

April 30, 2010

The Stock market's powerful rally over the past year has significantly reduced the losses that many investors experienced during the stock market collapse of 2008 and early 2009.

You might recall in our letters as well as in our telephonic conversations during that time, we stated it's time in the market and not market timing that counts. We emphasized that markets tend to have large parabolic moves which are difficult if not impossible to predict. We warned that by going entirely into cash and potentially missing the initial surge it could significantly alter your long term performance.

Illustrative of that point by the first week of March, 2009 the Dow Jones Industrial Average had declined 54% from its record close on October 9, 2007. However, by the end of trading on March 26, 2009 the Dow Jones Industrial Average had gained 21% in 13 days, one of the fastest 20% rises in stock market history.



Had you exited the market entirely when it looked as if the world economic system would implode, and remained steadfastly on the sidelines, think how awful you would feel in light of the Standard & Poor's 500 74% gain from its March 9, 2009 low.

I remember quite vividly the telephone calls we received in 2008 from a number of longtime clients advocating abandoning the market entirely or at least temporarily going largely into cash, even as we talked about the distinct possibility that this period could turn out to be a once in a generational buying opportunity.

For those of you who stuck with us congratulations, for those of you who could not take the pain of having equity exposure during a time of extreme volatility, it is not too late to profit from the market meltdown. While the market has gone up dramatically since the March 2008 lows, we are still far away from the 2007 market highs. In addition, there are many publicly traded businesses that are still selling at significant discounts to our estimate of their intrinsic or private market values and many of them pay handsome dividends.

During the past two years individuals have significantly reduced their stock exposure in favor of bonds. Investors are afraid that the stock market, having advanced so quickly and dramatically is heading for a fall. It is quite possible for the market to experience a significant correction at least during the short-term, but we believe bonds will take a back seat to stocks in terms of performance over the next decade.

Reasons to Be Bullish

- Unlike governments throughout the world whose balance sheets are highly damaged, the vast majority of U.S. corporations are highly liquid. They are sitting on 1 trillion in cash which equals 11% of assets, the highest since 1955.
- We are very early in the business cycle, consequently it is probably much too soon for a new bear market to emerge.
- Pension Funds and individuals percentage of total assets that are invested in stocks is the lowest in decades. Remember, people feel safety in numbers. Investors tend to get more and more optimistic, and knowingly take greater risks during periods of euphoria. If the market continues to rise for a prolonged period of time individuals will re-enter the market just as it is ready to swoon. History indicates investors tend to buy high and sell low.
- Low interest rates inhibit savings causing investors to take larger risks to enhance returns. This usually is a prescription for financial disaster. Rising bond prices is not a one way street, as interest rates climb, as we believe they will and the value of bonds drop, investors will most likely flee debt instruments in favor of equities extending the stock market rally.

We realize that the world is not entirely rosy (in fact the world is far from being so) and history teaches us that at any given time there are always reasons not to want to invest in the stock market. We have enumerated some of our greatest concerns below. In our opinion, however, over the long term the rewards of stock market participation far outweigh the risks we currently perceive.

Reasons to Worry

- The spiraling debt burden facing the U.S. is daunting; it now represents almost 10% of GDP which is an extremely dangerous level.
- Approximately 50% to 60% of China's GDP is construction related. Just as we warned of the inevitable collapse in the U.S. housing market, we believe China is in the early stages of a significant real estate bubble. The Chinese government has already expressed significant signs of concern. They have raised interest rates and told local banks to significantly reduce loans for real estate construction. These measures are probably too little and too late as there are already numerous empty buildings throughout China. More importantly, real estate has become very expensive and unaffordable to most of the Chinese population. A meaningful slowdown in China could negatively impact the world's economy, commodities and commodity related stocks would be hurt the most.
- Healthcare – the recently enacted health care legislation enables 30 million uninsured Americans to gain access to health care. Unfortunately, the bill does not fully address how we are going to pay for it.

