MORNINGSTAR CONFERENCE INTERVIEW WITH BRUCE BERKOWITZ

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Don Phillips: I know that a lot of you were super-excited about this conversation we're having at lunch. People keep coming up to me saying, "I can't wait to hear from Bruce." This is going to be wonderful. It's an exciting time to talk about the fund. As you know, the Fairholme Fund has been widely praised. Morningstar analysts have been very fond of it. Bruce has been a winner of our Manager of the Year Award. He's also the only winner to-date of the Morningstar Equity Fund Manager of the Decade.

He's had an absolutely terrific record, and now he's had a six-month period where the performance has been... less than terrific.

We didn't even rehearse that, and that's a great time to talk about this. I was talking with Hedda Nadler, who many of you may know works with Bruce on the PR side, just about how important it is that when performance is out of favor, that's when you want to be talking about things. And those organizations that go into radio silence when times are tough, they make it much harder for [advisors] to do [their] job, because... how do you explain to the client why the performance hasn't been as strong or should we stay the course. And so those are some of the things that we'll talk about today.

Bruce, let me start just at the beginning. You launched a value-oriented mutual fund at the peak of the tech bubble. What were you thinking? Why then and why a mutual fund? Why not a hedge fund route?

Bruce Berkowitz: The original reason for the mutual fund… Forgive my voice. I am having an extreme case of premature accumulation in financial services companies.

Why a value fund? It's the only thing that I know. It had nothing to do with the tech bubble at the time. It was an interesting time, and it reminds me very much of a time like today. We are in 2000 after having a very successful 15 odd years at various firms, and I started Fairholme. When the tech bubble got going, about one-third of all of my clients just left. They said, "You know, you are doing okay, but this tech stuff is great. You got to get into it." I said, "I'm not going to do it. You are going to lose money." And even my smartest clients said, "Oh, you've got to do it! Everybody else is! Come on!" So, we stayed value-based. It was painful. It ended up working out OK. We are going through a painful period right now, and a year from now we'll see.

Phillips: You've got to have one of the most brilliant tag lines for your firm. I love it, and in three words, I think it sums up so much with just: "Ignore the Crowd." Clearly, you knew a lot about how asset management firms were organized and managed. You've done yours in a completely different way. Can you talk a little bit about how you've structured your research team and how you go about doing business, because it's not the typical model?

Berkowitz: Well, "Ignore the Crowd" is just based upon how when everybody is happy about a company, the price reflects it. When people can't stand a company, the price reflects that pessimism. It's also about group-think. When I worked for Wall Street firms, there will be 12 people around the table debating this, that. Should we do it? Shouldn't we? Usually the person with the least amount of knowledge had the most powerful say in the matter, and it just didn't make any sense.

Phillips: The tyranny of the articulate.

Berkowitz: Yes. So at the end of the day, investing is about one person who has to take the responsibility of pulling the trigger, and group-think always dummies down to the lowest common denominator, and so, you ignore the crowd. It's still painful, but it's worked.

Phillips: You also use a lot of outside consultants for various specific tasks where you need additional information. How does that work?

Berkowitz: What we've tried to do is rather than develop people from business school—we've gone there. Been there, done that. If we're interested in a new area, a few years ago, it was health care. So, we found people, consultants in the health-care business for 30 years that could be had for less than the price of a graduate from Harvard Business School, and to try and help pick apart our ideas as to Obamacare, will the health-care companies remain, and everyone thought we were crazy investing in UnitedHealth and WellPoint and all those companies ... because they were all going to disappear.

We asked the experts in Washington--we hired a few--"Well, how is this all going to play out?" And we realized the government just doesn't have that many people to run all of these businesses. So, they picked at our ideas, they couldn't kill them, and that's how we use the outside consultants. But instead of having full-time employees, we'd rather dedicate the money to experts in the certain industries and sectors that we're involved in, and throw the money that way to get the very best people for the amount of time we need. Then they know, we know that when it's over, it's over.

When you build up a big firm of analysts, it's very difficult. You get to know the analysts, you get to know the family, friends, and they are part of the family. But what happens if the sector that person is expert in, you're no longer interested in for the next two or three decades? What do you do with the person? You retrain, and you end up hurting the shareholders because at the end of the day, it's all about the shareholders. You got to put yourself in the shoes of the shareholders. It can't be about your family. It can't be about your employees and associates. It has to be about the shareholders.

