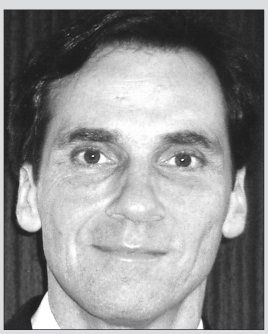
THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

International Value Investment Strategies

TINA LARSSON is the Chief Investment Officer of Pendo LLC, which she co-founded in February of 2007. Ms. Larsson began in 1996 as a research analyst at Horizon Asset Management, Inc. (HAM), an independent portfolio manager/RIA and provider of proprietary research. She has been published in multiple subscription-based investment research products, including The Spin-Off Report and The Contrarian Research Report. During her tenure as Portfolio Manager and growth into the acting COO (2002-2007), the group grew from approximately $75MM in AUM to approximately $12 billion AUM. In November of 2005, she was named President of Horizon Global Advisers, LLC (an affiliate of HAM and an RIA with $250 million AUM), a position she retained through 2008. Ms. Larsson has a BBA and MBA, both from Pace University.



MARK J. FOLEY is the President of, and a Portfolio Manager with, Pendo LLC, which he co-founded in February of 2007. Mr. Foley leads the economic research, and oversees the investment of strategies while managing associated risks, and supervises cash management activities while executing strategies to support the company's expansion and achievement of financial goals. Mr. Foley has extensive experience as a consultant specializing in financial institutions, and as such has worked with many of the industry's largest banks and wire houses as a Financial Management Consultant (1991-2007). Mr. Foley began his career on Wall Street with Shearson Lehman Hutton in 1988. Mr. Foley has a BS from University of New Hampshire and an MBA from Pace University.

SECTOR – GENERAL INVESTING

TWST: Would you give us an overview of Pendo and your value investment philosophy?

Ms. Larsson: Mark Foley and I co-founded Pendo in February of 2007 with the intention of serving an area in the investment community that we felt was vastly underserved. In acknowledgement of our value style of investing, we chose the Latin word for value, "Pendo." On May 31, 2007, just three years ago, we launched our International Value portfolio. This is a non-US investment vehicle based on Pendo's in-house bottom-up fundamental research. Mark Foley and I co-manage the strategy, with Mark primarily focusing on the macro research and overall economics, while I focus on the bottom-up fundamental analysis of companies.

Our value investment philosophy is based on investing in companies that have sustainable high return on equity, high barriers to entry, often businesses that are necessary, and possess a superior balance sheet. We buy only when the price is right, below what we believe to be their respective intrinsic value. This generally only occurs when companies are misunderstood, underfollowed, out of favor, or the victim of distressed sellers. This is simply a modern-day adherence to good old-fashioned Graham and Dodd methods.

With the exception of our mandate to not invest in the United States, we are not limited by the regular investment constraints such as geography, market capitalization, or sector. We try to diversify away from the United States market and currency as much as possible. Most of our companies have little to no business dealings with the United States, and in fact do the majority of their business in their own country in their own currency, and these days we're seeing exactly how important that can be. Most international managers invest in multinational companies whose earnings are quite dependent on the United States and Europe.

TWST: Tell us about your value investment philosophy and what you look for specifically in international companies.

Mr. Foley: Another thing that separates us from most other international managers is that we invest in ADRs as well ordinaries; most firms only invest in ADRs. We find that investing in ordinaries provides us with a much larger universe of undervalued companies. Managers that only invest in ADRs are to a degree competing with country and index ETFs, and as they chase the same limited number of ADRs, valuations increase thereby reducing margin of safety and increasing risk. We'd much rather own an ordinary of a company that has a reasonable valuation, compounds earnings internally at a nice rate, and its stock price moves over time with the rate of the internal growth of earnings.

Many people in the past couple of years were saying that the United States will do well and continue to grow because they have so many multinational companies that get the majority of their income from Europe. Well, say hello to our Greek cousin Catastrophes Pendopoulis and he would tell you that while that may have made sense to some in theory, it will probably be quite a drag going forward. We are really trying to offer people complete diversification away from the US and US dominated markets with a truly international product. We are much less bullish on US growth going forward than many of our contemporaries, as we've outlined in our commentaries, particularly our Q4 2009 commentary, available on our website, PendoLLC.com.

