STATE TREASURER

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September 24, 2008

Dave Freudenthal, Governor
State of Wyoming
Capitol Building
Cheyenne, WY 82002

Max Maxfield
Secretary of State
Capitol Building
Cheyenne, WY 82002

Rita Meyer
State Auditor
Capitol Building
Cheyenne, WY 82002

Jim McBride
Superintendent of Public Instruction
Hathaway Building
Cheyenne, WY 82002

Dear Governor Freudenthal, Secretary Maxfield, Auditor Meyer and Superintendent McBride:

Given the recent turmoil in the nation's financial markets and economy and perhaps some uncertainty of our citizens regarding state investments and cash flows, this office will begin posting a monthly report of state investments on our website, currently quarterly, and also posting continuing oversights of the investment portfolio taken by the office of state treasurer until current financial situations stabilize. As members of the State Loan and Investment Board, whose general investment policies are being implemented and which reviews investment actions by the office of state treasurer, it is important that you have more frequent briefings and updates to enable you to carry out your respective duties regarding the state investment portfolio.

Ten years ago, when Wyoming commenced diversifying its investment portfolio from fixed income securities, various types of bonds and other securities paying a fixed rate of return, to a more balanced portfolio containing other types of investments such as stocks, real estate and such, it did so over a number of years based on continuing financial advice in order to construct a very conservative investment portfolio designed to preserve the state's capital, maintain liquidity to meet the state's bills and obligations, and to generate a reasonable rate of return from the state's investment portfolio in that order of priority. These objectives were accomplished over a year ago and remain in effect at the present time.

Attached is a chart with two lines summarizing and illustrating the two fundamental types of "return" from an investment portfolio:

1. Total return, peaks and valleys, representing market values at points in time, sometimes up and sometimes down;

2. Cash yield, reasonably straight line, representing how much of the total yield consists of cash earnings, interest, dividends and capital gains, at points in time.

The state treasury depends on cash yields to support state expenditures authorized by the Wyoming Legislature. The average cash yields over time are dependable and are being maintained. The state treasury does not depend on total returns, ups and downs in the various markets, to support state expenditures authorized by the Wyoming Legislature. The state investment portfolio has been constructed, remains constructed and remains fully diversified across all classes of investments and within all classes of investments for the long term. No investment needs to be sold in a down market unless there is an advantage to the State of Wyoming in doing so.

The State of Wyoming is a very disciplined investor for the long term. The Wyoming investment portfolio has avoided any significant investments in auction rate securities, subprime markets, asset and mortgage back securities, and others whose values have plummeted over the past several months. Any significant current decreases in value in portions of the state portfolio are due primarily to financial uncertainty in the various markets, panic buying and selling, and future economic projections, none of which do you or I have any control over.

In keeping with private and public investment portfolios all over the nation, there is no place to run and no place to hide until the national financial dramas play out. The current state investment portfolio is constructed to operate throughout good times and not so good times. It is soundly constructed to operate with due diligence by this office, overview by the State Loan and Investment Board and with expert advice from the Board's financial advisor, R.V. Kuhns, and 26 investment managers each with special expertise in the markets they review for the state of Wyoming. The advice of our managers and this office is to hold tight, maintain sound cash reserves and stay the course until the smoke clears nationally. That is what we are doing and plan to continue to do with your advice and oversight.

As of 8/31/08, the state's entire investment portfolio was about even at $10,800,000 as indicated by the attached. Over the past three weeks, the total portfolio value is down about 5% in market value. Short term cash holdings by the state's investment managers are increasing on my authorization until the financial markets clear up. Cash yields are holding firm close to 5%. A more detailed financial report will be furnished to you and members of the public during the first few days in October.

