

Our Point of View, December 31st 2008

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Statistics of leading stock markets

A) Year to date		in US dollar	in local terms
Switzerland	SMI	- 29.96 %	- 35.59 %
Germany	DAX Xetra	- 43.22 %	- 41.68 %
France	CAC 40	- 45.71 %	- 44.23 %
U.K.	FT-SE 100	- 51.07 %	- 33.10 %
Sweden	OMX	- 49.06 %	- 38.99 %
Europe	STOXX 50	- 47.15 %	- 45.72 %
USA	S&P 500	- 40.79 %	- 40.79 %
	Nasdaq	- 43.06 %	- 43.06 %
Japan	Nikkei	- 28.91 %	- 42.66 %
Morgan Stanley World Equity Index		- 43.29 %	n.a.
Bloomberg Effas US\$ Bond Index (5-7 years maturity)		+ 15.63 %	n.a.
Balanced Mandate Index *		- 13.83 %	n.a.

B) Over five years		in US dollar	in local terms
Switzerland	SMI	+ 18.30 %	- 0.42 %
Germany	DAX Xetra	+ 33.92 %	+ 18.66 %
France	CAC 40	- 0.69 %	- 12.01 %
U.K.	FT-SE 100	- 21.53 %	- 3.52 %
Sweden	OMX	- 4.10 %	+ 3.18 %
Europe	STOXX 50	- 2.36 %	- 13.49 %
USA	S&P 500	- 21.81 %	- 21.81 %
	Nasdaq	- 24.61 %	- 24.61 %
Japan	Nikkei	- 2.56 %	- 18.07 %
Morgan Stanley World Equity Index		- 13.05 %	n.a.
Bloomberg- Effas US\$ Bond Index (5-7 years maturity)		+ 38.43 %	n.a.
Balanced Mandate Index *		+ 12.69 %	n.a.

*50 % Morgan Stanley World Equity Index and
50 % Bloomberg Effas Bond Index (5-7- years maturity)

Annus Horribilis

The end of the borrowing binge

Most of us have at some time or other stood on a dam and admired its construction. Millions of cubic metres of water on one side, yawning emptiness on the other. The information display shows us how the principles of civil engineering work. Nothing can happen, everything has been meticulously calculated; safety comes before commercial benefits. We are reassured after absorbing this surely reliable information. We take pictures of our loved ones as souvenirs in front of the beautiful, shimmering blue man-made lake and turn towards the apparently far more dangerous emptiness on the other side of the dam. My goodness, it's a long way down! But everything is absolutely fine. The information display says so in extremely official terms. Everything has been calculated by experts. Nothing can go wrong. The mighty power of the waters has been held back by man's ingenious calculations.

And this is always how it goes. At any rate, almost always, because unfortunately such dams have failed on occasion. This hasn't happened because of incorrect calculations, but instead because our expectations have been turned upside down by forces unfamiliar to us, which we could not calculate in advance and have never previously experienced.

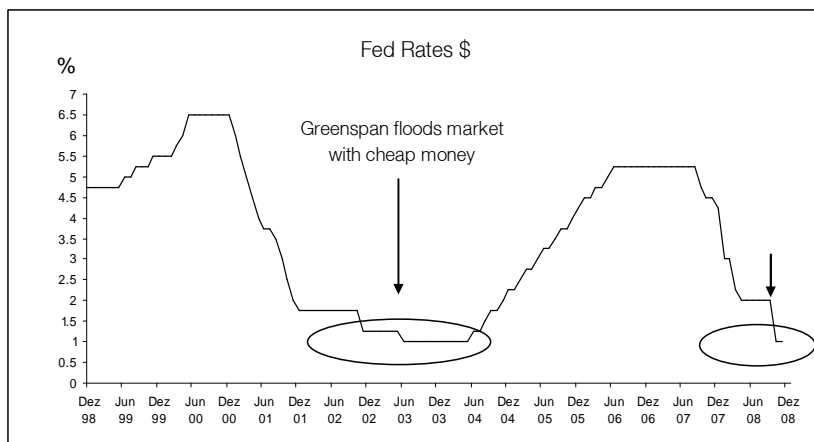
This parable is intended to make some sense of the past year, the present and the future. A breach in a dam has thrown our financial markets off course in a way never experienced before. We have no intention of saying, even in passing, that we should have anticipated this turn of events. You can't point out phenomena never previously experienced. We are nonetheless seething that the criticisms and doubts we aired at a very early stage about the activities of the bankers of this world did not trigger a wholesale flight to safety (which would still have to be defined).

