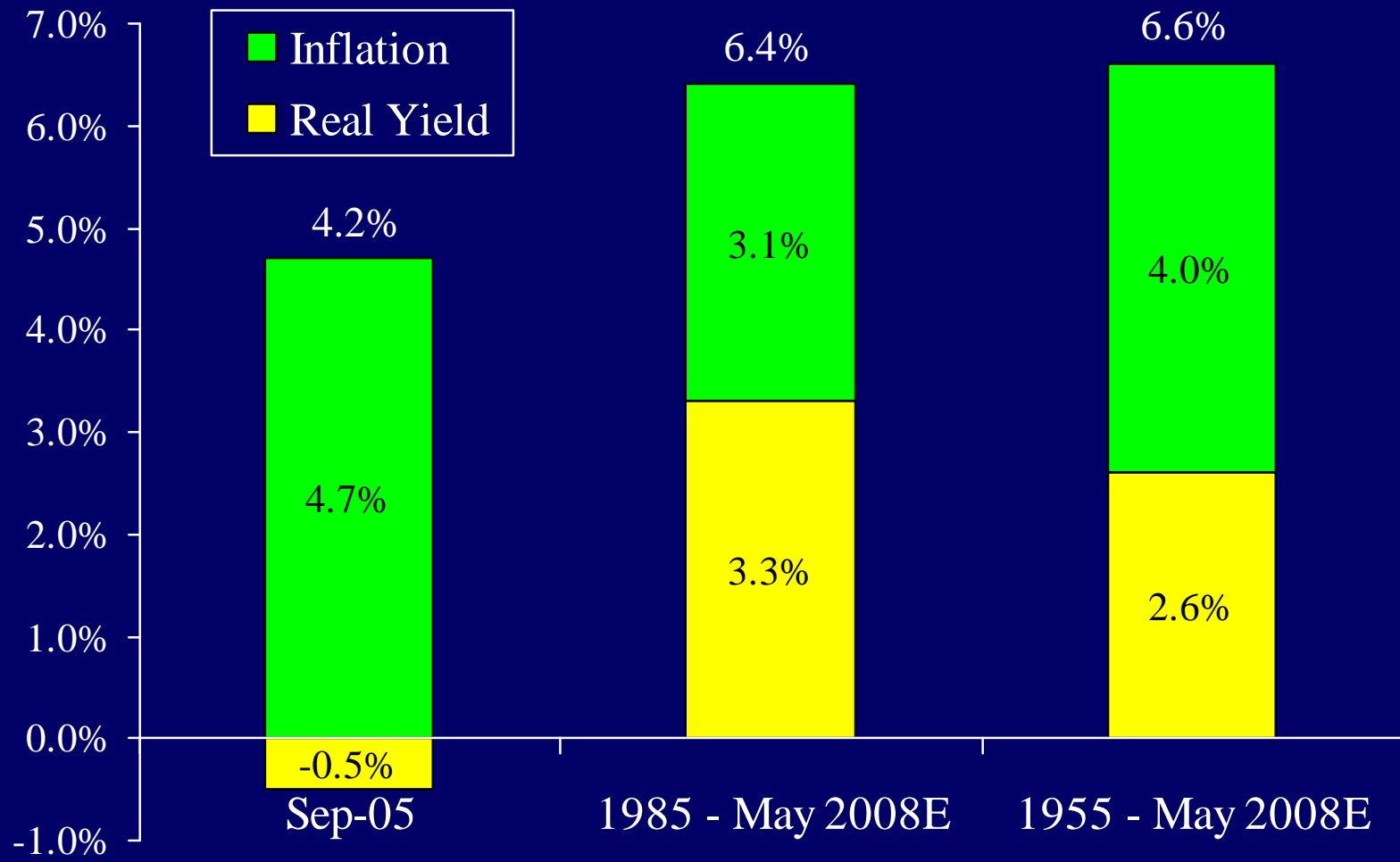
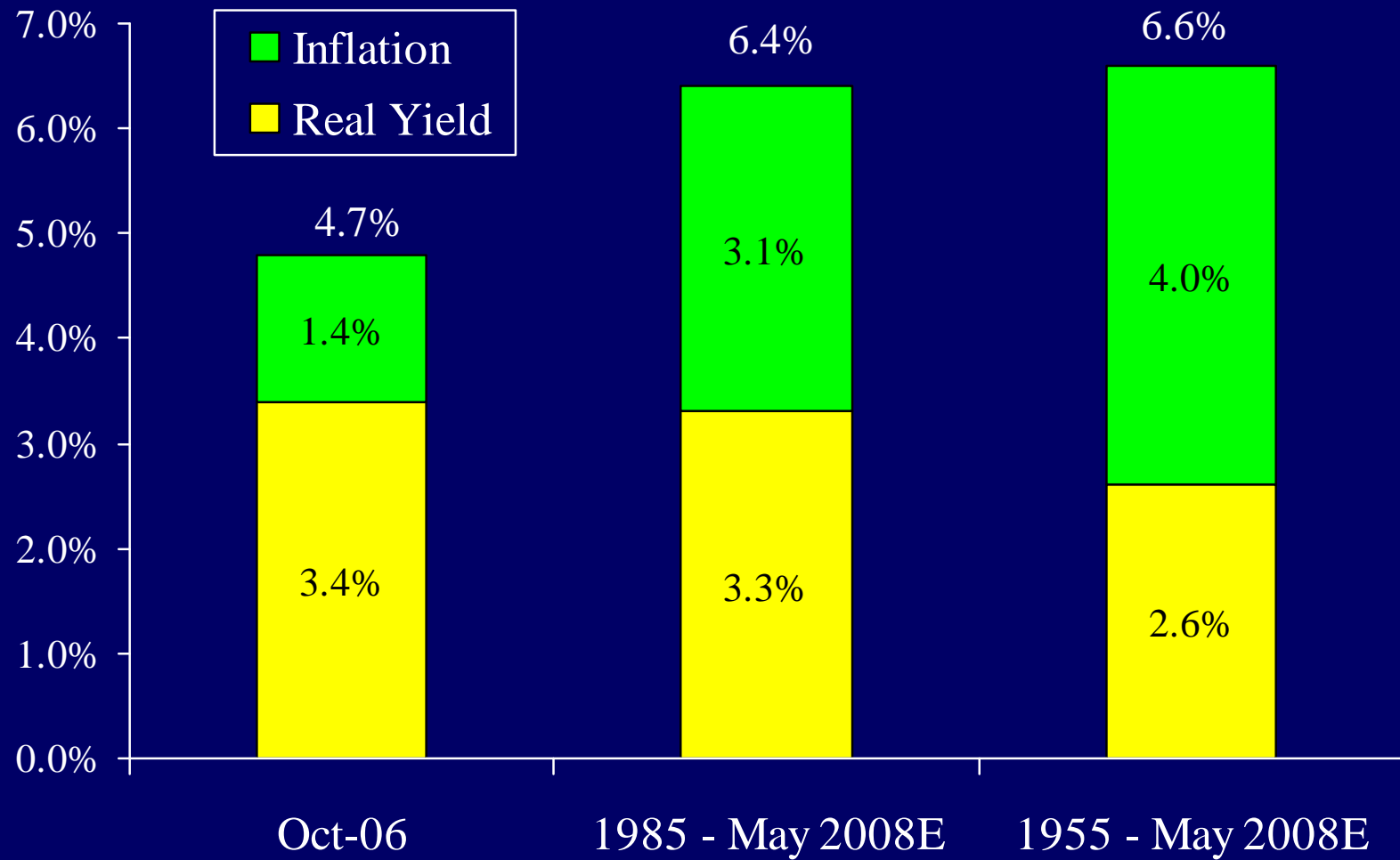


Where We're Going...

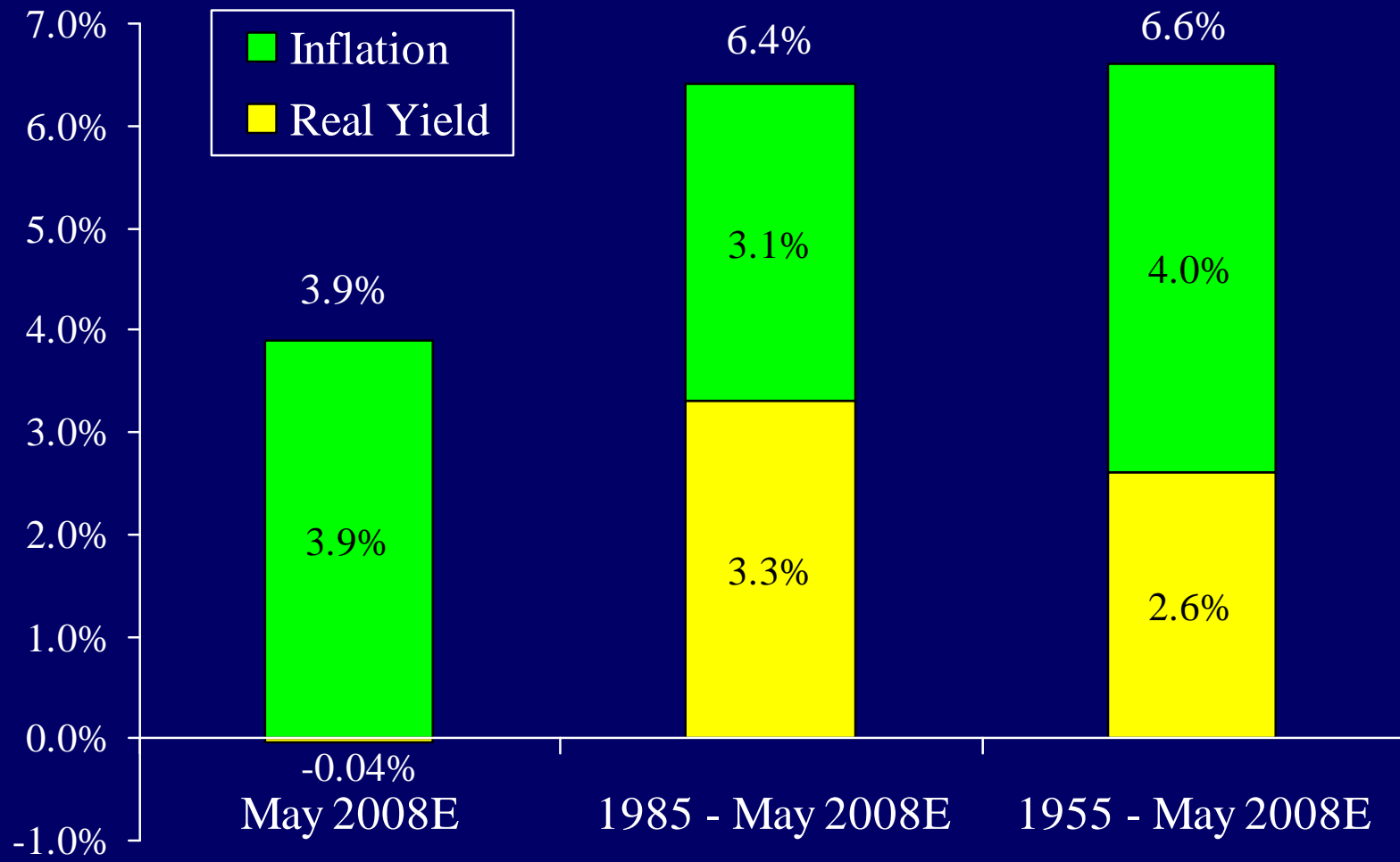
Negative Real Long Term Yields: The Cause of Many Anomalies...



