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Quarterly Newsletter
October 2008

Welcome

Dear Reader,

Well it has been a very hectic quarter for everybody, to say the least.
If you are reading this, you should congratulate yourself because you are still alive and well and therefore have weathered the storm so far.
To all others, I offer my sincere condolences because that is the best I can do right now.
I will focus this newsletter on just a few topics and will share with you my thoughts not only about the current conditions but also about the future.

Happy reading,

Nick Doms

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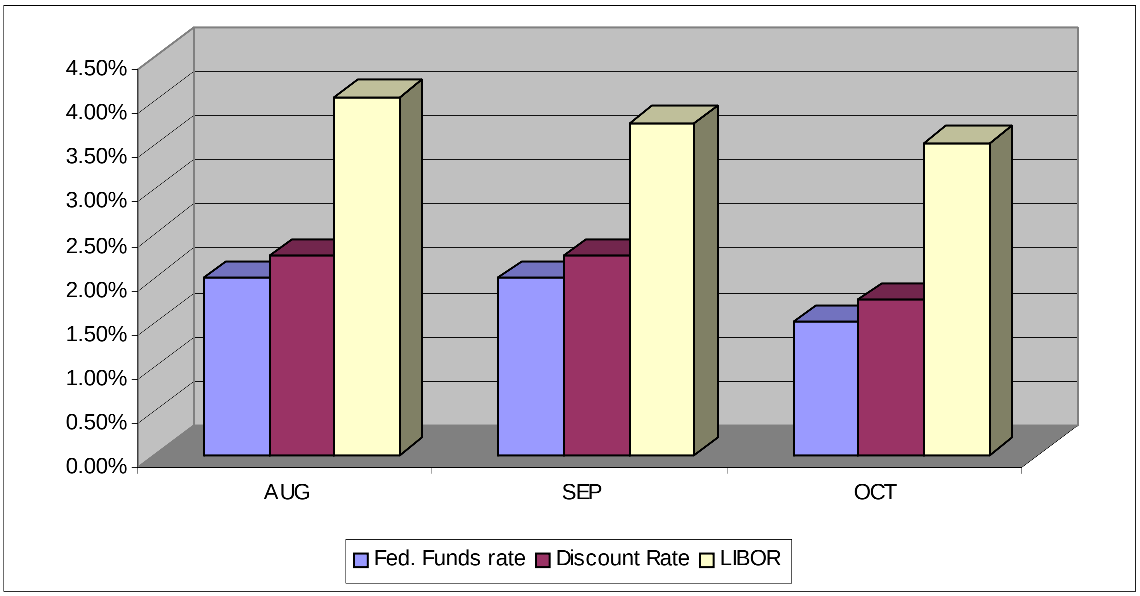
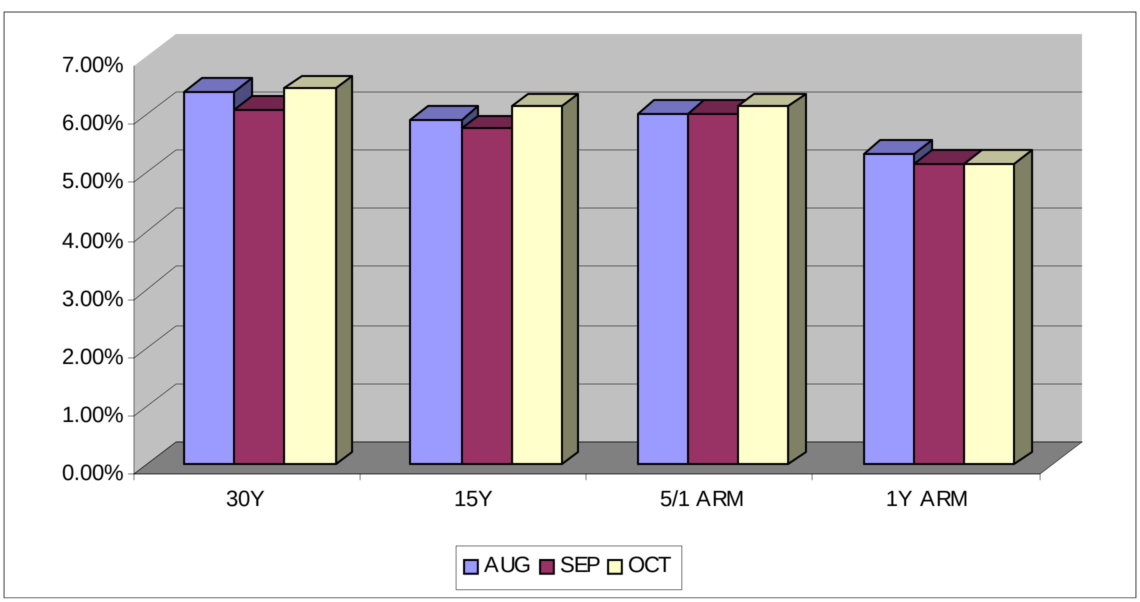
Short-term Interest rates



