

Transcript: HB Client Conference Call

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Andy: Good afternoon everyone. This is Andy Berg speaking. Thank you for calling in. As you know this is our second call initiated during this severe recession. The first call was generally well received. We're going to follow a similar format. Like our November 20th call, we asked you for questions in advance. Again, we received many and they were thoughtful. We categorized the questions and, as you would expect, there was some overlap. Also, like in November, the call will be posted on our website; so if you have to get off the phone you can hear the rest of it later. We will do a couple of things differently this time. First, I am going to actually read specific questions as opposed to the first call where we answered them via overall commentary. Then the leaders of our Investments Department, Frank Butterfield and Drew Klepchick, will answer your questions. Second, you are going to have the opportunity to ask follow up questions based on what you hear during the call by emailing us. We have our computer here and the email address is conference@homrichberg.com. That's conference@homrichberg.com. If your question is not answered, and again we had many so we can't get to them all, and if it is either submitted prior to today or during our call today, please follow up with a member of your client service team to make sure you get all of your questions answered to your satisfaction. As I think you know, communication and service has been the foundation of Homrich Berg. As we approach our 20th anniversary, we have tried hard to never lose sight of that and we clearly understand that it is important more now than ever. Before we start answering specific questions, I'd like to make just a few comments. First I want to comment on what's happened since November 20th. 3 months....we all watch TV, we all read the newspapers and I think we probably all do it too much, but things have clearly gotten worse. We thought they were going to get worse; we mentioned that on our call but it's been even worse than our rather dismal expectations. Everything from unemployment to jobless claims, housing starts, housing sales, consumer spending, consumer confidence and corporate profits are plummeting, it's all been pretty darn awful. The impetus of the financial crisis were the

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banking woes which were primarily caused by the sub-prime issue as well as overleveraging in general. That has now led to bigger problems; a wide-spread deep recession that has resulted in job losses in almost every industry and thereby corporate profits have fallen. That in turn has led to more loan defaults. The financial stocks, as we know, have been clobbered and that has made the banks even more reluctant to lend than they were before. In other words, it's been a vicious, vicious cycle. However, and this may surprise you, since our last call on November 20th our world stock and bond markets are generally higher than they were. And most importantly, you (our clients) have seen your portfolios generally up during the same period. It's been a lot of peaks and valleys, but that is what has transpired. However, it clearly does not lessen the pain caused by the dramatic decline in most asset classes. Whether it is stocks, higher yielding bonds or real estate, almost all the alternative asset classes over the last year and a half have declined. Although we've made changes and continue to make changes to lessen the decline, our client losses are significant and real. I believe all of you know this, but we do not take that lightly. OK. On to the questions on what's happening and most importantly, where we see things heading. First I'm going to answer a couple questions about the economy. One client asked us to discuss the bank bailout and our opinions regarding the bank bailout as well as the future of the industry in general. What do we think Drew?

Drew: Well Andy, first of all it's our belief that this is the number one job of the government right now. We share a lot of people's anger towards management in the banking industry and confidence in some cases of the over-leveraging of the banking system and arguably using it as their own personal get rich programs. However, we can't lose sight of the fact that banking is key to all commerce throughout the country and so from our perspective it is the number one thing that needs to be addressed. A lot of people think that one thing about the Depression was the start of the stock market crash but it truly wasn't the stock market crash that caused it to extend and deepen. It really deepened due to bank failure and shrinking money supply along with some world trade