Unfortunately it would not have been much use to stand on top of the dam and discover cracks if we hadn't then fled to the highest place of safety around. Yes, we correctly warned of the lurking dangers in the banking system, we sold nearly all our financial stocks early on at good prices and assumed we were safe from the lurking dangers of the frenzy raging in the banking system. But we made a cardinal error. We expected our financial system to purge, cleanse and renew itself. We thought we were dealing with a problem confined to the financial sector, which it would have to bring under control on its own or with assistance from governments – just as had occurred several times in recent years, albeit on a smaller scale. We underestimated the influence of the sick financial system on the real economy. We recognised the virus that would engulf the world, but we didn't see how lethal it was. We put our initial estimates of write downs for the big banks at USD 350 billion, which was certainly on the pessimistic side of expectations at the time. The expected write downs now are around a minimum of USD 2,000 billion, and this figure is rising. Numbers like this are completely beyond the imagination of our visitor to the dam. We saw the vast mass of water (or money), we saw cracks in the foundations and we could even imagine a breach in part of the dam, but we didn't know the consequences that would be unleashed on structures far away from the dam. We identified the sickly nature of the banking system early on, but for the most part only really shielded those investments that had a direct link to the source of the problem from the "financial tsunami" of 2008. In other words, we exited from banking and insurance investments in good time, expecting the real economy to be only marginally affected. The investment decision was good, but underestimating the overflow onto the real economy was an error. The opinion, also expressed by many professional investors that the Asian economy would on the whole decouple from the impending problems was also wrong. The stock markets seemed not to share this view at all, which prompts us to go into this topic in more detail later in this report.

The origin of evil

The answer is Alan Greenspan

We haven't just suddenly come round to the view that the previously almighty star and former chairman of the US Federal Reserve, Alan Greenspan, fostered today's problems, if not actually causing them. Again and again the sphinx-like Greenspan was able to resolve all kinds of economic and financial problems – and every time with the same tools and applause from unscrupulous politicians. He promised lower cost of money and lower interest rates. The markets rejoiced in mere anticipation of such steps and celebrated as the rate cuts took place. Mr Greenspan was the ultimate miracle man, who would prescribe the USA and the entire world the magic elixir of eternal growth – low interest rates, cheap money and zero-rate borrowing.



For a long time Greenspan effectively conducted a zero-rate interest policy. Unlimited money for all – the result is now well-known. The one thing we still don't know is how it was possible for the clever US bankers to pin their wretched client base's almost criminally leveraged mortgage loans – which completely demolished all risk parameters – in large

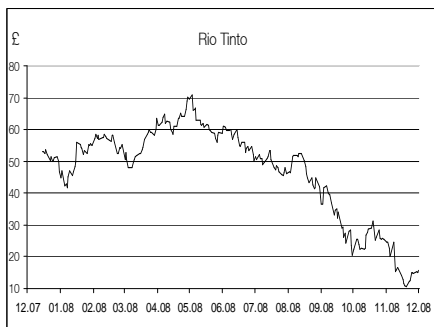
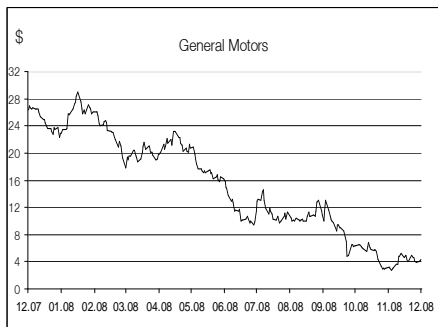
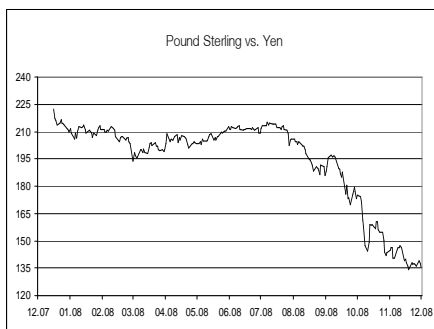
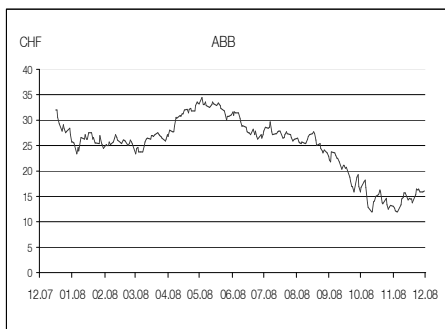
measure on the Europeans. Alan Greenspan's quasi zero-rate policy meant that banks could not achieve adequate margins in traditional lending business, and the "subprime" idea arose from this "emergency". But it was very strange to be able to borrow money at rates significantly below inflation. We don't need anyone coming along, claiming that certain banks have geniuses among their ranks. The basic rules of banking, which simply prohibit borrowing short and lending long were ignored if not ridicule. On top of that, the "carry trade" was invented, by which money in low-interest currencies, such as the yen, was borrowed short term in order to invest the equivalent long term in high-yield currencies, such as the Icelandic kroner. And that became a global sport. All bankers got involved in this daft, naive and Greenspan-induced mess.