Highlights

Tina Larsson and Mark Foley are international value investors who identify companies that have sustainable high return on equity, high barriers to entry, businesses that are necessary and possess a superior balance sheet. They buy only when the price is right, below what they believe to be their respective intrinsic value. They try to diversify away from the US market and currency as much as possible. Most of the companies have little to no business dealings with the US. They invest in both ADRs and in ordinaries, which provides them with a larger universe of undervalued companies. They are much less bullish on US growth going forward than many money managers and they offer investors complete diversification away from US companies with a truly international product. They invest in all cap, all sector, all regions. They are about 50/50 emerging and developed countries. They believe that in the developing countries there is more of a secular growth story and they look for the value that can be found within.

Companies include: Canadian Natural Resources (CNQ); Penn West Energy (PWE); PetroChina (PTR); Shandong Luoxin; Tsingtao Brewery; Chow Sang Sang; TeleNorte Leste (TNE); Anglo-American (AAUKY); Turkcell (TKC).

Mr. Foley: We are much more optimistic on China than many people. At least those many people that tend to get the headlines. People who do tend to get the headlines are generally the ones who make the most noise with the direst predictions. At times, we definitely think that there can and will be problems in China and in any other developing economy or developed economy for that matter. We just feel that there is a secular growth story there that could lead for the next 20, 30, 50 years and it's something that we feel you risk avoiding at your own peril.

People say there is a huge bubble in China, and that it's due for a correction. While that's certainly possible, the market is down 50% from their highs of two years ago and 20% from their more recent high. If you take the stand that China is going to crash, we could argue that they already have crashed and corrected. There is so much room for growth and not just the expanding economy, but the urbanization of the population as well. What may be a little bubbly these days is commercial real estate. People say they are building cities that are empty and that's true to a point. The difference is that they actually have the money to spend, number one, and number two, they have been doing this successfully since the 1990s. They have built cities in the past that have been vacant and then five years later, they were fully occupied.

Many of the critics of the commercial real estate situation appear to not have considered all of the facts surrounding the situation. Due to the tax structure, municipalities in China get the bulk of their revenue from businesses rather than residential real estate. The developer gets the bulk of his profit from the fatter margins on residential sales. This is where the dance begins. The developer must work out how much commercial real estate he is willing to "waste" in a sacrifice to be off-set by his expected profit from selling housing. When the number is reached, the permit is granted. Much of the commercial real estate is completely dismissed by the developer as it relates to his sales plan.

Foley: We invest in ADRs as well ordinaries; most firms only invest in ADRs. We find that investing in ordinaries provides us with a much larger universe of undervalued companies. Managers that only invest in ADRs are to a degree competing with country and index ETFs, and as they chase the same limited number of ADRs, valuations increase thereby reducing margin of safety and increasing risk.

TWST: Mark, you do the macro outlook for value investing internationally. Could you bring us up to date on what the environment is with all the problems in the eurozone and China's economy overheating and so on.

China is urbanizing at the equivalent of the State of California every year, and it's just part of a huge shift in the population from suburban and rural living, and from a farming economy to a more urban and industrialized economy.

Foley: People say there is a huge bubble in China, and that it's due for a correction. While that's certainly possible, the market is down 50% from their highs of two years ago and 20% from their more recent high. If you take the stand that China is going to crash, we could argue that they already have crashed and corrected. There is so much room for growth and not just the expanding economy, but the urbanization of the population as well.

They also have just such a huge opportunity and room for growth in both their income and GDP. When people say "How can the Chinese economy possibly continue to grow at this high rate?", I tell them that we actually had that rate of growth in certain parts of the United States. After WW II, the rate of growth in the south and southwest was much higher than in the rest of the country and that lasted for decades. We certainly feel that China can sustain a few decades of a relatively high growth rates. After all, they had a couple of bad centuries, so it's not unthinkable that they can prosper going forward. In fact until the last 150 years, for centuries they actually led the world in trade and GDP. Until the mid-1800s, they represented about a third of world GDP. They did not falter until their internal decision to close off their society to the West, which proved disastrous, which they reversed in 1978. They began the transformation from an internal communist-collectivist society when Deng Xiaoping declared "It is glorious to be rich," and they changed their attitude and behavior virtually overnight.