...Reverted Back to Norms...



...But Are Negative Once Again



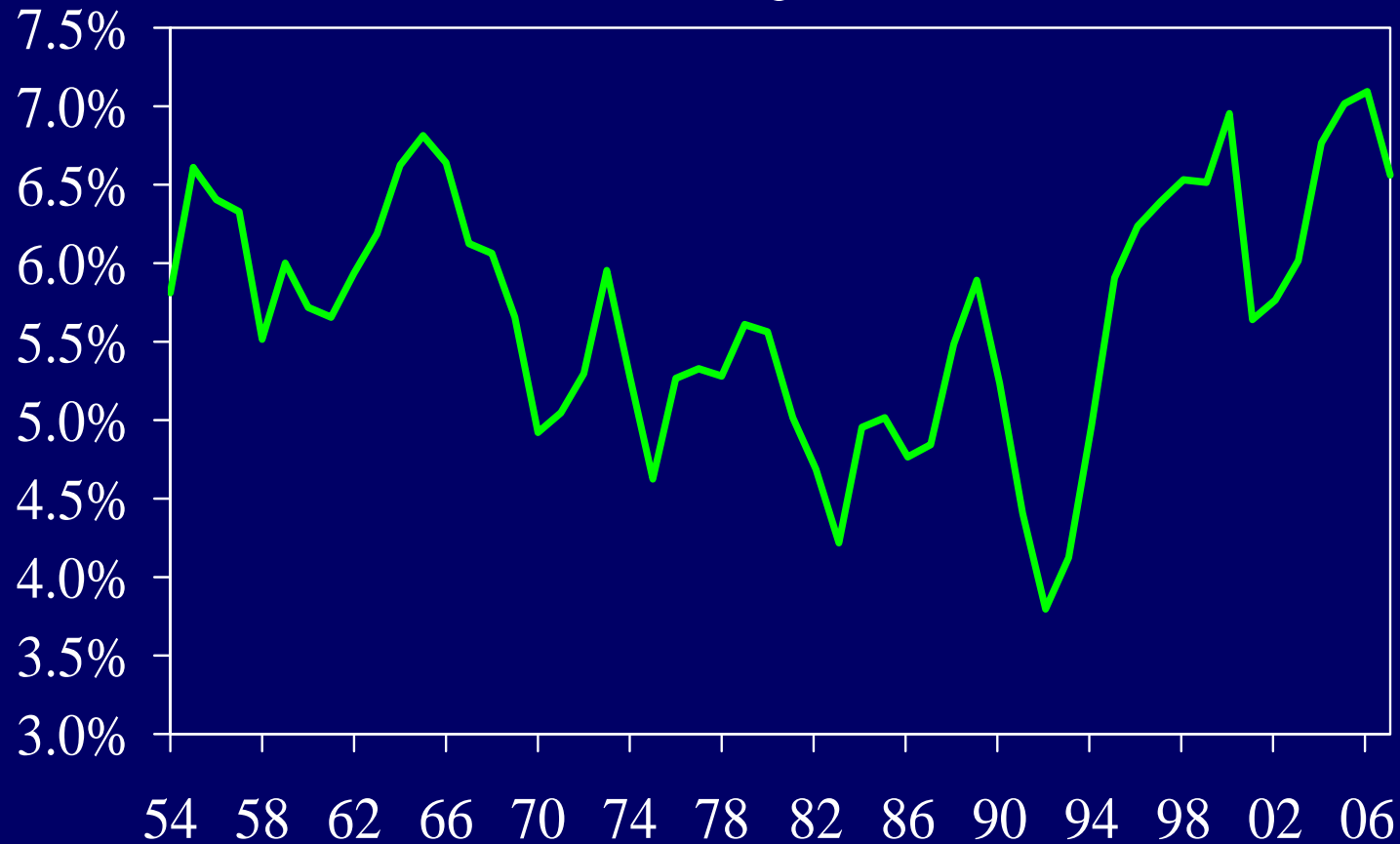
An Unprecedented String of Double Digit Earnings Growth Has Ended

<u>1st Quarter</u>	<u>Last Quarter</u>	<u>Duration</u> <u>(# of Quarters)</u>	<u>Cumulative</u> <u>Growth</u>
4Q 1987	3Q 1989	8	56.4%
1Q 1964	3Q 1966	11	48.5%
4Q 1971	3Q 1974	12	78.1%
4Q 1946	3Q 1949	12	149.0%
1Q 1993	2Q 1996	14	101.7%
1Q 2003	2Q 2007	18	108.1%

Trailing 12 Month Operating Earnings Growth
Data from 1936 – 4Q07
Source: Morgan Stanley Research