Doling out blame isn't much use to us now, but we think it is important to establish that the supposedly ablest in this world now and then propound theories or take decisions which are applauded and celebrated only to be rapidly unmasked by events as total lunacy. Let us also recall the peculiar step taken by our Swiss government a few years ago when it sold off our "excess gold reserves" and distributed the proceeds to the cantons and the ailing social insurance system. At the lowest point in the gold price cycle (at a third of the current price), the bulk of the unwanted reserves were flogged off and distributed to the politicians – not the people. The politicians didn't use the windfall to reduce debt but instead blew it on cycle paths, traffic islands (pointless, arbitrary obstacles in the streets unrivalled anywhere in the world) and the like. This should remind you, us and the whole world that the basic principles of financial logic, the bastions of moral teaching and ethics and of human decency and the like cannot be reinvented. And not by smart, young Harvard graduates either, never mind how clever they are. The remarkable thing is that Greenspan's expansionary mania was able to work for so long and that the financial system did not break down much sooner. Capitalism's capacity for self-regulation has quite clearly reached its limits. We are definitely removing Alan Greenspan from his pedestal; his miracles were a delusion.

Why are the markets collapsing?

An attempt to understand the momentum behind the fall

Over recent months it has become impossible at times for any of us to comprehend the course of events by applying logic and reason. Blue chips tumbled 20% or even further within a matter of hours, global currencies depreciated by 30% almost overnight and the world's major stock exchanges fluctuated wildly in the space of just days.



Can such volatility merely reflect the economic outlook? Can stock market prices and foreign exchange rates be so far out of kilter that a single piece of news can result in a double-digit change in the value of an investment? The answer is no. Certainly, we were all surprised by the unbridled,

negative force of the financial collapse and the virulence of its impact on the real economy, which has now pushed many leading countries into recession. However, the justifiable and paramount question is whether the share prices seen very recently reflect real economic prospects or whether there are still other, perhaps technical factors which have influenced prices. And here we think we're right in saying that countless equity valuations have diverged from rational, realistic levels. But when is a purchase a bargain? Is General Motors cheap at four dollars a share? Not everything that has plunged in value is an invitation to buy. Without doubt, however, very many equities are now cheap viewed purely on fundamentals. We just have to be aware that supply and demand dictate prices and so long as there are hundreds of thousands of forced sellers, valuations will continue to fall. A homeowner whose house is now worth less than the mortgage cannot impose any terms as to price. She or he is "executed" – to use the charming expression. The same applies to shareholdings bought on credit, of which there have certainly been enough in the last few years. If the value of such investments falls to near the amount of the loan, the bank asks for more money. If no cheque arrives, the bank sells these investments without regard for losses or whether the market can absorb such fire-sales at all. At this point lenders are not really interested in that. What chiefly matters are not making any new lending losses?