Since 1978, China's growth rate has been about 9.4% annually, far surpassing the United States for the same time period, as well as during our own "Great Leap Forward" during the

Larsson: We own two Canadian energy companies, Canadian Natural Resources and Penn West Energy. We believe that these companies are very well positioned to do well in an environment with a growing energy demand. Canadian Natural Resources recently completed a major development that doubled its oil reserves, and is now paying down debt that it took on as part of the development.

Industrial Revolution. That's not just a short-term one-off; it's something we feel can continue going forward. We think that the long term prospects in China are certainly be much better than here not because we are bad, but just because we relatively are a fully developed economy. China is also encouraging capitalism and becoming more open, with the State deliberately ceding control to a more capitalistic business structure, even as the US shifts toward the State.

In response to people worried about investing in China for the possibility that it's in a bubble, we say that they are likely to be the growth story over the next 100 years. It would be akin to someone looking at the United States 100-150 years ago and pinpointing certain recessions and depressions and saying that they didn't want to invest in the United States because "it's too risky; we don't know when those bubbles are going to burst." We think that most would agree that if you didn't invest in the U.S. in the last 100-150 years, instead choosing the safety of Western Europe in general and the British Empire in particular, you would have missed an amazing investment opportunity, the most historical growth story to date. We feel that China is presenting an even greater opportunity, partly because they saw what other countries did right and wrong, and will be able to set a blue print and develop at a much faster rate, bringing 1.3 billion consumers along with them.

TWST: Where does that leave you as far as looking at Chinese companies?

Mr. Foley: We do not invest in companies that are export dependent. We look at companies that are located in China and do all or most of their business in China. This eliminates any fx disadvantages and gives us an extra bonus should, or when, the government let the RMB float. We also focus on businesses that are going to be necessary in the long-term. They're building roadways, airports, electric power grids, natural gas pipelines; these are long-term investments that are at very low risk of becoming obsolete. Following the theme that they are urbanizing at a very fast rate, this creates a need for energy, roadways, housing, and communications. The massive shift from agricultural/rural to industrial/urban, and a more educated populace, also creates the demand for more energy, better communication, better healthcare, better foodstuff, vacations, premium brand or luxury products.

TWST: What type of companies are you finding for your value portfolio?

Ms. Larsson: As Mark mentioned, with a larger portion of the world population being more developed, hard commodities in many forms will be needed. There are few different areas in which we invest in commodities among them oil and gas, metals, gold and silver, and agriculture. We own two Canadian energy companies, **Canadian Natural Resources** (CNQ) and **Penn West Energy** (PWE). We believe that these companies are very well positioned to do well in an environment with a growing energy demand. **Canadian Natural Resources** recently completed a major development that doubled its oil reserves, and is now paying down debt that it took on as part of the development. The company is well-financed, well-run, and now provides huge amounts of cash flow on a much larger reserve base. **Penn West Energy** was set up as an energy trust paying out income to unit holders; it currently pays a 9% dividend yield. This structure will end in 2011 and **Penn West** is on schedule to convert into an exploration and production company. The company has now created a joint venture with China Investment Corporation ("CIC") to develop some of their bitumen assets in northern Alberta.

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1-Year Daily Chart of Penn West Energy

