

eklektikos
CAPITAL MANAGEMENT, LP

Looking Ahead to 2009

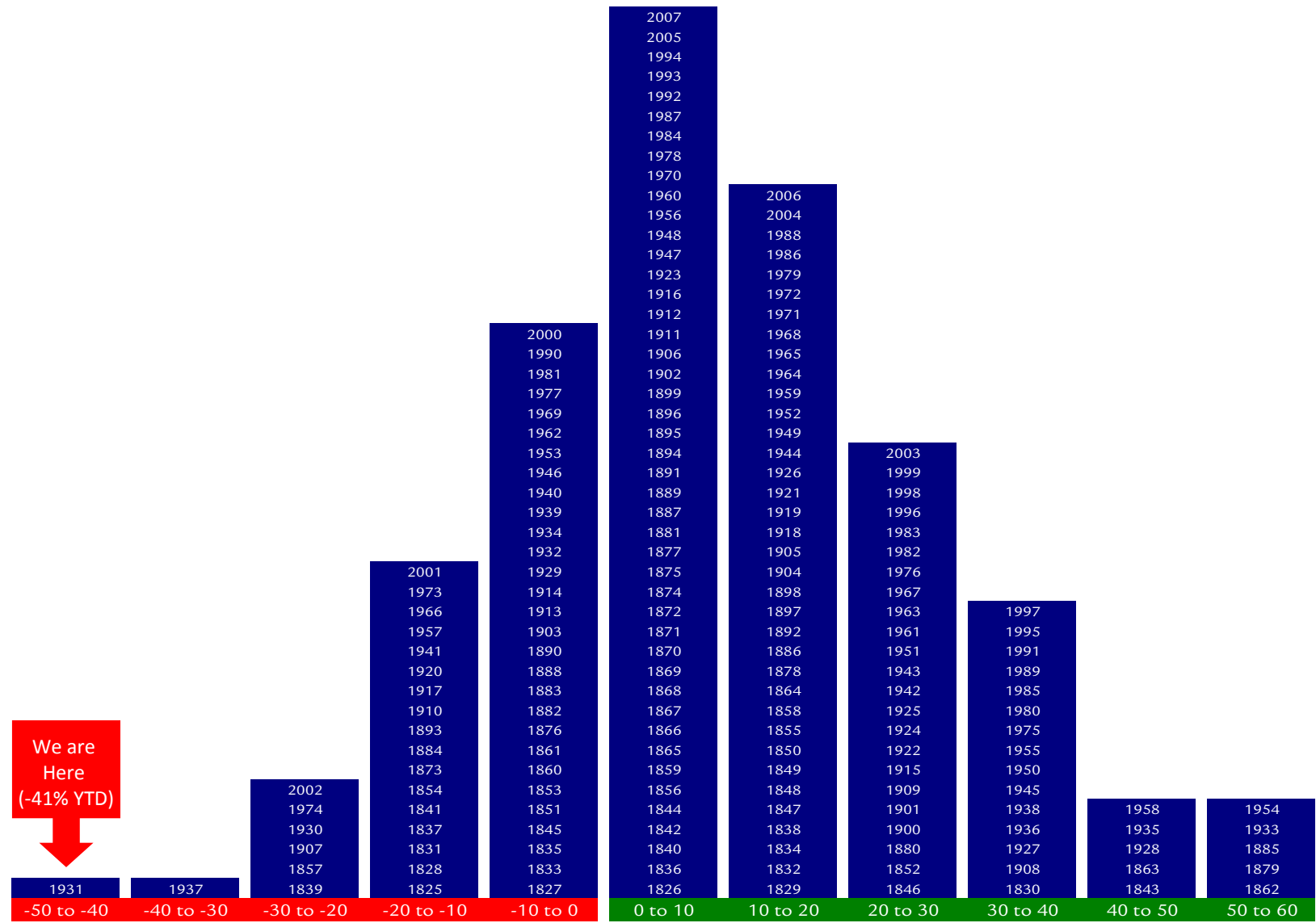
“As far as the laws of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality”

- Albert Einstein

A Year for the Record Book - 2008

- ❑ S&P 500: - 40%
- ❑ Dow Jones Industrial Average: -35%
- ❑ The Federal Reserve has lowered the Federal Funds target rate seven times over the year to an all-time low of a range between 0 and 0.25%
- ❑ The VIX volatility index surpassed 80 twice this fall, doubling the previous highs set over the index's almost 19 year history
- ❑ CTRB Morgan Stanley Single A 10-year Mortgage Backed Credit Spreads have risen from 460 basis points at the end of 2007 to 4469 as of 12/19/2008

S&P Index from 1825 to 2008 – through 12/22/2008 Histogram



Source: Bloomberg

Possible Thaw in Credit Freeze?

