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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Applying a Value-Based Style in a Momentum-Based Market

JOHN G. ULLMAN is President and Founder of John G. Ullman & Associates, Inc. Earlier, he was President of USGM Securities, Inc., and at Corning Inc. worked in financial management. He received a bachelor's degree in economics from Johns Hopkins University. He received an MBA from the University of Chicago, with a focus in financial management. He was named the Corning Chamber of Commerce Small Business Person of the Year in 1997.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm? It sounds like an exciting time.

Mr. Ullman: Thank you. It is. We just finished our 40th year of operation, and we believe we have a very special organization. The concept is to be the family business manager, handling essentially everything that is quasi or directly financial-related for extended families. This would include asset management, financial planning, and in the financial planning area, it gets involved with cash flow studies and projections, establishing risk tolerances for investments, tax planning and preparation, insurance reviews, estate planning and many other types of related projects.

We deal with many executives, so the process of understanding their individual companies, with stock options, restricted shares and many other types of compensation and integrating it with everything else in their financial program would be one key area. Other areas include helping people with anything to do with identity theft. We've gotten involved when people have had health issues trying to network them with places to get assistance. We've been involved with college counseling too. Many of our clients' children benefit from getting broader views of particular differences among colleges, and we try to find the right balance of acceptance and potential colleges for them in this very competitive environment these days.

But most of our efforts are in the general financial planning areas that focus on taxes, cash flows, investments and insurance reviews, as well as estate planning. We have our own investment research department; we do our own security selection, utilizing individual issues. We have targeted sectors and have an established risk program for each individual client, so each has an individualized and customized investment program. We have, in addition to our research team, a securities trading group and a portfolio management function. Our clients, who generally hold between a quarter of a million and $10 million of assets to manage — there are accounts that are larger — understand that having a very customized program is probably uncommon these days.

During our 40th year, we've been working with our management team and our directors in putting forward a strategic plan that is now being implemented. We've been adding quite a few people for growth and very importantly for a few transitions. We have a lot of very experienced advisers. We have 13 senior advisers and 12 associate advisers. And with pending retirements, having trained people with very high levels of skill is essential.

We're adding new facilities and technology and are hoping to open additional branch offices. We currently are located in Corning, New York, with a branch office in Rhinebeck, New York, and an affiliate in Rochester, New York. And we are in the process of assessing some additional locations, most likely in the Northeast, but there are possibilities that may also be farther south.

And it is an exciting time because there's so much going on in the world, with the U.S. economy, the markets, valuations and the opportunity that we have to extend this very comprehensive holistic approach and try to have the opportunity and privilege of working with additional families and in making a difference. One other point: Our services are for the entire family. So if mom and dad have accounts with us, children, grandchildren, parents are all able to access certain features of our financial planning services without any additional cost for the financial planning side overall.

TWST: In addition to being holistic, do you want to get into the strategic overview of some of the things that are your priorities right now on the investment side?

Mr. Ullman: The markets, after the near collapse of the U.S. economy in 2008 and early 2009, have been remarkable in their recovery. We've had approximately 10 years of a very strong market, and the length of that recovery is extremely unusual. From July 2007 to March 2009, getting through the fiscal crisis was not a simple task, and the U.S. economy was in very serious jeopardy with the subprime mortgages and a lot of interrelated financial relationships, and then, we had Bear Stearns, Lehman Brothers, **General Motors** (NYSE:GM), **Chrysler** (NYSE:FCAU) and **Circuit City** — among those, firms that unfortunately failed.

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The U.S. got through that, but in the interim, we've gotten ourselves into other kinds of difficulties with the fiscal side of the equation, with the budget deficit — it was huge — but over $75 billion in recent times and heading toward the $1 trillion level. Trade deficits that vary, but in the $500 billion area. Having programs that are not sustainable, under their current structure; I'm talking about Medicare, Social Security, the Affordable Care Act and many of the Medicaid programs. They're going to have increased costs, and there is no indication of funding that's going to match. That's a major problem.