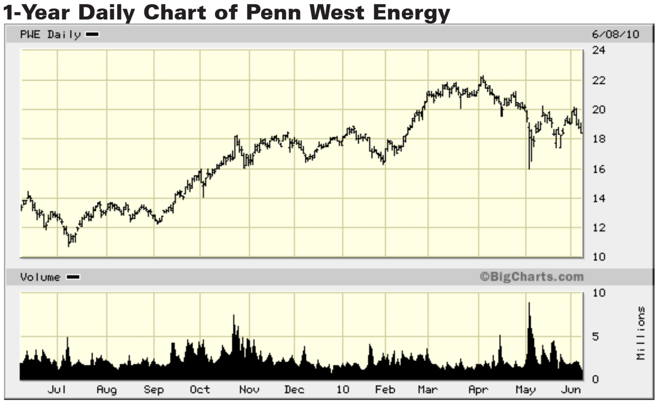

Chart provided by www.BigCharts.com

CIC is the Chinese government's international investment arm that is investing in various natural resources that it needs for its continued growth. We think that the joint venture will be very beneficial to **Penn West** and a huge start in developing some of its 7 million acre of undeveloped land in western Canada. We also own **PetroChina** (PTR), China's largest integrated energy company with operations in oil and gas exploration, production, refinery, and transmission. This company is majority-owned by the state, which is a common theme among our investments. We feel that we as investors prefer to be "partners" with the government and invest with them.

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One of the areas that we find very interesting is the Chinese pharmaceutical industry. The Chinese government is in the early stages of developing a healthcare system that will provide fair and affordable healthcare to its entire population. Many of the multinational pharmaceutical companies such as **Glaxosmithkline** (GSK), **Sanofi-Aventis** (SNY), and **Pfizer** (PFE) have presence in China. However, their drugs are too expensive and the Chinese Government is favoring its own pharmaceutical companies over foreign by means of limiting wholesale distribution and joint venture ownership. Many of the drugs needed are simple medicines such as antibiotics, penicillin, and painkillers.

Our most recent pharmaceutical investment that we feel will benefit from this trend is **Shandong Luoxin** (8058. HKG). This company researches and develops, manufactures and markets primarily antibiotics and penicillin. It is majority-owned by the local government of Shangdong and has a sales and marketing network covering 27 provinces in the PRC. Its drugs represent approximately 10% of the medicines in the latest State Administrative Basic Medicine Catalogue. The company's sales has grown at 50%, it has a 35% profit margin, a net cash position on its balance sheet, and trades at 18x trailing earnings. This is a very attractive entry point that we believe will prove very rewarding.

1-Year Daily Chart of PetroChina

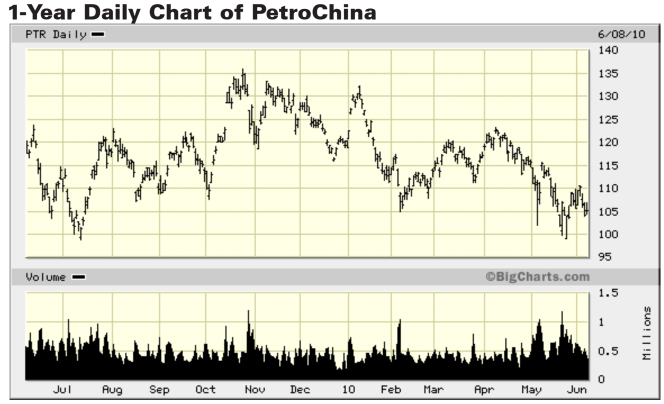
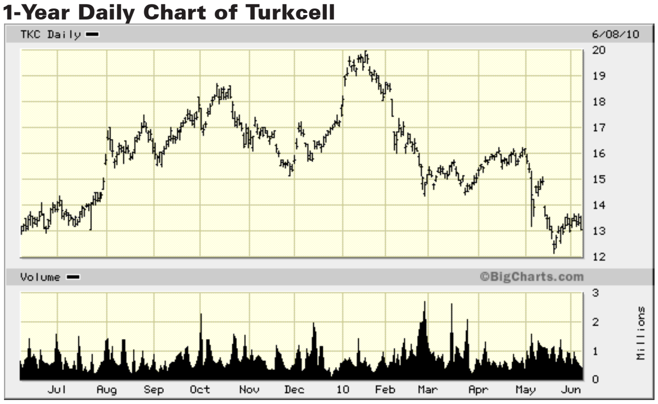


Chart provided by www.BigCharts.com

We manage our risk in China by staying away from companies that are export dependent. The largest export-dependent company among our investments is **Tsingtao Brewery** (0168. HKG), whose revenue from worldwide exports is a whopping 5%. Tsingtao is a very interesting company in that it's the consolidator in the very fragmented Chinese brewery industry, providing us with an investment opportunity very similar to the one **Anheuser-Busch** (BUD) provided investors in the 1940s.

