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Excerpts from Quarterly Report written by Investment Partners Asset Management – Q3 2011

Estates of the Realm… Revisited

Wikipedia has defined *Estates of the Realm* as broad social orders of hierarchically conceived societies. Sometimes this concept is distinguished as *The Three Estates*: the clergy, the nobility, and the commoners. In the case of the clergy, God ordained the ministry to empower royalty and nobility who, in turn, settled privileges on the prestigious commoners or bourgeoisie. (There are frequent references to the unfortunate peasantry of Europe as the Fourth Estate in this particular paradigm – but that term has taken on new meaning in more recent history.)

This societal structure remains stable as long as equality exists within each Estate, and the powerful maintain control over the subservient. As we all know, through the centuries, each Estate has struggled to obtain dominance at one time or another. In prior eras, dominance and preservation of the social class have been achieved through ownership of property, means of production, and taxation of the producers of wealth – affluence being the separator of the upper class elite from the middle and lower classes.

Along the way a new class emerged, the Fourth Estate – this time with the term being bestowed on the Press, or now-a-days the media – a societal conscience with political force. Institutions such as labor unions are also part of the Fourth Estate as are other groups that are not consistently or officially recognized by the three Estates.

Even more recently, a new term has developed - the Fifth Estate - which refers to any group in society that sees itself in opposition to the mainstream. It is a civil group made up of those who wish to hold other Estates accountable for their failures.

With the growing widespread use of internet communication technology, the Fifth Estate has become a unified, global, brash, voice anxious for recognition and change. Perhaps for the first time in recorded history, society has the means and opportunity to mobilize <u>in an instant</u> to oppose those who are comfortable with the status quo. Interestingly, we feel that recognition of this societal trend and its impact on the political, economic, and military scene will be essential to investment success for many decades to come.

Protest by Occupy Wall Street – Part of the Fifth Estate

"…And its 1, 2, 3, what are we fighting for?" – Country Joe and the Fish

It looks just like 1968 out there. The undercurrent of dissent both in America and worldwide is back after a two-generation hiatus. People are literally in the streets of hundreds of cities protesting *something, b*ut what? It seems as though the political left is protesting Wall Street business practices, while the right, through the *Tea Party Movement*, is expressing its dissatisfaction with Washington, DC (consider Congress' 9% approval rating, for example). The common ground of both movements appears to be rooted by the unholy alliance of the politicians, lobbyists, bankers, and the corporate elite. It is not enough for each Estate to pretend that they can keep the populace powerless while conducting business as usual. While indifference and apathy have been their allies in the past, the winds of change are in the air.

You might argue there is nothing new here. The 99% of humanity (that are outside of George Carlin's *Big Club)* is increasingly at odds with the 1% who is in control of the nation's power and wealth. (George Carlin, master linguist and comedian extraordinaire, once claimed that the world's elite are like a big club that "you are not in.")

While some believe that Wall Street is just trying to live within Main Street's means (and not vice versa), others clamor for wealth redistribution. On either side of the debate one thing is clear; even though the monetary printing presses have been running full bore for 40 years, there is not enough money to go around now for people that believe they have either a claim or entitlement to those diluted dollars. As such, the system, as currently constructed, may ultimately offer society only an increased cost of living rather than provide the masses with an increased *standard of living*.

At any rate, the Occupy Wall Street crowd will not be successful in their aims, assuming they even know what those are right now, unless they learn to prioritize their goals. Without an ability to communicate a focused set of objectives, the movement may morph from peaceful to angry to kinetic. Evolution can turn to revolution quickly as was well documented during the protests of the G-20 meetings in Toronto in 2010. When relegated to free speech zones during that event, protestors would form on one side of Queens Park to object to something, while another mob in another part of the park would be fomenting about some other wholly unrelated cause. In the end there were mass arrests for disorderly conduct, getting the protestors nowhere but jail.

Where We Agree with *Protest Wall Street*

Oddly, in many ways, our sympathies are aligned with these protesters because, quite frankly, many of their points are valid. We have always felt insular and on the outside of the mainstream Wall-Street community – and we, too, hold in contempt the characters who refuse to recognize their participation in or responsibility for the trillions of dollars in losses because of misallocations of resources, deceit, theft (and the resulting damage to millions of innocent people's lives through their misdeeds.) In this way, we find ourselves confronting the very same issues that outrage this vocal group of activists. (This is particularly the case when we witness companies' mismanagement being perversely rewarded by negligent Boards of Directors.)