Or let's take hedge funds, lauded for years, whose golden sheen of wisdom has become rather severely tarnished. These people have two problems. Firstly, in better times every dollar available for investment was used four, five, or even seven times over. That is fine when interest rates are low and especially good when investments are rising right across the board. Leveraged investing is less funny if prices are in freefall, borrowing increases and banks demand additional collateral or even the immediate reduction of debt. Then it's just "sell", whether you want to or not, whether prices are low or not and whether the markets can soak up the disposals or not. You don't have a choice. The hedge fund manager has

to sell. Now, immediately, never mind the losses. And to add insult to injury at this time of woe, floods of instructions to liquidate holdings continue to pour in daily from embittered investors, whose orders have to be settled within 30 days, generating further instant forced sales that simply fall into a vacuum. Virtually all market observers are aware of these facts and so follow the course of events with incredulity. In principle, attractive investment opportunities can be seen everywhere, but market players also know that the technical conditions for buying are not yet in place. The fortunates who are in cash sit and watch as the forced sellers compound their misery.

The process described above is known as deleveraging, i.e. unwinding the world's debt. This is definitely not taking place voluntarily, but is being forced by the way the system works. The banks cannot now afford to be the least bit indulgent with their borrowers. Quite the contrary, some loans that have been serviced perfectly properly have to be called in, as bank balance sheets have shrunk beyond belief and banks' liabilities must be reduced. The problems are swirling round in a vicious circle. The pit-bull is biting its own tail.

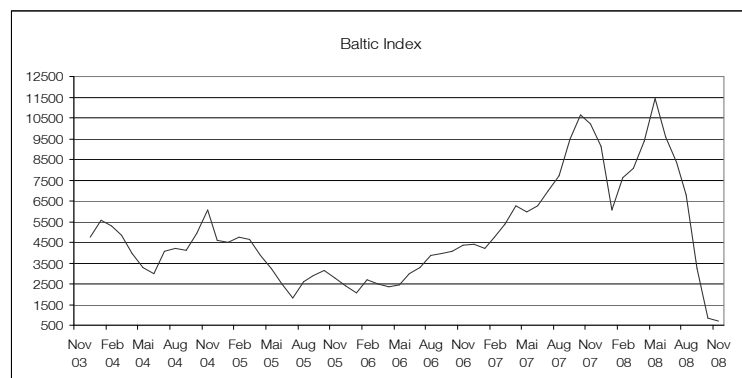
Are things really that bad?

A look at the real economy

Judging from the collapse in valuations during the course of the past year, we are facing a pretty severe recession, mainly in the western hemisphere. Statistically this is already factual in various countries: two successive quarters of negative growth are the official definition of recession. So far, 21 of the 30 OECD countries are officially in recession. The extent of the economic contraction simply cannot be foreseen at present. However, we have to try to assess with a degree of objectivity from today's standpoint

whether the massive index falls on the major equity markets have not now already come close to pricing in the worst-case scenario. There's not much point listing economists' forecasts for you here. Firstly, dear readers, such an avalanche of figures will send you to sleep, and, secondly, in the past these prophesies have far too often been way off target. However, we monitor a range of leading indicators, which predict the course of events 6-12 months in advance. And unfortunately there is still no sign anywhere of a trend reversal. The markets are pricing in a pitch-black environment for 2009. Consumer sentiment will get worse and worse in the new year – that is absolutely certain. Fears about job security will be a factor prompting many people to make drastic savings in the new year, meaning fewer and fewer shopping trips. Sales of cars – which have so far held up remarkably well in Switzerland – will collapse; this too we can say with confidence. In Germany the slump in this sector on the latest available figures is 18%.

What is certain is that an economic downturn is underway, which from October has accelerated at a rate none of us have ever before experienced. Cyclical industries have really caved in, for example steel (after a veritable boom up to spring 2008), the automotive sector including suppliers, construction and mechanical engineering, luxury goods and many others. The Baltic Dry Index, which indicates maritime transport costs, clearly illustrates how drastic the collapse is:



New orders have not totally dried up, but the world has had to accept that they are thin on the ground and subject to heavy pressure on margins. Nowadays every customer knows he has suddenly become a rare commodity, and this is being ruthlessly exploited in contract negotiations.

We tend towards the view that the European stock markets have currently priced in more bad news than their US counterparts, while we firmly believe that in Asia the damage has been overdone. Asia is not just a continent of exporters, as one might occasionally think from reading the *Neue Zürcher Zeitung*, which, among other things, not only uses the language of the cold war in its political elaborations but also has a rather outdated outlook towards Asia. Prejudice is dangerous. The history of economics, and much else, has made that abundantly clear to us time and again. In the following section we return specifically to various Asian factors to underscore our view that an almost incomprehensible amount of damage has been done on the Far Eastern stock markets.