So, nimble, quick, turn on a dime, stay focused. Now, this works for people outside of the mutual fund business, whether it's a hedge fund or Warren Buffett with 12.3 people in Omaha, or other companies. But for some reason ... you don't look at it in a positive way in the mutual fund business, which makes no sense to me.

Phillips: One thing that always comes up with Fairholme is that it's had its explosive growth in size, and I would assume one thing that this model allows you to [do is] scale up, much more rapidly as opposed to hiring all the people internally. But could you just talk more broadly about the difference in the size of the fund? What can you do today that you couldn't do in the past, and then are there some activities that perhaps you could do with a smaller fund that today you can't do with the main fund but perhaps would do with the Allocation Fund?

Berkowitz: Sure, I'd be happy to. A valid criticism of the Fairholme Fund as we grew in size was that we would not be able to truly take advantage of small-quantity ideas because of regulation or liquidity or whatever, we could never get enough because we're so focused. We could never get the kind of position that we would want, and that's the reason why, at the beginning of this year, we created the Allocation Fund. So, for those people who thought that if we found small-quantity ideas, we couldn’t take advantage of it, we would put it there, so we do.

That was one reason. During the tough times of 2008, some people wanted to take some chips off the table. They wanted a place to park their cash. We found some very interesting fixed-income investments, but they weren't good enough for the Fairholme Fund; that's why we created the Focused Income Fund, to have an income orientation. That's the reason.

So we basically listen to our shareholders. If we have a weak link at Fairholme, we'll try and create another fund, and that's reason for the adoption of the other two funds.

Phillips: How about with the main fund? I mean as Buffett has gotten bigger, he's used his additional scale to shareholders' advantage. Are there things you can do now with the Fairholme Fund that you couldn't do as a smaller fund?

Berkowitz: Scale has helped us so far. There'll be a time when it doesn't, but so far it has helped us. We would never have been able to commit $2.7 billion to GGP on the restructuring and before that buy $2 billion of busted debt. If we didn't have the size we would never--now, the results are not in yet--but we would never have been able to be a big player in AIG or the U.S. Treasury. We'll see if that was a good idea or not. It gives us the size to be able to matter. You need that kind of critical size, especially in private transactions, that are so labor-intensive, and with the Fairholme Fund we're charging a flat 1%, no frontload, backload, nothing else. So we need to have scale, when you're going to pay those legal balances and so on.

So scale has helped. Clearly one day it won't. And I hope we'll figure it out before our shareholders figure it out that we should close down or maybe even give money back. The way I believe we'll have an early warning system on that, is that I take every penny of my family's money and put it into the funds, such that if I do something stupid with the funds, I'll get hurt much more being a shareholder than I will in the fees I get from the funds, and I'm hoping that that creates a level playing field both on a conscious and at a subconscious level, so that we don't do anything stupid. Of course after about 30 years, I can't imagine looking in the mirror after making some kind of bonehead maneuver.

Phillips: I've watched a lot of funds over the years and typically, we seek funds that have a lot of character; they are willing to be bold and different--they'll do that when they are smaller. But as they get bigger, they tend to look more and more like the market, because their incentives are just to hold on to the assets that they have. You haven't taken that tack. You are still willing to run a very bold and distinct fund, which would seem to me to be putting shareholders interest over the management company's interest.

Berkowitz: It's quite humorous in that people are starting to say that we lost our edge because we weren't focused enough like we were in the old days, and we're too big. So here we are today focused as we were right in the middle of my circle of competence in financial services companies. It's like déjà vu all over again, with financial services from the late '80s, the early '90s. One thing great about getting older besides losing your voice is that you've been around long enough to see a few styles come in and out. Maybe you've seen the play before. Every five or 10 years, the financial services companies get themselves into a pickle. Every five or 10 years, you have to be bailed out. It just seems to be the nature of capitalism, and it's one of the side effects of capitalism.
So, here I am. I ran from my dangerous health-care companies and put all the money into financial services. Little did I know that my dangerous health-care companies would become defensive plays in this time.

Phillips: Well, we had a panel yesterday evening with some terrific value investors who were quite wary about financials. A direct quote was: "Large financials with heavy leverage and black box balance sheets are just too hard to analyze." In a sense, you've become almost the contrarian's contrarian here--where even the traditional value managers are shying away from this area, you've dove in in a very big way. What's the reason to have this kind of conviction in financials?

Berkowitz: That is the big question, sane or insane with our financials exposure. And I quote, a year ago, year and half ago, I did say it's hard to know what the financials own, what the financials owe, and before the government came in, it was hard to know who owned the financial companies.

