

INVESTMENT UPDATE

Once again it's the end of the year, and we find ourselves without a Truly Scintillating Bond Market Topic and unwilling to subject you, patient reader, to another long-winded blast of bondspak. You've heard enough about TARP, the Fed, Geithner, the labor market, the housing market, liquidity, and whether the spiking price of gold is the harbinger of the apocalypse or just this year's big head fake. It's the Holidays for crying out loud, and you deserve a break.

So we're going to do something a little different this month. We're not going to talk about bonds; we're not even going to have a theme. We're going to discuss, instead, various topics that interest us—both important and mundane, big and small. As the kids would say we're going to kick it, freestyle.

First on our list of 2009's least significant stories is that we at Agincourt still haven't set up a Facebook account yet, and you still can't follow us on Twitter. Maybe we're missing something here and in a few years we'll

be tweeting our tails off, but for now we just don't have the time to keep up with a technology that seems to be all about either a) self-promotion, or b) trying to re-connect with that unrequited high school crush. We've got a good telephone system here, email accounts and even a secured mailbox in our building's mailroom. That's just going to have to do for now.

Now if you're thinking, "Hey Agincourt, get with the program—this is the 21st century!" rest assured, we are keeping up with technology where it really matters. We recently got rid of our old big box TV and got a flat panel TV and high-definition satellite hookup for our trading room. Now we can watch Rick Santelli gesticulate from the floor of the Chicago Mercantile Exchange in crystal

clear hi-def. And on slow Friday afternoons, we can turn the sound down and watch the Washington Nationals solidify their reputation as the worst baseball team in history.

Meanwhile, the news out of Detroit is not great. US car magazines have made their "year's best" lists, and it will come as no surprise that, given the sorry state of the US auto industry, there are few US cars on the lists (although *Motor Trend*, the most US-friendly of the car rags, did name the Ford Fusion its Car of the Year). The lists continue to be dominated by Japanese and European manufac-

turers with only, on average, one out of five of the top cars being made by US companies. Fortunately, the US car companies are moving in the right direction, after years of mismanagement.

As detailed by ex-car czar (and former Morgan Stanley and Lehman banker) Steven Rattner, the situation at GM and Chrysler was far worse than anyone knew when the Government stepped in.

In Rattner's own words, his team was "shocked by the stunningly poor management that we found, particularly at GM, where we encountered, among other things, perhaps the weakest finance operation any of us had ever seen in a major company," and a board of directors "which had been utterly docile in the face of mounting evidence of looming disaster." Across town, Chrysler's previous owner, private equity firm Cerberus Capital Management, had bled the company dry, essentially eliminating new car development. This came on the heels of former parent Daimler, whose own partnership with Chrysler produced a line of cars so bad that as of early 2009, not one was recommended by *Consumer Reports*. We now know that Rattner's team was on the verge of shutting down Chrysler completely; if Fiat had not stepped in, Chrysler would



almost certainly have been liquidated.

Changing subjects, we note the passing of economist Paul Samuelson on December 13th, at the age of 94. Samuelson once famously quipped, “I don’t care who writes a nation’s laws — or crafts its advanced treatises — if I can write its economics textbooks,” and write them he did: now in its 18th edition, Samuelson’s *Economics* continues to be the standard “principles of” economics textbook for college students more than 60 years after it was first published. But Samuelson was no mere academic; even though he is widely acknowledged as the father of the quantitative branch of modern economics, he (together with Milton Friedman) helped popularize economics for the common man through his weekly *Newsweek* column.

In 2009, if you wanted media attention—a LOT of media attention—your best bet was to go with that all-time favorite, the mistake that’s sure to capture the attention of both men and women, young and old, the one that’s been around since David and Bathsheba—infidelity. From South Carolina Governor Mark “I’m hiking the Appalachian Trail” Sanford, to Tiger “too much time on my hands” Woods, to Kate and Jon (whoever they are), it seems that Americans just couldn’t get enough of all that adulteratin’. And if you’re wondering what’s in it for the “other women,” just ask former call girl Ashley Dupre (Elliot Spitzer’s [AKA “client no. 9”] femme fatale); Ms. Dupre was just hired by the *New York Post* to write an advice column. Her parents must be so proud. Now—all of you—just go away.

On the other hand, there were some positives in 2009. The “back from the dead” award has to go to the major US banks. Twelve months ago, they were on life support, propped up by Federal loans measured in the hundreds of billions of dollars. It now looks like essentially all of the Government loans to the big banks, as well as associated interest and dividends, will be repaid by the end of this month. That’s a pretty impressive turnaround, and speaks to the earnings power of these firms.

At this point, the question that we’d like answered isn’t, “why aren’t the banks making more loans now that they’re healthy?” (we can’t fault banks for rediscovering the lost art of determining who’s creditworthy); what we want to know is, “how do we keep this from happening

again?” We have one not-so-modest proposal: reinstate a modern version of the Glass-Steagall Act, the depression-era law that separated commercial and investment banking. Commercial banking is a stable, profitable business, one where adequate controls protected taxpayers, depositors and investors for more than 50 years. Then we tore down the “Chinese wall” and allowed commercial banks to perform the high-risk maneuvers of investment banks, with disastrous results. Low-cost, Government-guaranteed deposits should not be used to fund hedge fund-like operations.

OK, we promised not to talk about this stuff, but we can’t help noting that it appears the Government will end up making approximately \$19 billion from the TARP

investments with these large banks. But lest we get too excited, we should keep in mind that there was almost \$100 billion more lent to AIG, GM, Chrysler, Fannie, Freddie and others; these funds have a much less certain payback.

Finally, amid all the gloom and doom surrounding the commercial real estate market, we note the grand opening this month of what will be, when completed, the largest private construction project in US history—Las Vegas’ 67-

acre, \$8.5 billion, 18 million square foot CityCenter. Jointly financed by MGM Mirage and Dubai World (no laughing, please), the Aria hotel and casino’s opening on December 15th added 4,000 more hotel rooms in Las Vegas, harkening back to the boom years while optimistically looking ahead, accommodating 21st century hotel occupants seeking that special Las Vegas mystique, whatever that may be. Of course, the Aria is just one aspect of the project, which will include high-end retail shopping, luxury condos, a luxury hotel and spa, entertainment facilities and a tramway that connects to neighboring properties. It will, quite literally, cast its shadow over scores of nearby foreclosed properties, a high-rise monument to financial leverage. Hopefully, Lady Luck is standing close by.

In closing, we’d like to take the opportunity at year’s end to thank you for your support and confidence in our firm. It’s been a challenging couple of years for all of us; knowing that we had supportive clients helped us enormously.

