



## COLBERT INVESTMENT MANAGEMENT

November 30, 2008

**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 10<sup>th</sup>.

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

## **DISCLAIMERS AND OTHER LEGAL INFORMATION**

This letter ("Letter"), and any information and research contained herein, do not represent recommendations of investment advice to buy or sell securities or any financial instrument nor are they intended as an endorsement of any security or investment. **This Letter is for informational purposes only and any information contained in this Letter represents the writer's or provider's own investment opinions, and should not be construed as personalized investment or tax advice.** Nothing herein is an offer of any service that is not legal for offer into any particular jurisdiction with Colbert Investment Management Co. (together with all principals, affiliates, employees, and associated persons thereof collectively being referred to herein as "CIM") current licensure (if any).

**LEGAL AND OTHER INFORMATION.** Any information, data, statements, opinions, or projections made in this Letter may contain certain forward looking statements, projections and information that are based on the beliefs of CIM as well as assumptions made by, and information currently available to, CIM. Such statements in this Letter reflect the view of CIM with respect to future events and are subject to certain risks, uncertainties and assumptions (including, but not limited to, changes in general economic and business conditions, interest rate and securities market fluctuations, competition from within and without the investment industry, new products and services in the investment industry, changes in customer profiles, and changes in laws and regulations applicable to CIM. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Letter. Furthermore, although carefully verified, data is not guaranteed as to accuracy or completeness. The statements, opinions, and/or data expressed in this Letter are subject to change without notice based on market and other conditions. Descriptions of CIM's process and strategies are based on general practice and CIM may make exceptions in specific cases. This Letter is based on information available as of the time it was written, provided, or communicated and CIM disclaims any duty to update this Letter and any content, research or information contained therein. Accordingly, CIM does not make any representation as to the timeliness of any information in this Letter. As a result of all of the foregoing, inter alia, CIM can not be held responsible for trades executed by the recipients or viewers of this Letter based on the statements, projections, research, or any other information of any other kind included therein. *Investments in securities are speculative and involve a high degree of risk; you should be aware that you could lose all or a substantial amount of your investment if you attempt to apply any of the information in this Letter.*

The information contained herein is confidential and may not be reproduced or circulated in whole or in part.

**\*DISCLAIMERS AND INFORMATION RELATED TO ALL PERFORMANCE DATA.** PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND FUTURE ACCURACY AND PROFITABLE RESULTS CANNOT BE GUARANTEED. PERFORMANCE FIGURES ARE PRE-TAX AVERAGES OF INDIVIDUAL YEAR'S RESULTS. ALL PERFORMANCE IS NOT NECESSARILY BASED ON THE SAME TYPES OF GAINS. THE AMOUNTS MANAGED MAY DIVERGE FROM THE AMOUNTS UNDER MANAGEMENT THAT FORMED THE BASIS FOR HISTORICAL PERFORMANCE. ALL PERFORMANCE ASSUMES THE REINVESTMENT OF EARNINGS. THE U.S. DOLLAR IS THE CURRENCY USED TO EXPRESS PERFORMANCE. ACTUAL INVESTMENT ADVISORY FEES INCURRED BY CLIENTS MAY VARY. INVESTMENT ADVISORY FEES ARE DESCRIBED IN CIM'S FORM ADV PART II. UNLESS OTHERWISE SPECIFIED, ANY PERFORMANCE IN THIS LETTER IS NOT AUDITED AND IS NOT INTENDED TO COMPLY WITH AIMR-PPS™ OR GIPS GUIDELINES. NO REPRESENTATION IS BEING MADE THAT FOLLOWING THIS LETTER AND/OR ANY INFORMATION CONTAINED HEREIN WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN OR DESCRIBED IN THIS LETTER. ANY INVESTMENT RETURN AND PRINCIPAL WILL FLUCTUATE WITH MARKET CONDITIONS, AND YOU MAY HAVE A GAIN OR LOSS ON YOUR INVESTMENTS. ACCORDINGLY, INDIVIDUAL RETURNS, FOR ANY GIVEN ACCOUNT OR YEAR, MAY VARY FROM ANY OF THE RELEVANT RETURNS SHOWN HEREIN.

ANY PERFORMANCE COMPARISON TO THE PERFORMANCE OF INDICES IN THIS LETTER MAY NOT BE A MEANINGFUL COMPARISON. INDICES CITED IN THIS LETTER ARE GENERALLY NOT AVAILABLE FOR DIRECT INVESTMENT AND ARE NOT SUBJECT TO FEES. ANY PERFORMANCE REFERENCED IN THIS LETTER IS NOT NECESSARILY BASED ON THE SAME TYPES OF SECURITIES CONTAINED IN ANY INDEX SHOWN OR REFERENCED IN THIS LETTER, NOR IS ANY SUCH INDEX REPRESENTATIVE OF ANY PERFORMANCE PRESENTED IN THIS LETTER. HEDGE FUNDS MAY USE SHORT POSITIONS, DERIVATIVES, AND LEVERAGE, UNLIKE SOME OF THE COMPONENTS OF SOME OF THE INDICES. ANY INDICES SHOWN IN THIS LETTER ARE ONLY TO REFLECT COMPARATIVE PERFORMANCE OF FAMILIAR OR OTHER INVESTMENT STYLES. NO REPRESENTATION IS BEING MADE THAT ANY STOCKS, PORTFOLIO, INDICES, FINANCIAL INSTRUMENT, INVESTMENT OR FUND (INCLUDING THE FUND) WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN OR DESCRIBED IN THIS LETTER. ACTUAL PERFORMANCE WILL VARY BASED ON MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INVESTMENT STRATEGIES, TAXES, MARKET CONDITIONS, AND APPLICABLE ADVISORY AND OTHER FEES AND EXPENSES.

**\*\*PERFORMANCE INFORMATION AND DISCLAIMERS RELATED TO THE CIM CORE EQUITY COMPOSITE.** CIM MANAGES FIXED INCOME, BALANCED AND EQUITY PORTFOLIOS, BUT ONLY RELEASES DATA HERE ON THE EQUITY PORTION OF CLIENTS' ASSETS. SIGNIFICANT DISPERSION MAY OCCUR BETWEEN THE PERFORMANCE, HOLDINGS, RATIOS AND PERCENTAGES SET FORTH ABOVE AMONG THE ACTUAL INDIVIDUAL CLIENT ACCOUNTS MANAGED BY CIM. THIS DISPERSION MAY BE DUE TO DIFFERENCES IN ACCOUNT SIZE, CASH FLOW, THE TIMING AND TERMS OF EXECUTION OF TRADES, INDIVIDUAL CLIENT NEEDS, ECONOMIC OR MARKET CONDITIONS AND OTHER FACTORS. PERFORMANCE FOR CIM CORE EQUITY COMPOSITE IS NET OF FEES AND EXPENSES. PERFORMANCE IS BASED ON ALL CLIENT EQUITY ACCOUNTS MANAGED BY CIM IN A SUBSTANTIALLY SIMILAR MANNER.