The March 2009 Panic Lows

Investors are making a big mistake by focusing on the March 2009 panic lows and the subsequent stock market advance as a reason not to reenter the market. The low point resulted from a confluence of events occurring at the same moment in time. Hedge funds were forced to delever by the banks who lent them money, mutual funds had record amounts of redemptions, individual investors were pummeled with an avalanche of margin calls and investors quite frankly could not take the pain any longer and told their brokers to get them out, price didn't matter "just get me out". Had these investors not exited the gates simultaneously, stocks would not have been driven to such low levels. This pure panic resulted in a once in a generation buying opportunity.



The most important question investors should be asking themselves is... are stocks still cheap and can I get a reasonable return over the next five to ten years? While there are no guarantees, we will be surprised if this does not turn out to be the case.

It is Quite Possible the Leading Stock Market Indices Could be Flat for the Foreseeable Future

If history is any guide, markets that tread water offer plenty of opportunities for patient investors. According to Tobias Lovkovich, Citigroup's chief U.S. equity strategist, the depression years saw five major rallies from 1932 to 1939. The average gain: 93 percent.

The sideways market that lasted from October 1975 to August 1982, saw 38% of the 500 largest stocks double at some point during that stretch – even though the Dow ended the period right where it started, at 784. During the aforementioned period our research service had some of the best absolute and relative performance in our 35 year history.

How the Boyar Group is Taking Advantage of the Financial Meltdown

As you may know, I began publishing independent research about the stock market a long time ago: in 1975, to be exact. This year, as I celebrate my 35th anniversary as an independent research provider, I've taken the opportunity to think about how I can make our research even stronger for the next 35 years.

As a result of this reflection, I am implementing a number of changes, the most significant of which is that I am shaking up my research team. The financial crisis has left a number of first-class analysts on the sidelines, and I'm taking advantage. There is no room on my team for anyone who is mediocre. It's a buyer's market for research talent, so everyone has to be outstanding, and they will be.



Over the long term we believe a more seasoned team and a "best in breed" analytical team should help to bolster our long-term results. Obviously there are no guarantees that this will occur, but nobody will be able to accuse us of not trying to take advantage of this unique moment in time.

The Hidden Costs of Mutual Funds

How much does it cost you to own a mutual fund? Probably a lot more than you think.

In selecting mutual funds, most investors know to check the expense ratio, the standard measure of how costly a fund is to own. U.S. stock funds pay an average of 1.31% of assets each year to the portfolio manager and for other operating expenses, according to Morningstar Inc.

But that's not the real bottom line. **There are other costs, not reported in the expense ratio, related to the buying and selling of securities in the portfolio, and those expenses can make a fund two or three times as costly as advertised.** (emphasis added)

"These trading and transaction costs are very real," says Stephen Horan, head of professional education content and private wealth at CFA Institute, a nonprofit association of investment professionals. "While it's very important to look at that expense ratio, it's just not going to capture" all of the costs, Mr. Horan says...

"The average investor can't really even begin" to get a strong grasp on these additional costs, says Richard Kopcke, an economist at the Center for Retirement Research at Boston College who co-wrote a recent study about fees and trading costs of mutual funds in 401(k) plans. "There's just not enough information. Not even close."

Even experts come up with some very different estimates. Mr. Kopcke's study looked at the 100 largest U.S.-stock funds held in defined-contribution plans as of December 2007 and found trading costs for the funds that averaged from 0.11% of assets annually in the quintile with the lowest costs, to 1.99% of assets in the quintile with the highest costs, with a median of 0.66%.

A study updated last year of thousands of U.S.-stock funds put the average trading costs at 1.44% of total assets, with an average of 0.14% in the bottom quintile and 2.96% in the top. Expenses are one of the most important things investors can look at, says study co-author Richard Evans, an assistant professor of finance at the University of Virginia's Darden School. "We find that our estimates of trading costs" are an important predictor of performance. While "some trading actually adds value," Mr. Evans says, high trading costs overall tend to have a negative impact on performance. On average, \$1 in trading costs decreased net assets by 46 cents in this study.

