Keller Quarterly

Letter to Investors

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Back before talk radio became the domain of either political opinionates or "shock talkers," it was dominated by the friendly conversation of morning humorists in the path established by Arthur Godfrey. Here in St. Louis, a very funny fellow named Jack Carney dominated the airwaves in the mid-morning for a generation. At least a quarter of all the radios in the area were tuned in to his show during his time slot, ratings current radio execs can only dream of. One of his recurring call-in guests was an elderly woman named "Miss Blue." She and Jack engaged in funny chit-chat that always began and ended with her pronouncing (in a delightful Southern accent) that, "Aaw-ll is way-ll!" You just had to smile when she said it. I think of her when I field calls from agitated friends who are concerned that the world is falling apart. I just want to tell them that, "All is well," and have it calm them in the way that Miss Blue did.

Of course, people won't believe that *all* is well, which, of course, it never is. But *all* is rarely on the verge of doom either, even though these days that's what many people seem to think. We are always wrestling with a number of difficult problems in the world economy; the trick is to identify the ones that really matter. Only rarely do the ones that the "talking heads" fixate on really matter to your portfolio. In a nutshell, here are the problems that I think really matter:

1. The level of U.S. consumer debt is still relatively high (though down quite a bit from seven years ago), leading to low levels of consumer spending and, hence, slow growth in the U.S. economy. These phenomena won't change anytime soon.

2. China and the emerging markets are seeing their growth decelerate at alarming rates, simply because the U.S. is not buying as much of their goods as it used to. China, in particular, is trying to transition to a more sustainable consumer-oriented economy, but this transition will take a very long while and will probably stumble a few times. These phenomena will probably get worse before they get better.

3. Our Federal Reserve seems determined to raise short-term interest rates, even though we see no inflation problem coming and believe there is a fair amount of "slack" in our economy. I was glad to see them postpone the rate increase last month and hope they keep postponing it. This question of Fed policy will remain with us for quite a while.

Problem #1 has been with us for a long time, so we've learned to deal with it. Slow growth is no fun but, like getting old, it beats the alternative. Problem #2 will continue to trouble us, but because we buy a lot more from the developing world than we sell to them, their problems will generally *not* be imported to us. We are embarking on a time, I believe, when the emerging markets' economies will be worse than ours. Finally, problem #3 is the one we should worry about the most. Although they are well-meaning people, the Fed's Open Market Committee has sometimes done harm by setting the wrong policy at the wrong time. We are encouraged that they are still waiting to raise rates.

As I noted in last quarter's letter, investment conditions in the U.S. really are much better than the rest of the world. Particularly after the recent decline in equity prices, U.S. stocks are more reasonably priced than we've seen in a while. It appears to me that the investor pessimism is considerably "over-shooting" the reality of the situation. In other words, I think the investment outlook is much better than it "feels," even if it's not quite as good as Miss Blue would say.

Thank you for your confidence in us.

Gratefully,

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CEO and Chief Investment Officer

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