Walnut Finance

WF NewsLetter

Year 2, Issue 14

March 2009

Summary:

And the Winner is…

Last April, one dollar was worth Euro 0.63 or Sterling 0.50.

Today it costs Euro 0.78 (-24%) or Sterling 0.69 (-38%) to buy the same one Dollar.

What other investment gained that much in ten months? So the big winner would be the old greenback. Maybe. The other winners are all the expatriates in the Middle East earning USD equivalents much more valuable today than it had been for years. What do the other currencies do? The Sterling has dived, the Euro has retreated from its 1.59

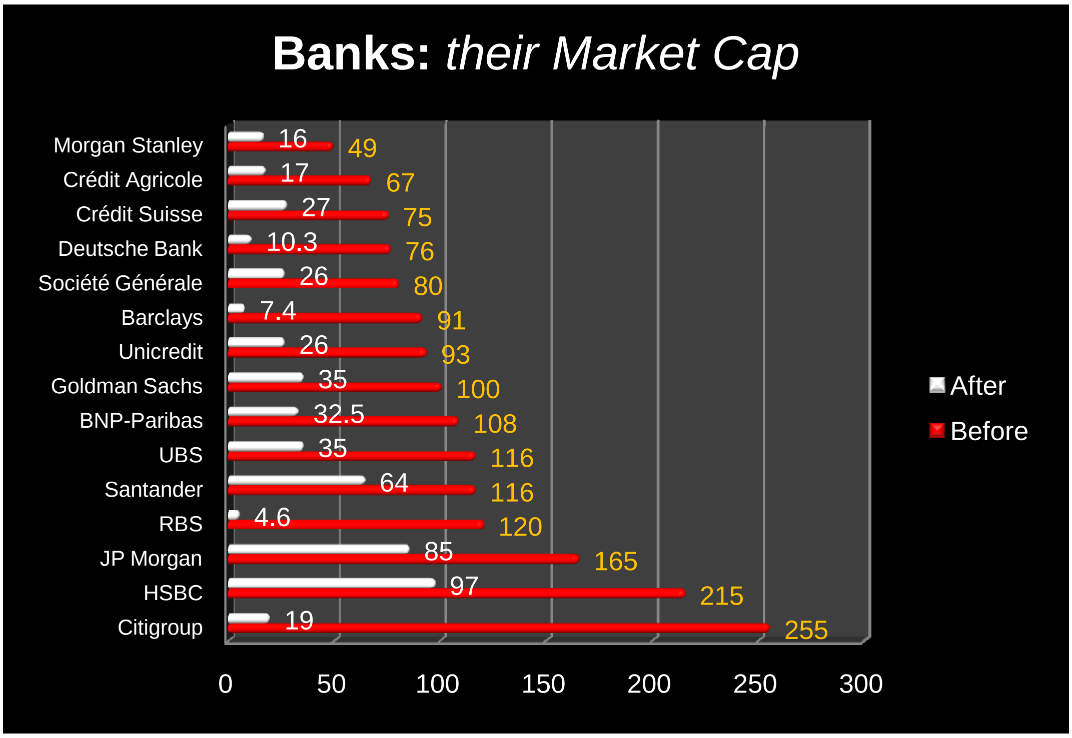
peak. Last year, 1 USD was worth 124 Yen while today you only need 97 Yen to buy a Dollar, so the Yen is showing some strength.

What about the future? Banks forecast indicate a reverse in the trend, 1 Euro at $1.45 and 1 Sterling at $1.65 (12 months).

But, and take our word on it, banks forecast on currencies have a long and consistent history of being wrong. So we'd rather take it step by step and watch it with humility. Remember, currency forecast is not a science, it's only speculation!

Value of your favorite bank *SHRINKING*

"Conservative" Deutsche Bank lost -86% of its value between the 2nd quarter of 2007 and today!



Market value of banks in March '07 vs. February '09

The small white bar is what is left of your bank. In red: what it was worth during the second quarter of 2007.

RBS (Royal Bank of Scotland) for example has lost -96% of its value, while Citigroup lost -93% of its. Deutsche Bank -86%, Barclays -92%. These are huge percentages.