But with enough time, and with enough capital infusion, I was feeling comfortable. Whether you are looking at an insurance company with reserves or you're looking at a bank with loans, you have to look at every vintage, every year, of the loans, and you have to understand that whether it's a commercial loan or a residential loan, whether it's floating, whether it's fixed--these loans have average lives.

So, for example, the difficult loans were 2007-2008. Today, probably less than 40% of 2007 loans still exist. That vintage of 2007 is burning through, and the rules, the banking laws are pretty strict as to when you've got to write it off, when you have to call it a day, when you've got to repossess. And 2008, it's probably less than 50%. So you've gone beyond the halfway point; enough time has gone by from 2007-2008 to see how those loans are developing.

Meanwhile, you have banks with balance sheets that have never looked better in terms of the equity, the heft that they have in the balance sheet, and the pre-tax, pre-provision income that's flowing into the institutions, and the size of that cash inflow will be more than enough to take care of remaining problems.

Phillips: I was talking to an advisor earlier in this conference, and he said, I've been a Fairholme shareholder for a long time; my clients are very pleased, and I understand the philosophy: You have to have a willingness to go into stressed areas, but my goodness, does Bruce have to be in all of them? Could we tick through a few of these names, maybe starting with AIG and…

Berkowitz: ...Citigroup, Bank of America. "Bank of America single-handedly caused the problems in the real estate world," I don't think so, but they're being blamed for it right now. Again, investing is all about what you give versus what you get. So, you’ve got to take a look at the price of these companies versus what's there and understand the perverse psychology that exists in the situation.

Today, people are just wildly pessimistic about Bank of America. Why? Well, they hate it. I lost my job because of them, I lost my house because of them. And people don't go back to the point where we started out with a great idea: Everybody should own a home. Then it got further, and then something happened: People started to forget that it's important that you should be able to pay for that home.

So then you had Freddie loosening standards, Fannie Mae loosening standards, you had advocacy groups like ACORN picketing banks for not lending fast enough, more aggressive enough. You had the government telling everybody, "Lend, lend, lend! The best thing in the world is to own a home." Well, it isn't if you can't afford it; it becomes a ball and chain. We've had all these little incremental moves, so now Bank of America becomes patriotic and buys Countrywide and now Brian Moynihan and his team have being kicked everyday for being the "evil empire," when in fact Bank of America was the first to lower late charges, the first to step up. They're ahead of the curve in reform. They have an extra 30,000 people right now working through the problems. They are doing everything in their power.

So the negative is the real estate. It's working through all the bad residential real estate, the reps and warranties issues about the securitizations, and you have to understand that. Then on the other side you have to understand Merrill Lynch, Bank of America, NationsBank, Fleet, MBNA--there are dozens of institutions that are now Bank of America. With Bank of America, you then have to go to the math, and the math is that $4.50 to $5 a share of cash is going into the company before provisions and before taxes. Taxes forget; they have about $100 billion of losses they have to make up. They are not going to be taxed for quite a long time. So $4.50, $5-- you take out the provisioning in a more normalized provisioning, and the company should make at least $2 a share. I won't tell you what I really think they could make, but just at least $2 a share. Can that be so bad for a $12 stock? Can they go out of business with the kind of equity they have now? No. "The government is going to kill them. The government is going to take away all their profits just like the way the government was going to take away all the profits from the health-care companies two years ago." You know what? They don't have to be egregious. If they just make a 1% return on assets, which would translate into a 10% return on equity, which would probably translate into a 15%-plus return on tangible equity, and if you could buy that at half of book value, what else do you have to do in this life? And that's where we are today, but obviously so far I'm wrong.

Phillips: Another name you own and mentioned earlier in this conference: Goldman Sachs. I believe the manager said, "They're always on the front page and it's never good." What's it like living with a holding like that, and what's the rationale for it?

Berkowitz: Every day, evil empire banging, banging...

Phillips: Now it's Libya right?

Berkowitz: Libya... [Pause] They're smart guys [at Goldman]. They've got a great franchise. They've been of tremendous help to us in Asia. I like the people. I personally think they're ethical, decent guys, and I like working with them with what we do with them, and how many times you see Goldman Sachs around tangible book value, and that's where we are, and that's kind of expensive compared to my other positions.

Phillips: How about Sears? That's another name that's a controversial one.