Profit Margins Have Inflected

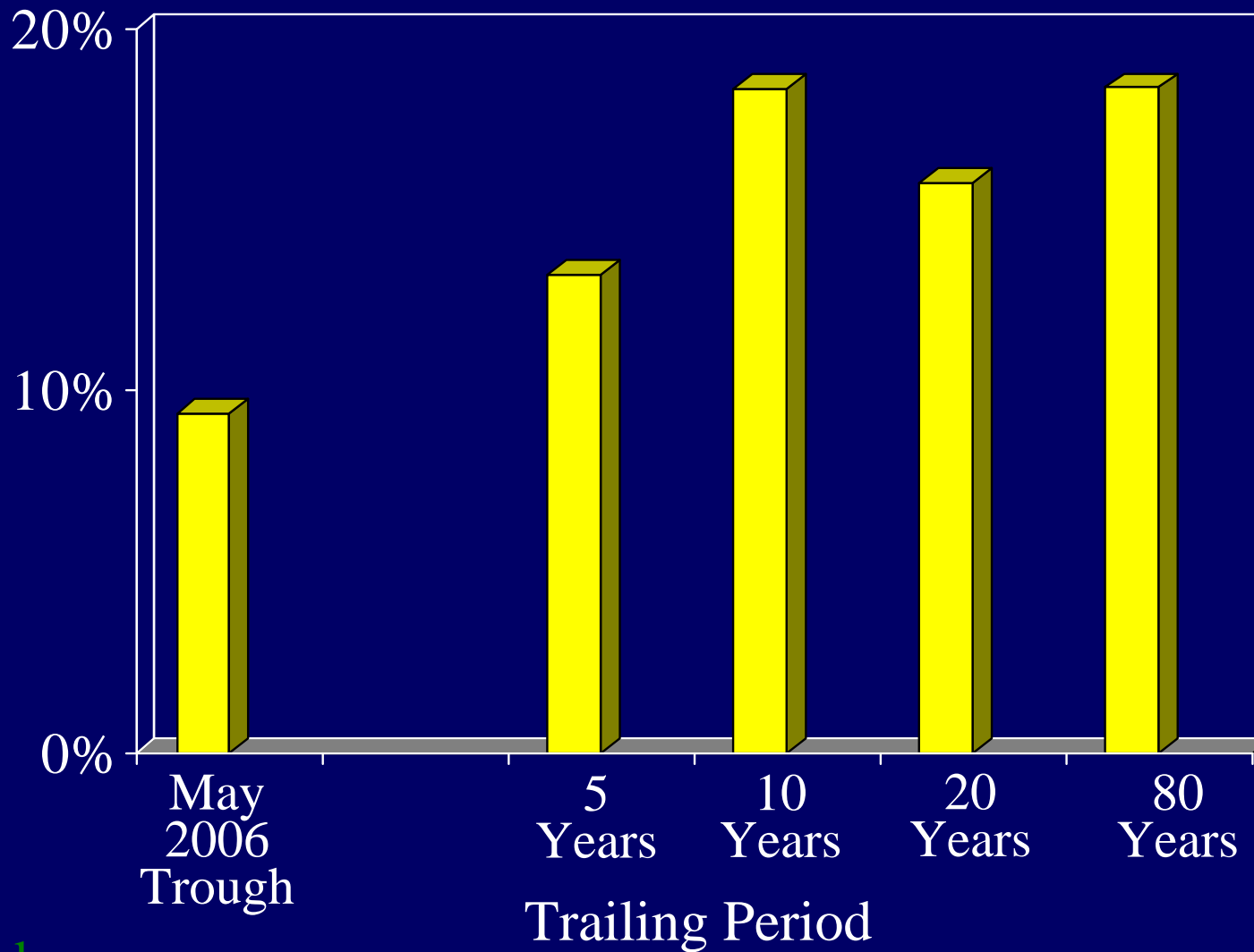
1954 Through 2007



Source: Empirical Research Partners

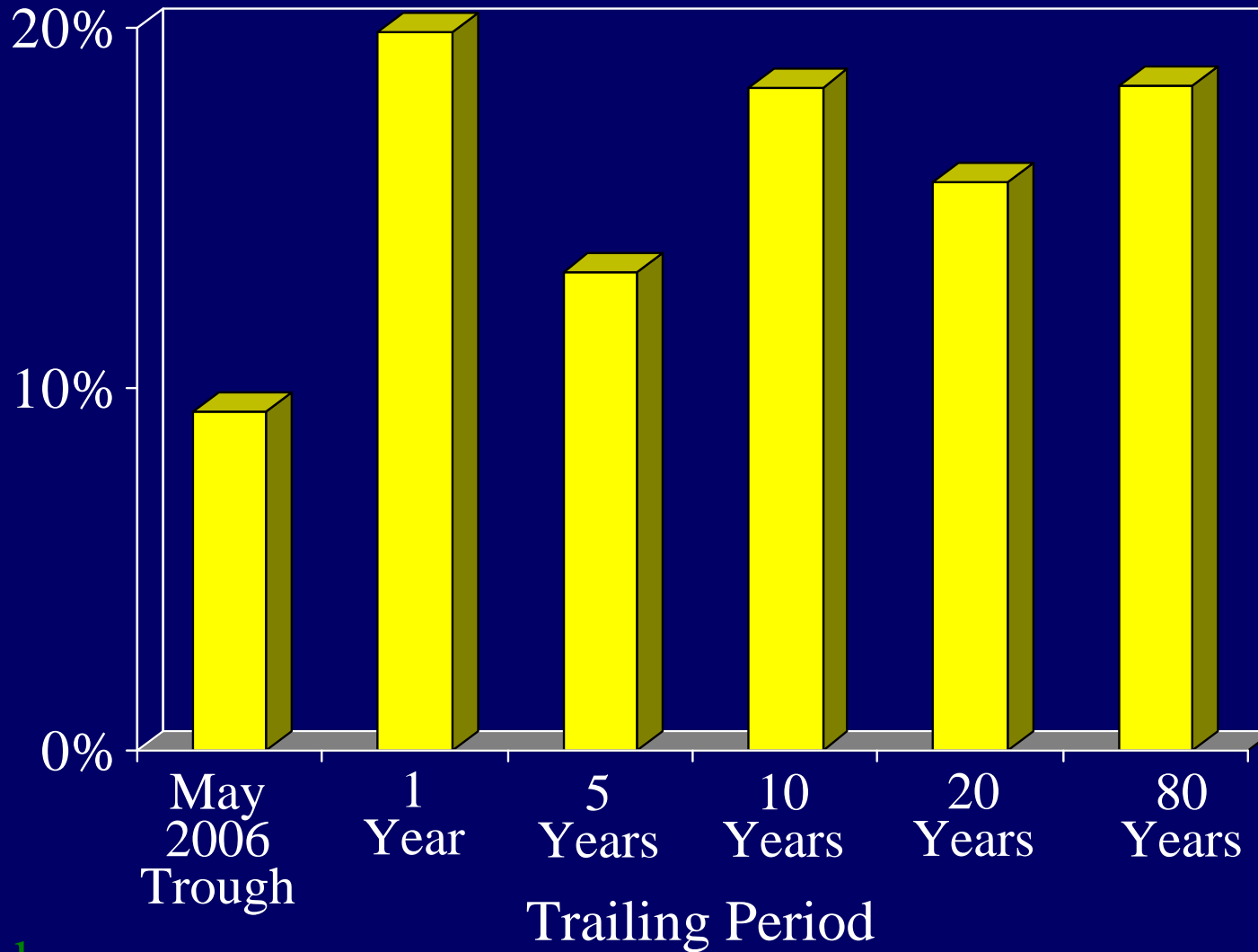
Volatility...