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restrictions. And so from our perspective we cannot see the economy improve until the credit facilities are fixed. You mentioned that the housing crisis and subprime might have started this whole process. Housing, in order for it to stabilize, needs credit and therefore credit facilities need to be repaired. A couple of things, number one is two or three weeks ago we were all excited in anticipation of the new Treasury plan for banking stabilization and as the market reacted it was not received very well. Now, I will tell you this. There are a lot of things in that plan that are very positive. The commitment to continue to contribute capital to banks is very positive. The commitment to try to make this a private/public feature in our opinion is very positive because we would rather not see nationalization as the solution. And I tell you I took a lot of comfort yesterday watching federal chair Bernanke speak to the Senate Finance Committee. One statement that really stood out to me was when he was asked point blank were there any banks that were too big to fail and with no hesitation at all he said there are banks that are too big to fail. As a matter of fact he was specific by saying there were 19 of them. And so we do believe it is a number one priority. We do believe the Treasury plan has its merits. We do wish that the plan had more details. We do believe the government is honest when they say they are trying to make this not nationalization but a stabilization of something that is imperative for all parts of the economy going forward.

Andy: OK. I've got a follow up question. "It appears that we are in a protracted and severe recession. You commented on the stimulus package, but do we really think that it's going to be effective?"

Drew: I will say I have a slightly different answer to the enthusiasm regarding the stimulus plan versus the banking plan. I'm glad that they passed the stimulus package. We certainly are of the belief that we need the government to help to offset the fact that the consumer appears to have shut down. At the same time we are less enthusiastic about

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the stimulus for no other reason that whenever you turn over such an important plan that was designed to be timely, targeted, and temporary to Congress, it unfortunately I think led to a less effective...a little bit more imperfect plan. Whenever you go to a consensus-making body like Congress you get compromise. Compromise, which is the by-product obviously of our governmental system, leads to a little bit less successful plan. You can take all kinds of sides on the political aspects of this plan. We are still a fan of them having passing it because we think it is imperative to buy the economy time. Our biggest concern though is the fact that among goals like timely, targeted, and temporary, the temporary piece of it may be weakest. The fear is that it's tough to take something away once it's been given and so this could create a new baseline for future budgets that could create a huge burden on future generations. But otherwise for all its imperfections we're pleased to see the government take as quick an action and as large an action as they did. Obviously, being students of previous downturns deciding to do so.

Andy: OK. So we've got a lot of bad things out there whether were talking about the banks, the fact that consumers shut down, the recession is going to be deep and relatively long. So given that rather glooming news, a client asked, "Why don't we go to cash and CD's now?" Frank...

Frank: I'll take this one. That's a good question. I get it repeatedly from clients. I think it is a client specific question. We try to allocate clients' portfolios according to their overall needs, their risk tolerance, their near and long term cash flow and the assets they have outside of our management. Certainly if you need to spend your whole portfolio in the next 12 months then you should be in cash. You can't wait around for the stock market to go up but you have to be right on the timing twice. That's the problem. So for clients that don't need to spend their portfolio now, it is true that the market could go down further. So if that's the case, if the market does go down further significantly, you

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would want to get out of the market now, but then you also have to know when to get back in and that timing is difficult. The market often goes up several months before the recession ends and it is unclear when that is going to be. Despite that, if you really don't want to be in stocks, we still think bonds are better than cash. Because the yields on bonds are much higher than cash. And we do agree that because of the deficit spending there will be inflation in the future. But in the near term basis we think prices, interest rates, and inflation will stay low, and so therefore we will get better returns in bonds than we will in cash. The only thing that would cause inflation would be if the economy and spending start improving which will help the stock market. Now that covers bonds, why are we still in stocks? Stock prices reflect the fact that everybody has a bleak outlook. I don't know anybody that is optimistic. Stock prices reflect the fact that everybody is pessimistic so that if we get any good news at all that will help the stock market. Then I get back to long-term valuations; people don't want to hear about it, but on a long-term basis stocks are priced to return 9% to 11% a year. If you look at long-term trend lines in the stock market, stocks have made 9.6% a year. But we are below that trend line, which means we need to make slightly above 9.6% to get back to trend. Stocks can be valued as a percentage of the Gross Domestic Product. Stocks are valued at about 50% of Gross Domestic Product right now versus the long term average of close to 60%. We can also look at stock prices compared to the past 10 years earnings which smooth out economic cycles. Stocks are slightly below fair value on that basis. On a long term basis stocks are attractively valued. We don't know what's going to happen tomorrow or the next day, but if you have enough money in cash and bonds to take care of your cash flow needs, then you should stay in the market.

