

May 7, 2010

“Whatever it is, I fear the Greeks even when they bring gifts.”

Virgil *“Aeneid”* Book 2, 19 B.C.

MARKETS

The current market turbulence is still the resonance of the deleveraging of 2008. While global central banks poured liquidity over financial systems, Western monetary authorities did not address the issues of over leverage and true price discovery. Thus, though banks were allowed to borrow at cheap rates and buy government bonds at higher ones, to show profits, their toxic loans remained buried in their balance sheets. Countries like Iceland, Greece, Spain, Portugal, and others, which borrowed large sums of money from European banks, in Euros, or other foreign currencies, cannot pay back their loans. Europe, the U.K., and the U.S. remain strapped with excessive debt levels, slowly growing economies, and little or no job creation. Iceland is spewing more than volcanic ash.

We have written about this issue in many of our previous newsletters and discussed it in our client meetings. We have remained defensive and cautious, as we did not see the major problems addressed. We feel our portfolios are positioned well for this scenario, and we have even reduced exposure below already low levels. Many of our volatility and arbitrage positions, as well as our hedge funds, should do well in this environment. So far, these market gyrations do not look like they will spiral out of control, as the authorities will continue to douse the markets with liquidity, even buying stocks, if required (although this will be done surreptitiously). Nevertheless, we continue to monitor the situation carefully and will make other adjustments, as necessary.

While Europe will continue to have difficulty managing its way out of these problems (and we will avoid it), it is interesting that, while Asian and Latin American markets have fallen, the leverage situation is not the same. While Grecian riots dominate the media, riots in Thailand receive little coverage. Many Asian markets are net creditors and we expect the ultimate decoupling of markets, with investors separating the old world from the new, developing one. Still, the spillover effects from the Western world will buffet all markets for a while.

We are not surprised by these events and we feel we have prepared for them. As always, capital preservation is foremost in our minds. Periods of market tranquility and strength should be viewed with suspicion, for some time. We will remain vigilant.

If you have any questions or concerns, please call.

Bill