Interviewee:	**Michael Aronstein**
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Interviewer: 1	**Ken Prewitt**
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Ken Prewitt
Michael Aronstein is going to be joining us from Marketfield Asset Management. Good morning Michael. Sit down. Have a seat. How are you?

Michael Aronstein
Thank you.

Ken Prewitt
Let me ask you about earning season here. Does it seem to youð we haven't done a study yetð but it seems we're hearing from more and more companies that exceeded earnings estimates but missed on revenues.

Michael Aronstein
Yeah. I think costs actually have been restrained a lot more than people thought. I don't know. On the revenue side, I think it's idiosyncratic; I don't see a general picture. Certainly there's been softness in other parts of the world that's affected some of the multinationals. You're hearing it about Europe and you're hearing it about Asia, and that's not a big surprise, I think. Although people really get obsessed with the sort of numerology of this, I think, to an overly precise degree. Now it's happened for the last several years; you've had some-- I mean, McDonald's is an interesting one. I know that they've had in the pastð we've owned them for three yearsð in the past three years they've had several quarters where something has disturbed people and the stock sold off, and then it's gone right back a month or two later to continue to make new highs. So I don't know, I'm not that focused on the particulars of the earnings season. Other than to hear from management's impressionistic sense of what's going on in the world, I don't hear too much.

Carol Massar
But they're so careful about what they say.

Michael Aronstein
Yeah, they have to be in this day and age.

Carol Massar
So do we really get much from those statements?

Michael Aronstein
No. I think it's all run through their PR agencies and it's meant to...

Ken Prewitt
And the lawyers.

Michael Aronstein
Yeah. It's meant to not upset the apple cart. It's really pretty bland. And to the extent that you have a CEO that's inclined to be a little more dramatic or flamboyant, I'm sure they throw a lasso around him or her, just try to keep him quiet.

Carol Massar
A lot of hand signals on the analyst call.

Michael Aronstein
Oh yeah, absolutely.

Carol Massar
Listen, a name like McDonald's, I'm just looking at it, because Ken and I were talking about it earlier. I mean, you own this. In the last couple of years, you've done really well: 30% last year, almost 23% the year before. So Michael, what do you do with a name like that? You still hold it. You said you had it for three years, but do you start to take some money off?

Michael Aronstein
We're actually cutting it back.

Carol Massar
You are?

Michael Aronstein
Yeah. It's getting, I mean, to some extent, we are drawn to things that are not obviously attractive. It's just in the nature of what we do. We not only compare our view of what's going on in the world with what people's opinion happen to be, but we also want to see whether or not the markets reflect some skepticism about our view. And you know, I think gradually people are coming around to kind of a belief at least in the large cap less volatile U.S. equities. It's a big change from two and half years ago.

Ken Prewitt
In general, Michael, not just talking about McDonald's, do you find that the ῆbuy lowὸpart of the equation is easier than the ῆsell highὸpart?

Michael Aronstein
Yeah, for me, because you can, I mean, there's a point at which, in terms of stocks that have been sold off or assets that have been sold off, we really can look at kind of a return equation, a yield equation or a price-to-book, or price-to-earnings equation. It's almost unviable on the down side where you don't really what the price does going forward. A good current example now is houses. You can buy homes all over the United States that are down 50% from their peak, some 60 or 70%, and on a cash basis, you could rent them out and get yields of 10, 12, 14, 16%. When you get to a level of return that's been prompted by a decline in the price of the asset that's like that, you don't care going forward whether the asset goes up or not because the return characteristic is so attractive.

Ken Prewitt
12, 13, 14%: is that factoring in depreciation, or is that extra?

Michael Aronstein
Well, that's current. I mean, you've already had 40 to 60% price depreciation under the bridge already. So and it's a time people are skittish about lending against these assets. I would think it's the safest load a bank could make at this point, you know, lending against-- the cost to carry a house on monthly terms when you multiply the house price by the mortgage rate and take 80 or 90% financing is back toð in dollar termsð where it was in 1979. And I don't know about you, but in 1979 when I worked for Merrill Lynch, they paid me a thousand dollars a month, and I'm earning more than that now. And so the balance between the cost of shelter and the rest of the economy now has swung so far in the direction of value, I think, that it's almost immaterial whether the house price stays here, goes down 2% a year, goes up 5%. Now you've reached a level. Whereas on the top side there's no similar calculus until you get to really absurd levels

where every human being on Earth has to buy a particular product in order to continue the earnings growth of a company. But that's rare. So it's easier to be a value buyer than a value seller by a lot.

Carol Massar
Speaking of value, I thought it was interesting in your note that you talked about you guys are moving in the direction of early cycle sectors and that includes housing.

Michael Aronstein
Yeah. We've been buying housing and construction related stocks for the last quarter or so, actually a little bit more.

Carol Massar
It's doing pretty well. I mean, some of those housing names have really had a nice bounce. Mind you, they got hurt pretty badly.