Andy: OK. You mentioned inflation. Here is another question that has to do with that. Drew, given the long term consequences of the big deficit that we are piling up (it's become daunting for sure), what are the repercussions of that?

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Drew: Well clearly with the growth of the deficit and the printing of dollars, we are of the belief that near term we're not going to see inflation turn up quickly. Rather our belief is that is that we'll see that inflation is one of our greatest risks in a couple of years. A lot of what we are doing from a portfolio analysis perspective is trying to remain flexible in dealing with the potential impact of rising interest rates. Inflation has its problems but I would rather have inflation than deflation. Deflation is a vicious cycle that is very difficult to stop. Inflation is how we've solved deflation throughout our history. Inflation is solvable once you get it but we are building our portfolios with anticipation that in the next year or two we're in a declining asset or deflationary environment, then after that we will have the flexibility to maneuver and deal with anticipated inflation. Does that answer that question, Andy?

Andy: Yeah, I think so. So we're talking about a deflationary period likely followed by an inflationary period. Conditions worsening along the way and then inflation...where do we see it going from there?

Drew: Well, the expectation is that it is going to take awhile for this economy to really gain traction. Our primary hope is for stabilization. I think that is what we need to focus on when we watch how the economy is reacting. Before we can grow we have to stop shrinking. We want to stabilize. Our hope and belief is that by the end of 2009 that with the stimulus, time and some of these other actions create some confidence in the markets and banking systems, thus stabilizing both. Once we get that stabilization, we think that it is going to take awhile for these excesses to be worked off. We're going to have to rationalize all of the houses, cars, restaurants, shopping centers, products and services that has been created when all this credit was utilized and candidly over-utilized. It's going to take us awhile to grow out of it. So our expectation is stabilization first, then

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moderate growth. That doesn't mean we can't make money with such an economy. It just means that we're going to have to look in different asset classes to make it. It is our expectation that we will start to see economic growth in the 2010 time frame.

Andy: We've talked internally about a potential concern that is starting to surface and that's commercial real estate. We've seen the residential real estate problem and the commercial real estate problem is starting to come to the forefront. In fact, I met with a commercial real estate client today and he gave some facts which I've also read before, and that is that these commercial loans have balloon payments coming up in staggering amounts that are potentially going to be very difficult to deal with. A trillion dollars this year, 1 trillion dollars in 2010 and maybe 2 and 3 trillion in the years 2011 and 2012. We continue to worry about that in addition to the residential real estate problem.

Drew: I'd like to add something to that Andy. We talked about the banking system and the importance of the government in stabilizing the banking and credit facilities. We've tried to deal with the residential mortgage side but we have to get the banks lending. That's why banking and credit facilities are priority number one to us because the ripple effect of that could carry or sink this recovery down the line. It could be the commercial real estate market not having refinancing credit facilities available.

Andy: OK.

Frank: I'm going to jump in. That is going to create opportunities for private investment managers to buy attractive investments. The government is going to come up with programs to try to stabilize the commercial security market. They are going to have to give attractive earnings to investors. It hasn't happened yet but we think there are going

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to be tremendous opportunities and we are looking for ways to take advantage of that scenario.

Andy: Talking again about investments. “Looking back what changes did Homrich Berg make to our asset allocation and, a related question, why didn’t we get more conservative earlier?”