Mortgage Rates



Economic Outlook

Are we at the end of hurricane season yet?
Looking at the financial markets, I guess the answer is "I don't think so".
But while things are beginning to unfold, we should really look at what is going to happen next.
It is not a secret that this turmoil will ultimately come to a store near us and faster than we think.
We have already seen it in the housing market, credit lines, auto loans etc.
We have watched the interest rate reduction as well as the inflationary pressure in our economy.
It is time to shift our gears and our focus on something far more important:
-Unemployment
-GDP growth
-Corporate earnings

<u>Unemployment</u>

The unemployment rate, currently at 6.1% is only a portion of what we will witness going forward. While it has been widely expected for a year now that this number will definitely rise, the reason for Corporate America to ignore this is actually simple.
For the longest time, we have instilled in Americans that as long as our productivity figures rise or stay steady, that means all looks good.
What we have not explained is that by working fewer hours, we artificially keep that productivity up instead of reflecting the true circumstances and conditions within which true economic value should be reflected.
In essence, we have turned a blind eye and now the chickens will come home to roost.
Our unemployment rate will go up to 8 or 9% next year, which in turn will have a major impact on consumer spending and therefore our economy.

<u>GDP Growth</u>

Our GDP, which has already been reduced since last year, will see a further decline to minimal or negative growth for several quarters and well into next year.
I do not expect to see real growth above 1% for the remainder of the year and maybe 1.5% for 2008 in total.
2009 will remain a difficult year with slow growth as well and a major impact caused by the slowdown in the global markets, primarily our most important offset markets, Europe and China.

Corporate Earnings

The earnings from a large number of companies we have seen are not that bad at all. That is a good sign.
However, the forecasts for the 4th quarter and 2009 do not look very rosy and are well below a normal level.
Again, this is the result of our economic slowdown that now hits us home, as well as the global economy feeling the pain.

In general:
We are in for more pain to come, at least until the end of 2009, but not all is pessimistic. Look at it this way: we are like a patient that caught a serious disease and is in dire need of some “elephant medicine”. At the beginning, we tried to cure ourselves with Aspirin and Ibuprofen. Now we know and have learned that it did not work, just like a band-aid never works to stop an arterial bleeding.
Today, we are in the process of taking our medicine through government intervention, a rescue plan, TAFs, TSLFs, Commercial Paper purchases, preferred stocks or warrants in our financial institutions, etc.
Those are all good signs.
But as with any cure, it takes time and patience to work.
If we all sit tight and don’t panic, we will all be able to play in the sandbox again, but the sandbox will look very different and will never be the same again.
It is up to us to make sure that happens.
If not, we will face the same problems again 10 years from now.

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Global Economy

The global economy is slowing down at a fast and furious pace.
That should not come as a surprise, but it seems that some economists are caught by surprise.
Why?
Didn't they understand the principle of globalization?
Didn't they understand that if we fail on structured paper, MBS or other obligations that was sold around the globe as AAA, that foreign banks would face write-offs because of non-existing pricing models?
Didn't they know that if our own credit markets dry up because of it, that the same would happen somewhere else?

Well, today they know…what a surprise.
Welcome to the world.

Today we see a major change on three different levels:
-Large world economies
-Large offset markets
-Small economies

<u>Large World Economies</u>

By that I mean Japan and Europe.
Japan is the second largest economy in the world, currently growing at a very slow pace, but still growing. Their interest rates, at 0.50%, will not change anytime soon because they have learned from their mistakes, hence they were in a serious recession for 16 years.
They will not make that same mistake again.
Their interest stays stable and they accept a slow but steady growth, which is one of the reasons their currency is becoming so strong.
The USD/JPY parity currently trades at 94 while in reality it should trade at 110/115 in order to find stabilization.
A correction will have to be made, not through lowering interest rates, but by unwinding the carry trades. Both Australia and New Zealand have started just doing that, but more has to happen in order to bring back normality in the foreign exchange markets.
If this does not happen, then Japan will pay the price through a serious slowdown in their exports, which will negatively affect their GDP.

As for Europe:
I must mention the personal irony I find in this story.

For the last year, Trichet (President of the ECB) has focused on inflationary pressures, primarily due to wage pressures.
That was a very good short-term strategy. However, from a long-term perspective it was narrow-minded.
Today, there is discordance again between the Euro-zone nations. Not only that, there is serious disagreement between Germany and France, only this time it is not about the Maginot Line, it is monetary policy.
At the same time, the PIGS countries (Portugal, Italy, Greece and Spain) are all suffering economically because of high inflation while Germany suffers from a slow economy.
Before or while you read this, the ECB will lower interest rates again by 50Bp to stop their economy from going into a deep recession.
The Euro has lost its luster fairly quickly because of the potential negative growth and the rate cuts that are needed.
The fair value for the USD/Euro is really between 1.15 and 1.20. We are currently trading at 1.27.

Large Offset Markets

From a US perspective those are Europe and China.
The Chinese economy has now slowed from 11% GDP growth to a mere 4% or lower.
No offense to the Chinese, but you just have to take their word for it and you never really know until after the fact.
One of the reasons is that their economy is purely based on manufacturing. Since we have a global recession, their exports fall down, therefore their GDP growth.
The currency parity with the Renminbi-Yuan plays no role since their currency is pegged to the USD and does not float outside of the bandwidth.
Let the tiger take a nap for a while, he will roar again later, but differently.

