

COUNTERPARTY RISK

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- Etsior focuses on funds that:
- Have an original strategy or approach
- Bring a real diversification
- Offer a good performance coupled with an acceptable risk
- Emerge from a strong idea, a forceful manager's personality or both

Etsior connects Fund Managers (Single Hedge Funds, Funds of Funds managers, Private Equity as well as Long only Funds) with Institutional Investors.

Well introduced in the Geneva area, we are focused on an unparalleled level of service.

Through our website, Etsior offers an easy access to reliable, up to date and accurate information on the funds we introduce as well as on third party funds. Our selection is always put in the macro-economical perspective to exploit the short to medium term market trends.

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"You realize that you don't know what's in your own portfolio, so how can you know what's in the portfolio of people who want to borrow from you?"

The subprime crisis has transformed in a confidence crisis and people get very careful when lending money. Even AAA quality paper is challenged, even paper backed by the US government, with no credit risk at all, is depreciated as nobody wants to buy any credit! Everybody wants to borrow but nobody wants to lend money. In its monthly report, a respected Geneva private bank was advising, while allocating assets, to carefully take into account the counterparty risks, which they consider as abnormally high in the current market conditions.

This gives an idea of how nervous people are, as any counterparty today can represent a default risk. Should a major financial institution collapse, this could trigger a major crisis like the 1929 one.

Since 9 August 2007, when the European Central Bank put over 90 billion euros liquidity in the market, it was clear that Central banks had taken the measure of the risk and would do all what it takes to keep the world financial system afloat. Forget the sanctions on the bankers who have mounted the leveraged sand castle of subprime mortgages CDO's; forget inflation; forget the cost for the tax payers and the losses of most of the financial protagonists, there is one goal: save the system.

This was particularly clear through the rescue of Bear Stearns. Liberal doctrine was put aside, the important being to avoid a chain reaction which could have had catastrophic consequences on the world economy. And should another major bank be in danger, be sure one way or another it will be rescued or nationalized.

Will that be enough, will the liquidity inflow be sufficient to restore confidence? The fact that the Fed now accepts almost all kinds of collateral to grant credits (even the semi-kosher, as one fellow commentator said) comforts this opinion.

There are some major risks anyway: the first one, and it is a paradox, is an acceleration of the deleveraging process. As hedge funds can trade their illiquid assets to the Fed, prime brokers may be tempted to prompt more margin calls as this opportunity may be temporary.

The second one, obviously, is a strong defiance against the dollar. For Americans, it will be more and more difficult to borrow in dollars, which is falling in value relative to other currencies and yielding lower interest rates. So far Americans have considered the dollar value was not their problem, but the one of the foreigners who are holding big dollar reserves. But one of these next days, the U.S. may have to borrow in other currencies. When these foreigners, mainly Asian Central banks, refuse to lend money to the US buying treasury bills, it may be painful and consequences will be extremely serious.

But as I said before, the current task is to make sure the real economy is not contaminated by the current confidence crisis and overall confidence is restored. There is a fire, a big one, and the point is to put it out by all means. I believe, and hope, the Central banks will be successful in this enterprise.

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