Frank: I’ll take that and these are good questions. We were cautious on the US market but obviously not cautious enough and we didn’t see the ripple effects on the worldwide economy and asset classes. So actually as early as the summer of 2006 we moved about 3% out of stocks into bonds for our clients. Then in 2007 in the summer we moved 2% from US stocks to hedge funds. Then in the fall of 2007 we moved another 2% from stocks into hedge funds which did work out OK; hedge funds lost about half of what stocks did. In early 2008 we moved 3% out of stocks into bonds and hedge funds. Now we did not move more into bonds because we were worried about inflation. If you remember up until July of last year we had roaring commodity price inflation which generally would feed into consumer price inflation. In fact we did have high consumer price inflation through early fall. In that environment we were reluctant to buy bonds yielding 4% when inflation was 5%. Now since that time, of course, we have the opposite threat. We have deflation. The other mistake we made is that we were very diversified and were trying to make our portfolios more and more like Harvard and Yale with diversified portfolios, hedge funds, alternative assets. Unfortunately when the world started deleveraging, assets of all types other than Treasuries sold off dramatically. Being diversified did not help us on a short term basis. I think it creates opportunities going forward, but on a short term basis we got hammered. By early November, we were aware of the effect on consumer portfolios, consumer spending, unemployment and real estate prices. We did, depending on the client, move 8 to 10% out of equities, energy, and

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real estate stocks into bonds in early November. That move has worked. Bonds have had a nice return since that time. We added another 2% to bonds in December. Just recently we've been nibbling on some riskier bonds in place of stocks because, as I said, the government is getting ready to support some areas outside of safe bonds and we think there will be tremendous opportunities in fixed incomes of all types.

Andy: A question has come in since we've been talking. I guess it's following up on my previous comment where I mentioned that we thought things would get materially worse in the November call. "What steps did you take to preserve capital and minimize losses? And did these work?" First of all, I think Frank just talked about the steps that we did take, but when I mentioned that we did expect things to get materially worse, we were generally talking about economic news and not necessarily the financial markets. I actually mentioned this earlier in the call during my opening comments; the investment world has actually gotten a little bit better. Our clients have made a little bit of money generally since November 20th and stocks specifically as measured by the S&P 500 are up since November 20th.

Drew: I think it is important to note, that if you look at the stock market with respect to Frank's earlier comments, valuations are more attractive than they have been in a long time. Valuations are really no different than they were back on the November call. The primary difference is in investor's psychology. Frankly, we think time is going to have to pass during which valuations may stay at relatively low or attractive values before people are willing to move in. We can argue that we have a bubble in Treasuries because of the absolute flight from anything that has any risk or volatility. So when we compare where we were in November and where we are today, we still think that on a long term basis we have attractive value. However, it's going to take some time for investor psychology to accept that and perhaps become more receptive to taking risk.

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Drew: Frank and I would anticipate some pretty significant cyclical rallies within this period even though we think this economy may drag for a while. We could see some quick cyclical rallies within this market.

Andy: You know many of our clients, given the losses they have sustained, can't take much more as far as additional losses. So what's our strategy to protect principal?

Frank: Well, overall asset allocation is on a per client basis. Some clients can afford some losses if they have a long term orientation. As I've said, we have increased our overall bond exposure. On the other hand, we have some clients that can't take any more principal losses and for those clients we have raised cash. Even with cash, there are concerns about its safety. In fact, Schwab has a call tomorrow about their money market funds. Their money market funds are safe because they are under a government umbrella through the end of April. We want to stay ahead of the curve and are monitoring the safety of cash. We like to use hedge funds and hedged mutual funds and they did experience some losses but much less than the stock market. We're looking at alternatives. We've spent a fair amount of time looking at structured notes. We're looking at put options, etc. Right now these products are relatively expensive because everybody wants them but we are continuing to evaluate them and, if they're appropriate, we will use them.

Andy: A question that came in since we've been talking about structured products, specifically index CD's that are tied to an index like the S&P 500. To answer the question just as Frank said, we are looking at those as we speak and likely plan to introduce them to certain clients going forward.