As of May 31, 2008



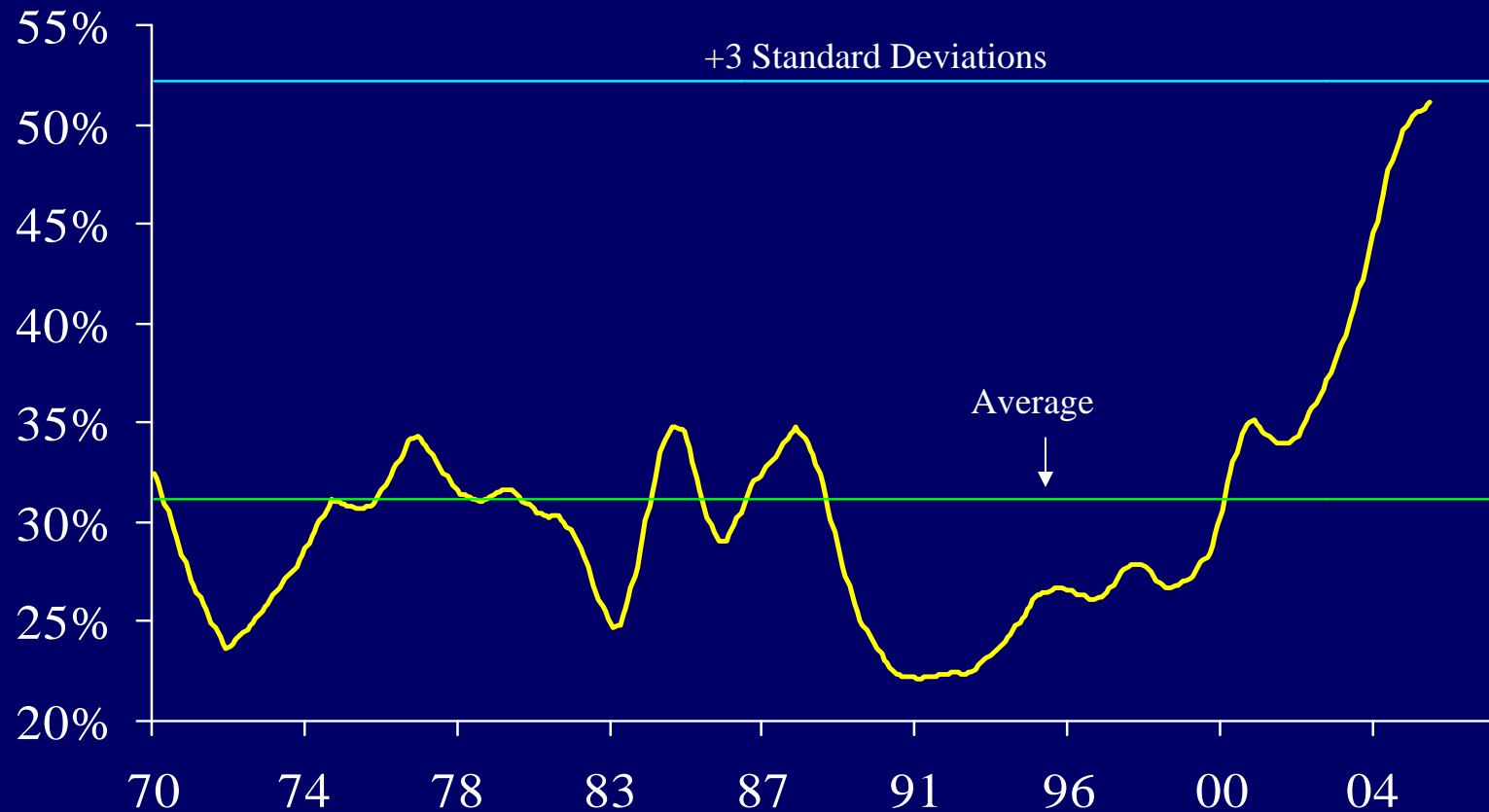
...Has Mean Reverted As Well

As of May 31, 2008

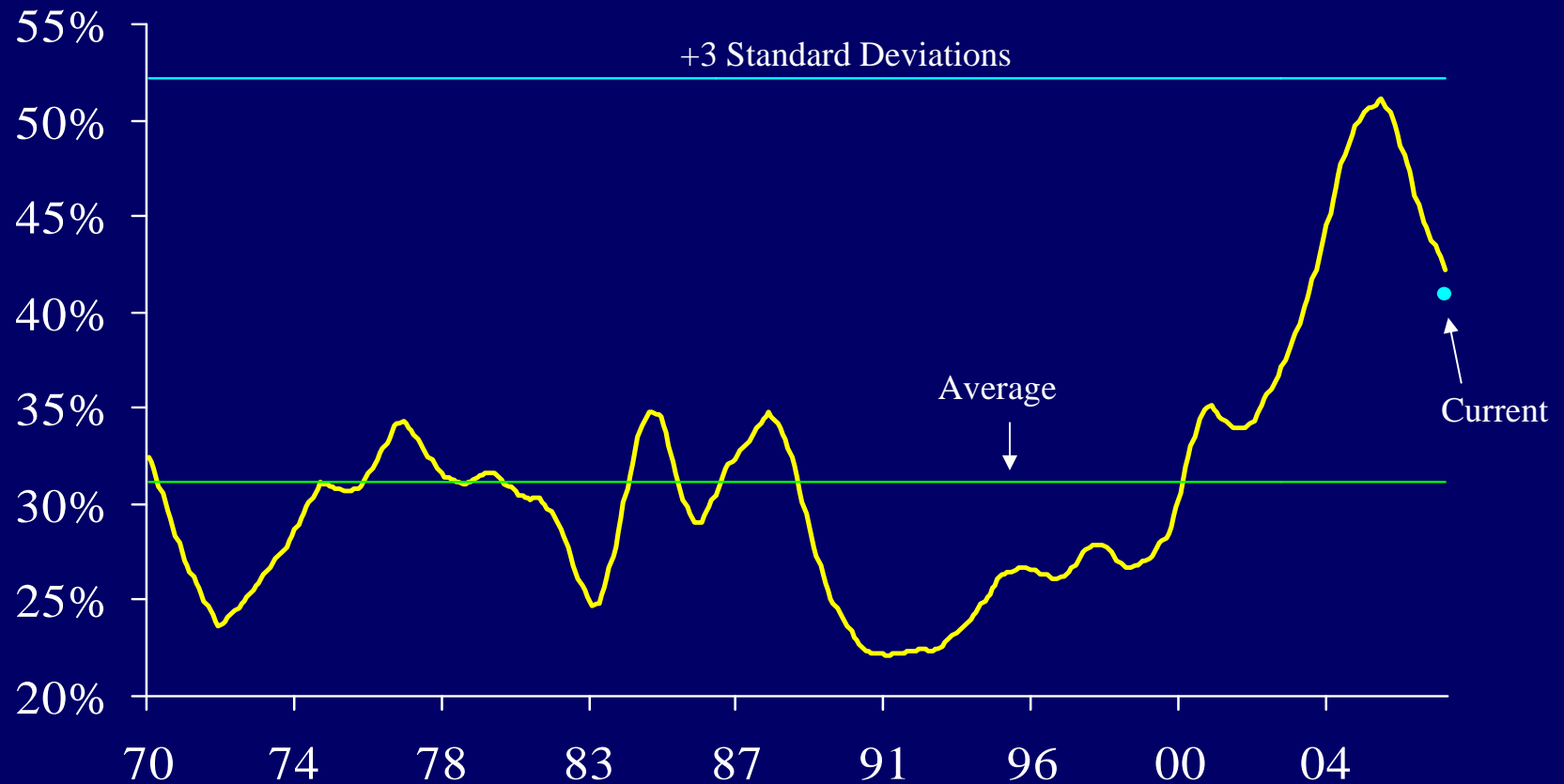


The Corporate Response?

Cash as a Share of Long-Term Debt 1970 Through May 2006

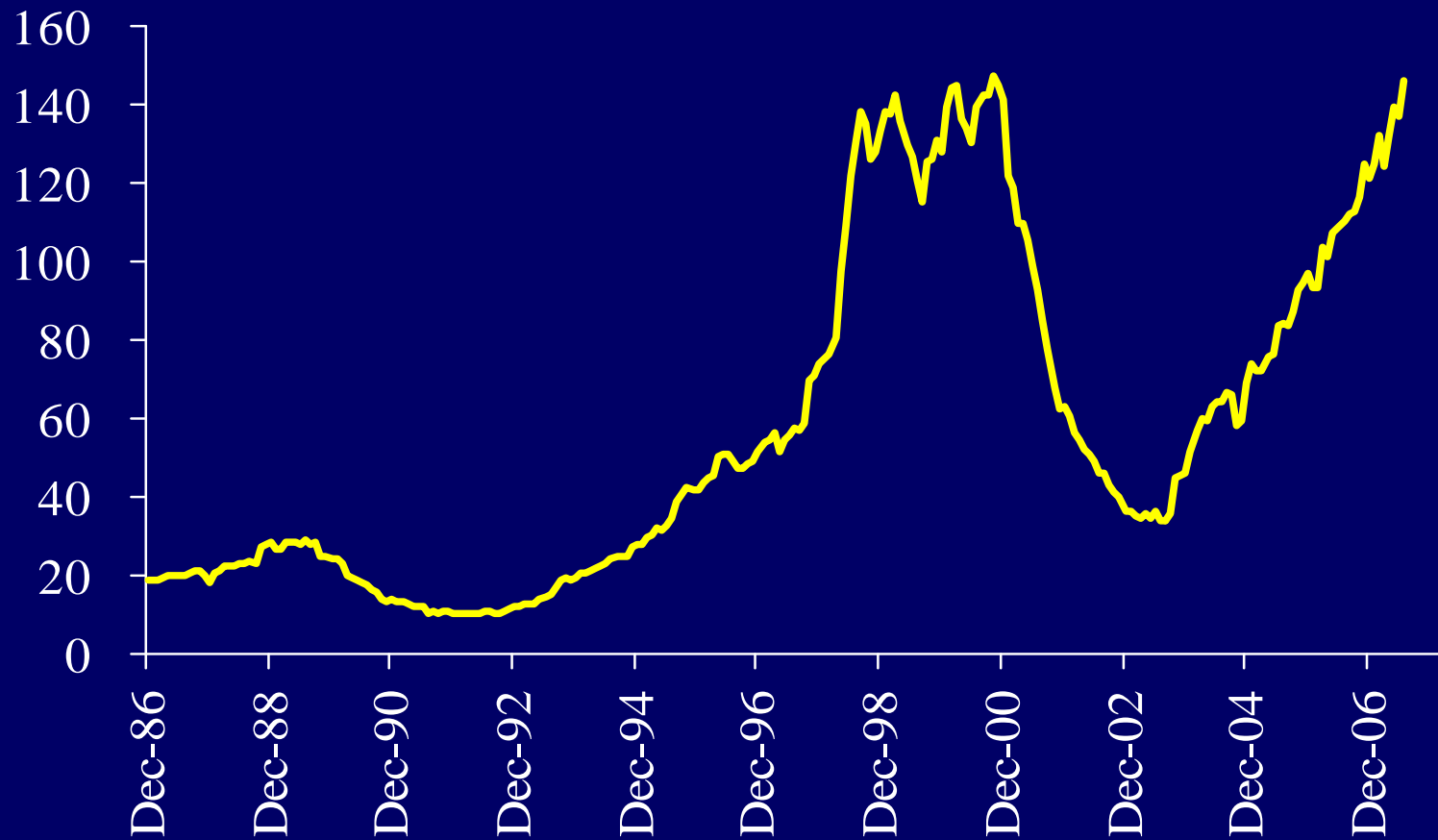


Cash as a Share of Long-Term Debt 1970 Through March 2008



M&A Activity

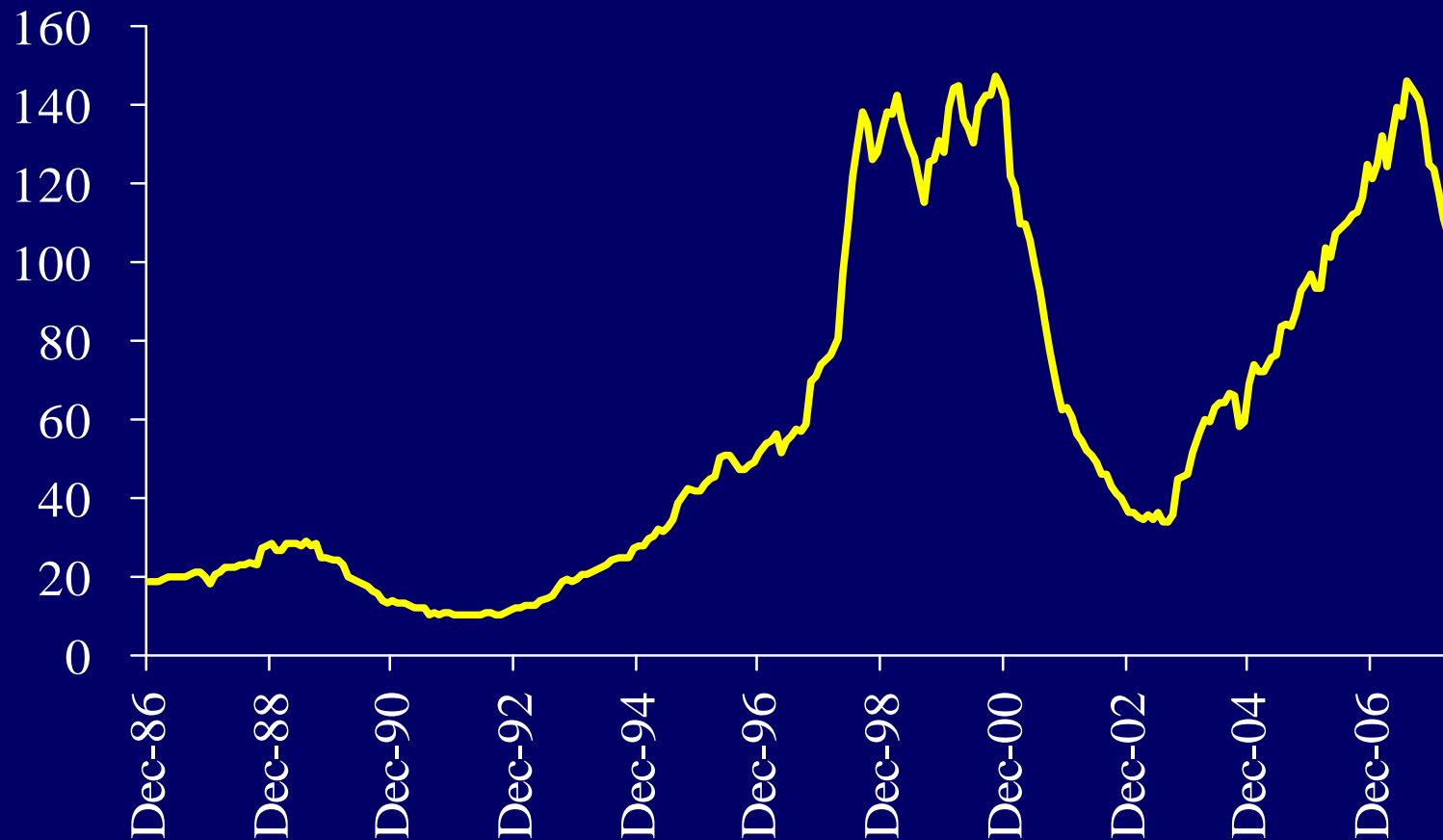
Total Domestic M&A Announced Deals (\$ Bn)
12-month moving average



