



WHAT'S NEXT

As of this moment, most mature stock markets have declined 38-48% this year; including Canada, U.S., Japan, Germany, France, U.K. – while Chinese and Emerging markets are down 60%!

The fundamental reasons seem to be well delineated – summed up in one word “leverage”. The longevity of the required unwinding is unclear, but generally thought to be lengthy. It is true that sales of big ticket items such as houses, condominiums, autos, appliances have literally stopped – despite almost 0% real interest rates. Central banks / governments worldwide are printing money at record levels – monetarists worry about future inflation – most investors relish the thought!

Portfolio management firms, including hedge funds, have done inordinately badly in 2008, for a variety of reasons. They include: (a) too much leverage – either in bank holdings or direct; (b) too heavy a focus on commodities of all kinds – failed to sell after record run-ups; (c) private placements; (d) low liquidity small caps; (e) “playing” takeovers; (f) no meaningful diversification of risk; (g) no significant short positions; (h) no significant cash positions. A long list, guilty of extrapolating trends rather than seeking perspective. As usual, very little attention was paid to capital protection or sell disciplines, if any. There is really no excuse for this, even in the face of a Black Swan event.

As a brief reminder, Georgian Capital will initiate two long / short hedge funds early in 2009, notably characterized by no leverage and a focus on capital growth opportunities, with little interest in commodities – most important, prudent diversification based upon excellent cash flow and clear competitive advantages.

Through more good fortune than good insight, our timing will be near-perfect, we believe. At current values, there are numerous fine companies / investments available, some at record lows. We believe that the market has already seen its bottom, but will remain volatile and confusing through year-end. Soon the combined powerful metrics of: low interest rates, low fuel prices, huge money supply growth, and a positive U.S. administration, will be realized in the form of confidence returning. The market will soon look forward beyond what will surely be disastrous short term earnings.

The Georgian team can hardly wait to begin careful investing! Our belief is that next year will produce unusually high portfolio returns.

David Knight
Georgian Capital
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