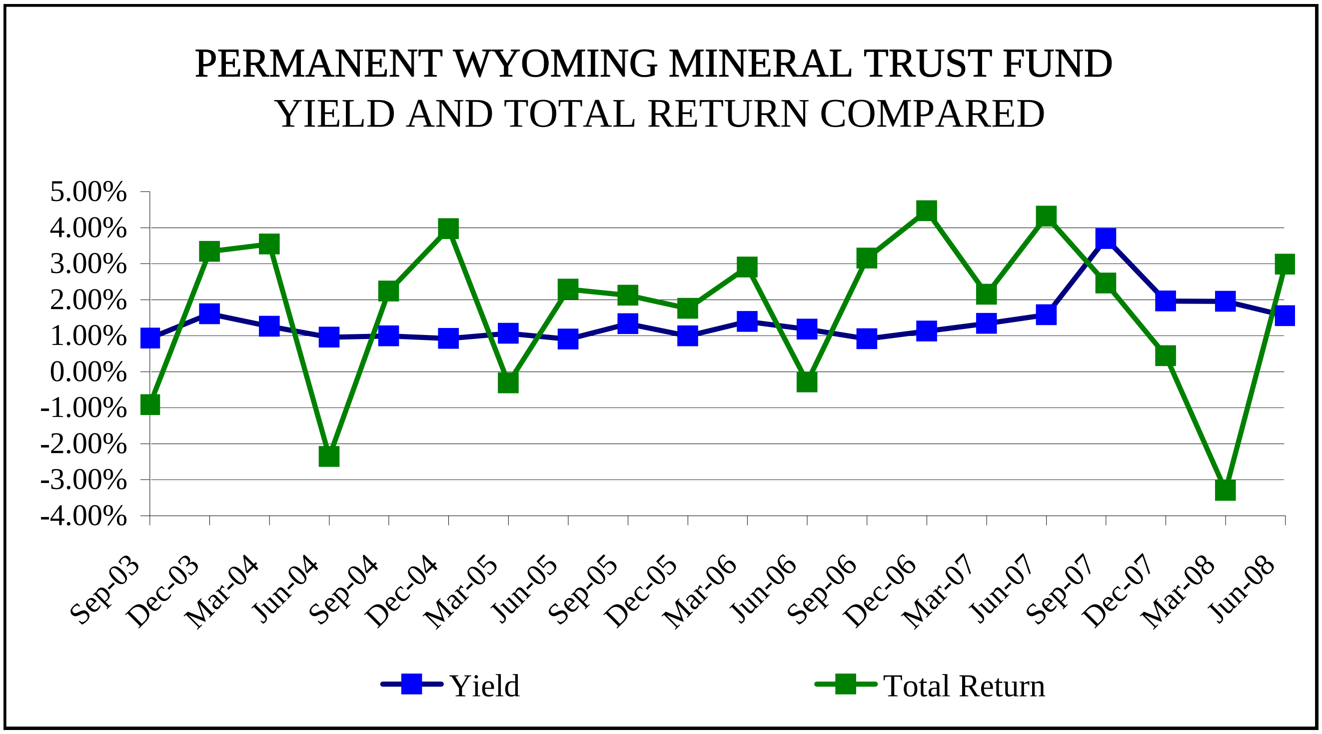
In closing, neither you nor I can predict what may happen in the various financial markets over the days, weeks and months ahead. Enclosed are two financial overviews making that point much better than I. We can, however, say, I firmly believe, that the state's investment portfolio has been constructed in a manner, with your assistance, to be in a very sound position to take the best advantage of whatever the future financial markets may bring.

Sincerely,

Joe Meyer

Joe Meyer
State Treasurer

cc: Advisory Committee Members
Select Committee on Capital Financing & Investments
Steve Sommers, Legislative Service Office



	Yield		Total Return	
Quarter Ending	Quarter	Annual	Quarter	Annual
September 30, 2003	0.93%		-0.92%	
December 31, 2003	1.61%		3.34%	
March 21, 2004	1.26%		3.54%	
June 30, 2004	0.96%	4.76%	-2.36%	3.51%
September 30, 2004	0.99%		2.24%	
December 31, 2004	0.92%		3.97%	
March 21, 2005	1.06%		-0.31%	
June 30, 2005	0.90%	3.87%	2.29%	8.40%
September 30, 2005	1.33%		2.12%	
December 31, 2005	0.99%		1.76%	
March 21, 2006	1.39%		2.90%	
June 30, 2006	1.18%	4.81%	-0.29%	6.62%
September 30, 2006	0.91%		3.15%	
December 31, 2006	1.13%		4.47%	
March 21, 2007	1.34%		2.15%	
June 30, 2007	1.58%	4.96%	4.32%	14.83%
September 30, 2007	3.69%		2.46%	
December 31, 2007	1.96%		0.44%	
March 21, 2008	1.95%		-3.30%	
June 30, 2008	1.55%	9.02%	2.98%	2.44%