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Frank: They were offered by brokerage firms and those brokers at the time had risks that they would make a certain promise but they may not be able to deliver. For example: Lehman Brothers structured products are of very little value right now. But the big brokerage firms that are offering these are now banks and so we can buy structured products up to \$250,000 with FDIC protection. As I said, right now the terms aren't great but we are evaluating them on a regular basis.

Andy: OK. Clients have noticed that we have been buying and holding TIPS for a long time. One specific question a client asked is to comment on them and to learn a little bit more about them.

Frank: I will take that question and this one is not subjective. Everything else we've talked about is subjective. Tips are issued by the US government. They are backed by the US government. They promise to pay a coupon right now of just over 2%. They are issued in many maturities. They mature anywhere from a few months from now all the way up to 2032 and the yields are pretty similar across the board, roughly over 2%. What happens is as inflation changes the face value of the bond changes. So if inflation goes up by 0.2% the face value of the bonds on which the interest payment is made goes up by 0.2%. In the last year Tips have actually lost a little bit, about a couple percent. That is because of the threat of deflation. So on a short term basis as we have deflation we have negative price adjustments for the face value of those notes. Over long periods there will be inflation and you'll make inflation plus 2%. We buy one of two ways. There is an exchange traded fund called TIP. There is also a mutual fund called Pimco Real Return. The only real risk we see is that the calculation of the Consumer Price Index is computed by the government, and they make adjustments for the quality of the products within the index. You will make the government's calculation of CPI plus 2% going forward.

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Andy: Speaking of bonds a question came in since we've been talking. "Is there a downside to bonds in the next one to three years?" Frank just commented on TIPS and the type we have in our portfolio are probably the least risky as far as bonds go. However, as he did mention, there are some risks for all bonds and that's why the expected return is greater than cash. We obviously calculate those risks and take them into account when investing for our clients. Frank mentioned that we are putting our toe in the water with regard to some higher yielding bonds. This is because of government actions and our expectation that they are going to guarantee to some certain degree these types of bonds. So we like bonds a lot more than we have in the past. Yet, as we deal with each of you, we will do our best to explain the inherent risk there and what the potential downside is. You know obviously for income oriented and older clients we will look toward the more conservative bonds. For other clients we'll consider bonds with a little bit more return potential with higher yields.

Frank: I will make the comment that within our bond mutual funds there is a relatively low allocation to traditional Treasuries. So with the 10 year Treasury yield just under 3% this is appealing. Well positioned bond fund managers that we have confidence in have a low allocation to traditional Treasuries, and a higher allocation to TIPS, mortgages and government backed corporate bonds. These managers are finding other assets like municipal bonds that have a high tax adjusted return right now. So we're aware of the risk if inflation comes back, but we don't think inflation is going to reoccur any time soon. We will pare back our exposure to traditional Treasuries when we think inflation is coming back.

Drew: Frank, another question came in on that topic. It had an article attached to it regarding a significant increase in top marginal tax rates. The question is, what are we going to do if we expect increased taxes? I think that it is important to remember that

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whenever we are looking at return on bonds, we are always looking at an after-tax return. So the municipal market may be a significant component of our client's bond portfolios, particularly if the top marginal tax rate goes up as many people expect and somewhat fear.

Frank: We think that's going to happen but Obama said his goal is to reduce the budget deficit by half within four years. In my mind that means the marginal rate, if the economy is weak, will not go up for the next few years. We are tax sensitive and we will take into account higher tax rates.

Andy: Going back to the economy, the Fed recently commented that Bernanke warned that the economy would face a prolonged recovery and the global downturn would be severe. Given that, what do we think?

Drew: I think I will probably be redundant on this one, Andy, because I think I answered two questions with one last time, but we agree. In a word we agree that it will be unusually gradual and prolonged. Many times people refer to economic recoveries as U or V shaped and I think the general belief here is that we're looking at an L shape with a slight uptake off the L. So we do agree with that but again I think it is important to remember that we also believe there will be cyclical rallies within that market. It is going to be incumbent upon us to be as proactive as we possibly can be in order to maximize returns when we experience those kinds of cyclical rallies in what we fear might be an unusually gradual and prolonged recovery.

