



ICARUS REBORN— WALL STREET DOES IT AGAIN

To us it's very simple.

In the Greek tragedy of Daedalus, his son Icarus took the wings invented by his father, flew too close to the sun (despite his father's warnings), his wings melted and he plummeted into the sea.

This time in the investment world, Daedalus (played by Nobel Laureate economists and Ph.D. mathematicians employed by Wall Street firms) invented "synthetic CDOs" and other such products, with which Icarus (played by hedge funds and institutional investors) took flight. Only this time it wasn't clear how well Icarus was warned.

In the Greek tradition, fate is triggered by hubris.

Much of the wailing and gnashing of teeth we now see is the result of fate tempted once too often in a high stakes game where Wall Street firms create highly complex investment products (sometimes backed by dubious loans) and institutional investors and hedge funds line up to buy them. The products are pitched as having low volatility, low risk and that they always go up (return characteristics that can only be alchemized by those with high-level math credentials). Hedge funds love these investments because, since they're not marked-to-market, they can always show a profit and keep new dollars flowing in (along with higher fees).

Then Stein's Law kicks in: *That which cannot continue forever will stop.*

Unfortunately, this game can only continue in an environment where buyers are willing to overpay for such investments (buying them at a price that the seller's model says they're worth) instead of the arcane practice of bidding at a level that a rational buyer would pay.

When it became apparent that these investments had problems and there was no ready secondary market, things started to unravel.

Moreover, because of their AAA ratings, many were used as collateral to purchase other investments (we heard of one hedge fund that was leveraged up 30:1 on a portfolio of investments that itself consisted of leveraged devices). Naturally, liquidations were forced,

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and as these investors scrambled to raise cash, they sold securities across the board—including high-quality assets.

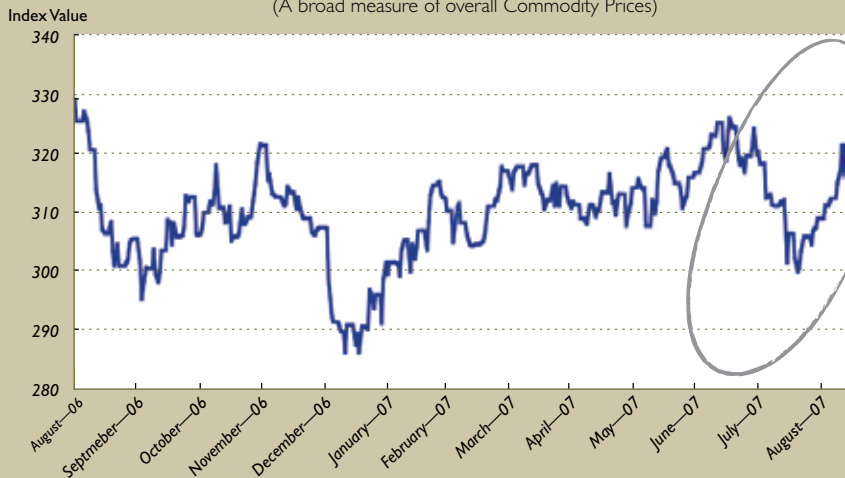
The write-offs are coming, but where? We won't know for sure until we're through a few reporting seasons and look at non-performing assets (of course many holders will not be forthcoming), but first indications are that a lot of the toxic stuff ended up being sold to foreign financial institutions (the globalization of US domestic risk). The problem with risk is you may be able to mask it, hide it, paper over it, but if there's risk there, it will surface. The only question is how and when.

Once bitten twice shy—

The longer run result will probably be that global investors will require more transparency and sane pricing of financial products, both being negatives for Wall Street firms. *However in our view, the size of the problem and the attendant de-leveraging is not enough to bring down the global economy.*

CRB Index

(A broad measure of overall Commodity Prices)



Source: Bloomberg

Tangible assets v. structured products—

On the bright side, in developing markets we have dynamic, growing economies with high rates of savings and strong balance sheets. Ideal conditions for continued standard of living improvements and demand for the materials that enable it.

Globally, we have modern farming techniques being adopted, we have manufacturing to supply the developing markets' own consumption cycle, and we have increasing per capita wealth in impoverished areas.