Source: Morgan Stanley Research

M&A Activity

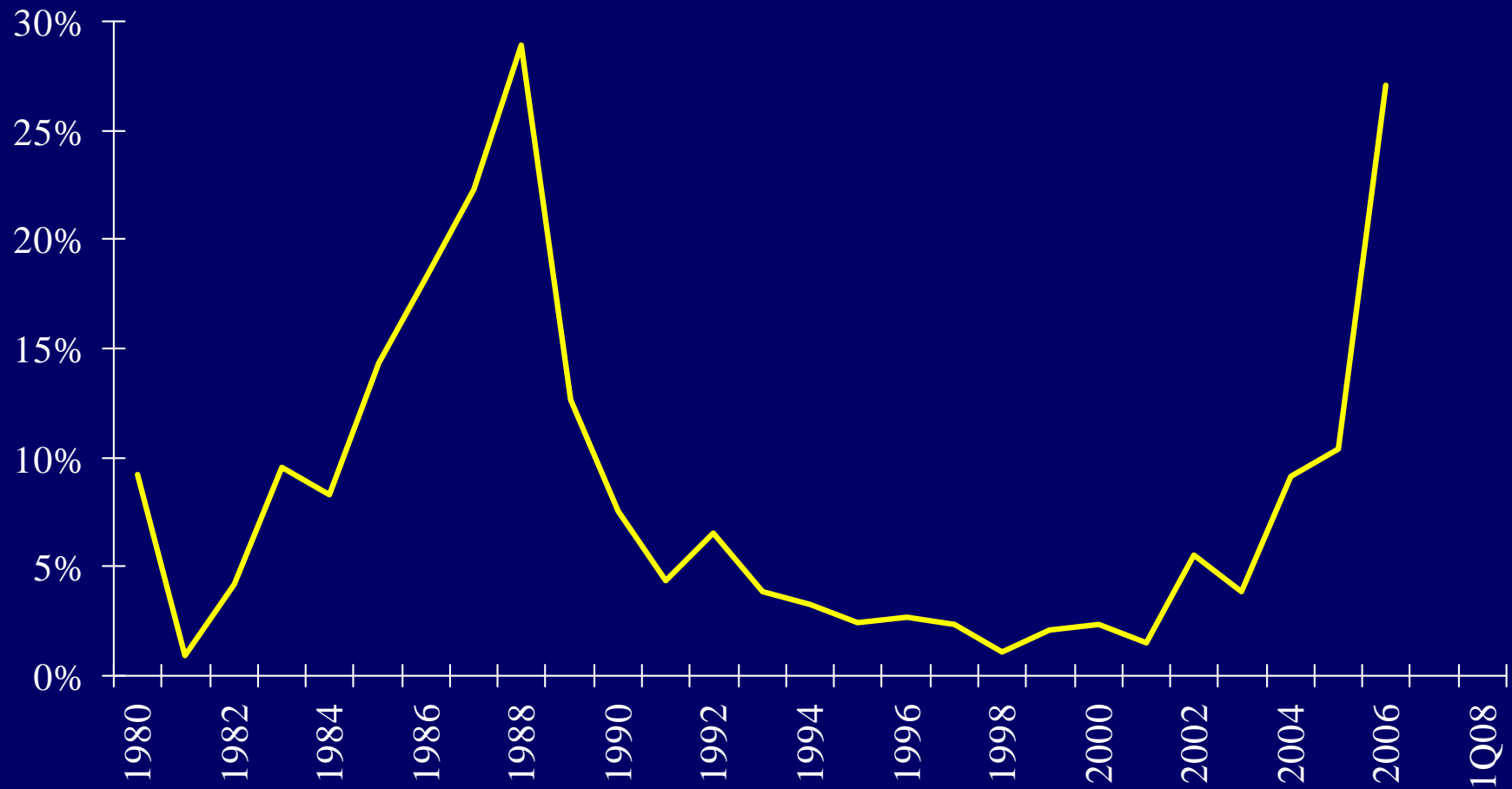
Total Domestic M&A Announced Deals (\$ Bn)
12-month moving average



Source: Morgan Stanley Research

LBO Activity

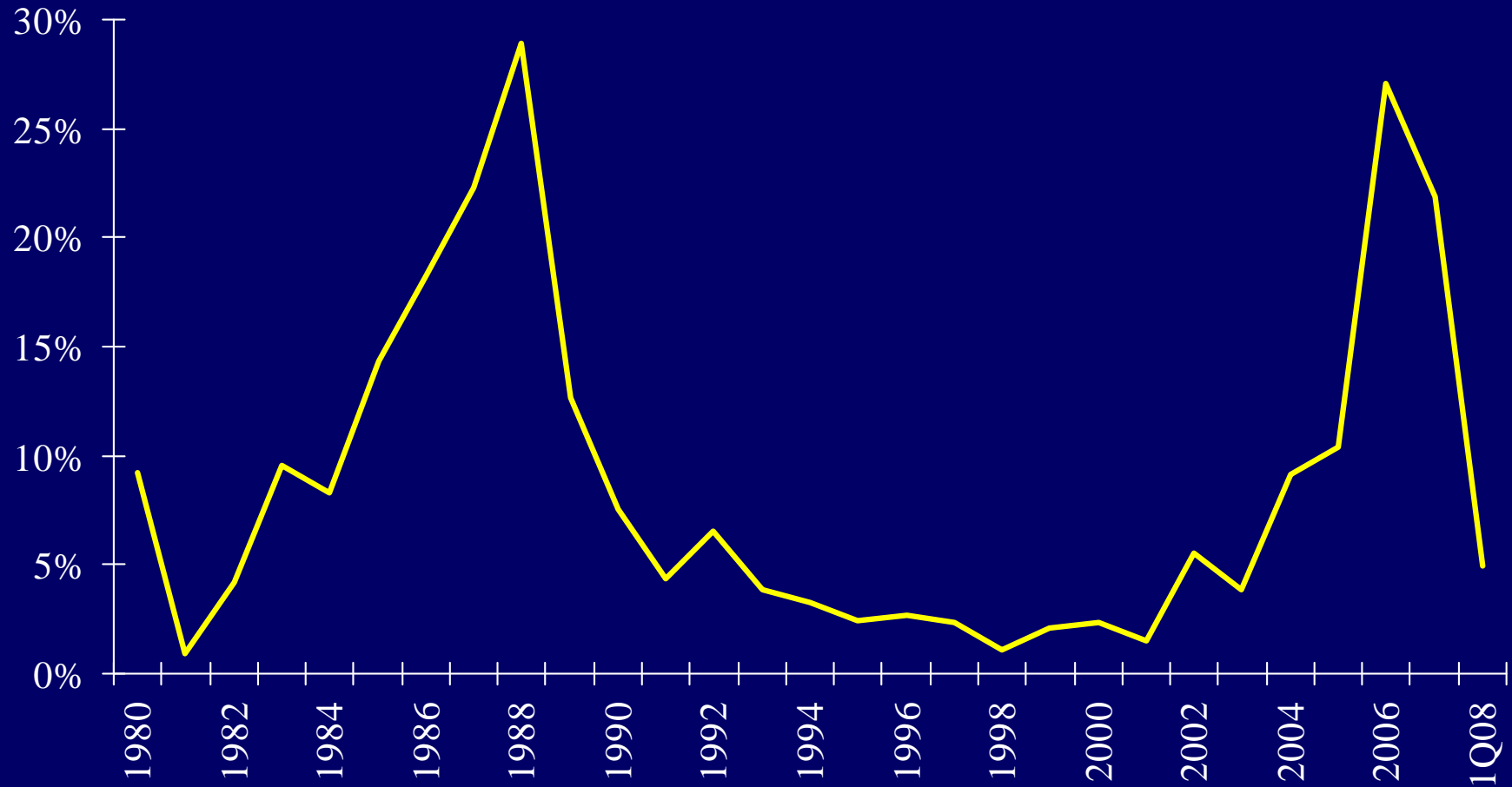
US LBO Deals as % of All US M&A Activity