Since the beginning of the financial crisis, China has been concentrating on growing its internal consumption in order to be less export dependent. To take advantage of a growing consumer market, we made an investment in **Chow Sang Sang** (0116.HKG). This company is a Hong Kong based investment-company with a boutique brokerage business and a jewelry business containing a wholesale division, a jewelry manufacturing division with a sight on the Diamond Trading Company, and a high-end jewelry retail chain. The retail business has approximately 50 outlets in Hong Kong, Macau, and Taiwan. In addition, and more importantly, it has approximately 150 stores in Mainland China with plans to expand that with another 50 this year. Its stores are located at prime locations, and its jewelry is primarily gem-set diamonds settings but also Disney and Hello Kitty jewelry. The company is well-financed, has high profit margins, and has grown earnings at a very high rate. In 2009, the company's sales from high-priced items, pieces priced in excess of HK$50,000 (~US$6,400) grew by 75%, an indication of a growing wealth and consumption.

1-Year Daily Chart of Turkcell



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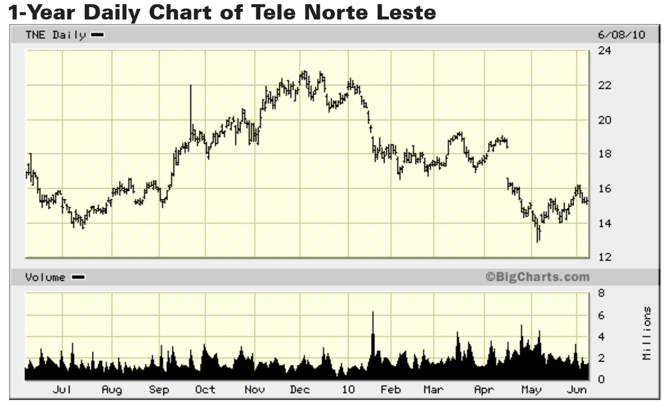
Mr. Foley: Along the same lines with jewelry and the high end is that it's not just jewelry, but demand for luxury goods in general is increasing. China is a society with high aspirations and as they urbanize and earn more money, they are looking to spend it. The world is so open these days as far as information, they see how the rest of the world lives and they aspire to the same lifestyle. Now, the difference is that when we were spending money in the last ten years here, and using our houses as ATMs, the Chinese people were continuing their cultural norm of saving 30% to 40% of their income. One of the reasons for their high savings-rate is that they do not have the social safety net that we have here. As the county develops a healthcare and pension system, the people will not need to save as much. Not only will they earn more, they will then also have higher disposable income, both real and as a percentage of total income, which will likely result in an expanding consumer economy. This will further enable them to be less dependent on exports and foreign economies.

TWST: What about other parts of the globe? Where are you also finding value opportunities?

Ms. Larsson: We really like Brazil and we believe that Brazil is very well positioned to do well going forward. It has recovered from the crisis, is very resource rich, has a growing population, and a growing middle class. One of the companies that we believe will benefit from a growing economy is **Tele Norte Leste** (TNE). This company is actually two parts of the old state-owned telephone company, which was broken up and deregulated in 1999. **TeleNorte** bought out Brasil Telecom in 2008 and it is now the country's largest fixed line provider, it also operates cable TV and broadband services, and is the country's third largest wireless provider. As part of the merger, the company eliminated all redundancies, rebranded all its assets under one name, Oi, and rolled out newly-rewarded wireless services in Sao Paolo. As a result of cost savings, the company was able to reduce debt, making it a substantially stronger company going forward. This company trades at 8x 2010 estimates, 1.2x book value, and its dividend for the 2009 year was 11%. This risk/reward is very attractive and we do not believe that this would be available had the general investment community not been very distressed.