An interesting remark is that the two private banks (UBS and Crédit Suisse) have feared better than the commercial one. Which banks put more of their money in sub-prime and Madoff?

Soros, UBS, Stanford

George Soros *has lost a lot of money in 2008. "There was no decoupling between markets of the developed and developing worlds, and it cost me a lot", admitted the billionaire.*

When talking about losing money, ***UBS*** *has been a leader recently. Between sub-primes, Madoff, and now the sacrosanct Swiss secrecy given away to keep its business open in the USA.*

The USA where a new name just emerged, ***Sir Allen Stanford****. The CEO of the Stanford Group that was giving away fixed deposits at rates 3% higher than the market was offering. How could he manage this? No one knows.*

Did the ***nuclear subs*** *collide because a Russian* ***satellite*** *was sent against a US one to cut military communications? That could make a nice action movie.*

The ***Dubai*** *government has issued* ***$20 Billion bonds****. The UAE Central Bank (based in Abu Dhabi) has purchased the majority of the issue. Dubai is safe, it won't need Abu Dhabi's help!*

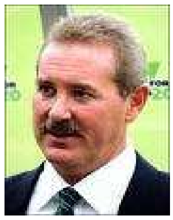
Ireland *is suffering (broke?). US companies that had enjoyed generous tax breaks are now in trouble and moving their businesses to Poland for cheaper labor and new tax breaks. In the meantime, Ireland is starting to look like another Iceland. Carefull there!*

Indicator	Last	Year-to-date	1-Year	5-Year
Dow Jones	7,062.93	-21.82%	-43.01%	-33.27%
NASDAQ	1,377.84	-15.58%	-41.46%	-32.12%
CAC 40	2,702.48	-19.32%	-42.20%	-26.20%
FTSE 100	3,830.09	-16.37%	-35.80%	-12.10%
Nikkei 225	7,568.42	-16.31%	-35.79%	-34.40%
$/€	1.268	+9.14%	+16.54%	-1.48%

Russian and US **satellites** collided, and debris fell on earth. Nice.

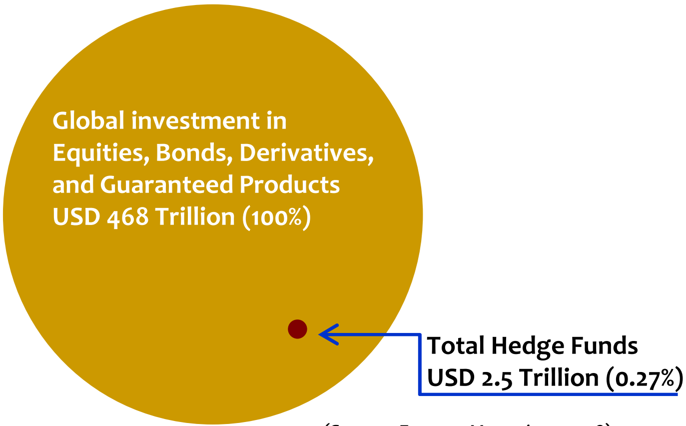
Soichi Nakagawa
Japanese Finance minister, over-indulged himself with spirits

French and English ***(nuclear) submarines*** collided. To silent!



"Sir" Allen Stanford
Crook of the month. And cricket magnate.

Too many *Hedge Funds?*



(Source: Futures Magazine, 2008)

The agreed sentiment is that there are too many hedge funds, and that this over-abundance has been an important factor contributing to the collapse of the markets in 2008. Maybe. But the graph on the left shows the relative values of money invested in hedge funds vs. other financial instruments: 0.27%!

So we wonder how such a tiny percentage can be responsible for such a disaster?

We'll come back next month with more on that subject.