Berkowitz: The way I think Sears works out after three years of really nothing so far is that one day, Eddie Lampert will own one share, and Fairholme Capital Management will own one share for our shareholders, and that's it, and we'll split the pie.

It wasn't that long ago in my mind when Apple was about to fail and Microsoft had to come to bail them out. Today, the great retailers Sears, Kmart are considered bombs. It's all over; they could never do anything in retailing. If that happens, then the pessimism will push the stock down, and you will continue to buy the shares back. He has bought back $6 billion of shares already since the merger, and I don't think the company is worth more than about $7.5 billion today. So, give it five, six more years, we'll be down to 2 shares, I'll have one, he'll have one, and we'll see what happens with the property and the brand names and the insurance and the warranty business and everything else.

Phillips: One name that we'd be remiss not to talk about, because everyone talks about it with you these days, is St. Joe and the role that you played there. Could you maybe back up for the audience and explain?

Berkowitz: St. Joe is very simple. I grew up very poor in a one bedroom apartment, and I always wanted a backyard. So, I figure 600,000 acres was a pretty good start.

St. Joe, the Panhandle Florida, is a beautiful place. Some of the most beautiful beaches I've seen in the world. And you can't describe them; you just have to see them. It's the last place open in Florida where people will eventually be able to live and work.

Now, whether St. Joe becomes a melting ice cube, which is just stop the bleeding, wait for the real estate market to pick up. We have a quarter of a billion dollars in cash, no pension liabilities, less than 100 employees now, everything is in great shape. A fortune has been put into the land. The State of Florida has put in billions and billions of dollars into the land, highways, byways, brand new international airport. But that's all worth nothing until something good happens. So, there is the debate--and whether St. Joe builds the next Tampa, St. Pete, Panama City.

The problem with St. Joe real estate, and one way people look at it is, it's the use of discounted cash flow models, because after a certain period of time, say 10 years, every present value goes to zero, and if you use the same kind of thinking that's being used on St. Joe, you would never have done Fort Lauderdale, you would never have done Boca, you would never have done Hilton Head, and every other great place.

So the vision is that St. Joe becomes a great place to live and work with this new airport, with 20 flights a day, 20 in, 20 out. And we'll see what happens. But we've stopped the bleeding. We still need a little bit more time to understand everything that we own, including what's under the ground and what's over the ground. Story is, last year some guy was interested in buying some timber. So we don't just sell him the trees; we sell him the trees and the land, and then we find out, he was really interested in aggregates. So we had a huge supply of aggregates for building materials; we didn't even know it.

So, now, today, we're going back. We're looking at all 600,000 acres--that's 900 square miles. It's almost, roughly, I don't know, two thirds the size of the state of Rhode Island. I mean just our airport project alone is bigger than Orlando; it's bigger than the Island of Manhattan. So there's huge scale, but this time needs to be done. It's a small position. Good can come from the position. It’s long-term. Fairholme, as a mutual fund company cannot directly invest in real estate. St. Joe can directly invest in real estate, and Fairholme can directly invest in St. Joe. We'll see how that turns out.

Phillips: I'd like to open this up to questions from the audience. But before we do that, I'd like to ask you a follow-up on this.

You're both in a world where you're the chairman of St. Joe and then investing in the fund, or investing in the company through this. You've taken on a lot of headaches that a typical fund manager would not do. Could you talk a bit about that situation?

Berkowitz: Some people play golf, some people watch TV, they go to the movies. They are social. They have friends. I became the chairman of St. Joe.

Phillips: How's that going over at home?

Berkowitz: I have a great wife. In fact we had our anniversary yesterday--32 years, not bad.

Phillips: Congratulations.

Berkowitz: Thank you. It's tough, there can always be conflicts between being president of Fairholme Fund, chairman of St. Joe, but people are worried about inflation. Land is great. You can't grow food on gold. You can grow a lot of stuff on St. Joe's land, but I have a vision for Joe. For example, in Asia, hundreds--billions of U.S. dollars are owned in Asian countries sitting probably in our U.S. Treasury earning nothing. So maybe they would like to bring a few of those dollars down to St. Joe and build something.

Phillips: I believe we have some questions. We will take one here, please.

Audience Member 1: Bruce, you recently took a position in Cisco. Care to comment on what you see in Cisco at these levels?