Michael Aronstein
Yeah, off a very low base. And they'll probably have to digest that for a while. They got pretty ahead. But I think what people overlooked last year, and in a big picture sense, is the decline in interest rates that we had. You know, a year ago, the 10-year was yielding around 3.60, 3.70, somewhere in that vicinity, and it got to 1.80 recently. Now that is a huge decline. That's enormous. In fact, on the long scale, it's the biggest one we've had in 50 years.

Ken Prewitt
This discussion has been going on for three years now, Michael. Do we want to buy bank stocks or not?

Michael Aronstein
Well, I think you've passed through the worst of it. We've actually bought a number of regional banks over the last several months. Maybe I'm too close to the industry to really get into the big integrated investment banks. I know how difficult a business it is and is going to be. But no, I think the acute phase is over with.

Ken Prewitt
Okay, but the regionals are the place to be, not the Citis and JP Morgans, Wells Fargos.

Michael Aronstein
Yeah. I just think the banks that are flying under the regulatory radar are going to have a much easier time of it. You know, this is an industry, the regulatory climate is a little bit reminiscent of what happened to the railroads back three generations ago when they were considered the cash cows that everybody in government could get their hands on, and they regulated them all into essentially bankruptcy. You know, we wound up after 40 or 50 years of intense regulation, we round up with two government-run railroads really and a couple of freight lines left. So maybe the long term picture for some of these really colossal financial institutions is similar. Every industry that becomes overly successful attracts the attention of the political class, and it's not a good thing.

Carol Massar
So Mike, the pops that we've seen in names like Citigroup or JPM so far this year, it's just temporary in your view? It's not something, that there can be a little more room to run that it's worth maybe playing with it a little bit here?

Michael Aronstein
I don't think structurally over the long term these are going to get to be really good businesses.

Carol Massar

What about short term, though, taking advantage of a little bit of a pop here?

Michael Aronstein
Now, I try to stay away from doing things like that. We have to have something of a durable thesis before we go into a group or into a stock. And you know, this kind of environment for the localized volatility people that get into a lot of trading are really asking for it because one mistake, you get on the wrong side of something or the market, and all of a sudden you find yourself 10 or 15% the wrong way. The pressure it puts on you to either change, which means that's the old ñbuy high, sell lowòkind of pattern that you can get into.

Ken Prewitt
Bank of America, up 30% this year. So far, don't be tempted, huh?

Michael Aronstein
Well I wouldn't be so categorical about that. But I just think these are very difficult businesses going forward. And like businesses that have fallen under the regulatory handð like the utilities in the late '50s, early '60sð the path forward, I mean, it's not uniformly bad, but it just becomes really difficult. I mean, you're really rolling a rock up a hill.

Carol Massar
What about the path forward politically? If, for some reason, we see some significant changes come the elections, could that change your outlook, the outlook, for some of these big name financials?

Michael Aronstein
I'm not sure that's where I would go first if we do get a regime change in the United States. I think it would be generally quite positive for the state of business. But I think there are other businesses that haven't just gone through kind of a big, an over-expansion and then the beginnings of a big contraction. That problem that the big banks have is the cost infrastructure that's left over from their hey-day and tried to fit that into a world in which the margins and the activities that they're going to be involved with, and nothing like they were between '02 and '07. I don't think the banks are every going to go on a feeding frenzy the way they did in mortgage securitizations and things related to leverage finance.

Ken Prewitt
They did treat the commercial real estate bust in the early '90s as kind of a learning experience. So they do learn things as they go along, right?

Carol Massar
Yeah. But it doesn't prevent them from going in another direction.

Michael Aronstein
Yeah. The commercial real estate bust, if you want to see the enduring effects, you look at the Japanese financial institutions, and those are really the ones that were in the middle of it, and they're still trading down 85, 90% from their peak valuations.

Carol Massar
What about bank bonds? I bring it up because there's a story on Bloomberg: *bank bonds rallying the most in more than two years as the U.S. economy gains strength and the ECB's emergency loans ease the pressure to overwhelm the global financial system.* So you're looking at financials; bank bonds also of interest in your view? Not so much?

Michael Aronstein
Not so much. We're willing to take equity-type risks. And the bank bonds, some of the European banks and obviously some of European sovereigns got to really depressed levels where the returns on offer were equity-like. But the problem with Europe, and I think the acute difficulties are

over with, and Iôve thought that for a couple of months as the ECB finally got the message. But the resolution of it, the apportion of the pain is a political process. And the political processes on the continent are pretty erratic and pretty whimsical. It's a tough thing to try to forecast. So we sort of stay away from-- I mean, I have a strong sense of what the markets are going to force the politicians to eventually do. But how they do it in response is beyond me.

Ken Prewitt
Michael Aronstein, Marketfield Asset Management, thanks for joining us. Thanks for coming in; we like to have people in the studio.