

INVESTMENT OUTLOOK

1st Qtr 2008

I'm not a wrestling fan but this first quarter has felt like World Wrestling's: *The Great Credit Market Smack Down*. Just when you bobbed, the bond market weaved. The hedge funds, pension funds, closed-end funds, banks and brokerages were all part of a gigantic worldwide Wrestle Mania; with the Federal Reserve as referee while the media looked like has-been ring card girls announcing each round.

Jim Bianco, who runs a well-respected institutional fixed income research boutique in Chicago was quoted as saying, "Equity guys are completely clueless as to how bad it is in the credit markets. These markets are as bad as they've been since the Great Depression." Thank you Jim, I couldn't have said it more succinctly. So bad, that on Thursday March 20th, the three month Treasury bills yielded 0.387%--the lowest yield in 54 years.

Throughout this credit crisis, credit crunch, sub prime meltdown—whatever you wish to call the financial systems' woes—there have been many firsts. This is the first time the Federal Reserve has invoked its rarely used powers to contain an all out financial panic. The Fed used emergency loans to securities dealers that are normally reserved for banks so we wouldn't experience another Bear Stearns-like collapse. Huge lending facilities were set up for the cash-strapped bludgeoned investment bankers carrying underwater, leveraged loans, junk bonds, mortgages and collateralized debt obligations on their balance sheets. Financial institutions look like contortionists piled one atop the other.

It would be easy to go on and on about all the negative financial events and the Fed's resourcefulness in dealing with them. But we need to look ahead. With the Fed's agility and aggressiveness, Congress and the Bush administration's willingness to react quickly, we're now firing on all eight cylinders.

We're not out of the woods yet. Home delinquencies, foreclosures, adjustable rate mortgage rates are all on the rise. The ever-weakening dollar and soaring oil prices won't take us out of this tail spin any time soon. Waiting for the 'but'? Read on. But these events are necessary to deliver the US financial system. Leverage helped cripple Citigroup, Merrill Lynch, Fannie Mae, Freddie Mac and it buried Bear Stearns. Our financial system won't leave intensive care until these excesses are purged. Our financial meltdown is permeating the real economy and that concerns everyone.

As past *Investment Outlooks* have discussed, financial bubbles end in litigation. Institutions sue brokers; brokers sue the insurers; insurers sue the rating agencies; Congress does nothing. This time I don't think the script will actually read this way. You can bet Congress will vote for more regulations over the brokers and mortgage lenders. The aim is to clean up the problems.

One point that needs to be perfectly clear: **WE WILL WIND OUR WAY OUT OF THIS AND EMERGE A BETTER AND WISER FINANCIAL INDUSTRY.** It is not in the world's economic interests to have a weak US economy, a debased dollar and toxic financial assets. There are numerous ramifications (and they aren't all good) to foreign economies. For instance, who buys their exported goods when they get too expensive for the US consumer? European and Asian politicians are concerned about the impact the weak dollar is having on their economies.

So you see we really are a global economy. Our economic and financial failures and successes have an impact everywhere. And, as long as the Federal Reserve retains its flexibility, this credit melt down will be just another page in the financial history books.

And finally, regarding a new prime broker arrangement; we are negotiating the final details and we will inform you through email or regular mail.

All the best,

Marilyn

Introducing Alex Anderson



Dear Clients:

Many of you have already met Alex Anderson over the telephone. Alex recently joined Envision Capital Management. Though he is fresh out of Vanderbilt University's MBA program he is certainly not new to the bond market. Alex worked at Wells Asset Management for three years as an institutional bond trader. He interfaced with portfolio managers, institutional clients and Wall Street brokers.

He is young, energetic and is an eight-handicap golfer. As Vice President of Private Client Services, Alex will help analyze positions and effectuate bond transactions. He will also bring new clients to the firm who need a balance of growth and fixed income.

So don't be surprised when you call and hear a male voice—it's Alex Anderson working with Lyssa and me as we navigate through the bond market.

Sincerely,

Marilyn Cohen