WYOMING STATE PORTFOLIO

Unrealized Gain / (Loss) by Manager - August 31, 2008

Asset Class	Account Name	Unaudited Market Value	Cost	Unrealized Gain / (Loss)
Large Cap US Equity	State Street Global Advisors	$1,121,403,836	$1,086,536,203	$34,867,632
	UW Portfolio Management	526,066	769,750	(243,684)
	Total			34,623,948
Overlay Strategy	First Quadrant	31,745,208	29,730,059	2,015,150
Small / Mid Cap	Friess Associates	260,194,051	234,745,111	25,448,940
	GAMCO	297,408,542	264,767,384	32,641,157
	Total			58,090,097
International Equity	Capital Guardian	418,937,092	456,721,656	(37,784,564)
	Fisher	433,956,229	453,074,926	(19,118,697)
	International ETF	25,775,728	27,509,132	(1,733,404)
	Total			(58,636,664)
Real Estate	ING	165,217,936	141,303,630	23,914,306
	UBS	157,501,113	141,303,630	16,197,483
	TA Realty	12,173,537	12,000,000	173,537
	Heitman	2,701,013	2,782,375	(81,362)
	Total			40,203,964
Private Equity	Cheyenne Capital Fund	130,703,242	130,702,701	541
	Access Venture	1,185,000	1,185,000	0
	Total			541
Absolute Return	Harris Alternatives	103,105,401	100,000,000	3,105,401
	PAAMCO	95,906,842	100,000,000	(4,093,158)
	Total			(987,757)
Convertible Bonds	Nicholas Applegate	257,059,917	261,275,815	(4,215,899)
Fixed Income	Lehman Core-Plus	888,441,139	907,095,505	(18,654,366)
	PIMCO Core-Plus	693,044,878	691,138,277	1,906,601
	WAMCO Core-Plus	884,336,164	896,719,518	(12,383,354)
	JPMorgan Mortgages	490,272,176	518,660,446	(28,388,270)
	PIMCO Mortgages	487,432,326	486,153,943	1,278,384
	Logan circle Corporates	200,432,581	213,915,117	(13,482,536)
	WAMCO Corporates	297,699,025	312,800,463	(15,101,438)
	PIMCO Global	317,352,219	318,437,547	(1,085,329)
	Total			(85,910,309)
Fixed Income	Internal Portfolio	1,971,960,159	1,965,749,122	6,211,037
Cash Equivalents	JPMorgan	725,914,904	722,519,766	3,395,138
	LDIs & Other Wyo. Investments	305,060,190	305,060,190	n/a
	TOTALS	$10,777,446,512	$10,782,657,266	($5,210,754)

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GAMCO Investors, Inc.

September 2008

Plus ça change, plus c'est la même chôse

In October 1987, notably October 19, which is referred to as Black Monday, when the Market dropped from 2246.73 to 1738.74 (DJIA), we shared our insights into what we then described as an event equal to 8.1 on the Richter scale. This month, we have witnessed a replay: a seismic shift in the financial landscape as one 168 year old institution fell into obscurity, a second ran into the open arms of a willing bride and a third institution teetered on the brink with the Fed deciding whether to stand pat or to allow it to tumble into the abyss. Meanwhile, regulators eliminated the up tick rule and allowed short sellers to function like "Dodge City" of old.

How did we get here?

On a global basis the world economy is about $55 trillion in GDP. The U.S. is 26% of this total, with two thirds generated by the U.S. consumer. The CRIB™ countries - China, Russia, India and Brazil - are about 12% of global GDP. The key observation is that the U.S. consumer is larger than the CRIB™s, so a slowdown in U.S. consumption will have a chilling effect on world growth. One positive is that a global slowdown lessens inflationary pressures.

European, Japanese and Asian central bankers have kept policy interest rates up to break the back of inflation expectations and are now in a position to reduce rates to stimulate their economies. We again echo former Bundesbank president and Chairman Emeritus of Gabelli, Dr. Karl Otto Pöhl's comment: "Inflation is like tooth paste. Once it gets out of the tube it is hard to put back in again."