Small Economies

Now here is a very interesting thing and something we don't pay attention to a lot.
When you think about the GDP of Thailand, Vietnam, Hungary and Taiwan, just to name a few, these countries have a very hard time defending their currencies and are depleting their reserves fast.
What will we do to alleviate such? The IMF has no idea, but my advice would be to come to the rescue fast before this happens.
Also, did anyone mention Iceland yet?

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International Finance

We all got a taste of the international finance system lately and how it really works. It is not complicated but it is or has become rather complex.
While I cannot explain all the intricacies in a newsletter, I would like to just focus on pointing out some of the positive things I see happening and then some of the dangers for the future.

The Positive Side

While we cannot see the direct impact yet from the government interventions on a consumer level, there are positive signs to take notice of.

-We have seen an improvement in LIBOR to the current level of 4.52%, down from 5.88%.
That is a dramatic move in just three weeks.
While the rate, compared to the Fed. Fund rate, is still 300 Bp higher, the fact that LIBOR is slowly coming down and back to normal levels is a good and positive sign.
It will take time for LIBOR to find a reasonable parity with the Fed. Fund rate again, but ultimately it will.

-The 3-month T-bill yield crept back up to 1.25% last week but has since fallen back to 0.80%. The potential is there, as shown, to stabilize the short-term markets and for money to flow into 5-year and 10-year notes again, which will bring the yield of the 3-month to a normal level of 1.75%.

-Our banks are stabilized and better capitalized than before, even if we had to shed some of them as independent entities. The remaining joint entities will be better positioned to move forward and play a role in the international financial arena.

Dangers for the Future

The immediate danger is obvious.
While the rescue plans find their way into the international financial and banking markets, how long will it take to see the trickle down effect on the housing markets and the consumer markets.
There is no answer to that question right now, other than to say it will and hopefully by the second quarter of next year.

The other danger is of a completely different proportion.

During this crisis, it has become clear that we have caused a major global fall-out due to our issuance of paper, whether it was structured products, CDS paper or other.
Foreign institutions and governments alike trusted the ratings placed on such paper and therefore bought it with the quality that goes with it.
A few months ago, they all unwrapped their "package" and found that what was inside was and is worth far less than the price paid.
That puts a serious dent in the confidence the world has in us.
And so this begs the question: will those institutions and governments trust us enough to again buy our paper, with our rating attached to it?
That remains to be seen, but whoever will be the next Secretary of the Treasury, definitely not Paulson, has his work cut out for him to restore such confidence by:
-Regulating the three main rating agencies in the US.
-Regulating the US banks by demanding full disclosure of on and off-balance sheet leverage.
-Demanding a strict adherence to risk and exposure models.
-Demanding full adherence to in-house compliance and control rules.

On an international level, steps need to be taken to implement a global regulatory system rather than on a country or continent level. We cannot move forward with the globalization until we realize the need for continued integration, only this time it will have to happen on a monetary and regulatory level.

I will end with sharing one thought I have had for a while.

In my mind, the right direction to a fully integrated global economy is the establishment of one single currency across the globe.
Whichever currency that may be, I don't think is important, but it will definitely take out the current foreign exchange pressures out of the individual markets and that will benefit our global economy in the long run.
If this were to occur, and probably not in our lifetime, watch the US and Europe fight over their currencies and which is more important ultimately.
You know what they say: when two dogs fight for a bone….the third one runs away with it.
Keep an eye on Japan and the JPY, because it may very well become the global currency of the future.

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Headlines

The Lobster Tale

This is the tale of how intricately we are connected.
There are plenty of lobster-fisheries in Maine, as we all know. They export most of their catch to Canadian processing farms. Those farms need and receive credit lines from local Canadian banks to support their cash flow. In turn, the Canadian banks finance such through loans received from Icelandic banks.
Now the money circle is whole.
Unfortunately, the Icelandic banks were all close to bankruptcy and needed to be purchased, in whole, by the government.
So, now there are no more loans to the Canadian banks, no more credit lines to the processing plants and therefore our own lobster fisheries in Maine can't sell their catch.
Now the circle is whole again, backwards.
This is bad for our fisheries because it means: lay-offs and a much lower price for their products in the market.
Actually the current price for a pound of lobster, wholesale, is 2$/pound.
For us, as consumers, that is good news. Definitely during this holiday season, when we enjoy our lobster bisque and tails in the company of those we love and cherish the most, we should reflect and think.
But this time around, when you sit around the table with family and friends and you enjoy a fresh lobster tail, also remember the real tale.
We are all connected.

ND – 10/26/2008

SiRuDo Realty, LLC
Wishes all of you
Very Happy Holidays
And all the best
For the New Year.

Teo Doms
President & CEO

Happy Greetings
And Happy Holidays
From
Global Property Portfolio, LLC

Nick Doms
President & CEO

We hope to write to all of you again next year and we appreciate your comments, suggestions and support.
All the best and hang in there.