Frank: And to catch those rallies, if we are nimble enough to catch those stock market rallies, as many of you know most of our US equity allocations are in exchange traded index funds and that allows us to move very quickly. We don't have to worry about

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mutual fund redemption periods. We can move a client's money quickly if we spot a rally ahead of time.

Andy: Several clients want us to make predictions. We give our thoughts but try not to make exact predictions because we can't. There are so many different divergent thoughts with regard to when we are going to come out of this and when the recovery going to be. Is it going to be quick this summer or as late as next year? Realistically, when do we think that might happen and, as a follow up, the client asked when we would expect equity markets to increase.

Drew: Remember the equity markets like to compare earnings to the previous quarter. So we do anticipate a recovery assuming the banking system and the economy stabilizes; which we believe it will toward the tail end of 2009. We think the best chances for a stock market recovery will be towards the middle to second half of 2009 as we start to get better comparisons. However, like you said, it is very difficult and we are very reticent to try to predict exactly when that is going to occur, Andy. It's been incredibly volatile even more so than under normal circumstances which makes this a difficult thing to predict. But we do anticipate that we will see some recovery towards the tail end of 2009.

Andy: What about all of this money we are spending? We've touched on it already but when we put it all together and consider the most recent stimulus package, the housing bailout that we are about to unveil, bailing out the banks and bailing out the car companies. Is it going to work or are we throwing money down the drain?

Drew: Well, we are definitely throwing money down the drain. But it is also necessary that we spend the money we are spending. I like to think of it like medicine; medicine

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doesn't necessarily taste good. And the aftertaste I think is really going to be felt in later generations as we burden them with the deficits and the borrowings that we are incurring. Andy, we learned that one of the things that happened during the Great Depression that really affected the nature of it and how long it lasted was the fact that the money supply shrank by one third in the couple years following 1929. We cannot afford to have the money supply shrink. Yes, it's ugly. When Glen Beck does his fancy analysis of how high up on the chart the money supply is, he is right on target. It is that high. But the consequence of not spending the money could be far more painful than dealing with it. We are deferring our excesses to future generations. That's the bad taste but unfortunately it is necessary medicine.

Andy: OK. Let's shift back to investments. Question: How have our hedge funds done?

Frank: Hedge fund returns depending on how you look at it have been OK. Last year hedge funds lost about half the stock market. On average they were down high teens to around 20%, which was about half what the stock market was. We were disappointed because we never thought hedge funds would lose that much money. Yet, if you step back and look at long term returns, hedge funds did as well as the market when the market was going up in 2003 to 2007. During the prior downturn from 2000 to 2002, when the markets were off 40%, hedge funds actually made a small profit. So if you look at the whole decade, despite being down high teens last year, hedge funds have had good returns. So far this year in 2009 pretty much across the board hedge funds had a slight positive return in January. At this point most hedge funds have low stock market exposure and have taken on some credit exposure. Like we said, credit improved slightly in January.

Andy: Well, more importantly, how do we think they are going to do going forward?

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Frank: Well, on a short term basis if people are still in liquidation mode, hedge funds will also be liquidating, which will not help performance. Like I said, they have pretty low stock market exposure right now. But going forward once we stabilize a little bit, we think hedge funds will do quite well. There is actually less than half the money in the hedge fund industry than there was a year ago. There was 2 trillion in hedge funds assets a year ago and now it's less than 1 trillion. There are some very talented hedge fund managers who think there are a lot of mispriced assets. So I think once we stabilize, it could be back to the glory days when hedge funds had really good risk-adjusted returns.

Andy: Great. However, all these scandals and cases of fraud have been scary to all of us and our clients. Did HB have any exposure to Madoff, Stanford or any other folks that are suspected of fraud?