The U.S. consumer has been in a recession since November 2007, while GDP has been bolstered mainly by growing exports. Consumer spending is now decelerating following a blip from the recent tax rebates. The economy needs an additional fiscal stimulus package to bolster growth. Workers earning less than $40,000 are out of money and energy prices and food costs are not helping.

To create jobs we need to enhance productivity by extending the bonus depreciation allowance and rebuild U.S. infrastructure. Implementing a comprehensive energy policy will also create jobs.

Real Estate - The Savior and the Culprit - Next

Looking back, Mr. Greenspan had to reflate by aggressively cutting interest rates to get the U.S. economy going following the bursting of the Internet stock bubble in 2000. The result was the housing boom and a consumer-spending spree. Mr. Greenspan kept interest rates below the rate of inflation for an extended period of time, allowing homeowners to extract home equity and spend it to the tune of $500 to $700 billion a year.

Now, we find that Mr. Greenspan kept interest rates too low for too long, and this permitted Wall Street, through the process of securitization, to package and sell billions of dollars of mortgages. That was okay, but too many homebuyers were able to obtain mortgage credit without being qualified. The end result today is that $2 or $3 trillion of home values are at risk and we all feel the pain. Stated another way, risk was mispriced, products were mislabeled and portfolios were mismarked. Wall Street investment banks and agencies were drinking their own Kool-Aid and the process has now come to a tragic end.

The U.S. housing market must be stabilized. Starting in 1999, the value of U.S. homes went from $10 trillion to about $20 trillion at its peak, and appears to be down about 15%. This has been a big hit to wealth and spending.

The federal takeover of Fannie Mae and Freddie Mac is a start toward home price stabilization and creates a foundation for mark to market mortgage prices and helps to put a floor under falling housing prices. The inventory overhang of unsold homes should clear in about a year or so, as homebuilders cut back and household formation continues.

What steps to take?

Confidence must be restored in the housing and financial sectors. There are two immediate steps to take. The first is to shut down the pack of wolves - reinstitute the up-tick rule and stop naked short selling to prevent the un-tethered shorting of stocks. Secondly, we need to suspend FASB 157, a too stringent mark to market accounting rule. We need the financial system to adjust.

Back to Basics (from 1987 letter)

We started out in business in January 1977 just before the Dow tumbled twenty-five percent, so making investment decisions against an uninspiring backdrop has been part of our day to day modern social structure and we must anticipate these elements as permanent characteristics of the capital markets. In previous decades, investors demanded and received premium returns for investing in stocks versus investing in bonds for various reasons, one of which was greater volatility. This element is returning.

What are we doing today (2008)

Right now, we continue to seek out companies with value, while allowing the market to stabilize. **We have expanded our research capacity by adding research capacity in the areas of wind, solar, emission controls and energy efficiency, nuclear, water and waste, energy storage, bio fuels, and all aspects of carbon capture, storage and trading. The "Gabelli Green Team" joins our core equity research teams of Digital, Food of All Nations, Healthcare & Wellness, and Productivity Enhancers.**

Through the balance of this year there will be more "pot holes" in the market, driven by a broad range of uncertainties and the aftershock, but we look on these as buying opportunities. Values of the underlying businesses did not rise as dramatically as the market earlier in the year, which is why we were not 100% invested in stocks, as is our stated policy. Conversely, values are not going down. We are again in better balance. We believe holdings in Wrigley and SAFECO will work out providing both profits and liquidity.

Patience is difficult. We will continue to monitor your portfolios closely, and be ready when opportunities arise. You hired us to manage your money and make tough decisions. Let us manage. Our returns were not achieved by "following the crowd"-buying stocks when capital is in the air. We need your support in order to enhance our mutual objectives and welcome an open dialogue in the months and weeks ahead.

Memo to: Oaktree Clients

From: Howard Marks

Re: Nobody Knows

The title of this memo isn't a joke; I mean it. Nobody knows the real significance of the recent events in the financial world, or what the future holds. Everyone has an opinion – there's an off-color joke to that effect – but opinions are entirely different from knowledge. As usual, the bulls are optimistic, the bears are pessimistic, and the rest are uncertain.