Source: Morgan Stanley Research

LBO Activity

US LBO Deals as % of All US M&A Activity



Source: Morgan Stanley Research

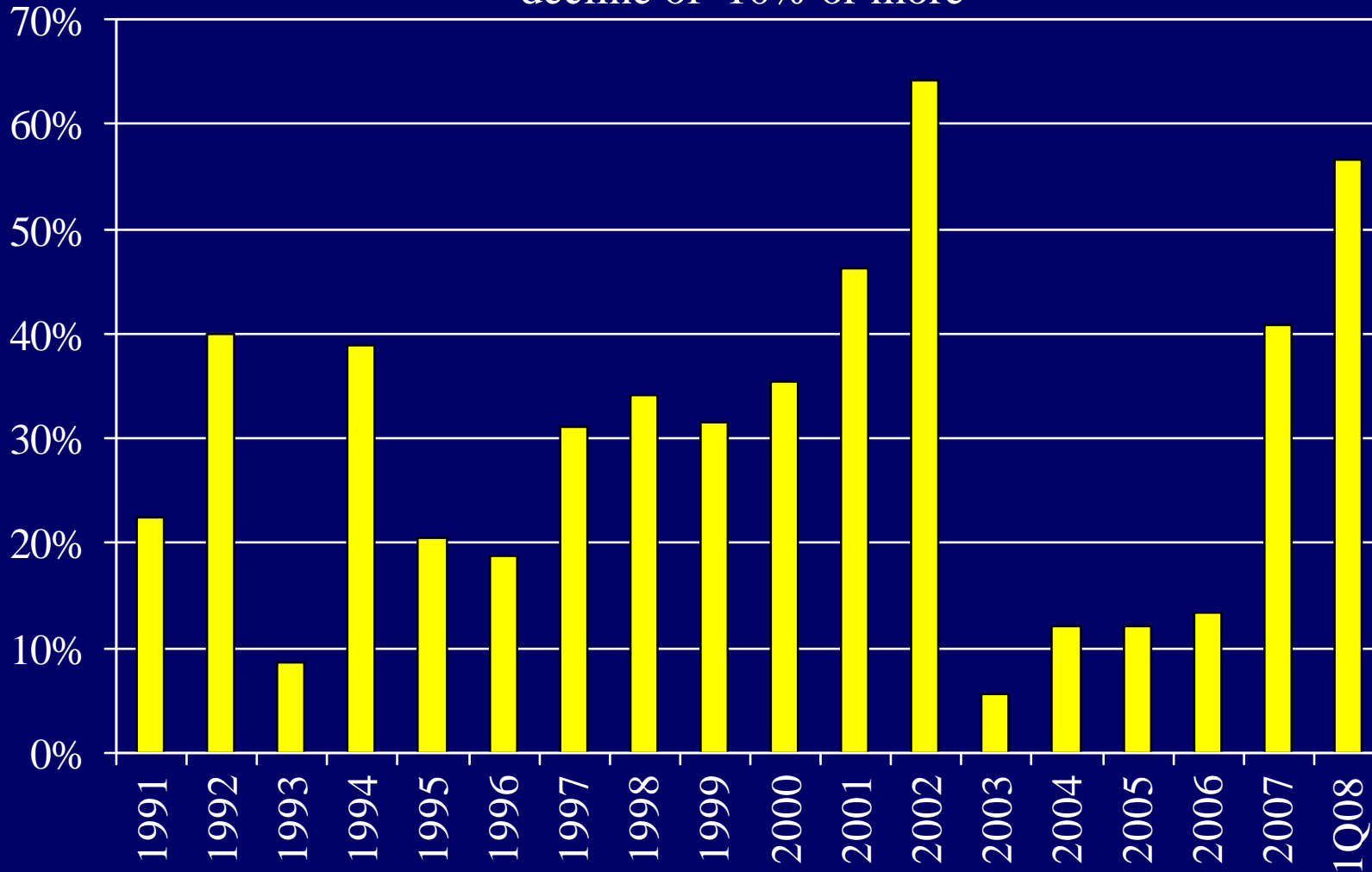
The Market Today – Long/Short Nirvana?