It is also extraordinarily hard for us to formulate a reasonably objective assessment of where we are without being vague and meaningless. We have, we believe, always endeavoured to say what we think without making any stupid comments, such as “we are cautiously optimistic” and the like. The nub of today’s situation is, to be quite frank about it, that we are in a systemic crisis. That is the unvarnished truth. We are not just in a cyclical recession, as occurs at almost regular intervals. The calamity in the banking sector and the unimaginably cavalier, if not idiotic antics of the world’s bankers and supervisory bodies have produced a gigantic sea of debt which now has to be paid off. That hurts. It is quite rightly hurting those who have caused the mess – except of course the politicians, who never get hit. It is punishing those who bought penthouses, beachside villas, yachts, works of art, expensive designer gear, jewellery and other knick-knacks on impulse, without the money to pay for them. It also brings to the verge of insolvency those companies that have for years indulged in the crazy mania for share price management. In other words,

companies which have used billions of profits to buy back their own shares to drive up their stock price. This practice was, and still is known as “returning money to the shareholders”. There is unlikely to be any dispute that this has always been a cheeky claim. At any rate, we have never received “repayment” of any such money (apart from conventional, small-scale repayments of nominal value). We are also told that these buybacks are performed to optimise shareholders’ tax liabilities; as if Mr Ospel and his gang cared about how much tax we pay. The sound practice of dividend payments has been forgotten about, as it was supposedly more in shareholders’ interest for companies to buy back their own shares. Many an audacious company even took on debt on the bond market, using the proceeds to buy back its own shares on the market. That was described as balance sheet optimisation, and anyone who didn’t recognise it as such was incapable, out of touch or senile. The truth is that these antics were solely and purely designed to ramp up companies’ share prices and so maximise the value of management’s stock options.

The entire surface glamour of over-consumption, the mega maniacal takeovers, the financing of uncreditworthy house buyers and the rampant proliferation of hedge funds was paid for with cheaply borrowed money (thanks to Mr Greenspan). Now the music has stopped and a few chairs are missing. In fact most of the chairs are missing. Credit has become a scarce commodity. Loan prolongations are now frequently declined not because of the borrower’s lack of credit quality but because the bank is unable to make the funds available. And the dear old banks are now themselves on a government-fed drip and severely restricted in their capacity to act. All this has nothing to do with a cyclical downturn. We are in a systemic downturn, and no-one can currently assess these risks. This is why it is unfortunately futile to make comparisons with past valuations. To be quite frank about it, we are in uncharted territory. So you may say, “Ok, clear the decks, sell the lot.” Well, we also considered such a drastic move in the last year, but for various reasons – and probably logical ones – we rejected this idea.

Putting all your eggs in one basket

Does it make sense just to hold cash?

The answer is definitely not. One should always diversify, even in a systemic crisis. If the banks themselves aren't lending to each other, how can one have confidence in the system or individual banks as a private investor? With hindsight it can certainly be said that the right move would have been to sell everything twelve months ago and leave the cash in a bank account. But would it really have been so clever and far-sighted to clear the decks and park all one's money at the bank, which could then possibly go under? We now know that countless banks, especially in the USA, had to close their doors, and even major players like Lehman Brothers have failed. Some of the world's largest banks have avoided going bust by the skin of their teeth and were only rescued at the last moment by state intervention. Our clients have seen that in spring 2008 we stopped making significant deposits of cash with the banks and instead switched to buying major countries' government notes. The demand for these short-term instruments bit by bit became so large that we investors were gradually facing negative yields! Indeed, on the day of purchasing such paper, one already knew that on maturity 90 days later, one would get back less than one invested. That was the price of safety.

Our view was that it was far too risky to park the bulk of our assets in the banking system and so we maintained around a quarter of our investments in shares of sound, high-quality companies. Yes, the snowball effect of the system crisis will probably hit every area of economic activity, but unlike the financial system's guiding players – the banks – which have all ended up in intensive care, hundreds and hundreds of soundly managed and financially solid industrial companies will certainly not be going under. So it makes sense not to wrongly imagine one is safe by entrusting all one's assets to the moribund banking

sector, but instead to invest a significant portion in equities, such as Roche, Holcim, Nestlé or BHP, to name just a few.