With a cumulative debt of the U.S. government of actually $21 trillion, and these extra costs that are going to be coming, it's a very serious problem, and there's no resolve in either political party to deal with this, so it's either raise taxes or reduce some of these costs, either on the medical side or by taking some very strong actions with Medicare and the Affordable Care Act to do things that are significant. It would have to be dramatic to impact the major parts of the cost, involving such areas as the doctors, the hospitals, the insurance companies, tort reform, and the pharmaceuticals and device manufacturers. And the lobbying groups connected to these entities continue to be very effective.

One example is the doctors; many of them are taking on hundreds of thousands of dollars of debt for their extensive training. And the compensation to help pay off that debt is essential. There might be a five- or 10-year giveback period to work locally in certain communities, after which they wouldn't have the large debt. That would be a very dramatic shift. Pharmaceuticals, which the U.S. has a hard time buying from other countries, under the guise that they may not be legitimate. I'm not sure that if you bought something from Canada, in Toronto, you'd have much more concern than you would buying it in a U.S. city. But to have much lower cost in other countries and not being able to access that is very hard to understand.

Also, **Johnson & Johnson** (NYSE:JNJ), as a company, is having huge lawsuits coming related to talcum powder. And these types of litigation can be really extreme. The cost of litigation and malpractice insurance is not trivial in the cost of overall medical care. So we look at this whole amount of money that the federal government and the state governments are expending, and it's a huge problem.

Highlights

John G. Ullman discusses John G. Ullman & Associates, Inc. The firm is a family business manager, handling everything financial-related, including asset management and financial planning. Mr. Ullman notes that while the market has become momentum-based, the firm is value-based. He looks for investments that appear to be undervalued based on mathematical modeling. Some of the areas he is currently interested in include infrastructure, out-of-favor stocks in technology and health care, selectively.

Companies discussed: General Motors Company (NYSE:GM); Fiat Chrysler Automobiles NV (NYSE:FCAU); Johnson & Johnson (NYSE:JNJ); Amazon.com (NASDAQ:AMZN); Alphabet (NASDAQ:GOOG); Apple (NASDAQ:AAPL); Netflix (NASDAQ:NFLX); Facebook (NASDAQ:FB); Exelon Corporation (NYSE:EXC); Emerson Electric Co. (NYSE:EMR); A. O. Smith Corp. (NYSE:AOS); Johnson Controls International PLC (NYSE:JCI); Skanska AB (OTCMKTS:SKSBF); Honeywell International (NYSE:HON); Ingersoll-Rand PLC (NYSE:IR); Lindsay Corporation (NYSE:LNN); Halliburton Company (NYSE:HAL); Schlumberger Limited (NYSE:SLB); Baker Hughes (NYSE:BHGE); General Electric Company (NYSE:GE); Sun Hydraulics Corporation (NASDAQ:SNHY); Granite Construction (NYSE:GVA) and Ford Motor Company (NYSE:F).

Another compounding effect has to do with interest rates. Interest rates have been at historic lows for a long time. They were essentially zero after the crisis in 2007 to 2009. And around 2013, I remember that period in the first quarter, I believe, one-year Treasuries were 0.16%, and two-year Treasuries were 0.25%. And that was even up from what they were after the initial crisis. There were very few days that short-term Treasuries in the U.S. had a negative interest rate. And I've never seen that. In Germany, that has extended for a longer period of time than the U.S.

But if interest rates, given our trade deficit and budget deficit, do ultimately go considerably higher — just to use a number for illustration, such as five percentage points — we could end up seeing, over a period of time, another $1 trillion of deficit, less whatever revenues the federal government would get. So you have $20 trillion debt, it's $21 trillion now, and you have 5%; that's over $1.05 trillion roughly of additional amount, and some of that will come back in taxes, but much of it would be held by foreign governments, as well as in retirement accounts. But even if $0.25 trillion came back, you'd end up with $750 billion, $800 billion of additional deficit. And at some point — for subsequent generations — that is a very vast problem, but there's no resolve to deal with it.

Relative to the market itself, we've seen over the last couple of years that it has become momentum-based. So companies such as **Amazon** (NASDAQ:AMZN) and **Google** (NASDAQ:GOOG), which is known as **Alphabet**, **Apple** (NASDAQ:AAPL) and **Netflix** (NASDAQ:NFLX) have been exceedingly strong. For the early part of this year, any of the market upward movement was more than 100% versus some indices for those kinds of stocks. **Facebook** (NASDAQ:FB) was part of that as well, until they ran into problems with security. The valuation on these stocks has gotten extremely high, and they become much more vulnerable, but that's where the market strength has been in recent years.