This is a great time for my favorite quote from John Kenneth Galbraith: "There are two kinds of forecasters: those who don't know, and those who don't know they don't know." No one knows about the future, and that's more true now than ever . . . literally. Excesses were committed at financial institutions that we've never seen before in terms of their scale or their breadth, and many new inventions are in place that never existed before. So clearly no one can know how things will pan out.

My conviction that this is true frees me from having to methodically assess the strength and weakness of economies and institutions, and it permits me to limit my comments to what I consider strategic realities.

I'm flattered that people have asked for my opinion, and I will give it. But that's all it is: an opinion. In setting it down, I will repeat things I've written before. So if you find something that you think you're reading for the second time, you're probably right.

Boom-Bust

Those two words say it all. If you have a boom, eventually you'll have a bust. And the further the boom goes, the worse the bust is likely to be. If there's no boom, on the other hand, there needn't be a bust.

There was no great boom in the U.S. economy in 2003-07, and that's one of the reasons why it has held up reasonably well despite the recent turmoil.

But there was an incredible boom in the financial sector, and it has led to an incredible bust. (It remains to be seen whether its effects will slop over into the real economy. As you know, we think they will.)

Finally, there wasn't a boom in the U.S. stock market, and so it hasn't busted. (If you think your stocks have given you pain, realize that their decline isn't at all commensurate with the end-of-the-world thinking roiling the financial sector).

How Things Got This Way

Much of the current problem can be attributed to a decades-long bubble in the financial sector that made it the employer of obvious choice; attracted employees who were "the best and the brightest" (although often untrammeled by experience); contributed to greed and risk taking; drove out fear and skepticism; and carried institutions, behavior, expectations and asset prices to unsustainable levels.

What are the factors that got us in the current mess?

- Excess liquidity, which had to find a home.
- Interest rates that had been reduced to stimulate the economy.
- Dissatisfaction with the resulting prospective returns on low-risk investments.
- Inadequate risk aversion, and thus a willingness to step out on the risk curve in search of higher returns.
- A broad-scale willingness to try new things, such as structured products and derivatives, and to employ massive leverage.
- A desire on the part of financial institutions to supplement operating income with profits from proprietary risk taking – that is, to be "more like Goldman."
- A system of disintermediation, selling onward, and slicing and dicing that caused many participants to overlook risk in the belief that it had been engineered away.
- Excessive reliance on rating agencies which were far from competent to cope with the new instruments, and on black-box financial models that extrapolated recent history.
- Unquestioning acceptance of financial platitudes without wondering whether altered circumstances and elevated asset prices had rendered them irrelevant:
    - Houses and condos are good investments and can be counted on to appreciate.
    - Mortgages rarely go into default.
    - There can never be a nation-wide decline in home prices.
    - It's okay to grossly lever a balance sheet if you've hedged enough through derivatives.
    - It's safe to borrow and invest funds equal to a huge multiple of your equity capital if the probabilistic expected value is positive, because "disasters rarely happen."
- Individuals such as mortgage brokers and mortgage borrowers who were given incentives to do the wrong thing.
- Newly minted financial "masters of the universe" encouraged to maximize returns for themselves and their employers without concern for whether they were adding value to the financial system or endangering it.

In general, the above can be summed up as a shortage of adult supervision, common sense, skepticism, ethical concern and good old-fashioned prudence. As often happens in booms, the kids shouldered the adults aside or impressed them too much.

The list of errors can make you laugh . . . or cry. I mentioned in "Hindsight First, Please" how often financial people do things that look downright silly afterwards. But that never stops them from repeating the old mistakes or making new ones.

So now we find financial institutions that endangered themselves by using extensive short-term borrowings or deposits to make investments that turned out to be enormously risky when an unlikely disaster – a nationwide decline in home prices – occurred.

In many ways, changes in the environment contributed as well. They crept up one by one, unnoticed, but their combined effect is significant. For example,

- The Glass-Steagall Act was repealed, permitting banks and investment banks to combine. (It had been enacted in 1933 to outlaw such combinations because they were felt to have contributed to the Crash of '29. It's ironic – and certainly not irrelevant – that it was repealed in 1999, in time to contribute to the current credit crunch.)
- The rule limiting short sales to up-ticks was revoked in July 2007, enabling short selling to force stock prices down unabated.
- Derivatives were created whose prices were determined by the price of their "real" underlying securities; now we see that in an Alice-in-Wonderland way, they're able to influence the price of real securities (see below).
- And mark-to-market accounting exposed precariously leveraged institutions to the risk that technically-driven declines in asset values might leave them too weak to make it through to a better day.