The question we ask ourselves is what should we do as fiduciaries on behalf of our client's interests? The original topic of this thought piece was going to be a reflection upon every person's instinctual reactions when confronting difficult, risky, or even dangerous situations. Specifically, with all the uncertainty in the global economy and political and societal unrest, we were going to explore what happens when one is left with the basic human responses of *fight or flight*. This primal mechanism exists in all of us. Prehistoric man, for example, if confronted by a saber-toothed tiger in the woods at night, had the choices of running away as fast as he could, or confronting the tiger in order to continue on his journey. (We recently have observed this behavior in many investors. After the close brushes with economic disaster of the past two years, a good number are more comfortable with greater amounts of cash, in spite of earning little to no return.) On the one hand the option of cutting and running, in the investment industry, can be a valid option as it represents a *flight* from one situation in search of what one hopes to be a better alternative and outcome. On the other hand, we concur with the sentiment of the protestors that, on our clients' behalf, there are indeed times when the right choice may be to speak up and *fight* for what you believe in, rather than flee.

Where We Differ with *Protest Wall Street*

Many of these Occupy Wall Streeters, (OWS'ers) are no strangers to active political discourse. It seems that the very same people, or their parents, were occupying administration buildings in the 1960s in lower Manhattan and elsewhere. What worries us is that they tend to seek redistribution as a cure for social ills and that they view the world with heads or tails outcomes. Like in the Vietnam era, the vocal minority observed the war as a threat to their well being.

Unsurprisingly, the activists employed sit-ins and other political tactics to minimize their direct exposure to the machine. The baby boomers didn't want to be cannon fodder - so they took to the streets, and trusted no one over the age of thirty in an attempt to become part of the solution rather than part of the problem.

However, as the baby boomers aged they not only became part of the problem – *they became the problem*. En masse, they took government or corporate jobs, traded in peace and love for stability and 401k plans, squandered resources, leveraged assets - and generally just looked out for *numero uno.* Surprisingly, that legacy is the root of the discontent today, with a systemic *do over* being the final option.

Borrowing from the 1960s, the mantra then was "if it feels good, do it." However, that *me generation* philosophy is fast approaching an inflection point. The people in the streets perceive that their individual, and in some cases aggregate, sovereignty is at risk. The system that featured the aforementioned 1960s ideals of dependency is running out of new "investors." The last in are becoming the first out. What they don't quite understand is if the system goes down without internal reforms associated with private property and the responsibility of owning it, we ALL go down. Unless there is reform, not even the baby boomers, who have wagered that the system would provide for them in their old age, will be spared.

Lessons from the OWSers

So far, we have mentioned precious little about how all of this impacts investing for the future. Actually, though, the OWSers are providing us in the investment community with an extremely valuable teaching moment. Where we perceive that they are right on the mark is that it is indeed time to re-think old hypotheses, question authority, and effect change – and these messages resonate with our own investment style. **We have become vocal fiduciaries.**

Generally we try to focus on investments where we are think we will be treated well and with equanimity. (As owners it shouldn't be unreasonable to expect fairness, right?)

In simple terms, we think fairness manifests itself in investments in three basic ways;

1) By managements and boards who treat all holders with respect and demonstrate that they prioritize "sharing and caring." ("Sharing and caring" tend to be concepts that most people learn by the time they are in Kindergarten).

2) By finding enterprises with track records of making responsible decisions in the interests of their stakeholders.

3) By following business models which, when implemented, do well financially by providing useful products and services without inflicting societal harm.

It seems like common sense, but you might be surprised how often public companies miss one or more of these items. (In some cases, it makes one wonder if boards and managements have forgotten altogether that their outside shareholders are even there.) Since we feel there is a correlation between shareholder-value creation and good corporate governance, we sometimes find ourselves in investments where managements and boards do not appear to fully grasp these points. In those situations, our frustrations, like those of the protesters, leave us with the instinctual urges of *fight or flight* on our clients' behalf. So, if there is a take-away, from our standpoint, with respect to the OWS movement, it's that we hope their efforts result in some soul searching on Wall Street, in the board rooms of corporate America, and in Washington. We concur that there needs to be recognition among business leaders that corporate and political decisions (or indecisions) affect real people and real lives. We agree that the first-step in restoring confidence in our markets and our economy stems from enhanced accountability from that so-called 1%. As this issue unfolds, we will attempt to seek out opportunities which, we hope, will treat investors with the respect, equality, and fairness they deserve.