Berkowitz: I think it's too soon for me to comment on Cisco, other than that: I always ask my partner Charlie [Fernandez] what products or companies are critical to the functioning of the United States. And we believe that Cisco is one of those companies. We did it with WorldCom before, in the bankruptcy we knew that the government could not get rid of WorldCom because they were only one of two players that had the advanced telecommunications needed by our defense forces, Treasury, credit card processing banks, and Cisco's equipment is absolutely essential to the running of the country--especially at very high speed. Whether it's the bank processing, credit card processing, defense, and of course, we're running out of IP addresses, and we have to go to the new IP 6, which is going to cause a huge changeover for everybody. But I'm afraid that's all I have to say on Cisco right now.

Phillips: You mentioned, Charlie, and I should point out that Charlie Fernandez is here in the audience today, and has joined us. He works as someone you bounce ideas off of, sort of like Charlie Munger to Warren Buffett…

Berkowitz: I did learn from Warren Buffett that everybody needs a Charlie.

Phillips: The importance of being earnest; you did a worldwide search for the smartest person named Charlie you could find. So, welcome Charlie. Do we have another question?

Audience Member 2: You talked about Bank of America and you also own a lot of MBIA, can they both do well? Because it seems the best case for MBIA is they win their lawsuits against Bank of America. How do they both do really well?

Berkowitz: Yes, there is a bit of schizophrenia in that investment. So, Bank of America on one side of the fence, MBIA on the other. MBIA and Bank of America are suing each other over the representations and warranties of residential securitizations. MBIA guaranteed the securitizations of the old Countrywide and some of Merrill Lynch, and MBIA is claiming that the representations and warranties were false. So, how can I own both? There's going to be a winner, and there's going to be a loser.

The thinking there is--the win for MBIA is going to be very large relative to MBIA's size. Any loss for Bank of America is not going to be very large whatsoever. And it's just in everybody's interest--not just MBIA, [but also] Bank of America, Morgan Stanley and everybody out there, Credit Suisse, Deutsche Bank--to get the U.S. economy going. We've got to stop all of this, just settle up, and move forward and remove all these uncertainties.

I don't know whether it's going to happen in two months or 20 months, but it should happen soon. So, MBIA is going to win, in my opinion, on reps and warranties. Bank of America has already settled with Assured Guaranty for $1.5 billion-plus. MBIA was bigger in the business. So, it's a legal arbitrage. MBIA is a good product. Everyone says municipal bond insurance is dead. Well, I don't think it's dead for the $6 billion-plus the municipal bond owners that receive guarantees from MBIA. They've kept their word on every single guarantee.

Bank of America inherited a mess. They know what they need to do. It just has to be done in a reasonable way, and it will get done. It's going to be a little nip to Bank of America. It's going to be a big win for MBIA.

Audience Member 3: Bruce, within the last year, year and a half, you started investing in China. That's a change for Fairholme. Could you talk a little bit about why you did that and why you think that Fairholme may have an edge in picking investments in China?

Berkowitz: Sure. We have two investments that are associated with China. The first being AIA, which doesn't have that much business in China but does do business in China, but it's Asian-based, run by Mark Tucker--an absolutely brilliant executive in the life insurance business.

Just backing up a little bit, China, other parts of the Far East, remind me of what the United States was about in the 1950s. Now, you may ask, I was born in 1958, how I would know this? But---

Phillips: The late '50s?

Berkowitz: The late '50s. There is a dynamic, growing middle class, and that middle class needs to know, like we used to need to know, that the next generation is going to do better than the previous generation, that your children are going to do better than you did, and that life insurance takes care of that need, and it's very underutilized in Asia. So, AIA has great growth in doing it; the guy who runs it, his team, fabulous. AIG needed to sell [AIA], and because we were the largest shareholder of AIG at the time, we were able to buy a big chunk of AIA, and we did, and that was our first investment ever in that part of the world.

From that and a few other events, then we bought into a company called China Pacific Insurance Group, which is a life insurer and a property and casualty company. And they are 100% focused on China. We recently had the Chairman of the company and 14 of his lieutenants come to Miami to visit us, and it was just amazing.

The insurance industry, the regulations are more conservative than the United States. They don't have unlimited risks, liability risks; all of their products, believe it or not, they know the development of the liability; in one year they know 98% of the development, two years, it's done.

It's all pretty much on a claims-made basis, very conservative, and it's a bit of a virtuous circle there where people want the product, they are learning about the product, and then the premiums are then used to help build the infrastructure of the country, some of which is government guaranteed, cost-plus, or to help develop the bond markets of China, which is still in its infancy and also maybe for one or two IPOs.