- ❑ Credit market unfreezing, with spreads narrowing from their historic highs.

Yields	12/22/2008	11/28/2008	10/31/2008	9/30/2008	8/29/2008	7/30/2008	6/30/2008
Fed Funds Target	0.25	1.00	1.00	2.00	2.00	2.00	2.00
3-Month LIBOR	1.47	2.22	3.03	4.05	2.81	2.80	2.78
90-Day T-bill	0.00	0.05	0.44	0.79	1.65	1.65	1.76
10-Year Treasury	2.13	2.93	4.01	3.85	3.83	4.07	3.99
JPMorgan Muni Bond	6.77	6.78	6.65	6.33	5.12	5.29	5.11
Moody's AAA (10-Year)	4.62	5.60	6.54	6.01	5.60	5.76	5.60
JP Morgan Global	2.63	2.94	3.46	3.52	3.56	3.74	3.85
JP Morgan Emerging	9.08	10.04	9.99	7.88	6.92	6.94	7.03
Spreads							
Moody's AAA (10-Year)	249	267	253	216	177	169	161
JP Morgan Emerging	741	748	684	442	323	297	308

- ❑ The Federal Reserve set a new, low range for its key lending rate and outlined other aggressive measures to support the economy.
- ❑ Poor economic news is already priced into the market.
 - Expectations are set for unemployment as high as 9% and well priced into the market.

Consumer Confidence



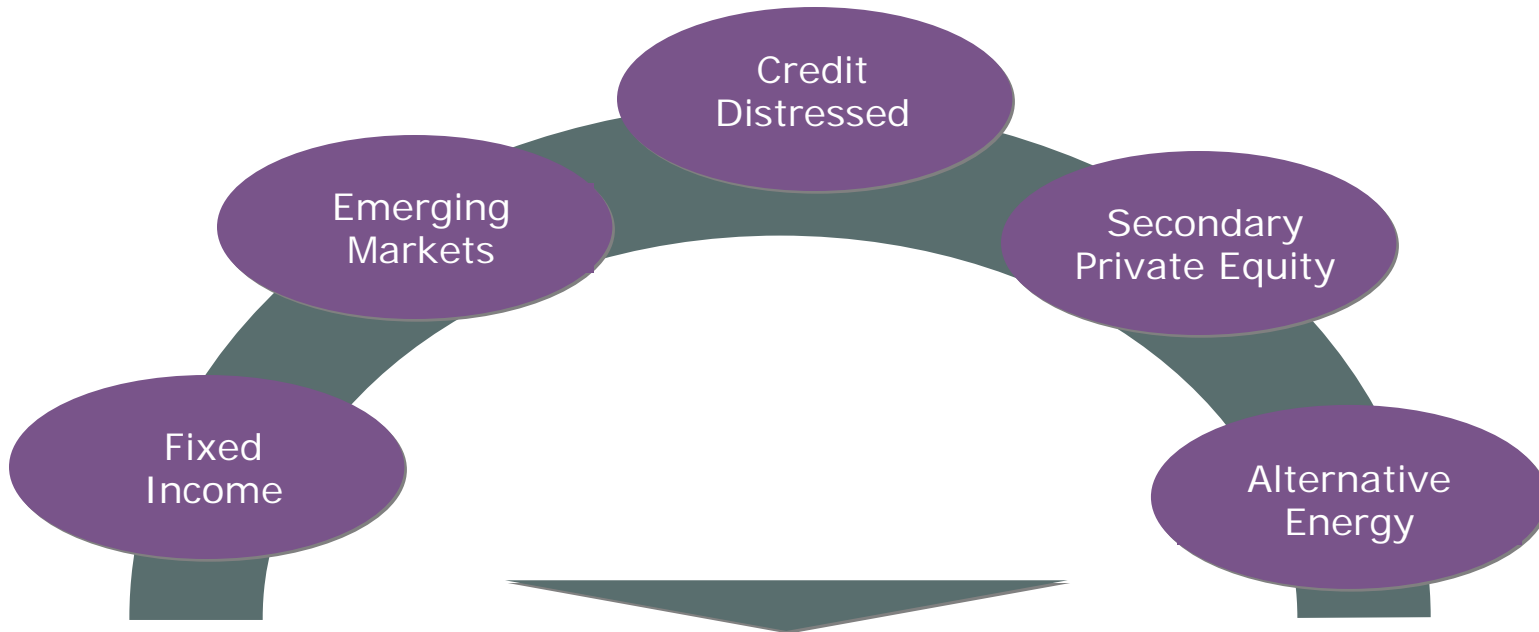
Rebound in Consumer Confidence
 (Beginning in Oct thru year-end 2008)

