



COLBERT INVESTMENT MANAGEMENT

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Summary: Current stock and bond prices reflect fears of catastrophic outcomes. In general, they nowadays bear almost no relationship with underlying intrinsic values.

The unprecedented freezing up of the global financial system had a dramatic negative impact on almost every type of investment except the super-hyper-safe. The strongest government bonds and government-insured bank deposits were some of the few providers of shelter from this violent storm.

The fixed income (bonds) and equity (stocks) portfolios we manage have not been spared the volatility. This market environment has been indiscriminate in inflicting pain.

Surprised by the failure of Lehman Brothers, by the near-failure of insurance giant AIG, investors headed for the door resulting in a classic panic by October 10th.

In a stunning display of self-fulfilling prophecy, forced-selling threatened the very viability of every financial institution. Banks didn't know which bank to trust, lending stopped cold. People stopped buying cars, going to the restaurants, buying food. Looking Armageddon straight in the eyes, governments around the world woke up from their disbelieving trance-like status acting in cooperation to intervene massively in one part after another of the financial structure.

The modern economic and financial system is based on only one thing: trust. Without trust, there is no bank, no credit and no global trade. If we all pull out our money, put it underneath our proverbial mattresses, our money collectively would become worthless.

Human beings have a tendency to accept their current environment or recent past as a prelude to the future. When internet stocks were going to the stratosphere, even rational people accepted it as plausible when it was clearly irrational. When Enron and WorldCom collapsed in fraudulent shame investors believed stocks were just speculative smoke and mirrors. Most recently real estate prices went up 10 to 15% year after year until they became the next "sure thing". Nobody wanted oil company stocks when prices were \$20 a decade ago, yet piled into them when oil prices zoomed above \$70.

Today it is obvious to all how shaken global economies are. Almost nobody talks anymore about the unstoppable economic might of China or that we are "running out" of oil. Food riots seem to be long forgotten. Corn-ethanol, who cares. We are so fixated on

the current environment, its mind-boggling complexity, the difficulty of the road ahead that we now extrapolate current problems long into an “inevitably” catastrophic future.

Although I too have been amazed by the speed at which not only financial markets but particularly commerce has been affected, I do not share the sense of enduring doom which many seem resigned to.

Two months ago I wrote that it was an ideal time to invest. The painful drop in market prices of gold, bonds, commodities and equities since then shows how early I was. For this, and other mistakes, I accept full responsibility. Every way I look at this though, no matter how much I turn things upside down, the evidence at hand screams that we are presented with opportunities many of us may never see again in equities and in bonds.

Having spoken to you during the last few weeks, I truly appreciate your support. As a group you have shown remarkable grit, resilience.

I can't guarantee you anything specific. I don't know what may happen in the next year or two or three. But I am resolute, working ceaselessly, and devoting all my resources to a positive outcome. I will not let you down.

Sincerely,

Karim Armand

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