It was during my working lifetime that the phrase "too big to fail" was coined. More recently, Citibank caused some people to observe that it had become too big to manage. In the current go-round, financial institutions have been described as too big to understand and, finally, too big to disentangle (given the proliferation of derivatives and swap transactions, a key element in assessing an institution's essentialness is the degree of counter-party risk it presents to others). There's no doubt that these developments are frightening. But heroes aren't people who're unafraid, but rather those who act bravely despite their fears. Investors mustn't let emotion control their actions.

Because of this combination of altered behavior, financial innovation and changes in the environment, I feel unable to tell you what lies ahead. But that doesn't mean I'm not going to suggest a course of action.

<u>Does the Market Know?</u>

For reasons both systematic and unsystematic, the market is in many cases taking its lead from . . . the market. Price declines cause fear, and thus further price declines.

In some cases, the signal for increased worry comes from increases in the price of credit default swaps, which provide insurance against debt defaults. Rising CDS prices imply that creditors have become more concerned. This can send down the prices of a company's stock and debt instruments and frighten customers and depositors into withdrawing funds, potentially leading to downgrading and failure. In other words, increases in prices for credit insurance can serve as self-fulfilling prophesies. This is the unintended consequence of one of the recent innovations.

I want to mention the potential for manipulation present in this situation. One strong bid for default protection in the thin market for CDS on a given company can massively depress the price of billions of dollars worth of stock and/or debt. Clearly, an unscrupulous short-seller can use this tactic to his advantage. No one knows the extent to which it is in play . . . or how to stop it.

In the end, people once again have to apply skepticism and their own judgment, this time to bad news. Is the market smart or dumb? Is it giving us a valid signal to get out or the buying opportunity of a lifetime? I seem to remember a useful quotation to the effect that "The market is an ass." Thus I think there's more money to be made by being a contrarian than a trend follower.

The End of the Financial System

We're seeing and hearing things today that we never imagined.

- The demise or bailout of Lehman Brothers, Bear Stearns, Freddie Mac, Fannie Mae and AIG.
- Concern about the viability of Goldman Sachs and Morgan Stanley, and huge declines in their stocks.
- Rising prices for CDS protection on U.S. Treasury securities.
- Rates on short-term T-bills close to zero because of an extreme flight to safety.
- Awareness for the first time, I think, that the U.S. government's financial resources are finite, and that there are limits on its ability to run the printing press and solve problems.

Will the financial system melt down, or is this merely the greatest down cycle we've ever seen? My answer is simple: we have no choice but to assume that this isn't the end, but just another cycle to take advantage of.

I must admit it: I say that primarily because it is the only viable position. Here are my reasons:

- It's impossible to assign a high enough probability to the meltdown scenario to justify acting on it.
- Even if you did, there isn't much you could do about it.*
- The things you might do if convinced of a meltdown would turn out to be disastrous if the meltdown didn't occur.

- Most of the time, the end of the world doesn't happen. The rumored collapses due to Black Monday in 1987 and Long-Term Capital Management in 1998 turned out to be just that.

* -- Money has to be someplace; where would you put yours? If you put it in T-bills, what purchasing power would be accorded the dollars in which they're denominated? If the government's finances collapsed, what good would your dollars be, anyway? What depository wouldn't be in danger? If you and many others decided to put billions into gold, what price would you have to pay for it? Where would you store it, and how would you pay for the truck to move it? How would you spend it to buy the things you need? What would people pay you for your gold, and what would they pay you with? And what if you bought credit insurance on all of your holdings: who would be able to make good on your claims?

No, I don't see any viable way to plan for the end of the world. I don't know any more than anyone else about its probability, but I see no use in panicking.

I think the outlook has to be viewed as binary: will the world end or won't it? If you can't say yes, you have to say no and act accordingly. In particular, saying it will end would lead to inaction, while saying it's not going to will permit us to do the things that always have worked in the past.

