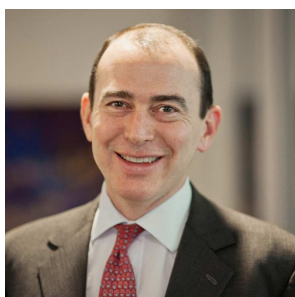


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## A new year, a new set of challenges?



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As I write our monthly newsletter this month, I have a strange sense of déjà-vu. The Greek debacle is still not resolved, Iran is threatening to block the Hormuz Straights, thus cutting off 25% of the world's oil supply, Europe is teetering on the brink of collapse, elections in many countries this year which might well change the entire political landscape, interest rates at zero for the foreseeable future, senior bankers bonus payments making headlines and hedge funds still below their high water marks. I am sure there are many other items we could add to this list, but perhaps you get my drift: when thinking about allocating capital, investors must grapple with a lot of unfinished business.

Like many of us, I lived through the Mexican Tesobono crisis, the Russian 1998 Default, then the Argentine 2001 default as well as the more recent Lehman Brothers default and everything subsequent to that ominous event. One thing that becomes clear is that after a while, investors get "crisis fatigue". When they realise that notwithstanding the significant event that has just taken place, they still have a job to do, capital to invest and decisions to be made that must not only conserve capital, but also generate returns. I do not know at what precise moment "crisis fatigue" kicks in, and I am more than certain that there are people who have thoroughly researched this very subject, but I would humbly like to suggest that we are now arriving at this very point.

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I think most of the financial community has become quite bored with the Greek debt saga, which is a terrible thing to say, but in my view implies that the markets have already moved on. The current strong rally in equity markets, bank stocks and credit across the board suggests that whatever the outcome, default or a last minute muddle through, investment decisions have already been made. A big reason for this change in could be explained by the success and impact the ECB's LTRO programme is having on the banking sector. In essence, the LTRO is giving European banks access to term finance thus helping improve market expectation of their ability to survive a Greek

debt default and any ensuing event. Yes, we could be experiencing a typically violent rally in a bear market, but we might also have arrived at the tripping point of Greek "crisis fatigue".

Another upcoming event to bear in mind, which will soon become a pre-eminent driver of investor concerns will be the outcome of the French Presidential elections in April-May which could lead to a re-nationalisation of much of the banking sector... a re-run of the first Mitterrand presidential term, and if indeed occurs, will cause

havoc in credit markets as well as putting huge pressure on the Paris-Berlin axis so important for European survival. In truth, President Sarkozy's presidency has been less than a stellar for France, and arguably, he squandered the opportunity to make a lasting difference and ultimately put off taking the difficult decisions for which he had been elected five year previous. A new President will soon however be confronted by the brutal realities of market pressure and more than likely, will have to deal with what could be an interesting first six months in office.

The run-up to the US Presidential elections in November, might well be interrupted as we were discussing in-house today, by a new Middle-East excursion by the US on behalf of

those countries unable or un-willing to wean themselves off a dependency on Middle-Eastern oil. Not only might this lead to a sky high oil price, but no doubt it will also lead to a collapse in global growth with the ensuing domino effects that we are now sadly all too familiar with.

And so it could go on!

Who would have thought that Obama would seem such a shoe-in? The woeful Republican choices that are being presented to the electorate are a telling example of how vocal minorities can hijack and ultimately destroy organisations. Whether Gingrich or Romney, surely America can do better than this?

Oddly, the comfort we can derive from this seemingly endless disarray, is that all of this is in no way different from the various and continuing events that have always impacted investors and markets. What is more challenging is to put these events into both a historical perspective, as well as to figure out whether the event, or series of events, is an opportunity to make or lose money as an investor. Easier said than done!

I closely reviewed several past events to see how they

impacted markets. The Lehman default in 2008 saw the MSCI World fall for 10 days and lose 23%. The 1998 LTCM/Russia default saw an 8 day drawdown resulting in a loss of almost 8% for the MSCI. Enron lasted 16 days for an almost 14% decline. These figures should give us some perspective therefore on the severity and duration of any market reaction to a Greek default which has been well sign-posted. The question we all ask is whether this event will have a similar impact to the Lehman default? Greece today, maybe Portugal tomorrow and Spain after that. This familiar list is not something new. However, one of the few positive things to come out of the Davos caviarfest this year was a sense of urgency from market participants, and a glimmer of hope that this is now understood by European politicians who have dithered for two years.

I really hope so because in reality, only a strong and determined German leadership will stop the rot and draw the much needed line in the sand. If banks are now supported by LTRO, the time has come to stop negotiating with Greece and put it, and the markets, out of their misery.

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