Asia

China remains best of its class

On 21 October the Financial Times printed the headline “China growth slows sharply”. Just beforehand, Finanz und Wirtschaft had run “Gloomy outlook for Chinese economy”. The message was that readers need to accept that things are just as bad in China as in the West. But is that actually correct? The answer is no, absolutely not. The fear of the sheer scale of China is almost endemic in the West. This is the only way to understand the above headlines. Undoubtedly, growth has also slowed in China – the driver of the Asian economy, but has it collapsed, as these headlines would have us believe? After five years of double-digit expansion, China’s annualised third-quarter growth in 2008 declined to 9%. It is quite possible that this rate could even fall to 7% in 2009. These are fantastic growth rates, and even a tenth of such figures would be absolutely amazing for every Western economic power. Astonishingly, China’s industrial production in September was up 11.4% on the previous year, which admittedly represented the lowest growth since 2002. But can that really be called a “gloomy outlook”? Or let’s look at consumption. Consumer spending in September was up 17.1% year-on-year. Hmm, in the capitalist system consumption equates to around two-thirds of GDP. Consumer spending of 17% is not exactly a disaster, and neither is half that rate.

Or have you read about Asian banks that suffered really badly in the subprime fiasco? Do you read about write downs, even amounting to a fraction of those of the gamblers in the West (we mean the bankers in our

own backyard)? Or have you read about bonus payments to senior Asian managers that were even approaching those received by those same self-servers in the West. The answer is definitely not. Granted, China's government thoroughly restructured its banking sector a few years ago and rubbed out the communist legacy liabilities from banks' balance sheets. But the Asian players have practically no involvement in today's financial roulette at all: so, 2-0 to Asia.

Let us bear in mind the vast financial resources at Asia's disposal. China alone has more than USD 2,000 billion in currency reserves. Such nations with surpluses can afford to dig into their savings if they need to boost their economy. Many voices in China are now claiming it is nonsensical to finance the US budget deficit and that the Chinese people would be better served if the accumulated surpluses were invested domestically in infrastructure and the like. Such a venture would be dangerous for the USA, but the world thinks that China's investments in US government paper are so huge that they could not be sold off. Few remember that China simply doesn't have to do this. The average term of these investments is less than four years. What do four years mean in Chinese history? China could quite easily just not reinvest the maturing government paper and repatriate the money. That would be a disaster for the USA.

Asia's dependency on exports to the West is massively overestimated. The region actually exports more to China than to the United States (see also the comments on this in our last report).

The current valuation of the Asian stock markets is extreme – extremely cheap. The same applies generally for the emerging markets, which will produce significantly better economic growth than the West again next year.

In our countries, Asia's prospects are spectacularly underestimated. In fact, we believe that the gentlemen in Washington and Brussels are

suffering from colonial-style mythomania. The West blindly believes it is superior on all counts. Most of the high-wire jugglers (that's the bankers) have no idea that up until 500 years ago, China was streets ahead of the rest of the world in all respects and only a small strategic historical error (abandoning its fleet) led it to temporarily fall behind the competition. The imperial decision in favour of isolationism was in principle logical. China was so superior at the time to every other country in the world, so much more developed than all other nations that there was nothing more it could learn. Almost like the bankers of the current decade. But pride always comes before a fall – without exception.

We maintain our view that the 21st century will belong to Asia. Asia is better equipped than the West as it moves forward into the future. The great nations of the East are incomparably more soundly placed financially than the Old World; the financial system in the East is not on a government-fed drip. The resources to find one's own way out in the event of a continuing global recession are available without, as in the USA, having to print trillions of dollars.

Asia's future is underestimated. Each morning, the financial section of the Neue Zürcher Zeitung lists the movements of some few stock markets. Just one Asian market is shown: the Tokyo stock exchange. The rest of Asia is ignored. Iceland almost seems more important than China. Preposterous, isn't it? But an indication that Asia is underestimated. Or let's take the important (?) G7 group, the group of the "world's most important industrialised nations". Italy, for example, sits there at the table as supposedly one of the most important nations, and Mr. Berlusconi lectures the world. Why doesn't China or India or Brazil belong to this group of the "most important industrialised nations"? It's because of, as we explained above, the West's colonial-style mythomania and arrogance. We shall see. Investors in the literal sense of the word invest in Asia. That's a must.