1-Year Daily Chart of Tele Norte Leste



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We're not really invested in Europe. **Anglo-American PLC** (AAUKY) is headquartered in London, but as one of our select few multinationals, is a commodity company operating pretty much all over the world. It is one of the world's largest global mining and natural resource companies. We also own Turkey's largest wireless provider, **Turkcell** (TKC). This is an interesting company in that prior to the global crisis in 2008, it maintained a steady rate. It trades at a very reasonable price, pays a 5% dividend, has a large net cash position, and operates in an economy with a very young and fast-growing population. Because Turkey is not in the European Community, we actually believe that the Turkish lira will benefit from a weaker euro. This provides us with a nice hedge in the portfolio.

Mr. Foley: There is a lot of saber rattling in the region these days, with Turkey a de facto sponsor of the Hamas Flotilla, but geo-politics notwithstanding, it really shouldn't have that much of a long-term negative impact, if any. TKC is strictly a domestic company doing virtually all of their business in their own country in their own currency, the Turkish lira. They are not really dependent on any type of foreign trade, so any type of embargo or sanctioning would be relatively inconsequential, particularly in the long-term. Again, we generally have at least a three to five year time frame on investments. So, we believe recent incidents will be long forgotten by then. Short-term fluctuations to the down-side present attractive points of entry.

TWST: What shift in emphasis has your portfolio seen over the past 12 months to reflect changing events?

Mr. Foley: We further reduced the minor investments we had in Europe, primarily because we found companies in other parts of the world that provided us with a more favorable risk/reward profile. Other than that, we haven't made any major shifts in the portfolio.

We have made a couple of additions. Tina mentioned **Chow Sang Sang**; that in fact is one that we are very excited about. But other than that, none of the major events have caused us to feel the need to make any drastic changes despite our constant review of the portfolio. It is actively managed, but we look at our companies and ask ourselves "do we want to be here in this country, in this sector, in this business five years from now; ten years for now?" and more often than not we say "yes." We then let the fundamentals decide whether we are going to add or subtract from the position.

TWST: You invest for the long term, but what does trigger an exit from your portfolio and how much is that due to the macro outlook and how much is due to the fundamentals?

Mr. Foley: It would be on a case by case basis and sometimes depend on macro, and other times on fundamentals.

TWST: What is the sell process?

Mr. Foley: First off, we sell if we have reached our price target and an investment has reached fair value. Second, if we find that we have another idea that we feel better serves either the diversification of our portfolio or our risk/reward profile, or both. We manage the portfolio actively and do continuous research, but would also sell if we find out that our original investment thesis was faulty, or we'd made a mistake.

TWST: What about the risk management techniques that you incorporate within your portfolio at the individual stock level and at the country level?

Mr. Foley: Overall, we are noticing much more volatility in the market, especially with the international bourses; we believe that this is a fundamental change that is likely to remain. Take a look at almost any security. While there may be comparatively little change, up or down, over any given twelve month period, there is often as much as a 50% swing between the highs and lows traded within that timeframe. In fact, in some cases we've noticed as much as a 100% swing. While we are long-term investors, we may decrease a position if it overreaches our short-term target, depending on the scenario. As it pulls back to a more realistic valuation, we'll then increase the position. This is based solely on the fundamentals, and in no way should it be confused with market timing. We retain the belief that the Market-Timer's Hall of Fame will remain empty for the foreseeable future.

One way that we minimize currency risk is by investing in companies that primarily do business in their own country in their own currency. We don't use technical levels or quant programs. We continually value and revalue each individual company, their competitors, and industries. We continuously do macro research on the world economies and sector and industry trends. The main risk is we've just made a huge mistake on a company that we've misjudged somehow; fortunately we haven't had any situations that have been that dire. The other macro or country or region-wide risk would be that there is some huge calamity in the country, whether it's economic, environmental,

Larsson: One of the companies that we believe will benefit from a growing economy is Tele Norte Leste. TeleNorte bought out Brasil Telecom in 2008 and it is now the country's largest fixed line provider, it also operates cable TV and broadband services, and is the country's third largest wireless provider. As part of the merger, the company eliminated all redundancies, rebranded all its assets under one name, Oi, and rolled out newly-rewarded wireless services in Sao Paolo.

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political, natural, manmade, etc. As we mentioned, China has had a huge market correction already, they're down over 50% from two years ago, but we did not feel that was a reason to leave the country. Their overall economy is still strong, versus the US, where the market has rebounded somewhat, but the economy is still very weak. The Chinese have just gotten back to more normal metrics; even so there are companies and sectors that are going to vastly outperform there.

