



December 21, 2012

Season's Greetings and a....

Mini Musings

All of us at Lion Chemical Capital and Lion Cao Asset Management wish you the very best this Holiday Season and a most Happy, Healthy, Safe and Prosperous New Year!!

Following up from last year's remarkable year, we have had another exceptional and challenging one. We start with the Arab Spring moving into the "Islamic Winter" last year **into possibly an even more troubling time in the Middle East** with the Benghazi murders of four Americans including our Ambassador; Assad massacring his own people; and Egypt, long a secular country and a leader in the Muslim world, potentially becoming an Islamic State. There has also recently been a fair amount of saber rattling by Israel. Of course, Iraq and Iran as well as Afghanistan and Pakistan continue to make the whole region one with catastrophic potential. This is a very troubling situation and should not be ignored by America, even with our fading influence--intentional or otherwise--as I am **convinced there is a significant continuing threat to the U.S.**

We have had a **presidential election** the outcome of which disappointed me. I personally know Mitt Romney and respect him greatly and thought he was the better man, with the right credentials, for the issues ahead of us in America. I find it hard to conceive of this President being a better one than Romney, but the President won with 50.6% of the popular vote (and admittedly a much larger

Electoral College majority) so the **American people have spoken on the issue. I wish the President and all Americans the best** in finding ways to solve our significant challenges and many problems.

Europe may be better off than it was a year ago as far as being more unified, it appears, behind the Euro and moving toward a stronger central bank system. China is also better off with lower inflation and an economy growing at probably 7% or so this year. One of course is hopeful that the just appointed new leadership will **continue China's path of economic growth**, which the rest of the **world needs and has become accustomed to**.

We have had a curious market in that stocks have performed well and it looks like will close the year with mid-teens returns, in contrast to modest or flat earnings growth for most companies. This is precisely the opposite results from last year! Most of this year's increase has been an expansion of P/E multiples. What will the **U.S. equity markets do this year depends on many current unknowns**, but I am not optimistic it will match 2012.

I think **housing has a good chance of continuing to improve** both with multi and single house construction from historically dismal recent results. **Auto performance** also generally continues on a **good trend** and with the current 11 year historically high average age of the fleet, replacement should be a necessity at some level. Chemicals, as noted below, also should have a good run unless the world and the U.S economies are very lackluster. **Shipping should provide excellent upside** as the world economies finally show real signs of improvement, and most specifically China's growth. **Healthcare will be impacted by Obama-care in many ways**, many of which are unknown, as the interpretations of the bill's implementation are still being sorted out in a number of respects—Congress may need to step in to help clarify things (this may be an oxymoron!!).

One terrific positive, in my view, however, is that we have a chance in the next couple of decades (lots of mixed data on timing) to be **energy self sufficient** primarily as a result of finding huge amounts of oil and gas using fracking technology. This huge expansion of supply has provided the country with lower cost fuels and feedstock's for the chemical industry. This has helped **chemical companies become exceptionally cost competitive** with the rest of the world and should lead to enormous growth of the industry and of product exports.

Parts of the Northeast were severely impacted by **Super Storm Sandy**. There is a tremendous need for an enormous cleanup and rebuilding effort (\$60 billion requested by the President from the U.S. government alone). The aftermath of the storm has demonstrated the **incredible fragility of our infrastructure**, particularly the electric grid, and of course the phenomenal flooding of critical facilities, including many hospitals. Our aging infrastructure, the grid, bridges, pipelines, etc. all need vast improvement and should be a priority of government, but with the existing huge governmental deficits, these projects seem to go to the back burner all too often.

We have also suffered the shock and despair of **the massacre** of 20 children, almost all 6 years old, and six adults in an elementary school in **Newtown, Connecticut**. We are hopeful that something good will result from this horror and at least this will lead to some sanity around **gun control laws** which will make buying guns more difficult for many and certainly will ban the types of automatic rifles and magazines used in this mass killing and several others recently.