Frank: We had no exposure to Stanford. Regarding Madoff, we had one client that came having already invested with Madoff. She sold part of her position since joining HB. With respect to H&B Hedge Funds I – III where we picked the underlying funds there was no exposure to Madoff. H&B Hedge Fund IV, which is a collection of funds, did have some exposure. One of the underlying fund of funds, Strategic Investment Management, which is in Washington D.C., did own one of the Madoff funds. So our exposure was 1.2% of the total H&B hedge fund IV portfolio. Even with that 1.2% loss, H&B Hedge Fund IV has had good risk-adjusted performance since inception. No other exposure other than that tiny exposure to Madoff.

Andy: What do we do to protect ourselves and our clients from investing with con artists like this?

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Frank: I will take that one too. For all new alternative investment managers, that is hedge funds, real estate and private equity deals, we have onsite visits. We also have started to make sure there are independent third party custodians and reputable accountants for alternative investments. We make sure there are other knowledgeable investors with deep pockets with a manager. Even with our public investment managers we have a conference call, we make sure we have a thorough understanding of their investment strategy and decision making process and the depth of their team. So another thing with Madoff is that it was a one or two man team. So we are trying to make sure there is a deep team and we understand the process. Now a related question that you didn't ask but I will answer anyway is about the financial health of Schwab. There were a number of brokerage firms, Lehman Brothers, Bear Stearns, Morgan Stanley, which all had financial problems to different extents. The problem was created because of leverage. They all were roughly thirty times leveraged so they had an asset base and then they borrowed against that and bought assets so all it took was a small decline in the value of those assets to create problems. Well, Schwab isn't in that business. They didn't create investments products and then invest in them themselves. They are only one third leveraged. They have very little debt in relation to their assets. The other question is despite all that, what if Schwab fails, or TD Ameritrade, or Fidelity, or wherever else we have client assets? The assets you have at a brokerage firm are segregated from the assets of the brokerage firm. They are your assets. So even if the broker did fail, your assets are segregated. If a brokerage employee somehow tried to misappropriate your assets, the SIPC protects your assets up to \$500,000 per investor. So it is something we monitor. We think your assets are safe at Schwab, and we are taking increased due diligence steps to avoid a Madoff or Stanford situation going forward.

Andy: Continuing on the theme of government guaranteed asset, a question just came in. Do you see the FDIC insurability level remaining at \$250,000 beyond this December?

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Drew: You know, we never discussed this but my opinion, Andy, is that they will continue to do that. I think one of the greatest things that occurred during the Great Depression was the decision to add FDIC insurance. I would also suggest to you two other things. I would suggest to you that they will probably continue their support of the commercial paper market through this year. And also I would not be surprised if they continue the money market protection through the end of this year. That one is the most likely though to be removed, in my opinion, in the not too distant future. Also I would like to mention to you that people don't realize that NOW accounts, accounts that pay less than 0.5%, also provide you unlimited amounts of insurance as well.

Andy: Last investment question. Who is holding the hottest hand? It's gold of course as we've hovered around the \$1000 an ounce level. What do we think?

Drew: Well, as an investor I am not a fan of gold. Gold is more for speculators. You know gold may go to \$1000 now. It may go to \$2000 because it is a market that is very volatile and is driven by speculation. You know for years, gold was the stored value for money. But that's been removed since 1971 everywhere and even before that in most countries. I would actually like to describe it more now as the stored value of fear. I don't think we are in a position to start speculating in gold as a stored value. I also would give you this kind of comparison, Andy, as to why I am not a buyer of gold. Like I said, it might rally from here if you are a risk taker. Which would you rather have for stored value? Twenty-five barrels of oil or one ounce of gold? To be honest with you, let me own the barrels of oil. I've got enough jewelry.