Our style is much more mathematical. It is value-based. And we look for things that look to be inexpensive. In the recent few weeks, the market has become much more volatile, but most of those momentum stocks, actually all of them, have sold off, somewhat considerably. And they are still relatively expensive. So our view is that in this environment of elevated valuations, we are moving directionally toward things that look to be undervalued to us, based on mathematical modeling in certain sectors; this is where we are moving directionally, if not 100%, but it is a direction.

The problem is going to be paying for these improvements. I think for some of these programs, they will probably use infrastructure banks and off-balance-sheet financing and really defer a lot of the costs and take on additional debt, which is really a problem, but I feel very strongly that these investments are going to get made over the coming decades, and there will be tremendous growth in that area and investment in this country. When you look at other parts of the world, let's say in Europe, the geographic areas are much more dense and concentrated, so having better infrastructure is a bit easier. And if you go and look at many parts of the world, their infrastructure investments are way above what we've done in this country, so that is a key area for the U.S.

We also focus in areas like technology, even though that's been reduced by the valuations. There are out-of-favor stocks in this sector that we think are attractive. Health care selectively too because there are going to be changes. They may be initiated by corporations trying to

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One area that is of special interest to us, and has been, is the field of infrastructure. The U.S. government has moved forward with trying to get proposals on health care, which really hasn't happened. There was a major change in the tax law to try to get more of a level playing field for corporations — corporations versus those from other countries. And that really has helped the economy in this environment, but it has also increased the deficit significantly.

Next, infrastructure has not been addressed in any material way. And it's our belief that spending in infrastructure in this country over the next five, 10, 15, 20 years will greatly exceed anything that is being significantly talked about today. Just some illustrations — and there are an infinite number — the Mario Cuomo Tappan Zee Bridge in New York state. I believe that was in the magnitude of over $4 billion. Estimates of rebuilding and redoing the tunnels between New York and New Jersey, which are going to be needed, seem to run in the $12 billion area.

San Diego has put in a new desalinization plant. I think that's in the range of $1 billion. In the Baltimore area, the tunnel is approximately 100 years old for railroad, and as a result, the trains have to go through them at a much slower rate of speed. That is estimated at $1 billion. High-speed rail in California is near the magnitude of $100 billion. When stadiums for sporting events are built, they can get up into the $1 billion to $2 billion range, and some of them don't get that much usage.

In other areas, for example, subways in New York City and the rail in Boston, the cost to really radically redo those important systems have ranged very widely. Totals on a couple of those together could be up to $100 billion. There are bridges in the Northeast, in particular, that are not up to the levels they need to be. These are just a small number of examples.

Water quality too, and I believe there are pipes in New York City that are really very much in need of replacement, and that is a very key area that will get increasing attention over time. So these examples don't include areas like railroads around the country and problems with the tracks and upgrading. And there are so many other parts of the infrastructure that will create outstanding jobs with high pay, and that will become very much desired during time periods when the economy is under more stress.

1-Year Daily Chart of Emerson Electric Co.

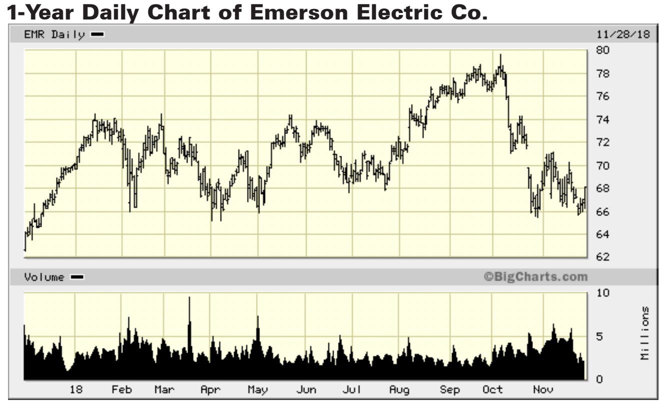


Chart provided by www.BigCharts.com

reduce the cost in health care. The government is so affected by the lobbying groups that it is much harder to get those changes through foreign investments.