We will invest on the assumption that it will go on, that companies will make money, that they'll have value, and that buying claims on them at low prices will work in the long run. What alternative is there?

<u>What Kind of Future Do We Face?</u>

Of course, even assuming there will be a recovery, we have to think about what it will look like. As I wrote in "Doesn't Make Sense," we aren't counting on a "V." We will continue to emphasize companies that we feel serve basic economic functions and can do relatively well even in bad times. Many elements in the economy are being damaged, especially confidence, and they may take a relatively long time to recover. In particular, the mechanism for providing capital is in great disrepair, and less credit certainly means a slower recovery and less growth.

The financial institutions deserve a special mention. If there's ever been a sector that's down-and-out, this is probably it. Nevertheless, Oaktree generally demands more transparency in order to invest than most of them provide. It can seem almost impossible to ascertain their condition through due diligence, and absolutely impossible without access to their books. For example, possible buyers probably found the risks at Lehman Brothers to be unanalyzable. As *The Wall Street Journal* said on Tuesday,

> Even understanding Lehman's current trading positions was tough. Lehman's roster of interest-rate swaps (a type of derivative investment) ran about two million strong . . .

What kind of effort would it require to understand the significance of two million derivatives positions: are they thoroughly hedged, or bullish or bearish on balance? And what about Lehman's millions of other derivatives and complex securities? This opacity, combined with heavy leverage, reliance on short-term funds, liquidity and conscious risk taking, is the reason why a loss of confidence is conceivable at any financial institution in times of panic.

What will the Wall Street of the future look like? We read – and I don't doubt – that for at least a while it will be smaller, less leveraged, less profitable, and more highly regulated. But I also think it will be less competitive and less risky.

In the course of my career, Wall Street went from being (1) brokers handling riskless trades for commission to (2) dealers buying and selling inventory for a spread to (3) block traders purchasing large amounts of stock when market liquidity was inadequate to (4) proprietary traders risking their own capital in pursuit of profit for the house. Backing down this progression wouldn't be the worst thing in the world.

<u>What Will Start the Recovery?</u>

Eventually, someone will walk out of the crowd and take advantage of the lows. He may start an investment bank unburdened with a legacy of losing positions. Or a bond insurer like Warren Buffett did when MBIA and Ambac became impaired. The cause of the recovery can't be predicted. There may not even be a visible one. Maybe things will just get so cheap that they can't stay down. (In ancient history – November 2001 – I wrote "You Can't Predict; You Can Prepare," with a thorough description of how cycles happen, based on energy all their own. It might be worth digging up.)

I like to point out that, even in retrospect, no one can say what started the collapse of the tech stock bubble in 2000. But it did start . . . just, I think, because stock prices rose far too high. That works in reverse, too.

In March, in "The Tide Goes Out," I mentioned the three stages of a bull market, a notion I've been carrying around in my head for about 35 years:

- the first, when a few forward-looking people begin to believe things will get better,
- the second, when most investors realize improvement is actually underway, and
- the third, when everyone's sure things will get better forever.

As we all know, buying during the first stage can be highly profitable, while buying during the last euphoric stage usually leads to disaster.

Then I went on to create the converse of the above, the three stages of a bear market:

- the first, when just a few prudent investors recognize that, despite the prevailing bullishness, things won't always be rosy,
- the second, when most investors recognize things are deteriorating, and
- the third, when everyone's convinced things can only get worse.

In the final stage, you can buy assets at prices that reflect little or no optimism. There can be no doubt that we are in the third stage with regard to many financial institutions. Not necessarily at the bottom, but in a serious period of unremitting pessimism. No one seems able to imagine how the current vicious circle will be interrupted. But I think we must assume it will be.

It must be noted that, just like two years ago, people are accepting as true something that has never held true before. Then, it was the proposition that massively levered balance sheets had been rendered safe by the miracle of financial engineering. Today, it's the non-viability of the essential financial sector and its greatest institutions.

Everyone was happy to buy 18-24-36 months ago, when the horizon was cloudless and asset prices were sky-high. Now, with heretofore unimaginable risks on the table and priced in, it's appropriate to sniff around for bargains: the babies that are being thrown out with the bath water. We're on the case.

September 19, 2008