Spread between Lowest and Highest Free Cash Flow Yield Quintiles

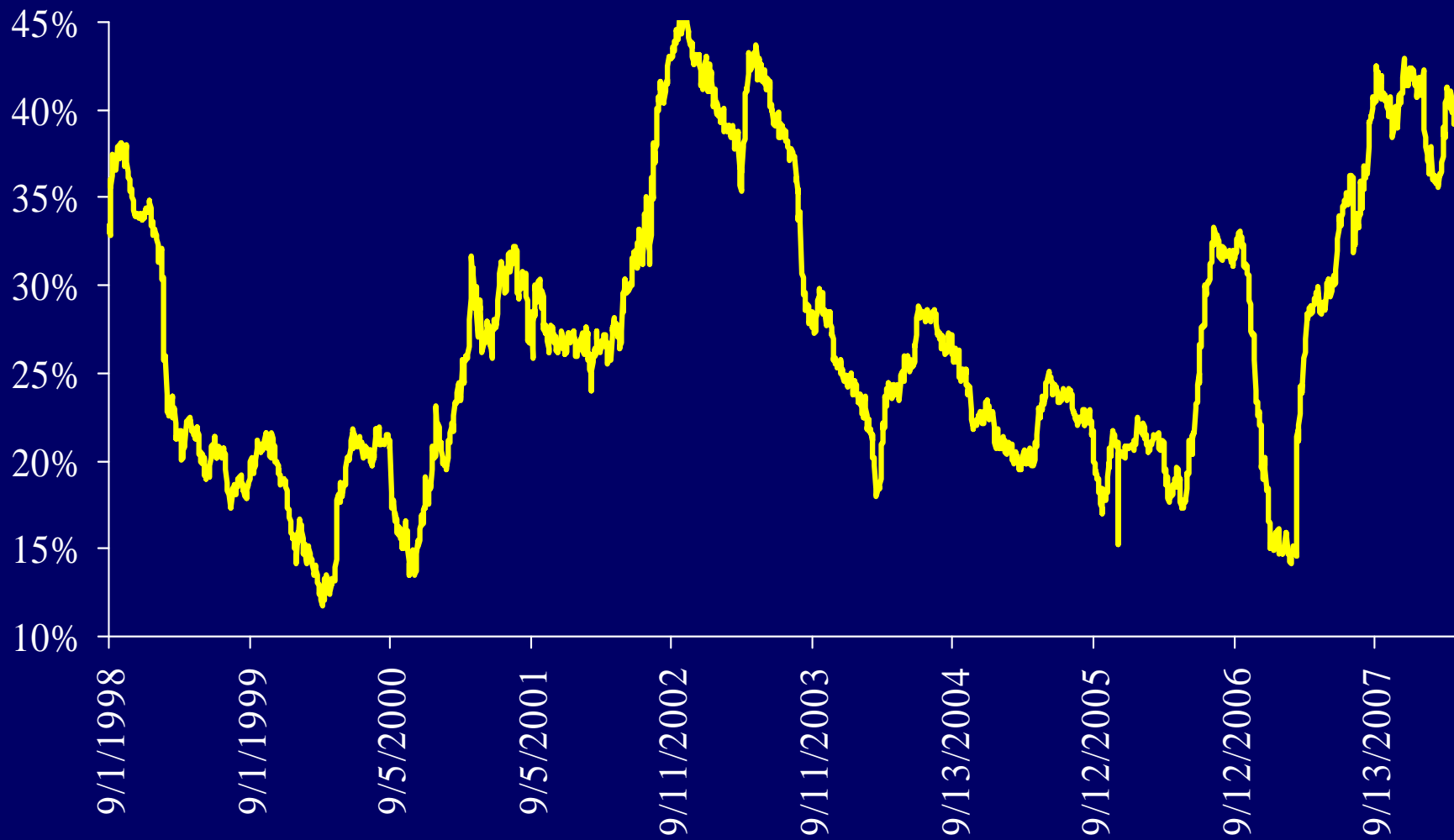


Thin Gruel on the Short Side Has Changed

Percent of Companies in the MSCI World Index with a decline of 10% or more

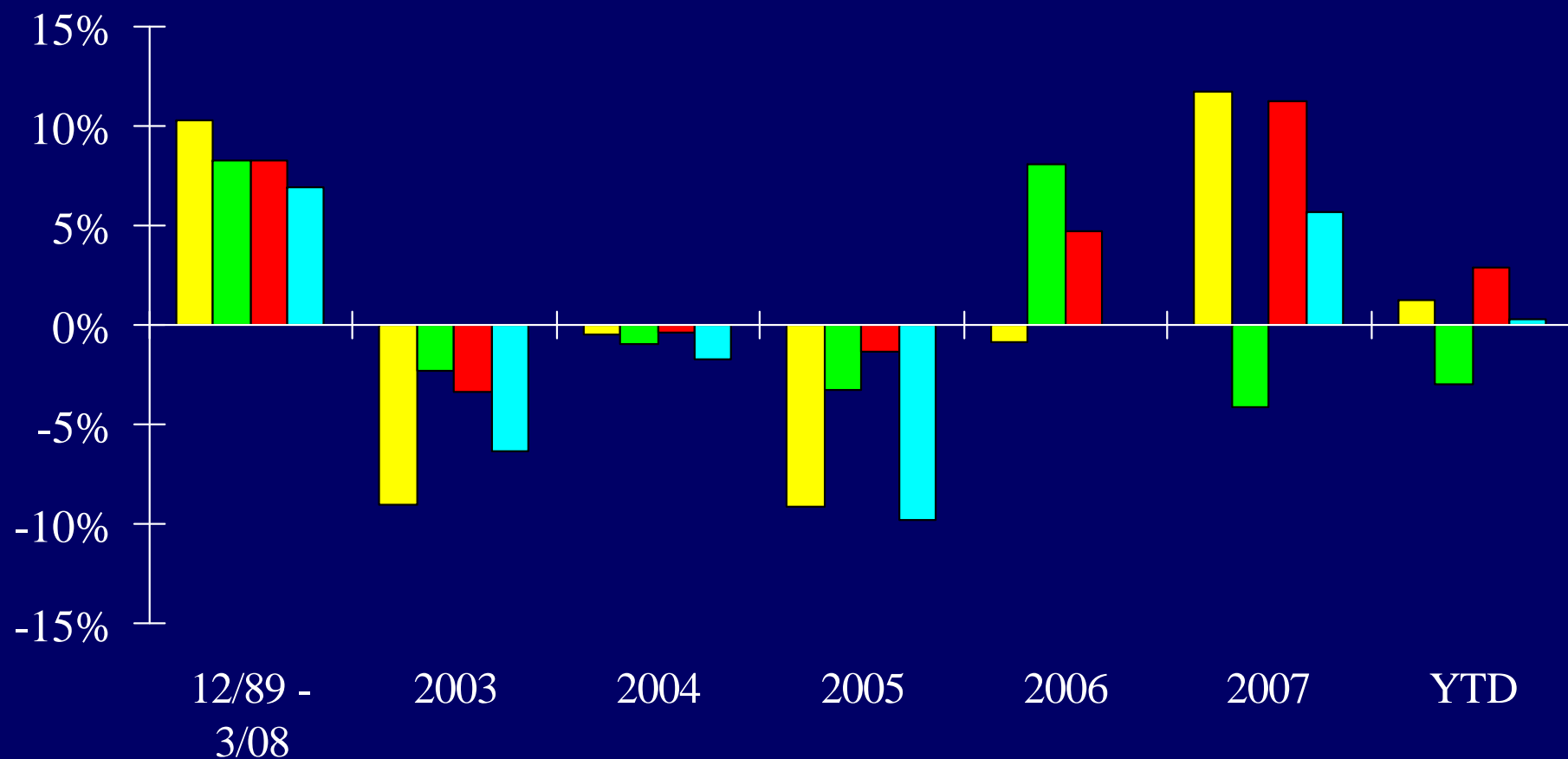


Though Stock Correlation Spiked



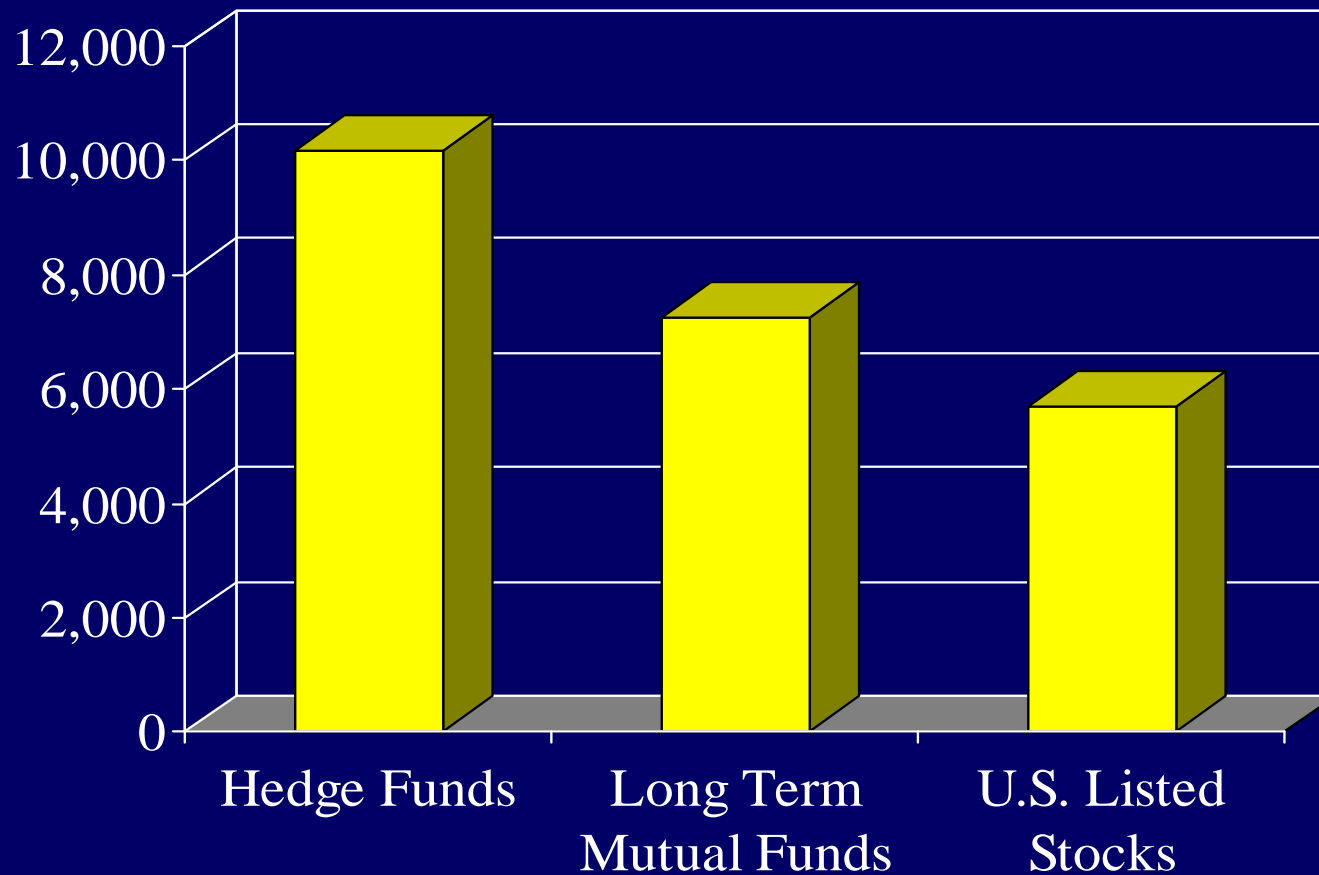
Cats are no Longer Chasing Dogs

■ Profitability ■ FCF Yield ■ Internal Growth ■ Cash Return



The Investment Response

The Supply Response? More Hedge Funds than Stocks



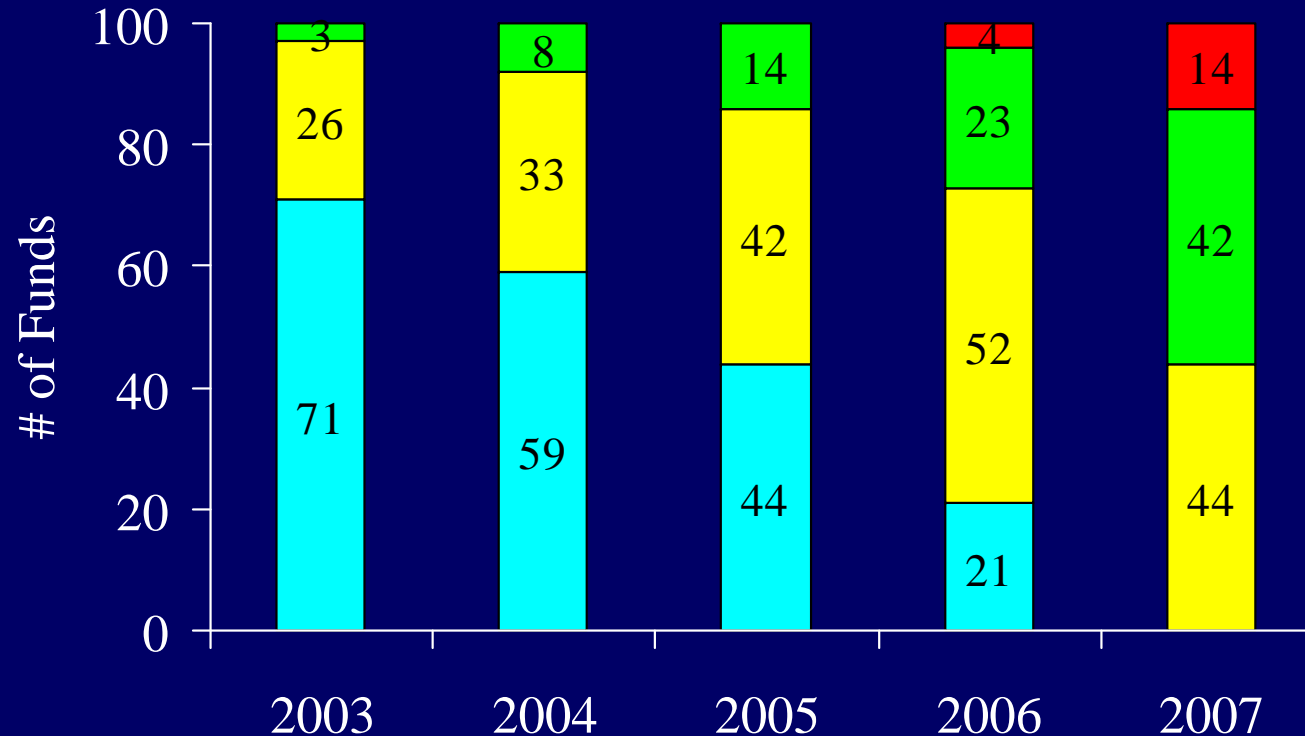
The Mutual Fund Precedent is Instructive

	<u>Mutual Fund Assets</u>	<u>Number of Mutual Funds</u>	<u>Hedge Fund Assets</u>	<u>Number of Hedge Funds</u>
1940 - 1950	462%	44%		
1970 - 1980	183%	56%		
1980 - 1990	690%	446%		
1990 - 2000	554%	165%		
1993 - 2003	258%	79%	389%	297%
1997 - 2007	169%	20%	408%	238%