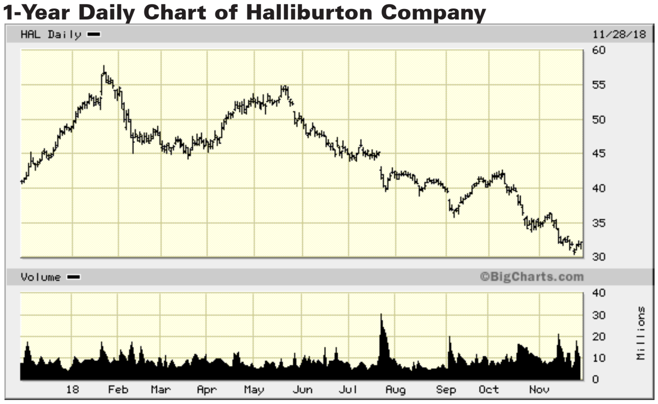
In foreign investments, we're underweighted, and they have underperformed the markets, so we've been fortunate there, but I think some of the developing countries in Latin America, South America as well as Asia Pacific are very appealing at this point. Africa probably would be down the road many years, but I do think that there are economic potentials for that part of the world as well.

Another sector that we're invested in is utilities, but as interest rates move higher, they will tend to be negatively affected. Utilities are closer to bonds than they are to some stocks. So we're finding a few of those stocks — such as **Exelon** (NYSE:EXC), for next year — are hitting price points where we are reducing or selling or holding.

TWST: And as far as infrastructure, do you want to highlight some possible investments that investors may want to watch in the coming years?

Mr. Ullman: My pleasure. One of the companies that we put in that category is **Emerson Electric** (NYSE:EMR). They've had a wonderful long-term growth track record. They've generally been extremely well-managed. Some of their businesses are energy-related so that it has affected them as oil prices have been under pressure over the last several years, and while they had popped up, they recently sold off in terms of the energy oil prices. But I think that at these levels, they are very attractive.

1-Year Daily Chart of Halliburton Company



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Companies that are different but related — **A. O. Smith** (NYSE:AOS), **Johnson Controls** (NYSE:JCI) and, in Europe, **Skanska** (OTCMKTS:SKSBF). Companies like **Honeywell** (NYSE:HON), **Ingersoll-Rand** (NYSE:IR) and **Lindsay** (NYSE:LNN) have been performing better than most of the others. So they're ones that we have great interest in, but they're much more expensive today, so we're not buying them at these higher levels today. **Watts Water** (WTS) would be another one in this category. There are others, but these are a pretty good sampling of some of the infrastructure companies.

Others that are very much out of favor because of the energy area are **Halliburton** (NYSE:HAL) and **Schlumberger** (NYSE:SLB), and we would be buying them as out-of-favor stocks at these levels. **Baker Hughes** (NYSE:BHGE) — **General Electric** (NYSE:GE) — could be somewhat similar. So that's a fairly broad listing of companies. Another one is **Sun Hydraulics** (NASDAQ:SNHY), which we've held at different periods of time, but there are quite a number of companies that serve out of those fields.

From a manufacturing product standpoint, companies like **Emerson** and **Honeywell**, which have very strong product lines and have proprietary products are ones that we write off at this time. Ones in the past that are no longer going to acquire small companies, like **Pall Corporation**, have been acquired, but they had leadership positions in specialized technologies that became very attractive. A lot of the engineering companies that we look at are in more commodity-based businesses. One other that I should have mentioned is **Granite Construction** (NYSE:GVA), they build roads, bridges and tunnels, and you know that's right in the field that we're looking for. So that's a sampling of companies in the infrastructure sector.

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TWST: And do you think that if the Democrats and Republicans next year want to look for something they can find common ground on that infrastructure might be an area where there's a great deal of promise, given the needs throughout the country?