The heart of the matter

Confidence cannot be bought

This all brings us to the following conclusion: it would appear that the governments and central banks of this world have done everything possible to master the crisis. Rescue packages of absolutely unimaginable dimensions have been deployed. The world's savings have been guaranteed across the board – but guaranteed with what? Dozens of major banks have been covered by state guarantees. Major industrial companies have also received blessings in the form of government guarantees, along the lines of the old Arabic saying that someone who steals one horse gets locked up but if someone steals a thousand horses you negotiate with them. One should therefore be allowed to think that the world can relax. Nothing more should happen, given the government guarantees that have proliferated almost all over the world. But an agreement is only as good as the parties to it. A guarantee is only as good as its guarantor. Our system doesn't really seem to believe that all our governments' loving attentions have healed the system's cardiac arrest. One more little factor is still needed for a recovery from the systemic crisis. Something unspecific, hard to define: confidence. There are, thank goodness, things in our lives that cannot be bought with money. Education for example, ethics, morals, aesthetics, and confidence in the sense of trust. Such confidence cannot be bought. It makes no difference whether it is sought between friends or spouses, or in the financial system. The central bankers of this world have done everything conceivable and inconceivable to demonstrate to us that the sickly financial patient has left intensive care, the most eminent doctors have performed all the necessary operations and the best possible vitamins virtually ensure a prompt recovery. Nothing more can go wrong. The heart of our system (the banks, believe it or not) has been rescued, restructured and guaranteed. But what has happened so far? People don't believe it.

Confidence (still) hasn't returned, and without confidence nothing works. The central banks have provided the struggling banks with nearly every means available for restructuring their balance sheets. But the banks do not have confidence in each other. No-one is lending to anyone else. Prodigious amounts are being borrowed from central banks for no purpose (apart from guaranteeing one's own liquidity position) and returned each evening at, it should be noted, interest rates well below those paid in the first place. But interbank lending is at a standstill due to the mutual lack of confidence. It's almost dead. Credit is continually being revoked. The banks are only granting loans to companies with the very best credit ratings. Smaller loans are being withdrawn, even where customers are in a position to repay. For the commercial sector the lack of confidence has fatal consequences. Suppose the owner of a clothes shop, for example, would like to buy some stock before the holiday period. He orders it somewhere abroad. The manufacturer does not accept the letter of credit, because he does not have confidence in the creditworthiness of the purchaser's bank. He wants to be paid in advance. Our friend, the owner of the clothes shop may have some cash available, but he has no confidence in the supplier's bank or in the manufacturer. This bank could yet go bust overnight, or the supplier may be unable to purchase his raw materials. So the deal falls through. Customers visit the shop, but there is nothing for sale. This is an everyday example of how devilish the consequences of the lack of confidence are. We can ask analysts, university professors, Warren Buffett or anyone else how confidence can be restored. But the only honest and correct response is that nobody knows how to achieve this. Confidence is one of the most precious commodities in this world and just as difficult to build up as one's own reputation. Wilhelm Busch's wise maxim that "Once your worldly reputation is in tatters, the opinion of others hardly matters" is of little help. The big bankers appear to have lived precisely on this basis.

Confidence cannot be bought, as the world's central bankers are probably despairing of right now. We think the ultimate trigger for the

restoration of that all-important factor confidence cannot be foreseen. There are things in this world that none of us can analyse, which are abstract and unimaginable – life and the meaning of life, the definition of true ethics, confidence. The world is not grinding to a halt. The current systemic crisis will not last for ever either, but the precondition for a sustained path back to well-being and the restructuring of the global economy is undoubtedly confidence. All this means that the limits of materialism have been highlighted. A feeling of subjectivity now prevails in our profession.

It behoves us to bring these lines to a conclusion with an expression of regret. Our regret is that, despite our best efforts and professional work, we have had to ring down the curtain on an unpleasant year on the investment front. It is not much use making assurances that there was really nothing that could have been done about it. A year of substantial losses is nasty, annoying and galling. We most definitely know that. It may quite rightly seem strange that we are introducing the keynote feature of 2009 under the subjective-sounding term “confidence”. A systemic crisis occurs at most once every hundred years and is no more defined in textbooks than the concept of confidence. In the past year we too made errors of judgment, which, if we are honest, rightly dented our professional pride. However, we are now sure of one very important assessment; we believe we are not sticking our necks out too far if we predict that the financial world will be very rapidly back on track as soon as one specific event takes place: the return of confidence.

MAB