A.R.Schmeidler & Co., Inc.

The Outlook

May 11, 2007

As of May 10, 2007		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	6.95%	13,215.13
S&P 500	5.93%	1,491.47
Nasdaq Composite	4.90%	2,533.74

World Economic Growth

Aggregate	Subject Description	Scale	2005	2006	2007	2008
World Growth	Gross domestic product, constant prices, annual percent change *(market exchange rates)*	Percent	3.4%	3.6%	4.9%	4.9%
World Total	Gross domestic product, current prices	Trillion	$44.7	$48.1	$51.5	$54.7

In the December 2006 Outlook we reemphasized that the fundamental driver of U.S. industrial activity was Asian growth. While first quarter U.S. growth was the weakest in four years coming in at 1.3% (and it is likely to be revised down), current earnings reports for that period continued to show robust growth due to the strength of the global economy. **We expect this growth to continue through the decade as long as growing industrial demand and rising living standards prevail**. The latest forecast from the IMF is for 4.9% global growth in 2007 and 4.9% in 2008. At the same time U.S. growth is forecast at 2.5% and 2.7% respectively. In actual dollars this growth translates to 2.4 trillion for the global economy and approximately $338 billion for the U.S. Economy in 2007.

The European Commission forecasts that economic growth this year would be faster than expected with unemployment dropping to the lowest levels in 15 years. The estimated growth goes from 2.4% to 2.6% for those countries using the Euro, and for the entire 27 nations union growth goes to 2.9%.

Beneficiaries of Global Growth and Dollar Devaluation

We would point out that the Dow Jones industrial average is an index of thirty international companies, so it should not be a surprise that it is making new highs as these companies are among the primary beneficiaries of global growth. As for the dollar, devaluation which we have written about for a considerable period of time is an additional benefit to these companies' foreign operations both with respect to stimulating sales as well as their foreign earnings being translated into more dollars because of our cheaper currency.

In recent remarks Treasury Secretary Henry Paulsen reiterated the importance of China revaluing its currency versus the dollar sooner rather than later**.** We note that for China to maintain its current currency policy it must purchase an increasing amount of dollars which it then has to ensure does not increase their inflation rate to the point of damaging their economy. The process that must be employed is called sterilization and involves the elimination of excess currency creation by the banking system. By revaluing, China would eliminate some of the pressures on their monetary system, and this is part of Treasury Secretary Paulsen's view.

If China revalues its currency to a greater degree than the very small changes it has made in the past our imports from China will become more expensive. To offset this Chinese exporters would have to accept lower profits by lowering their prices to offset a stronger currency. Unless the Chinese lower their prices, this will increase our inflation rate which remains a primary concern of the Federal Reserve.

The most recent statement from the Fed leads us to believe that there is little likelihood that interest rates would be lowered anytime this year unless economic activity in the United States weakens significantly. We also realize that a lower interest rate structure would tend to weaken the dollar thereby generating upward pressure on inflation rates, the biggest concern of the Federal Reserve.

Global Infrastructure Needs

Over the next three years India is estimated to spend $500 billion on its infrastructure at the same time that Saudi Arabia is estimated to spend $100 billion and the United States is estimated to need to spend $1.6 trillion through 2010. These needs are occurring at the same time that China is industrializing rapidly. In studying the present capacity and availability of resources, both human and material, needed to meet national and private sector goals, available inputs are tight and are likely to remain so for a considerable period of time. Investors who have positioned themselves in the companies that have been benefiting from these conditions in the past several years are likely to continue to be rewarded over time **notwithstanding short-term stock market volatility**.

The Steel and Industrial Metals Industries Comeback

The demand and pricing for steel and industrial metals is benefiting from the infrastructure requirements in China, India and Eastern Europe**.** The companies that we favor in the steel industry are leaner and more efficient and can remain profitable even in a period of moderate demand and pricing. The steel industry has not been standing still; it has invested in modern plants and equipment and driven down costs. U.S. steel companies are no longer burdened with an assortment of labor, healthcare and pension legacy problems. The positive global demand environment has also enabled the industrial metals companies that we favor to generate substantial amounts of free cash flow, which is being used to increase dividends, repurchase common stock, reduce debt and reinvest in capital assets. There appears to be an absence of potential development of new supplies of iron ore, copper, nickel, titanium and other important industrial metals over the near term that would bring on any significant additional supply. All things considered, we believe that the companies that we favor in the steel and industrial metals industries will add substantially to their free cash flow and earnings per share over the next several years. Healthy corporate cash flow and profits are also generating merger and private equity buyouts in these industries.

Consolidation, Private Equity Funds, Cash

Mergers and private equity buyouts have been occurring at a high rate, and this is likely to continue. Economies of scale and high rates of return on invested capital in a world awash in liquidity are generating industry consolidation and leveraged buyouts. The high rates of return are being augmented by the use of borrowed money thereby achieving 20-30% annual returns even after the buyer pays a significant premium above the market price. To put a perspective on the magnitude of some of the liquidity available just in the U.S. alone, money market funds total approximately $2.5 trillion in an economy of $13.5 trillion. Given the worldwide demand for prime assets and the monetary creation occurring through continuing U.S. deficits, both trade and federal, these trends appear to be firmly in place.

U.S. Infrastructure

U. S. infrastructure needs continue to grow. In Chicago, for example, the President of the Chicago Transit Authority (CTA) is looking at modernizing a 100-year-old system with 1,190 rail cars and 222 miles of track. The CTA needs $5.8 billion to bring its system into a state of good repair. This is just a microcosm of our needs and the impact these needs will have on the market sectors that we favor. Nearly 700,000 rail cars in the U.S. are over 25 years old and the majority will have to be replaced at some point in the near future. A rail car builder that we follow closely reported a backlog increase of 90% to 35,000 cars last year. The company has only about 80 million shares outstanding, rising profit margins, sells for a multiple of about one times revenues and has a return on equity of almost 20%.

A needed bridge repair in California could take months to address due to a lack of steel availability. Fabricators are at capacity, there is a building boom around the world, prices are high, and demand keeps growing. Transit systems, power systems, water systems, dams, bridges and highways are among the many needs that can not be postponed indefinitely. **According to a recent report China annually spends 9% of its Gross Domestic Product on infrastructure, India spends 3.5%, and the United States annually spends 0.93% or about $113 billion.** Considering the current dynamics of the world economy we expect present trends to remain for the balance of the decade. Repeating what we said about the IMF Outlook for World Growth, present trends could continue even well beyond 2010.

Conclusion

The last several quarters of economic and financial market history have delivered some remarkable results. Year-over-year global economic growth has been very positive in spite of all the debate in the financial markets about the U.S. economy, interest rates and corporate profits. Global economic developments and stepped up infrastructure investments, particularly in the U.S., China, India and Eastern Europe, are benefiting the market sectors and the specific companies that we favor.

PLEASE NOTE

Due to our growth we will be moving to our new address on May 21, 2007. **Our new location will be**

500 Fifth Avenue
14th Floor
New York, NY 10110

Our telephone number and fax numbers will remain the same.

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