TWST: You invest in developed countries, do you have a part of your portfolio devoted to emerging markets at all?

Mr. Foley: Yes, we are roughly 50/50 emerging and developed and that's not by design, it just happens to be where we found value. We think in the developing countries there is just much more of a secular growth story going on there and we are looking for value that we find within that. We don't really care what the label on it is. We are agonistic regarding sector, country,

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region, industry; as long it's not US and has little-to-no business dealing with the United States. We own what we own, and then we did the analysis looking backwards, and we realized we were about 50% emerging markets after the fact. That could certainly change going forward, should circumstances dictate. We don't adhere to an arbitrary mandate that way.

Actually, that's another thing that separates us from most other managers— we invest in all cap, all sector, all regions. It makes it difficult sometimes for people who are looking at us, particularly institutions because they are looking to put you in a box. When we say "international", that's really what we are; it's not international large cap, it's not international small cap, it's all industry all cap. We will do not hug an index, where you end up becoming the market and owning the same companies as everyone else. That is especially bad when the "big boys" panic, and unload massive amounts of shares ahead of everyone else. Whatever we find is of value at that time, with a proper margin of safety and just in the best interest of the portfolio; that's what interests us

One of the things that hurt China was the developed markets contracting so much. Most if not all of our Chinese exposure has really no export component to it so if the United States stops buying whatever they stop buying, that's not going to affect our companies. Our airports and expressways are not exportable, nor are the stock exchanges in which we invest. We own the **Hong Kong Exchanges and Clearing** (0388.HKG). The oil companies that are exportable, like **CNOOC** (CEO), aren't exporting to the United States. That separates us right there. In the short term, people just panic and say that China is going to lose business, they're crashing, sell China, so they just sell all things China. Eventually, they will realize that each company is individual and they will finally do their own homework, and we look at that situation as a buying opportunity. That's what actually happened to us the last time. People panicked and sold China as a block. Fortunately for us because it's underfollowed, but people will sell an emerging market mostly because they don't understand it. If they follow it at all, they generally have a very junior analyst following it. Some other sector, region, or country might have 20 analysts watching it. With foreign markets such as China, different industries and companies might have one only, if they have anybody following it. People weren't going to take the time, didn't have the resources to find out where in China they could stay safe, they just sold and took their money. In some cases, where a company was still solid, people still sold, because they needed any capital they could raise in order to stay afloat.

Foley: We are roughly 50/50 emerging and developed and that's not by design, it just happens to be where we found value. We think in the developing countries there is just much more of a secular growth story going on there and we are looking for value that we find within that.

Over the last couple of years, we found that people were just selling anything they had that was of value to cover their losses somewhere else. There is a short-term risk that what we own could certainly be hurt in any correction that way. Three to five year time frame, we look at that as a buying opportunity and in fact that's what happened last year.

TWST: As an all-cap investor, what is doing better right now, the smaller cap or the larger cap international stocks?

Mr. Foley: International in the last couple of years has been so volatile that it changes quarter to quarter. It really has. Right now we are looking at companies we own whose share price is flat, even though they are solid businesses, with solid earnings, great management, money on the balance sheet, low debt, a nice dividend, etc., and they are trading at single-digit multiples. It's hard to say X is a better value than Y right now or trades better because in a month that could be different. It's just so volatile and part of that is the fact that things are just so undercovered and misunderstood. Although we're all-cap and we certainly buy smaller small cap companies, our mean market cap is about $30 billion. What we own are solid companies, and our style and our performance is certainly replicable.

TWST: I know you have to be flexible and you say that each quarter there are changes, but looking ahead through the rest of this year, are there any challenges or headwinds in international investing that investors should be wary of now?

Ms. Larsson: We are actually quite optimistic. We think that we are pretty much back to valuations placed on our investments in March of 2009, despite our portfolio being up in excess of 50% since then. At those valuations, combined with the macro environment in the parts of the world that we invest, we are quite optimistic.