If you look at the CRB Index (a composite of spot commodity prices), it began September almost exactly as it began July with a subprime

meltdown in the middle (See graph and circle to the left). To us, this shows that fundamentally nothing has changed in terms of economic activity.

This is really a rare "crisis" (if you can call it that) in that over-valued stocks or some sort of market shock did not trigger it. Instead it came from excesses in the credit market and simultaneous, large-scale liquidity demands. And, if you're a money manager and you need to convert much of your portfolio into cash, you sell what you can, not what you should. This means that high-quality, liquid investments are sold first, which in turn means that even the best long-term oriented portfolios are pressured.

Another factor that makes this environment different is the demography of market participants itself. In the 90s, because of technological



advancements we had an explosion of people entering the investment business who, because of the success of technology stocks, were attracted by the scientific aspects, rather than their economic aspects of investing. This still holds true as evidenced by the fact that there is still very little fanfare about how such sunset industries such as oil, copper and fertilizer continue to generate huge economic profit.

This is precisely what makes for exceptional return potential—continued widespread skepticism about the

most simple, solid investments, and continued widespread fascination with those that are highly complex. It allows us to buy high-quality assets on the cheap, rather than chase after the latest and greatest Wall Street creation, and also enables us to remain calm during difficult markets.

While we don't know for sure what the future has in store, what we can rely on is that the Greeks will be right—hubris is eventually punished—it just takes time to see when, where and how. ■

OBERMEYER NEWS



OBERMEYER RECOGNIZED IN BARRON'S "INDIE 100"

We are excited to announce that Wally Obermeyer was ranked among the nation's **Top 100 Independent Financial Advisers** by *Barron's* magazine, America's premier financial weekly.

Barron's August 27 issue marked the inaugural appearance of this new listing, also labeled "The Indie 100." *Barron's* chose to profile this segment of investment managers because "the independent financial adviser is gaining prominence" and they "have been growing more rapidly than traditional brokers in recent years," according to the magazine.

Firms/individuals first needed to be nominated for consideration, and then *Barron's* asked RJ Shook, a financial industry consultant, to compile the Top 100 list. RJ Shook considered many criteria including assets under management, quality of service, and regulatory records in compiling the ranking, and conducted interviews with a short-list of managers over the past few months.

Upon hearing the news of ranking, Wally quickly acknowledged that this success is the result of a group effort. To borrow a quote that was included in a local article: "I'm greatly appreciative of our clients and the entire Obermeyer team, who together have helped us achieve this distinction." He added "I'm proud that an Aspen-based firm is being recognized on a nationwide level for delivering world class service and thoughtful investment management."

Also of note, Obermeyer Asset Management is the farthest of the Top 100 Independent Advisors from a metropolitan area.

Again, we couldn't have achieved this ranking without the continued support and business from our clients. **THANK YOU!** ■

"I'm greatly appreciative of our clients and the entire Obermeyer team, who together have helped us achieve this distinction."

—Wally Obermeyer—

OBERMEYER TEAM

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ADVISORS and DIRECTORS

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William Patterson, Director

LOCATION UPDATE

WE'VE MOVED!

Hopefully you received our recent moving announcement card that was mailed in the middle of September. We are thrilled to be in our new space and look forward to your next meeting or visit so we can give you a tour. When selecting and designing this space, we chose an office that will accommodate our business over the next 20+ years.

Just in case you haven't updated your address book yet, our new address is:

Obermeyer Asset Management Company

Obermeyer Place

501 Rio Grande Place, Suite 107

Aspen, CO 81611

Our other contact information is the same:

Telephone: 970-925-8747

Fax: 970-925-8723

Toll Free: 800-337-0933

Website: www.obermeyerasset.com

Parking is available for meetings as we recognize it can be difficult to find a space during our town's busy seasons. Please call the office for details and directions. ■



Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be suitable for an existing or prospective client's investment portfolio. Therefore, no existing or prospective client should assume that future performance of any specific investment or investment strategy (including the investments or investment strategies recommended herein) will be profitable or equal any historical performance levels.

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