

September 6, 2011

The Beaten Up Investor

We feel beaten up as investors. Fears of a double-dip recession, angst over the European debt crisis and the volatility from high frequency trading makes us queasy about equity investing. Fears of inflation make us worry about long term bond investments, and yields on short term bonds are pitiful to nonexistent. Real estate is still a mess with workouts and continued abundant supply of residential housing. It also locks up your capital for long periods of time. The seemingly easy alternative of just leaving money in cash is not a panacea as near zero interest rates mean we earn a negative return when considering that inflation is probably running at the rate of two and a half percent. And to boot, at this time we have little confidence in those responsible in Washington to implement prudent fiscal policy that will improve unemployment, bring certainty to our future taxes, and deal with our country's growing debt burden.

And if all of that isn't enough, Mother Nature has punished us with both a direct hit from Hurricane Irene and the shock of a recent nearby earthquake (for those of us in the metro NY area). However, we believe there is a silver lining to all of this. It comes in the form of what we believe is an opportunity to take advantage of the mispricing of high quality larger companies that has resulted from the aforementioned volatility.

We have been in this business for a long time. We collaborate with smart people who have also been doing this for twenty, thirty or more years. We have all lived through scary times both economically and geopolitically. Our country has been challenged before by war, recession, political uncertainty, hyper inflation, and downright pessimism. Yet, when we see great companies selling at distressed prices while possessing stellar balance sheets and global opportunity, we see the potential for capital appreciation. We also see great innovation in this country. Whether it's the iPad, new drugs combating cancer, cloud computing, or social networking, Americans are alive and well with a resilience which has always been the envy of every other country. This has not changed (although most of us are somewhat down over the circus-like environment in Washington). So, what does the beaten up investor do?

Well, we believe we should try to take advantage of this by not cowering to the herd mentality of running for the hills and hiding in cash and overpriced bonds. History shows time and time again that the average investor sells when overtaken by fear and buys when obsessed with greed. The result is buying high and selling low. This is not a prescription for making money. Today, we believe that prices for many large high quality companies have been mispriced by fearful investors. We believe it makes sense to take advantage of these abundant opportunities. Our views are based upon our belief that we will not fall into recession; we will just experience slow

domestic growth. We believe that the pathetic display in Washington will give way to some greater cooperation. We also believe that the strength and leadership of the private sector will protect the integrity of our investments. So, we ask you to work with us to better position you to reap the benefit of what we believe to be good discounted businesses that are available through a prudent asset allocation. This opportunity may take time to be realized (meanwhile you can collect high dividends in some cases) and there will still be volatility. However, fear has set our table with what we believe is an opportunity. We ask you to view the future as an investor with some optimism as great companies to us are on sale or are misunderstood. And, you can access this opportunity through our defensive equity strategies that mitigate some of the volatility, including Mother Nature, that we will be confronted with.

We look forward to discussing this with you or meeting with you in the near future.

Best regards,

Robert D. Rosenthal
Chairman and
Chief Executive Officer

*The forecast provided above is based on the reasonable beliefs of First Long Island Investors, LLC and is not a guarantee of future performance. Actual results may differ materially. Past performance statistics may not be indicative of future results.

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