Mr. Foley: But I have to point out when we say "international," we are talking about our portfolio. We have miniscule European exposure, and would not be buying Europe right now.

TWST: Any other things that investors should to wary of?

Mr. Foley: Where to begin. What seems to be happening is that the periods between market corrections/recessions are shortening and having more and more of an impact. I think a lot of that is due to the massive debt that has been run-up by countries over the past 20 and even 10 years, and we see how that's shaking out, and it's going to be very hard for these countries to recover. Another part of it is government's micro-managing of an economy: inducing inflation to escape a recession, and then trying to control the ensuing bubble via monetary policy, rinse and repeat. In my opinion, much of this is due to the fact that if economic cycles were allowed to take care of themselves organically, which is much healthier in the long-term, it can overlap with election cycles. This criticism falls along both sides of the aisle. For a career politician, better to put a quick bandage on it and keep that cushy job. If we have another recession in the United States, and we certainly could in the next few years, it's going to be very difficult to react. We've printed, borrowed, and spent so much money, have virtually a zero interest rate, unemployment at pretty much 10%; we don't have a lot of bullets left. The little bit of forced growth or recovery we have seen is due primarily to transfer payments and government spending itself into deeper debt. Technically the recession may be over; the depression continues.

Generally at this point of a recession cycle, we should have much higher growth rates, much lower unemployment, yet unfortunately we are really quite stagnant. Unemployment is not moving. The number of people who have defaulted or are late on their mortgage payments is just astronomical. The number of jobs that have been lost and the amount of time that unemployed are out of work without being able to find a job is not a good foundation to build or rebuild an economy. We heard someone say that California is basically Greece with a high-tech industry. Your mother told you when you were a kid that if you don't have the money in your pocket, you can't spend it. Governments don't have to listen to their mother, unfortunately.

We are optimistic overall about select international opportunities; less so domestically. Our recommendation is to do your homework, make sure you invest in quality companies that you understand, with a sustainable business model and sustainable earnings because we do think that there are going to be rough times ahead.

If you use a professional money manager, don't be afraid to investigate and ask questions; if they are offended, too bad. Remember, the majority of managers underperform the market.

There's a growing trend to invest in ETFs, whether country ETFs or industry ETFs, and that's often like buying an index. They are so new, that to me the jury is still out on them. I suspect it will turn out to be just like the mutual fund industry: a few very good ones, a vast majority underperforming. We're not going to make any friends with this view, as they are a huge money maker for the industry.

Since most are constantly rebalanced, it makes it difficult to outperform. They can be used effectively as a hedge, or for the individual investor who doesn't have the expertise, but would like some exposure to a particular area. I would say that any portfolio manager who relies on them to a great extent is at best lazy. What people also need to be warned about, is that some ETFs are structured as partnerships, so that a tedious and complicated schedule K-1 is required for income tax purposes.

TWST: Is there anything that you wish to add?

Mr. Foley: I feel like we've spoken quite a bit about China, but one of the things that I wanted to add is that people often say that you can't trust China's numbers. But similar numbers showing amazing growth are reported by American companies with operations in China such as **General Motors** (GM), **McDonalds** (MCD), **Yum!Brands** who owns Kentucky Fried Chicken (YUM), **Caterpillar** (CAT), so, are those numbers fudged too? And if so, by whom? We use public filings in our research and we believe that the information in those filings is reliable as any, as international regulators are requiring the usage of International Financial Reporting Standards (IFRS). Having said that, we cross-check them with other sources as much as possible, including versus the CIA World Factbook findings. Perhaps the data is not as reliable as the All-American data that was filed by Enron, Arthur Andersen, Lehman Brothers or Bear Stearns, Freddie and Fannie. In fact, the CEO of Fannie Mae was a former White House Budget Director. He "over-estimated" earnings by some $9 billion while receiving a $90 million performance bonus, and after that was advising the President-elect of the United States on economic issues. He was also apparently one of the select "Friends of Angelo" of Countrywide fame, along with the Chairman of the Senate Banking Committee. So to us, to automatically dismiss numbers coming from China as inferior to ours, seems just such a smug and contradictory attitude that it's a bit laughable.

TWST: Thank you. (PS)

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