

Farewell 2008

I would like to start this last Monthly Opinion of 2008 by a few comments on the Madoff fraud, coming after the Peters one. What strikes me most in both cases is the quality of the investors: big institutions, with plenty of smart people to run due diligence, helped by great auditors supposed to give a fair and true image of these companies. Regulators are also to be blamed, especially the SEC. It looks like regulators are stringent on details but are not able to detect big frauds.

Disaster comes out of a number of facts like dilution of responsibilities, lack of common sense or exaggerated lack of humility from all protagonists. The end investor, the one who lost a lot of money, has a taste of bitterness looking at all these brilliant people who were supposed to protect him. I believe, and hope, investors will be less confident in the future, that they will demand the controlling bodies to fill less paper and provide useful work. Looking at some statements I can only be puzzled by the number of red flags that were risen on Madoff products (see [Letter from the research firm Aksia to its clients on Madoff Securities](#)) .

These kinds of frauds are the last things we needed in the current environment, following the de-levering process and the difficulties encountered by a lot of hedge funds in achieving capital protection and in honouring redemption requests.

One of the questions that everybody is asking by this year's end is if we are nearing the bottom of this crisis and how to act smart to make sure to turn this crisis into an opportunity and recover some of the money lost.

Let's consider the following scenarios:

- **The doom scenario** : this crisis will extend at least through 2009, maybe 2010, turning into a worldwide recession. The governments will do all what is possible to slow down or stop this process, with not much success. We'll have fast growing unemployment, a negative growth of the GDP, a coupling of the emerging countries economies with recession. In this case

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cash remains obviously king, but limited future preserving well selected private equity investments, especially those with available secured credit are to be considered.

- **The less doom scenario:** we are closer than we think to the bottom thanks to the concerted actions of the governments and central banks. Among the good moves, a return to the stock markets, especially in those large cash rich companies whose business is understandable, resilient to a recession because of their very core business, of their size or their market leadership. Selected short term bonds, both government and corporate, offered at very attractive price can be a good choice, but taking some more risks. It may be also be a good move to go into much selected credit vehicle, especially those tapping on the secondary market. These vehicles must have liquidity terms that match the ones of their underlying investments; they must not be leveraged not to risk another cycle of painful de-levering. But the yield can be very interesting if the counterparty risk of the borrowing companies is well assessed.

Eventually we'll come out of this period, probably with a *strong inflation* . Throwing hundreds of billions in the economy to restore confidence is certainly the thing to do now to restore confidence and avoid even a more serious situation. But there is no free lunch and we'll have to pay for it through taxes, devaluation or inflation. Inflation is by far the least painful though insidious manner and it is a way of diverting pensions from their beneficiaries, the baby boomers who thought they could enjoy their retirement wealthy. What can we do to protect ourselves from inflation? Well, there are different ways. The first one is to spend our money as the only money that cannot be taken from you is the one you have already spent! Then gold (and other commodities) and finally real estate. The point is to know when this will be the right time to get into these asset classes. Vast program!

We wish 2008 will be quickly forgotten. We wish you a very good health, to be surrounded by your family and helpful good friends, so you'll turn 2009 into a great year. And by the end of the day, just remember this is only money!

Best wishes,

We care for you !

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