Mr. Horan, meanwhile, estimates that trading costs for stock funds total 2% to 3% of assets annually, though conservative estimates place them closer to 1%, he says.

Identifying Costs

What exactly are these costs?

There are four main components: brokerage commissions bid-ask spreads, opportunity costs and market-impact costs.

The brokerage commissions a fund pays to buy or sell securities are the simplest piece to understand. The SEC requires three years of brokerage costs in dollars to be disclosed in a fund's statement of additional information. Putnam Investments, for example, reported commissions of \$21.5 million for its Putnam Voyager fund for the fiscal year ended last July 31. Doing some math, that was



equal to 0.69% of the fund's \$3.12 billion in assets on July 31, on top of a reported expense ratio of 1.26%...

But the SEC doesn't require commissions to be factored into expense ratios. The commissions only tell part of the story and so could be misleading, the SEC explained to Congress in a 2003 memo, and the agency has not revised this position.

Commissions typically make up less than half of a fund's total trading costs, says Mr. Horan. The other three components are much harder to quantify...

When a fund has high trading costs, that's "a higher hurdle to clear when coupled with the expense ratio," says Russel Kinnel, director of fund research at Morningstar Inc...

The SEC voted last year to require fund companies to disclose one year of turnover in the front of a prospectus, in the summary, in addition to the previously required five years of turnover disclosed in the financial-highlights section sometimes found near the back of the document.

Turnover of more than 100% can indicate trading costs may be on the high side, Mr. Kinnel says. In a Morningstar list of the 200 largest U.S.-stock funds, the funds with the highest turnover ratios were CGM Focus, at 504%, and American Century Equity Income, at 296%. Of the 32 funds that had turnover above 100%, 11 were from Fidelity Investments, topped by Fidelity Advisor Mid Cap, at 244%...

WSJ by Anna Prior March 1st, 2010

The Boyar Value Fund has a long-term bias; consequently its commission's costs relative to the size of the fund are among the lowest in the industry.

Year	Commission's as a % of assets for the Boyar Value Fund
2009	0.11
2008	0.10
2007	0.02
2006	0.04
2005	0.04

With Fistfuls of Cash, Firms on Hunt

One year removed from the trough of the recession, American corporations continue to hoard more cash than ever. There are now tentative signs that they are finally comfortable using the money to do some shopping.

The 382 nonfinancial firms in the Standard & Poor's 500 that have reported results for the fourth quarter of 2009 are now holding \$932 billion in cash and short-term investments, according to a Wall Street Journal analysis of data from Capital IQ. That sum is up 8% from the third quarter



and up 31% from a year ago.

At a time of low interest rates, reopened credit markets and growing optimism about the economy, CEOs and their boards seem to be questioning the wisdom of sitting on all that cash. And with the S&P 500 still trading 29% below its October 2007 peak, companies are deciding that cash is their preferred currency for acquisitions—rather than shares they see as undervalued....Through the first two months of the year, the percentage of all-cash deals in the U.S. more than doubled from 2009, according to an analysis by Thomson Reuters. Nearly 50% of deals this year have been all-cash offers, up from 24% of deals in 2009 and on par with 2006 and 2007, when credit was in oversupply.



"We are sitting on a lot of cash and generating a lot as well," said Wade Miquelon, chief financial officer of drugstore chain Walgreen Co., which last month spent \$618 million for the New York City drugstore chain Duane Reade. "Sitting around on all that cash and have it earning very little interest really does not make a lot of sense."

WSJ written by Jeffrey Mcracken and Tom McGinty: March 4, 2010

Fuel for Stock Rally: Bond-Market Exodus

First a trickle, then a flood. Investors high-tailed it out of the stock market when the financial crisis hit, pulling some \$243 billion out of stock mutual funds in 2008 and 2009, according to the Investment Company Institute.

Their destination: safer havens such as bond and money-market funds. The rush for the exit helped push the Dow Jones Industrial Average down as much as 54% from its peak through the March 2009 low.

Stocks have since staged a dramatic comeback, although many investors are still parked in bonds, haunted by stock losses—a key reason many question how much further the current rally can run.