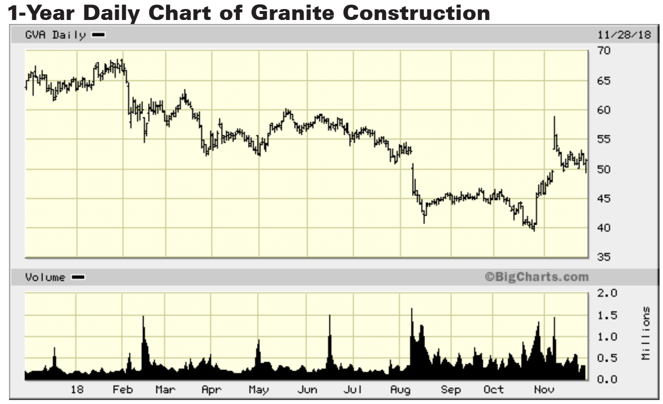
Mr. Ullman: Absolutely. If there's one area — short of a national emergency — that arises where there is more likely agreement between the parties, one would think infrastructure would have to be at the top of that list.

TWST: And do you get a feeling that it would be different types of needs, not just roads, but as you mentioned bridges, tunnels, water quality, maybe even airports?

Mr. Ullman: I think so, but there are other sides. For example, the use of electric cars is clearly increasing, and there will be investments to put power stations throughout the country. If you have an electric car and you're trying to go a distance, you have to find a place to power up, and that's one need.

Another one would be with liquefied natural gas. We have extensive reserves, and in a number of cities, buses, for example, are powered by that type of energy, but if you're going to try to extend that, which is very cost-effective, it's not just within city limits. There's going to need to be a whole series of the equivalent of gas stations to

1-Year Daily Chart of Granite Construction



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power; sometimes there are going to be trucks and buses with this type of fuel. And there will be programs like that, which we would include in infrastructure.

Water is a very, very major situation that needs significant attention, and whether one believes in climate change in the near term or over the long term, that's a very precious resource. And while they're spending maybe $100 billion in California on high-speed rail, their water problems are true — and in Arizona as well. Building a series of desalinization plants would seem to be a very high priority and might be even more valuable than the investments that are being done for the high-speed rail. So there will be things of this type, but water is key.

Lindsay Corp. is doing irrigation equipment as well as some other related services, and while that's more of a commodity business, they have a pretty good-size share of that business. And companies like **Watts Water** and others that are providing water treatment, I believe, will have much more volume of business growth later on. So infrastructure is a broad category, but we believe it's going to get a very significant additional amount of attention and business growth.

TWST: And even if the federal government were not to come up with additional funding, there is still a lot going on at the state and local levels?

Mr. Ullman: It probably will, but many states have constitutional requirements for a balanced budget. Now, they get around it up to some point, but they can't accumulate deficits in proportion to what the federal government has done. So there will have to be federal involvement on most of these improvements. Projects that are self-funded are fine, but we're talking about massive amounts of funds.

If New York City wanted to spend $50 billion on the subway system, it would be really hard for them to be able to do that on their own. Of course, they can try to finance it, but that would be putting in a massive amount of debt. So I do think there will have to be some level of partnerships, but you'll see things like the **Amazon** announcement that just recently came out. There will be a lot of construction that's going on for the area, and that is a form of infrastructure.

Housing may be near a reasonable peak, not that it's going to change dramatically, and the commercial areas are having a lot of changes with malls trying to redesign their purpose. Some of those are going to go into mixed-use housing, because with the internet, there are a lot of changes, but all of these areas eventually involve some type of changes and construction, which is also a part of the infrastructure. We've been less focused on residential than on other types of construction, but housing is much more in the areas that we've talked about with roads, bridges, tunnels, water and things that are really essential to our society on a more global basis.

TWST: And we had mentioned GE. Do you want to talk a little bit about that company? It's probably looking for different areas that are growth areas to focus on right now. And I would think infrastructure might be one of those areas it might be interested in.

Mr. Ullman: I very much agree with you. **General Electric** is facing an extremely unusual set of circumstances. They've made many strategic decisions, which unfortunately have not worked at all. They had a very large financial business, and after the collapse of the economy in 2008, they are trying to exit from substantial parts of that, and the timing of that was very unfortunate. They made investments in natural resources in **Baker Hughes** at a time when it was probably not a good value.