So, AIA, which I view more as a U.S. company, is great and that led to China Pacific Insurance Group, and that's pretty much been that for us. We hope we can do more, but we're going to take our time. But both companies are quite unique.

Audience Member 4: Bruce, do you worry about the regulation coming on the banks and what about them being forced to buy government debt?

Berkowitz: The short answer is no, but I worry I wish it happened already. We passed a law before we knew it was written in the laws, and to some extent, the current executives are being punished for previous executives, and the prescription we're doing today was for yesterday. But that being said, I turn around and say, what can kill a company? Everyone is so worried that higher capital standards will kill them and only being able to charge $0.12 or $0.14 per transaction on a debit card will kill them. And then, there will be other fees, but the bottom line is that I don't think allowing banks to earn a 1% return on assets is egregious or a 10% return on equity. And if you do that, and if you have some of these companies selling at half of their book value, I don't see how you get hurt. But eventually the pendulum will also swing in the other direction again. We'll overreact as we do to catastrophes in the capitalist system, and then we'll eventually get to the right medium. And sadly we will probably eventually go too far to the other side. I think it's the nature of our ecosystem.

Audience Member 5: You run such a concentrated portfolio. I'm just wondering, is there magic to the number of holdings that you may have at one time, and how many companies are you watching that you don't actually invest in today?

Berkowitz: Given the nature of companies and the complexity of companies today, I really don't know how you can get your hands around dozens and dozens of companies. So, we tend to focus, so we can spend thousands and thousands of hours on individual companies. But as you find more companies, I really don't understand the concept of picking your 50th best company, when you can buy more of your first- or second-best company. Once you get past about 30 companies, you're pretty much nearing an index anyway. So what's the point? That's about it.

Audience Member 6: Bruce, you've had some personnel changes in the last year or two. Could you address your idea flow, you have Charlie there, but is there anything we need to be aware of or concerned about?

Berkowitz: No. We have an anti-growth call to creative destruction. I put myself in the shoes of the shareholders and I make decisions as to what's best for the shareholders; that's it. People come, people go. Time will tell, but Fairholme about three years ago shifted from what I would call a more philosophical model where portfolio managers that never ran businesses but studied the traditional portfolio management system, SEC reports, quite good, studied the grades, fine.

But I wanted to develop operating people. I want people at the firm who know what it's like to run a company with 1,000 people, to have to restructure, to have legal issues or accounting issues. People that have rolled up their sleeves and have been involved in the very messy business of business. And I think the better you are at business, the better you will be at investing, and that's the reason why I shook the tree a few years ago. I wanted operating people. And what got us to a billion would not have gotten us to $10 billion, and what got us to $20 billion we could not have used what got us to $10 billion. And moving forward we'll require something else, and we have to be aware of it, and we have to constantly change for the benefit of our shareholders, and it's as simple as that.

Audience Member 7: Bruce, could you comment on the macroeconomic issues that concern you and whether you think Washington can get their act together to actually effect the proper change necessary for just returning to more historical GDP levels.

Then depending upon your answer to that question, how will that impact your concentration in the financials, because if you don't have a positive outlook as to the ability for Congress to get their act together, then how will we actually be able to dig out of this mess?

Berkowitz: I do have a positive outlook that it will happen. The question is *when*? I think Winston Churchill had it right. It seems that we do every alternative possible and the last alternative we finally pick is the right one, and we do really well under extreme stress. I thought the government did very well in late '08, '09. We took out full-page ads in the *Wall Street Journal*, *New York Times*, *Washington Post* complimenting the United States Treasury for the decisive action that they took.

But I would hope that we would be moving a little further; we haven't, but we will. It's inevitable; it has to be, because it gets a little worse, then all of a sudden people get moving. I've noticed the change in the past few weeks where I think people are noticing that especially with an election coming up next year.

In terms of the macroeconomic environment, I'm horrible at it. All I could tell you is interest rates are low, so I figure eventually they will go up, and if they go down, there's not much more they can go down. Will that be good for the banks?

Yes. Will it be good for the insurance companies? Yes. Will it be good for financial services? Absolutely. It's very hard to make a return on float these days. So interest rates will eventually go up, and we will start penalizing conservative savers, and we'll get to a more normal environment. Other than that, I think the country is just going to continue being a great country.

Phillips: Bruce, it's been a big week for you. You've had a birthday, an anniversary. I know you're little under the weather with the laryngitis. Thank you so much for joining us today.

Berkowitz: Thank you.