Now there are signs that investors are growing bolder. More than \$19 billion has flowed into stock funds this year, according to ICI estimates through March 10. This means the soon-to-end first quarter likely will show net inflows into stock funds, compared with a \$41 billion outflow in the first quarter of 2009.

The pickup comes as investors have slowed their stampede into bond funds. The Dow Jones industrials and the Standard & Poor's 500-stock index have rallied roughly 70% since last March.

And the prospect of ultra-low interest rates for "an extended period," according to the Federal Reserve, also has investors rethinking their exposure to stocks.

A year ago, "we could have talked blue in the face about the once-in-a-lifetime opportunities" in stocks, but clients "wouldn't even pick up the phone," says Gary Flam, equities portfolio manager at Bel Air Investment Advisors in Los Angeles. Now, Mr. Flam says, clients "are more open to it, they're proactively contacting us asking if it's time to get in."

This in turn may create new momentum for stocks. "Investors are hungry for returns and see that opportunity in equities right now," says Robert Adler, head of Lipper FMI Americas. "It creates upward pressure on prices."

Of course, investors getting into the market now can't expect the kinds of returns as those who partook in the recent rally. And flows into bond funds are still outpacing those into stock funds. Any sign, though, that the bond-loving masses may be ready to switch will give bulls another reason to cheer.

WSJ- Penned by Kelly Evans March 25, 2010

Junk bonds Sell in Record Volumes

Companies have sold risky debt in record volumes this year as low interest rates have fuelled investor appetites, even though fears over Greek bonds have disrupted debt markets in recent weeks.

Global issuance of bonds with ratings below investment grade, known as high-yield or "junk", totals \$67.8bn at the end of the first quarter, an all-time high for the first three months of the year, according to Thomson Reuters.

The surge in junk bonds has been driven partly by private-equity backed companies refinancing the massive amounts of debt they took on during the buy-out boom of the last decade....

Persistently low official rates have driven yield hungry investors out of money market funds into higher yielding investments like junk bonds.

Meanwhile, economic growth and receptive capital markets have improved the prospects of lower rated companies. Default rates are expected to drop under 5 percent this year from a peak of 14 per cent globally in 2009, says Moody's Investors Service...

"The risk trade is back on," said Mark Vaselkiv, high-yield portfolio manager at T Rowe Price. In the US, junk bond investments have earned a return of nearly 60 per cent over the past 12 months, according to a Bank of America Merrill Lynch index.

But the sharp gains and the wave of supply over the last year have led to warnings that investors are chasing performance and that the rally may run out of steam soon. The torrid pace of issuance follows \$176bn last year, the second highest annual tally, Thomson Reuters says.



Financial Times by Nicole Bullock: March 28, 2010

The Bond Market is Saying That it's Safer to Lend to Warren Buffett than Barack Obama.



Two-year notes sold by the billionaire's Berkshire Hathaway Inc. in February yield 3.5 basis points less than Treasuries of similar maturity, according to data compiled by Bloomberg. Procter & Gamble Co., Johnson & Johnson and Lowe's Cos. debt also traded at lower yields in recent weeks, a situation former Lehman Brothers Holdings Inc. chief fixed-income strategist Jack Malvey calls an "exceedingly rare" event in the history of the bond market...

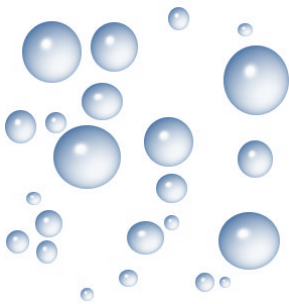
"It's a slap upside the head of the government," said Mitchell Stapley, the chief fixed-income officer in Grand Rapids, Michigan, at Fifth Third Asset Management, which oversees \$22 billion. "It could be the moment where hopefully you realize that risk is beginning to creep into your credit profile and the costs associated with that can be pretty scary."