Andy: Clearly. OK, another question that came in, and we're going to wrap up here in a minute, is we've mentioned a lot of negative things; we've covered a lot of things that we

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are worried about. For example, the protracted recession and the problems in our system and the long time that it is going to take to come out of it. They are asking, what about some good news? Of course we did mention some positives and some opportunities that exist with stocks and bonds but what else is there? What have you guys got as far as good news?

Drew: Well for me Andy one of the positives is that my perception in some of the economic data indicates that the speed of the decline may be slowing. I think the fourth quarter was a period when we all became just paralyzed and the speed of the decline was the most rapid we had seen in decades. So I believe that we may start to slow down the pace. I would also suggest to you that one of the things that I am somewhat enthusiastic about is fact that we are not alone in being an economic power in this world and China is in better shape from a banking and lending standpoint. Their banking and lending facilities are moving forward. I am hopeful that by being a global economy with China we might see some chance for a recovery sooner because of our partners.

Frank: I'm going to add on to Drew's comments. Some economic news, believe it or not, is actually improving. Within the U.S. the December and January leading economic indicators were up mainly because of the money supply growth. Credit spreads have improved and of course that's the financing needed for the economy. On a long term basis you don't want this, but in the month of January the Core Producer Price Index was up. In order to have economic growth we need to have some inflation. As Drew mentioned with China, their economic stimulus package is far larger than ours as a percentage of Gross Domestic Product and they are spending the money now. So their leading economic indicators are up dramatically. Going back to the things the government supports, they support bank accounts, they support mortgages, they are guaranteeing some of the bank's bonds that they have bought, and now they are getting

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ready to support various consumer loans and various asset backed securities. They may get into the residential mortgage market. So as I said, that is going to open up tremendous opportunities for our fixed income and hedge fund managers.

Andy: Here is another question and the last question that we are going to take. I apologize; we've got some more here but we need to wrap up. We will get back to all those folks that have sent in a couple other questions in the last few minutes. But this one I think is a good one. "Psychologically, the recession and stock market downturn has been really tough on me. What do we need to keep in mind to get through this tough time?"

Drew: That's a good question. I have to be honest with you. I think that we have to keep in mind that we've been here before. This isn't the first time we've been through tough economic times. We like to think this hasn't happened before but it has. The truth is what it is going to require and the only thing I hold to is time. Spending will help but it is not the sole solution. The bank's ability by itself it not the sole solution. All of them contribute, but the main thing is that we have a portfolio and an approach to how we manage financial affairs that buys us the time to weather this period and it requires patience. It's going to take a lot of patience, Andy, for us to get more comfortable with this new consumer, this more inconspicuous consumer, if you will. It is going to take patience for us to go from being consumers to being savers. Which in the long term is a good thing. It is really is truly one of the things we need to see more of. But it is painful to get there. It's going to take more time for us to adjust to the fact that we are going to have to make different decisions regarding our consumption and how we run both the banking systems and the economy overall. So the fact that we have managed things in a way to buy us that time is the thing I take greatest comfort in. It is one that reduces my anxiety the most when I go to bed at night. We've been there before. We've managed

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through it before and this too will pass. I would like think that Obama is right in saying that we will come out on the side stronger for it. Either way we're going to come out the other side. We are going to survive through this. It's just going to take some time.

Andy: Right, and we all need to remember that with these downturns, opportunities are created. We mentioned that and went into detail on the last call that the opportunities that exist in most asset classes are the best they've been in a very, very long time. We said that November 20th; we believe it today. We just have to keep in mind what Drew said, that we have to maintain our patience. It's very difficult. We will make changes as we have been but we are convicted that we are putting each you in the proper asset allocation that you should be in. We will continue to talk about it and we do need and want you to be comfortable with your asset allocation so communication is going to be key. That about wraps it up. Thank you for listening. As always, my partners and I and all of us at Homrich Berg thank you for your trust, confidence, your patience and your friendship. Goodnight.