FINALLY THE FISCAL CLIFF:

I decided NOT to write a longer Mini Musings until after the **Fiscal Cliff has been clarified**, as so much will depend on how this all plays out. I am not particularly hopeful at this point that we will have a wise and thoughtful conclusion very rapidly. Many have written on this topic—some ignoring it and assuming sanity will prevail, others providing percentages and various scenarios. Although I seem to have a view on almost everything or anything (whether right or wrong), this one is not very clear, but I am seeing very dark clouds around. **No one seems capable of leading**—certainly it seems the President and Boehner aren't doing so well at it. Of course the politicians involved are incredibly entrenched with their positions on each side of the aisle, making compromise most difficult.

I am less than sanguine that there will be a "good" outcome. The **class warfare** positioning has been particularly pernicious and now long standing with the Administration and most Congressional Democrats, with strong support from the unions and perhaps "Romney's famous 47%". We shall see how this comes out but it will continue to be a very divisive issue in this country. Many, if not most, Republicans in Congress on the other hand, have signed a **"pledge" not to raise tax rates** for anyone – this is a true stumbling block in these negotiations.

We have an incredible amount of **unemployment and underemployment** in this country with about 15% of people who want jobs but can't find them, or have given up looking, or are working part-time and would like to be full time employees. Younger people, depending on the demographics, are suffering from really unheard levels of unemployment in the 25% range. This is an area of critical importance and attention must be put on this issue, whether through better training or education, or we will **have the potential of a lost generation.**

Some states have **moved to provide "Right to Work" provisions in their laws** in order to provide better opportunities for job creation, but the unions have fiercely fought against these moves. Michigan has now successfully made this change and hopes to make it a friendlier environment for companies in which to put their plants and to hire workers without forcing them to pay dues to the unions. This is fiercely being fought by the unions in what has always been a very strong state for the union movement. The statistics however show that **states without right to work laws will continue to fall behind in employment growth and overall economic growth as a consequence.**

Clearly one of our **biggest challenges is growth in the economy** and that obviously means more jobs, however, very little is heard in the Fiscal Cliff discussions on specific growth initiatives and job growth. Even if we fix a number of aspects of the issues we face including too much spending on nonessential programs, too much entitlement spending, not enough tax receipts, **we cannot ultimately get out of this morass without a more robust growing economy!** Fed Chairman Bernanke says he can do no more and it is up to the President and Congress to fundamentally address these issues! **AND THE TIME IS NOW!!**

In any case, **I wanted to have some FUN**, because the Fiscal Cliff stuff just doesn't seem to be much fun for anyone, and so I hope you can enjoy the following cartoons which address, each in their own way, the Fiscal Cliff issues. Many that we chose had a Holiday "cheer" aspect!! Please enjoy them!

ENJOY THE CARTOONS:







"IT SEEMS THAT AT THE END OF 2012, THERE'S SOMETHING CALLED A 'FISCAL CLIFF,' AND SOMEBODY CALLED 'OBAMA' WHO IS OK WITH GOING OVER IT...!"



AND A PARACHUTE FOR WHEN WE GO OVER THE CLIFF



Again, we all wish you the very best for a Happy Holiday season and a spectacular New Year. Thanks for your support and best of luck.

DDL

David DeLeeuw

***Lion Chemical Capital LLC (“Lion Chemical”)** is a private equity firm focused on building a portfolio of companies comprised of businesses operating in the chemical and chemical-related industries. Founders of the firm bring over 30 years of industry experience as well as over 40 years of private equity and investment banking expertise, and the full team of professionals has combined over 100 years of highly relevant chemical industry expertise. Lion Chemical Capital actively pursues premier businesses for acquisition in order to build a portfolio of industry leading companies. Lion Chemical Capital targets undervalued assets in the less cyclical segments of the chemical and affiliated industries. Target transactions will generally be >\$100mm and up to \$500mm.*

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