So they've had some decisions that, whether it was bad luck or bad timing, those decisions did not work out. **GE** was at the highest levels of credit rating, and their situation has more than tremendously deteriorated; the stock has been under incredible pressure. They had a lot of share buybacks at elevated prices today, and they have gone through a number of CEOs.

Having said all those things, some of their businesses are really quite strong and have great potential. Their aircraft engine business is one example. They have businesses in the medical field that are very dominating in their sectors, with very good product lines. They do have infrastructure capabilities as well.

And our feeling about **GE** is that it is highly speculative, and there is certainly a risk that the company could fail and go bankrupt. They've had issues with the SEC on some of their annuity products, but they're likely to be focusing on a few key sectors and becoming a much smaller company. The areas that we think they will focus on would be among infrastructure, health care and technology, which are sectors that we also have interest in over the longer term.

I think the market is undervaluing the base businesses; they're looking at them as they got sold. What **GE** would hopefully do is focus on a small number and would unfortunately need to sell others, try to reduce the debt, and then if they can do this in a successful way, add to those remaining product lines to broaden them and also do acquisitions for technology that will reduce costs and increase the value. That's been a model that **Emerson Electric** had over many, many decades, and they've done it successfully.

We've always preferred **Emerson** over **General Electric**, but we're finding **GE** at these current values to be intriguing, but there is certainly a genuine risk that they're not going to make it through. The stock, now in the mid-$8 range, could be under a lot more pressure, but if you look at risk/reward opportunity, I think there's a lot of upside if they can make good strategic decisions, be highly focused and realize they're going to have to go through further dramatic changes and decide which businesses to hold on to and which to sell, and then try to make those they hold to be very successful. A lot of their businesses are really good businesses.

So you know, one may want to take that on, but you have to be really careful not to have too much exposure in something like **General Electric**. It can turn very sour, but at these levels, there is a lot of potential underlying value. And it is of interest to us but with limited exposures per account, and we are viewing it as highly speculative.

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TWST: And another company that we talked about was Johnson & Johnson. Is there anything in particular about their outlook for 2019 and what investors should understand about that company?

Mr. Ullman: Thank you for asking. **Johnson & Johnson** has been a favorite company of ours during our whole 40-year period. They've had great performance. But they occasionally have gotten into issues with litigation, predominantly in health care. They've had problems with some of the meshes that have been used in some surgeries, and over recent years, there's been an issue with talcum powder — for women who unfortunately developed ovarian cancer. **Johnson & Johnson** has denied that there is any asbestos in the talcum powder. There are connections with talcum powder and asbestos from when it is mined.

And for us, that is a genuine problem because our assessment of litigation risk is outside of the skill set that we would have. So we reluctantly felt we had no choice but to reduce the positions significantly. The level of litigation, though, is almost unprecedented. My understanding is that earlier this year, one litigant was awarded something like $155 million by a court; over this summer, in Missouri, 22 women had filed a class action suit, and the jury in that state, which is favorable to that type of litigation, came up with a jury finding, I believe, in the neighborhood of $4.6 billion, which is almost $200 million per woman who had filed a case as part of the group. There are something in excess of 9,000 pending cases. And it is daunting.

Johnson & Johnson has denied culpability, and very few cases have been through the system. They've been successful through appeals — either the case is dismissed or greatly reduced — but the size of these findings is really alarming. Again, if people were hurt, I understand, but 9,000 cases, they're infinite in terms of potential costs, and that's a real problem.

We had surveyed a number of people who are analysts on the Street earlier this year, and they did not seem terribly concerned about this level of litigation, but we had to be. So we've reduced our exposures, which were at high levels because of **Johnson & Johnson's** quality and the appreciation. We tried to get essentially most of our accounts — virtually all with a few limited exceptions that had to do with taxes, the capital gains and ages of people — to approximately 5% of equities. Since we have balanced portfolios, **Johnson & Johnson** generally will be under 2.5% or 3% of any overall account.

We really want to hold it; their prospects otherwise are very strong. Their earnings growth looks good. They've been extremely well-managed, probably as well as any company we've followed over the years, but this impending litigation is really uncomfortable.