While Treasuries backed by the full faith and credit of the government typically yield less than corporate debt, the relationship has flipped as Moody's Investors Service predicts the U.S. will spend more on debt service as a percentage of revenue this year than any other top-rated country except the U.K. America will use about 7 percent of taxes for debt payments in 2010 and almost 11 percent in 2013, moving "substantially" closer to losing its AAA rating, Moody's said last week...

The last time there was talk of the U.S. losing its status as the world's benchmark for bonds was in the late 1990s, when the government began amassing budget surpluses in 1998 for the first time in almost three decades. The amount of Treasuries outstanding dropped 8 percent to \$3.4 trillion in 2000, the biggest annual decline since 1946.

Bubble Noise in China, Hong Kong

Hong Kong— One is a China state tobacco company. Another, a Japanese ramen chain. And finally, there is an obscure Hong Kong semiconductor maker.



What they have in common: They are some of the latest companies to jump onto the real-estate bandwagon as prices soar to gravity-defying levels in Hong Kong and mainland China. Some experts see the growing involvement of nontraditional players as yet more troubling evidence of froth in both property markets.

Last week, a small maker of diodes and transistors called Sino-Tech International Holdings Ltd. shocked investors by announcing that it was "diversifying into the property sector," buying a luxury three-story residence in Hong Kong's swank Peak district for more than HK\$280 million (US\$36 million) in cash, one of the biggest sums ever for a property here.

Sino-Tech wanted to take advantage of "a good investment opportunity" and "diversify its income base," the company said, but shareholders were unimpressed, shaving off about a quarter of the company's market capitalization in two days. That made Sino-Tech the latest in a string of companies large and small, state-owned and privately run that are piling into Hong Kong's and mainland China's property market— despite no demonstrable experience in the sector....

Regulators and market players worry these investors are pushing prices to irrational levels, paying sums of money that better reflect the ability to tap deep wells of cash than market fundamentals. For instance, office values have held steady in cities like Beijing and Shanghai despite vacancy rates of about 20% and a drop in rents by as much as 40%.



In February, official numbers show that residential-property prices in 70 major Chinese cities rose 10.7% from the same period a year earlier, the fastest pace in years. In Hong Kong, property prices are back to where they were during the city's biggest bubble, a speculator-driven run-up that burst with dire consequences during the 1997-1998 financial crisis. In recent months, a series of record-breaking transactions in Hong Kong's luxury residential market has forced nervous officials to clamp down on mortgage lending....

Some experts have pointed to Japan's 1980s real-estate bubble as a precedent, when bakery owners and other relatively unsophisticated investors were jumping into the market with splashy purchases that backfired when prices collapsed. In that case, property prices rose with little regard for fundamental metrics, such as rental yields, with purchases justified purely on the basis of the expectation of capital appreciation.

The situation may be even more extreme in China now; because Beijing's tight capital controls keep excess cash bottled up domestically, limiting investment to either stocks or property...

In recent weeks, central leaders have talked tough on reining in soaring property prices and have punished developers who buy up land only to sit on it, apparently waiting for market conditions to improve before developing and marketing the land.

Last Thursday, Beijing's State Assets Supervision and Administration Commission ordered all state-owned enterprises with no core business in the real-estate sector—78 by its count—to get out of the property market. On Monday, the commission gave the companies 15 working days to present their plans. State-owned enterprises have been known to flout central government directives in the past. Enforcement of such measures outside China's largest cities is spotty at best, and state-owned enterprises are only one part of a trend that includes companies without state backing, and even wealthy individuals.

WSJ- Written by Jonathan Cheng

P.S. If you have any questions or comments please don't hesitate to call.

Best regards,

Mark A. Boyar

P.S.S If you would like to receive a copy of Boyar Asset Management's most recent ADV Part II please notify us by phone or in writing and we will provide you with a copy.

* Low commissions as a percent of fund assets are not necessarily indicative of past or future investment returns. Commissions are just one component of a fund's total expenses. Like all investments, investments in mutual funds involve risks and investors may lose money. Please read the Boyar Value Fund prospectus before making an investment in the fund. For additional information about the Boyar Value Fund, including but not limited to historic investment performance, please visit www.bovarvalue.com.

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