which will still remain tremendous…I said it last year and I will renew this prediction for this year.

Wrap up time:

This is directly from an article I wrote and distributed November 19, 2008, just after Senator Obama won the ’08 Presidential election.

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Politics: This is not meant to be political. This is meant to be an objective observation of a pattern that I'd like to point out. It is also the topic of conversation of the day, so it is only reasonable that it should be addressed.

Presidential cycles and economic cycles aren't always congruent and are often only correlated – meaning we can't always easily assign cause and effect to Executive Branch policies and economic conditions. **But it would seem that investors have done well to invest for the long term when new Presidents are elected during recessions.**

This has to do with the Fed and Treasury actions that took place during the time of the outgoing Administrations. Presidents who seem to have presided over economically good times were Presidents Reagan (following Carter/troubled economy) and Clinton (following H.W. Bush/spent most of his term in office during a recession and real estate bubble burst). Presidents who seem to have presided over economically tough times were Presidents H.W. Bush (following Reagan/strong economy), W. Bush (following Clinton/strong economy).

How about the incoming President Elect Obama? With massive economic stimulus, a weak economy, a stock market down by almost 50% from peak levels, one can make the very simple case that this is a good time for him to become President. The heavy lifting of Fed and Treasury policy has already been initiated. Since history is a repeating mechanism, one could argue that history is squarely on the side of investors. In fact, today's environment is so strikingly similar to that of 1992, from cabinet posts to a severe real estate glut; one can argue that history is not in the making to the extent that we may think. It is actually just repeating itself. To go from correlation to actual cause and effect, the negative economic statistics (rising unemployment, declining earnings, and even bank failures) at the ends of the Presidency's during recessions, as it turns out, are lagging indicators. This may bode well for investors, both blue and red.

Fast forward to today, it is apparent that this cycle has continued right on schedule.

Following are articles and quotes from '10.

Wishing you health and happiness in 2011,

Mitch

Thanks for reading…please show this to someone you feel may benefit form my services. Your referrals are greatly appreciated.

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