

PORTFOLIO INTERIM SUMMARY September 2008

Occasionally, a number of events occur within a month, which make the analysis, compiling and presenting of a current Portfolio Interim Report extremely difficult... This month was almost impossible, with the rapidly changing event... Even although we have been predicting for some-time that a major event was on the horizon, In over thirty years of market analysis I have never seen the like. With the space of a few weeks, the US government on behalf of its people has become in effect, the major mortgage provider in the country, the largest insurance company in the world while three of its top five financial institution/banks have been lost either through bankruptcy or forced absorption. Those events cost the US taxpayers over \$700Billion USD to date. These actions were instigated in an attempt to shore up the shaky foundation of the US banking system. They failed!

In parallel to the above, they then used their powers to change the trading parameters, stopping "short trading" in some 700+ named banks and financial institutions. It still failed!

Finally a proposal was made whereby a form of a financial septic tank would be created where "toxic" financial paper could be placed and the better grade investments and quality senior investment grade could be used to borrow and the system slowly be brought back on line and the stalled money supply be made to flow. The markets responded positively! This proposal is being debated today and the lack of details has seen the markets slide back.

The above events occurred so quickly that Lehman Brothers \$600 Billion USD debt has yet to be fully identified as to which financial institutions were effected and to what level.

Today the senate Finance committee is grilling, Bernanke, Paulson and Cox, the heads of the FED, US Treasury and the SEC as to the merits of a further \$700Billion USD to fund the "Financial septic tank".... Therefore a 1.4 Trillion USD total...With no assurances that it will succeed although no doubt it will be implemented in some form.



I should state here that I on behalf of all my clients am not in favour of government schemes such as this. Basically they distort markets going forward and delay the inevitable recovery. However I accept that the political fallout could be as bad as the financial if it is deemed in hindsight that the government stood back, doing nothing while confidence in markets further deteriorated. However, it must be stated that this US administration and their associated financial oversight/regulatory entities, failed miserably in their respective responsibilities over the past three years. Banks leveraging at over 30-1 is a serious dereliction of duty, bordering on the criminal and as such they have a moral responsibility to correct, or at least help mitigate. However, I would prefer that they did so in conjunction with their global partners and found a methodology to ensure that a level of transparency of assets can occur, whereby the normal functions of banks/lending institutions can return. I have little confidence that this present US administration will provide the necessary oversight and disciplined programming that the problems will be as efficiently addressed, as the problem would require to quickly and effectively correct.

The problem, although started in the USA, now has a global reach and it requires a combined effort/solution of major banks and financial institutions in conjunction with their country's Central banks to solve. A global vehicle must be created which will allow all those holding devalued assets to visit a "one stop" entity whereby they can lodge the unperforming assets and either auction them in an open arena and/or a fund is created by all central banks which will allow

borrowing against an assessed discounted face value of the paper, to ensure sufficient capital is available for those banks to commence lending.

If insufficient money/liquidity is not available to individual financial institutions/ bank, then we once again face the prospect, that they will have insufficient capital to meet their regulatory capital level obligations to trade... Nor sufficient funds to lend or do business. This would place them into the same situation as they do today...seeking outside capital to prop up their balance sheets. This therefore means that an international solution is necessary rather than just a US domestic proposal. At sometime in the future...and until then market nervousness will continue... a new matrix must be created. This will inevitably change the balance of financial power going forward.

The rapidity of the proposals initiating out of Washington offer little more than a political “placebo effect” as few details exist whereby industry professionals can properly assess whether the proposal will actually achieve the objectives set. As such I see it as a political band aid, when some serious corrective surgery is required.

This doesn't mean that US bankers are solely to blame. Too many international institutions which boast a reputation gained over centuries, of pragmatic responsible management of their client's finances, have seriously abrogated all elements of probity in a race for high profits and bonuses. That fact that their National regulatory body's rules restricted the more extreme acts of foolishness, adds nothing to their credibility, nor helps them repair, their present and well deserved, tarnish reputations.

At the core of the problem is the paucity of liquidity, especially within the Americas. The rescue plans of Freddie Mac, Fannie Mae, AIG et al, are significant events. The market knew this wasn't enough and it required, US Treasury Secretary's Paulson's proposal to “bail out the banking institutions”, to move the market. This indicates that when a programme is finally implemented...assuming that US government's proposal to “bail out main street too” Is more rhetoric than substantive, then markets will likely respond positively. It should be noted however, that a considerable amount of the “bounce” in the market, following Paulson initial introduction of his and the FED's “rescue package” was for a technical reason as those “shorting the market” were exposed and needed to buy, to cover their short positions. A technical circumstance was also the reason that oil spiked during that tumultuous week.

In earlier reports, I have been suggesting that November would be the moment when clarity begins to come back into the markets. Sadly, I do not believe this now. Recent events and the proposal being presented to the US senates finance committee these past few days, would at the time of writing, be less likely to provide clarity. I believe that date has probably been pushed out to the end of the first quarter next year. Subsequently, volatility in the markets is likely to continue, although perhaps within a higher trading range. I am still fully confident that markets will rebound, well within our time frame. Equally I am sure that the coming volatility will as always provide the opportunity of pragmatic buying of oversold investments, by those who panic. I am very disappointed by the quality of professional oversight within my industry and the events of the past few years, is somewhat of the nadir of my thirty odd years of market watching. Never the less, we are well positioned to take personal advantage of these moments, when we can add over-sold investment to our core positions.

I had promised in my last report to provide five or six investment suggestions within this month. I believe this should wait until next as the ongoing negotiations in Washington distort the market and overall consensus. We shall allow the last few days of this month to pass before attempting to analyse likely beneficiaries going forward. Finally please remember that we have been discussing these problems for sometime and to date I pride myself that we have pretty accurately anticipated market responses and patiently positioned your portfolios accordingly. Sadly I have seen too many of these events within my career. This too will pass and we SHALL look back with some fondness of the period, because financially we not only will have prevailed but considerably prospered.

Best Regards

Alan Lamb
Managing Director