



ALTAIR ADVISERS

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Paul Laudicina, *Vice President and Managing Director, Global Business Policy Council with A.T. Kearney, Inc.*, spoke of an increasingly complex world that is putting tremendous pressure on corporations. With global integration, companies face more global risks, including both natural and technological disasters. In addition, companies face fundamental changes to their global operating environment, including an integrated labor environment and a shift from a manufacturing to a services economy. Paul pointed out that external events such as government regulation, political disturbances, and currency risk are often cited by CEOs as critical risks to their business, yet their firms focus mainly on internal risk management and don't do much planning to mitigate external risks.

Paul expects rising market volatility, but notes that we live in a resilient world where markets have historically bounced back from crisis after crisis. Paul also explained that there is little correlation between future performance of the economy and the outcome of presidential elections. However, he did note that the stock market has generally performed well in presidential election years over the past four decades.

Harold Kotler, *President and Chief Investment Officer with Gannett Welsh & Kotler, LLC*, described an economic scenario that has certainly been debated in recent years among economists, including those at the Federal Reserve -- deflation. Harold noted that it is common to talk of our "historically low" interest rates, but he reminded us that the media tend to focus on the fed funds rate, which is the overnight rate charged to member banks. Harold asserts that the interest rates that matter most to the economy are the longer term rates, which are determined by market forces. The 30-year Treasury bond has recently hovered around 5%, but it was as low as 2.8% in 1952 and was below 5% until 1967. He also expressed concern that the employment market in this age of globalization would suffer, but only in the short run, while we adjust from an environment once dominated by manufacturing jobs to one led by the services sector. Harold's deflation scenario included the argument that the rising price of oil is actually a deflationary force. Rising energy costs mean consumers have less to spend on other more discretionary goods, thereby reducing demand and putting downward pressure on prices. He also is troubled by the debt burden of consumers, noting that they have leveraged themselves to record levels and are essentially "tapped out."

Finally, Harold mapped U.S. interest rates, inflation, and equity market performance against those of Japan, a country struggling for more than a decade to extract itself from a recession and deflation caused by the bursting of its equity "bubble". The pattern overlay, which lagged 128 months, showed eerie similarities. Harold concluded by reminding the audience that although the probability of the U.S. economy following the Japanese experience may be low, investors should construct diversified portfolios that include bonds as a deflation hedge.