Source: Bloomberg

Looking Ahead to 2009

Attractive Investment Opportunities

- We feel the following asset classes will provide unique opportunities with significant upside beginning in 2009



Expected Alpha Sources in 2009

Bank Loans are Prime for Bargain Purchases



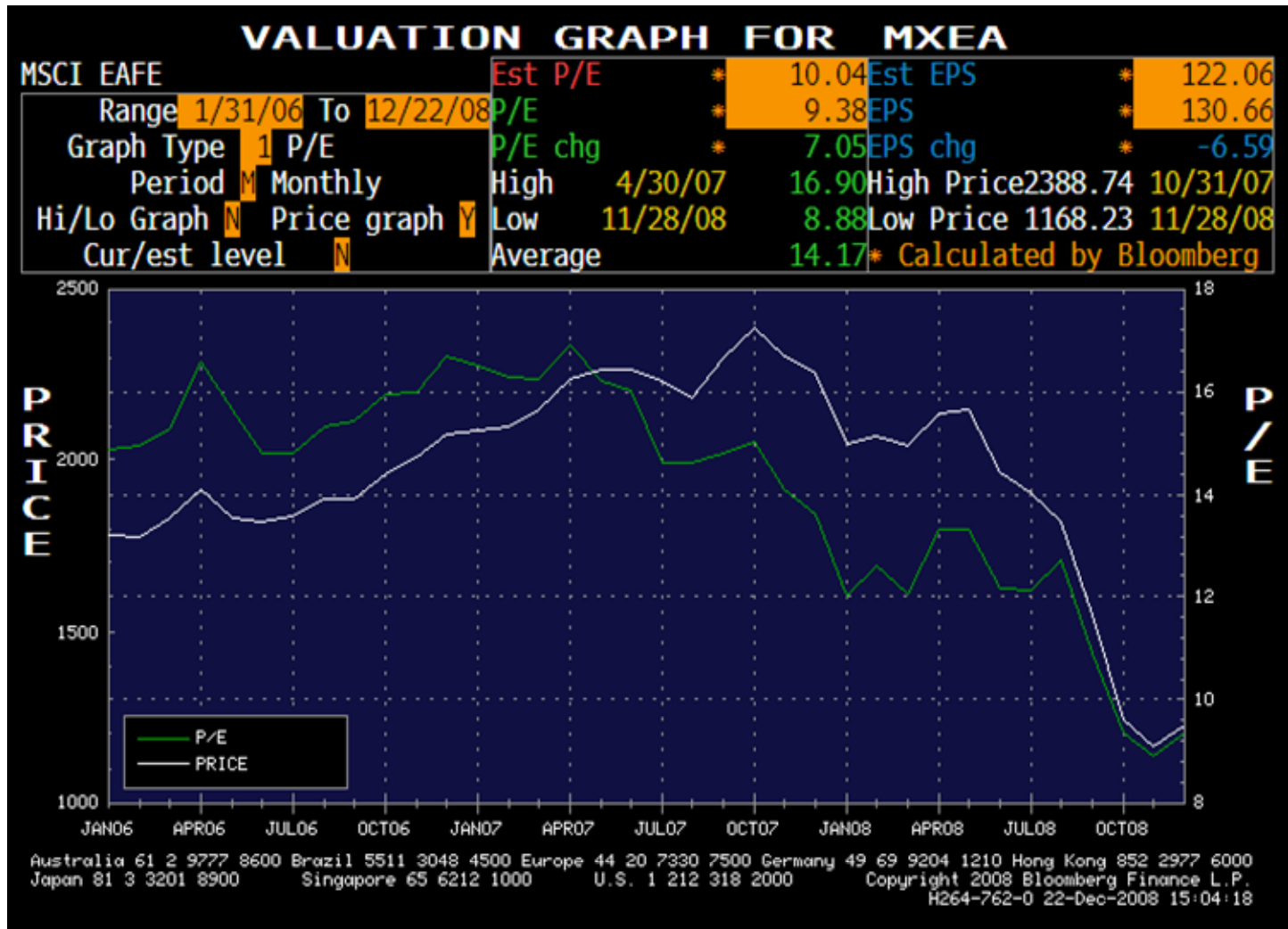
Attractive opportunity to invest in fixed income strategies (other than treasuries)

Example:

- investment grade corporate bonds
- senior bank loans

Source: Bloomberg

Emerging Market Valuations

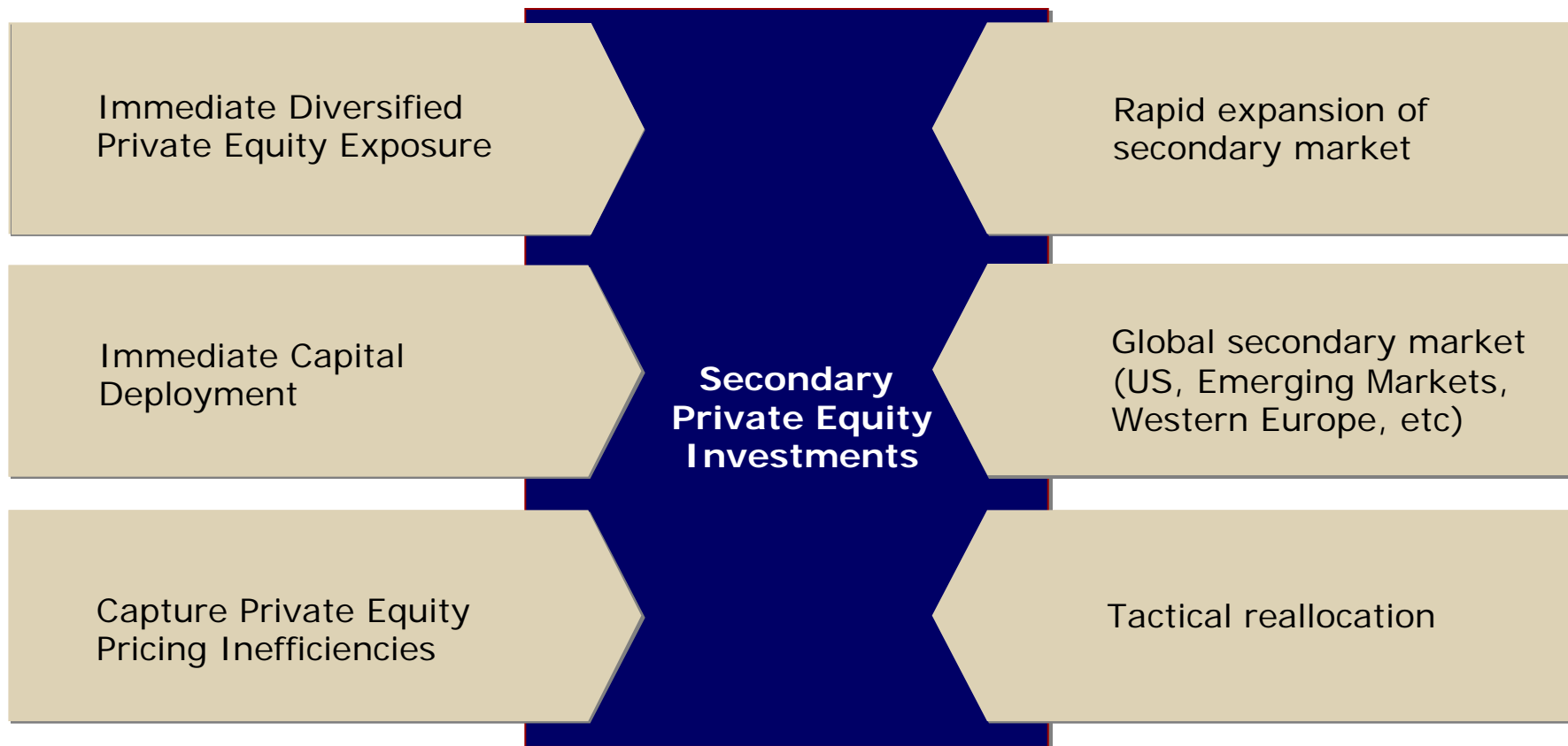


Attractive Market Conditions:

- Valuations are indicating the beginning of a recovery for developed and international stocks
- Not overcrowded
- Significant upside potential

Source: Bloomberg

Secondary Private Equity



Lessons Learned from 2008

Credit Derivatives: Derivatives that were developed to limit risk, specifically credit defaults swaps, actually caused the market to take on more risk as investors significantly increased leverage.

Value-at-Risk Models (VaR): The various forms of VaR models continued to demonstrate limited utility when assessing downside risk and correlation. They uniformly failed as liquidity left the system and 5 standard deviation events became commonplace.

Don't Rely on 3rd Parties to do heavy lifting: Fund managers must do their own due diligence. This year proved that having a Big Four accounting firm, large custodian, or owning AAA rated securities from Moody's or Standard & Poor's offered little protection from write-downs and fraud.

Disclaimer

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