



## Excerpts from Quarterly Report written by Investment Partners Asset Management – Q1 2009

### “A METAPHOR FOR TODAY’S MARKETS

We’re going to take a break from our normal quarterly economics diatribe to tell you a *true* fishing story.

Anyone who has worked with us for a while knows that we are avid fishermen – and in my particular case a fanatical fly-fisherman. There are countless reasons that investment professionals tend to devote energy to this pastime - perhaps the most alluring part is storytelling about fishing trips. Each tale provides an insight to one’s character, and often a lesson in life.

One Fathers’ Day a few years ago, when my daughters were still toddlers, a friend of mine invited me to go fly-fishing for striped bass off Sandy Hook, New Jersey. When one has small children, weekend parental duties are highest priority, so fishing opportunities like this one come along infrequently. I suppose since it was technically *my* holiday weekend, I was given a pass.

The day before, I rigged my eight-weight rod, bought the right flies, spooled my reel with quick-sinking line, stocked a cooler, and packed everything in the Jeep. Before heading to sleep, I checked the morning weather on the internet (mild, with light winds forecast out of the Southeast) and set my alarm for 4:30am. Wired with anticipation that Sunday morning, I sprung from bed before the alarm had even gone off, and headed out to the dock in Rumson next to the Salt Creek Grill. My friend Tom arrived right on time, and was similarly prepared. Enthused, we hurriedly loaded the boat – a 20+ foot center-console Whaler – gassed up, and headed down the Navesink River. We weren’t alone, the river was filled with a fleet of other bright-eyed fathers anxious to wet a line for an unsuspecting striped bass.

In normal conditions, the trek to the area called “The Rip” (just past the end of Sandy Hook) where trophy striped bass are found can take a good forty minutes to an hour. We passed the time with small talk, and we went under the last bridge connecting the Highlands and Navesink Beach. When we entered the wider stretch of water in Sandy Hook Bay, our conversation was periodically interrupted by a few small waves hitting the hull. When this happened, Tom just peered over the bow, checked his heading, re-adjusted our course, and we resumed chatting as we had beforehand. The other boats around us also continued down the river at the same pace. After about twenty-five minutes, we passed Atlantic Highlands. We began to notice that the waves were hitting us cross-ways with a little more frequency and suddenly the wind began to gust. Undeterred, we ventured on – as did the other boats filled with fathers. In another ten minutes, the swells were growing a bit more sizable and Tom’s full attention was now on steering the boat. By the time we had nearly rounded Sandy Hook to enter open sea, the wind was gale-force causing the waves to intensify often swelling to ten feet or more. From our vantage point at the console, we would alternatively see a wall of water, then the horizon, then a wall of water, then the horizon - pitching and rolling like a scene out of the TV Docudrama “The Deadliest Catch.” We, and the other boats around us, drew the same obvious conclusion - there would be no fishing this Fathers’ Day. The new goal for us was survival. As he tried to get his bearings to steer us through the sea, Tom’s face was pallid. He eventually maneuvered the boat among the swells, and we arrived back at the dock, shaken and heavy hearted. Tom and I washed down his boat, hauled our gear back to our respective cars, shook hands, and wished each other a happy Fathers’ Day.

Before heading home, though, I sat behind the wheel of my Jeep in silence, happy to be alive, reflecting on what had just happened. This was a humbling experience, and I hope to never get caught in the middle of a sudden squall again. A few trips later, by the way, I subsequently *did* catch that elusive 35-pound striper off of the North Fork of Long Island. It was this big (stretch your arms out as far as they will go).

Ok. Admittedly, this may not be the best fishing tale in the world – but there are many comparisons to what we’ve seen in world equity markets over the past six months: the sudden build up of a perfect storm, a difficult task of navigation, and a harrowing trip home. For many investors, the memory of the near-death experience from the past six months lingers on. As investment professionals we continue to rise early in the morning – with the constant promise of a big haul, a local or state record, or at least table fare with which to sustain one’s family.

The problem with the above allegory as it pertains to the markets, at least in theory, is that one boat adrift on the sea in stormy conditions might not tell the whole story. As managers... with the ability to seek out opportunities wherever we can find them, in a sense we can fish anywhere, anytime, and under any circumstances. Usually, just because it is raining in New Jersey, it might be ideal at the Haulover Canal in Miami or a feeding frenzy at the Port Credit Inlet on Lake Ontario. Astoundingly, in 2008 and early 2009, the conditions were terrible *everywhere*, simultaneously – regardless of our expertise or past success. The old adage, “every day is fishing day, but not every day is biting day” represents a powerful truism about the past six months.

As passionate enthusiasts, we feel that while conditions remain unsettling, the fish are still there. Ironically, the worse the conditions are for people, the better they are for the large stripers. It is unknown as to what would have happened had we stayed out that morning in the Sandy Hook Bight. The day was as likely to end with white fish (instead of a bass) as it was with a mayday call. Thus is the balance of risk and reward, and the unanswerable question “what if?”

It is the combination of knowledge and curiosity that prompts us to keep trying... We have tried... to minimize the sting associated with all three. Conditions do not always allow us a perfect day out, or the opportunity to venture too far from shore. On days like that, we may be able to attract some smaller fish while remaining close to the dock until conditions support longer voyages.

What we have found in 2009 is that the storm has brought some decent schools of fish inshore, with a variety of species being landed. While we may have switched holes, we have not switched presentation. We have always relied upon market valuation as both bait, and the motivation for always carrying a rod and reel in our trunk. If something is cheap, it matters little if we land it by live shrimp, Berkeley’s Gulp, or Heddon popping bugs - in two feet of water or 20 fathoms. The end result is our concern. Since we are unwed regarding the locations of our spots, as long as we think the odds of production outweigh the odds of losing a plug or sinking the boat, we set sail at dawn every day.

The science of both fishing and money management is affixed to that which has happened before, while the associated art is profiting from a reproducible result... We recognize that investing requires assets to be allocated strategically, while trading employs tactical moves within the strategy. We think that this environment will require utilizing both methodologies.”

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