"Sir" *Allen Stanford*

You can be both a "Sir" and a crook, well Stanford was only knighted by the Antiguan authorities. What is interesting from Walnut Finance's perspective is that we have been actively marketed by the Stanford Group to offer their Fixed Deposits to our clientele. We were never convinced by the miracle. After all over-remunerated deposits fueled the fall of the BCCI. And the freezing of the US assets of some banks from the Middle East. Now, when it came to explaining how Stanford was able to pay more than Central Banks rates, the gentlemen that visited us only explained that Stanford was investing clients' deposits in the markets and getting such high returns that Stanford could not only pay high deposits rates, but also make good money for itself. Now Walnut Finance is not a large financial institution, we do not have the powers of investigation of the FED (US Central Bank), and none of the partners has got an Economic Nobel Price.

HOWEVER, from day one, the Stanford offer seemed disturbing: Antigua, abnormally high rates, leather bound brochures (for fixed deposits?), it all seemed "too much". We decided to "pass" on the offer. And frankly, we are surprised to find out today that in took the FED ***15 years*** to reach the same conclusion! This only confirms that the crisis demonstrates firstly the ***failure of the controlling agencies*** to do their jobs.

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Technicalities: *Yield.*

A yield (in Finance) is the expression of how much an investment ***returns in cash***. This can be a very misleading measure of performance since a positive yield can hide a negative return of the underlying. For example, a Bond can pay you 7% in cash yearly but, at the same time, sees its value dropping -15% due to markets. In that case the real measure of the investment would be the ***total return*** that includes both yield and growth. Note the difference between Yield and Current Yield: a Bond bought for $100 paying 8% in cash ($8) yearly has a 8% yield. When the Bond moves up to $120, it still pay $8 per year, thus its ***Current Yield*** is only 6.67%. Subprimes are the example of high yield for a bad return. In the end, the cash coupons were not even paid to investors (default), leading to a total loss in value. So when buying Bonds, look at ***Current Yield***, but also at ***Rating*** of the paper. Now, the relevance of ratings …

1929, *The Great Depression.*

A little bit of history seems important as we keep hearing "it's like in '29". But how many of us where there in 1929 to say? So, is 2008 like 1929? Well read this: ***August 1929,*** *riots erupt between Arabs and Jews in* ***Palestine****, 133 Jews and 116 Arabs killed.* **80 years ago!** Back to our story: on September 3, 1929, after 6 years of rise, the market dropped by 17%. The banks decided to buy shares above their market prices to sustain the market. No effect. On "Black" Monday October 28, the market

loses -12% followed by "Black" Tuesday, the 29th when the market loses -12% again. Followed by a weak recovery over 1930, actually a typical ***"dead cat bounce"*** since by the end of 1932, the market had lost -89%! This was the ***Great Depression***, "caused by over-indebtedness" (*Fischer*). No intervention from the government(s). It took the election of Roosevelt in 1933 and his ***New Deal*** to initiate a reversal that would culminate with the war effort in the forties.

Quote of the Month

"A government big enough to give you everything you want is big enough to take everything you have."
Barry Goldwater
Former US Senator

Numbers that strike

- ***11*** is the number of cars abandoned at the airport by their owners *(source Dubai police)*
- ***$1,000*** is the price of one once of gold in January 2009
- ***$8,000,000,000*** lost to Stanford
- ***$11,500,000,000*** lost by Warren Buffet in 2008 (Midas?)
- ***+20.3%*** annualized return achieved by the same Buffet since 1965 (44 years!)

Follow Up… *February '09*

Safe & Reliable

Man AHL Diversified Strategies Ltd.

The Man Investments flagship manager, AHL, continued its excellent progression. After an outstanding **+33.2%** in 2008, AHL is on course for a super 2009. The 12-month performance is **+22.70%**.

Now on offer, two options:

100% Guaranteed Capital

or

8% Annual Coupon

Unique & Rewarding

Walnut Millésime

The First & Only **1ers Grands Crus Classés** wine fund is now open for subscriptions. The prices of wines, in line with other goods, has declined, but the demand for the Crème de la Crème is **still intact**, so the timing seems definitely perfect.

The 2008 crop is a small one, and quality is expected to be on op of the range.

High Risk, High Return

Superfund GTC

The 2008 performance was **+50.51%.** The annual compounded return since inception is **+23.31%.**

The fund is up **+2.32% since the beginning of 2009.**

This is a very volatile fund, but for those who don't fear abrupt changes, definitively a long-term winner.