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Even though the analysts that we had talked to — different than our own, who would follow the litigation more closely — even they were not terribly concerned. The stock went from the upper $140 down to $118 or thereabout, and it's recovered back to about $144. We did sell some earlier this year near the highs because it had hit a price point, and we did have concentrations. But we really, really want to hold the stock.

However, with the litigation situation being so large and so uncertain, we felt we had to reduce exposures. We did not eliminate them completely, but **Johnson & Johnson**, I think, has a terrific future on its base business; this litigation and other litigation is really big but doesn't seem to have too much of an impact on the company. The market is apparently not that worried, based upon the stock price performance.

Hats off to the management team who've been at **Johnson & Johnson**. They've had very high values, and they've been a model, I think, for good management historically. But nevertheless, this litigation is a genuine issue and concern for us. Thank you for asking about it.

TWST: As investors look at 2019, do you think they're going to be concerned about such things as interest rates, the federal budget deficit, maybe even some of the trade deficits and the U.S. dollar? Are these going to be issues that might attract investors' attention for the next year?

Mr. Ullman: That's an excellent question. And I think the consensus in the market is probably not. We are very concerned about this long term. And I guess there's a lot more pressure coming from the administration on the Federal Reserve.

They've had, I believe, three interest rate changes this year. They've signaled there would be four, so the likelihood of another increase in December is probably pretty high. They've indicated they'd also have four more next year. There's pressure to try to get them not to do that, with certain sectors maybe showing a little more weakness. There have been concerns with the tariff issues with China and with the tariffs being increased and affecting the economy, and there have been other aspects that may put more pressure on the Fed to slow the increases.

But I don't think there's an expectation in general that interest rates are going to skyrocket. I mentioned earlier about the near-zero interest rates in 2008, 2009, and actually as little as five and a half years ago. And they've come up a little bit. We're in the neighborhood of almost 3%, just under on the Treasuries for two years, and probably around 3.4%, 3.35% on the 30-year. Now that rates are fairly flat, and there's no real indication in the marketplace that there's an expectation that long-term rates are going to go up a lot, we have a different view.

When you have trade deficits in the neighborhood of $0.5 trillion, budget deficits of $1 trillion, and forecasts that will make it look even worse, eventually, there has to be equilibrium. So the U.S. dollar has continued to be strong, and interest rates, while they've headed higher, have not headed very much higher with the fiscal issues that we're facing. We're very concerned that there will be major changes in interest rates and the value of the dollar ultimately, but that's certainly not what the market numbers are indicating.

So what we're doing is that we're keeping our bond maturities very short; we've been doing this for a while. The average maturity is probably in the two years, two and a half years range. We have virtually nothing out more than five years. And if Treasury rates went up five percentage points or thereabouts on the 30-year, you're going to be looking at almost a 50% loss in principle value, and short-term bonds mathematically will have very little impact with interest rate changes. Long-term bonds are very sensitive, especially with the rates being very similar between shorter and longer terms now. To us, it makes it really easy to stay shorter term given the potentials out there.

So for us, we're staying high quality and short to short-intermediate term. We look at relative values of lower-grade and longer-term bonds, and the risk premiums at this point with the economy being strong are just not sufficient to justify going to lower quality. Also, on the long term, since the rates are flat, if rates do go down, long-term bonds do go up, but the risk of long-term bonds going up in yield — to me — over a period of years is much higher than going down, and they could go up a lot, but it's hard to go down very much from where they already are. So we want to stay short term. And in comparison, when you look at things like junk bonds, depending on the relative quality long term, such issues could be 6%, 6.5%, 7% or, if they're reasonable quality, 7.5%.

During the crisis in 2008, we saw for a short period of time that when **General Motors** and **Chrysler** went bankrupt, **Ford** (NYSE:F) bonds were up to 37%. That was excessive, but it was panic. And there are times when things get extreme, and that's a place where then you might go into lower-grade bonds. But right now, in this market, where the economy has been very strong and it does have good potential to continue strong, lower-grade bonds get very little premium overall.

One other point, we worry about municipalities because of the amount of expenditures that they have. Many of them have entitlements for retirements and health benefits. Corporations have substantially gotten rid of defined benefit plans, but that's not true with local governments. They typically would have them, and those obligations are really quite significant. So we have the higher levels of criteria for purchasing municipal bonds than we do in many corporate bonds.

And I think the rating agencies are relying too much on the history of municipalities. If you look at Illinois and Chicago, they have very serious problems. During 2008 and 2009, there were four cities in California, I believe, that went bankrupt, and there are others that have cycled. Philadelphia had troubles many years ago. I think that's improved. About 40 years ago, New York City had problems. But there are potentials for bankruptcy. Look at Puerto Rico, we haven't had any exposure there, and we didn't have any in Detroit when that city went bankrupt. But there are places that have very serious fiscal issues, and most municipalities have limitations as to how much they can really do in certain situations.

So I appreciate the question. But for us, we're staying shorter term, higher quality in the corporate bond area, even higher quality in the municipal area, and do believe that — while probably not in the near future — we do have the risk of much, much higher interest rates and risks on the dollar, as the U.S. fiscal problems become more apparent.

I think the current younger group is very independent. There is a movement to do things online and on their own, using modeling, and the world has gotten extremely complex. So yes, I do believe that a significant number of the families that we work with do have confidence in their kids but also would feel much more comfortable if the children do have advice that they can rely on, so they don't make rash decisions on their own. That is insightful, but certainly one option for people who do things on their own, and it's gotten increasingly complicated, and I do think that many parents are uncomfortable with that overall, but young people can multitask, and they can do more things than ever with all the tools that are provided these days.

TWST: Is there anything we didn't bring up that you care to mention, either about the firm or about some of the trends out there?

Mr. Ullman: I get a little nostalgic looking back over 40 years. We've had remarkable opportunities to work with exceptional people. We've been privileged that our relationships have been extremely long term. All the clients that I personally have responsibility for at this point —there are quite a few — they are my families.

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TWST: Another area you mentioned is how you include the entire family on financial advice. Given that the Baby Boomers are in retirement or close to retirement and might be planning for their future, do you think that they should encourage their children and their heirs to get more involved in financial planning issues, and eventually, after a long life, that there might be a major transfer of wealth between the Baby Boomers and their children? Is now a good time to start to get aware of some of the issues for these younger people?

Mr. Ullman: That's a very interesting question. Thank you for posing it; it was a thoughtful question. Talking a little bit anecdotally, one of the benefits that many of our clients really, really want now is having a firm that they can totally trust. For potentially the spouse, if the spouse has not been the financial person in the family, it could be the husband, it could be the wife, but that's very important. And for a fairly significant number of families — because we have extremely long-term relationships and we've been very blessed that way — one of the more important things as people age and they're at very senior levels in age and been retired a long time is the peace of mind of having their kids have relationships with someone like us because I think — I don't want to overgeneralize — but a lot of the current generation with all the technology is much more mobile than it used to be.

Loyalty between employees and companies has changed dramatically. A lot of young people coming out with specialized skills in engineering and business and multiple degrees, they could be on a path for 10 or 15 — or more — jobs during their careers. And for many of the parents, they're concerned about many of their children wanting things very quickly and having high levels of spending. Housing in certain parts of the country has gotten even more expensive, think of San Francisco and New York and other locations. So having a place where they can get good financial advice that's at least subjective and is also very client-centric is really important.

These families could be multigenerational, having joined us no later than 1982, so most of them have been with us at least 36 years. And by families, I mean it could be parents, grandparents, children all the way down, and it's really been a genuine privilege to establish this firm that is so very value-driven and has, I believe, earned the trust and confidence of a very large number of families through multigenerations — and that's what keeps us going.

We have extremely long-term staff as well; they don't tend to retire. And part of that is, it's hard walking away from many-decades-old relationships. And I do believe ethics and values in this world of speed and high pace and automation still can be maintained, and there are lots of folks out there who want to do things in a high-quality, ethical way, and they really respect firms that have a position and philosophy that's compatible with their own.

So I'm truly excited and energized about our initiatives. We're looking forward to having the privilege of working with an increasing number of families and trying to make a difference in having what I believe to be a very different kind of holistic and comprehensive service than what generally has been out there. So I guess 40 years is something that we've been celebrating, and I thank you again for that very thoughtful question.

TWST: Thank you. (ES)

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