There is Clearly an Emerging Class of Institutional Sized Funds

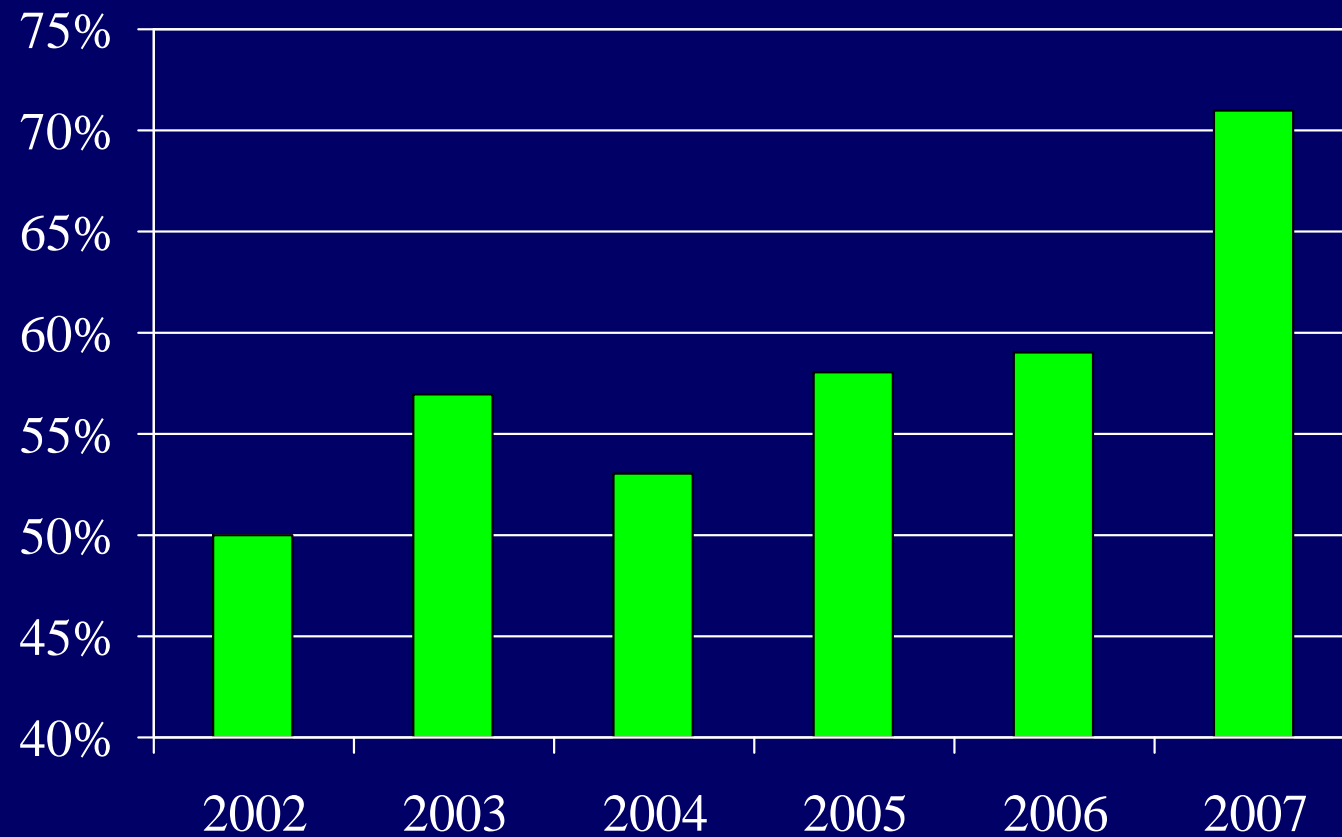
Top 100 Hedge Funds by Number of Funds

■ < \$5 Bn ■ \$5 - \$10 Bn ■ \$10 - \$20 Bn ■ > \$20 Bn



Large Players are Gaining Share

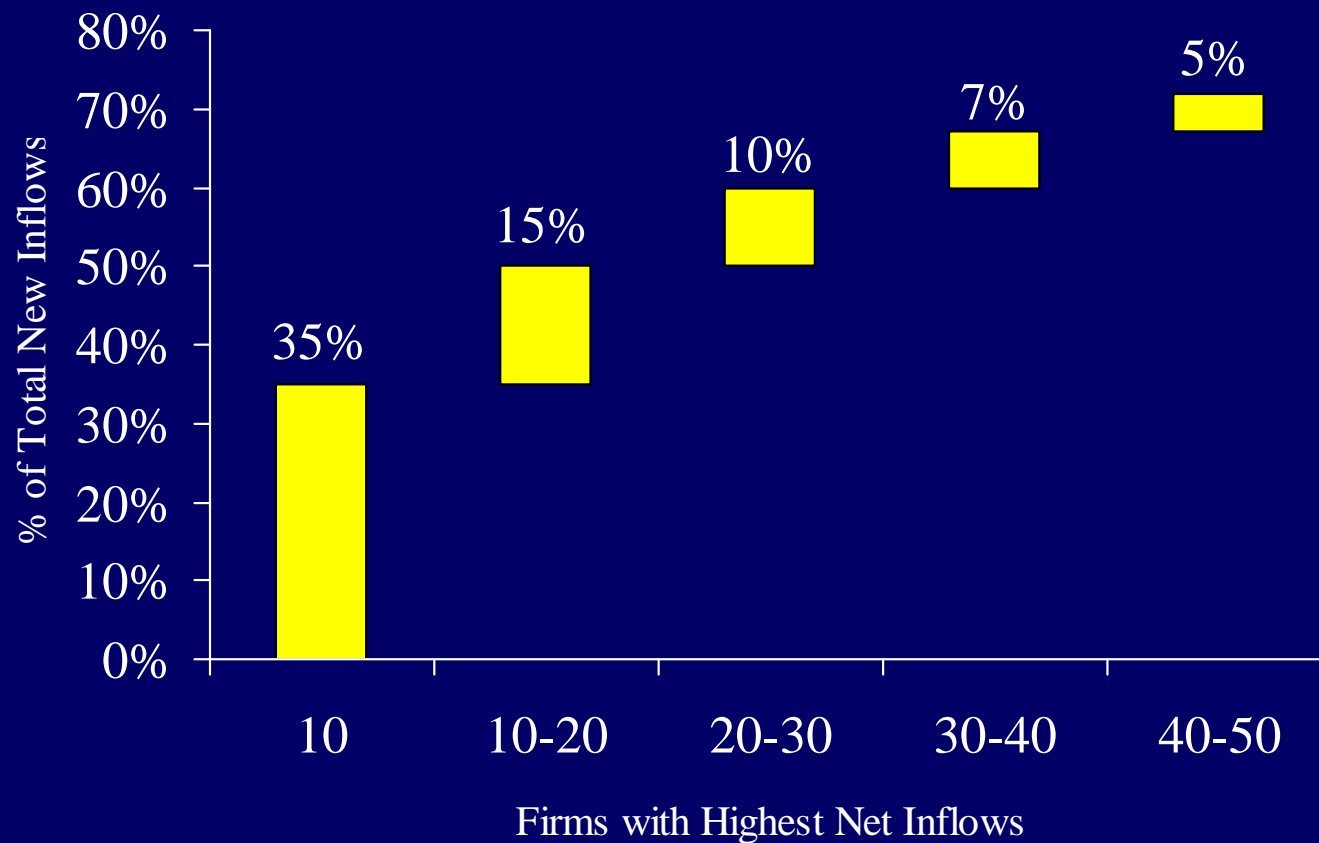
Top 100 Hedge Funds Assets % of Industry Assets



Source: Goldman Sachs, Absolute Return, Hedge Fund Research

50 Firms Account for 72% of Total Net Inflows

Q1 2008 Global Asset Flows Net Inflows by Number of Firms

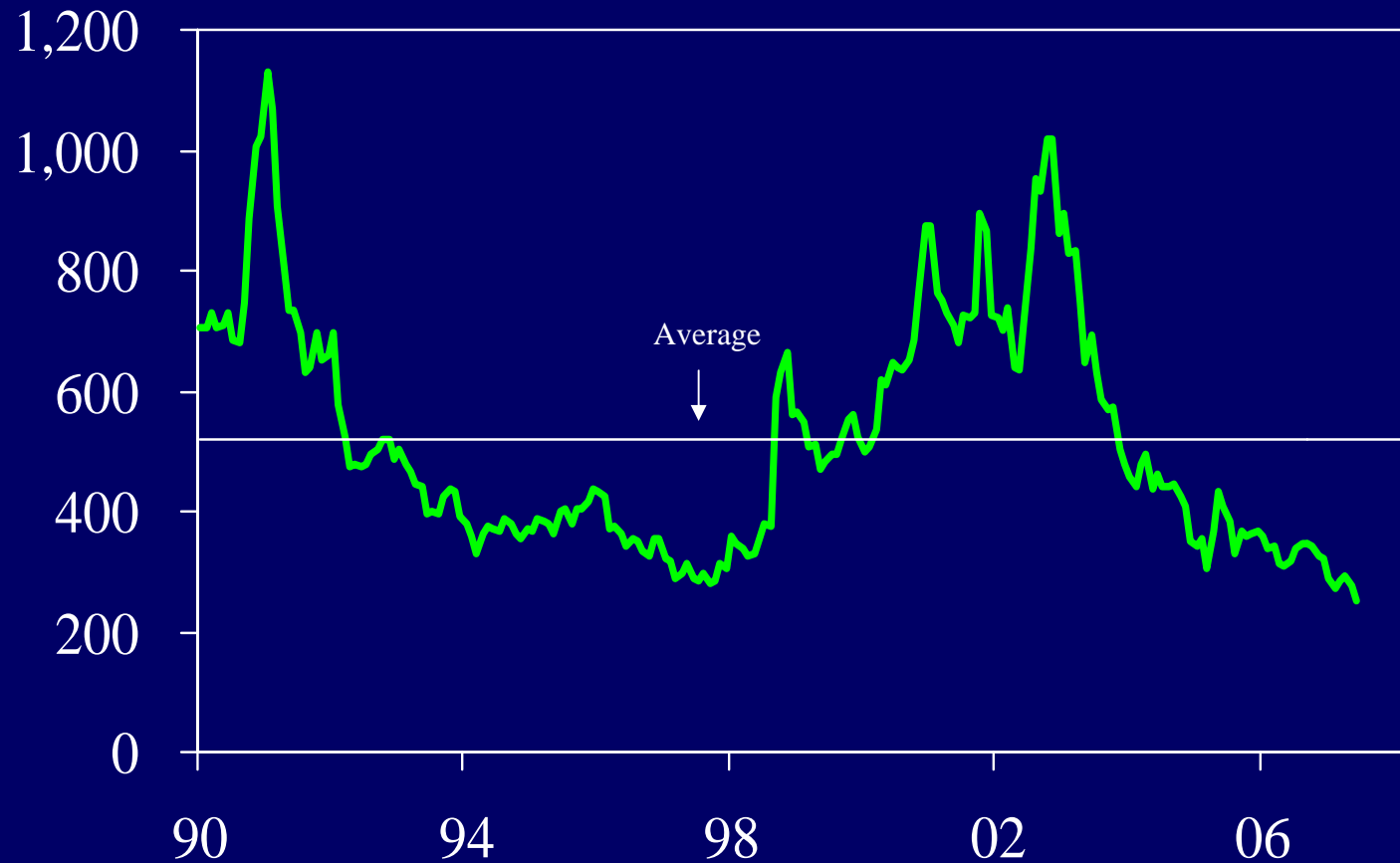


Source: Goldman Sachs

Rolling (Bursting) Bubbles

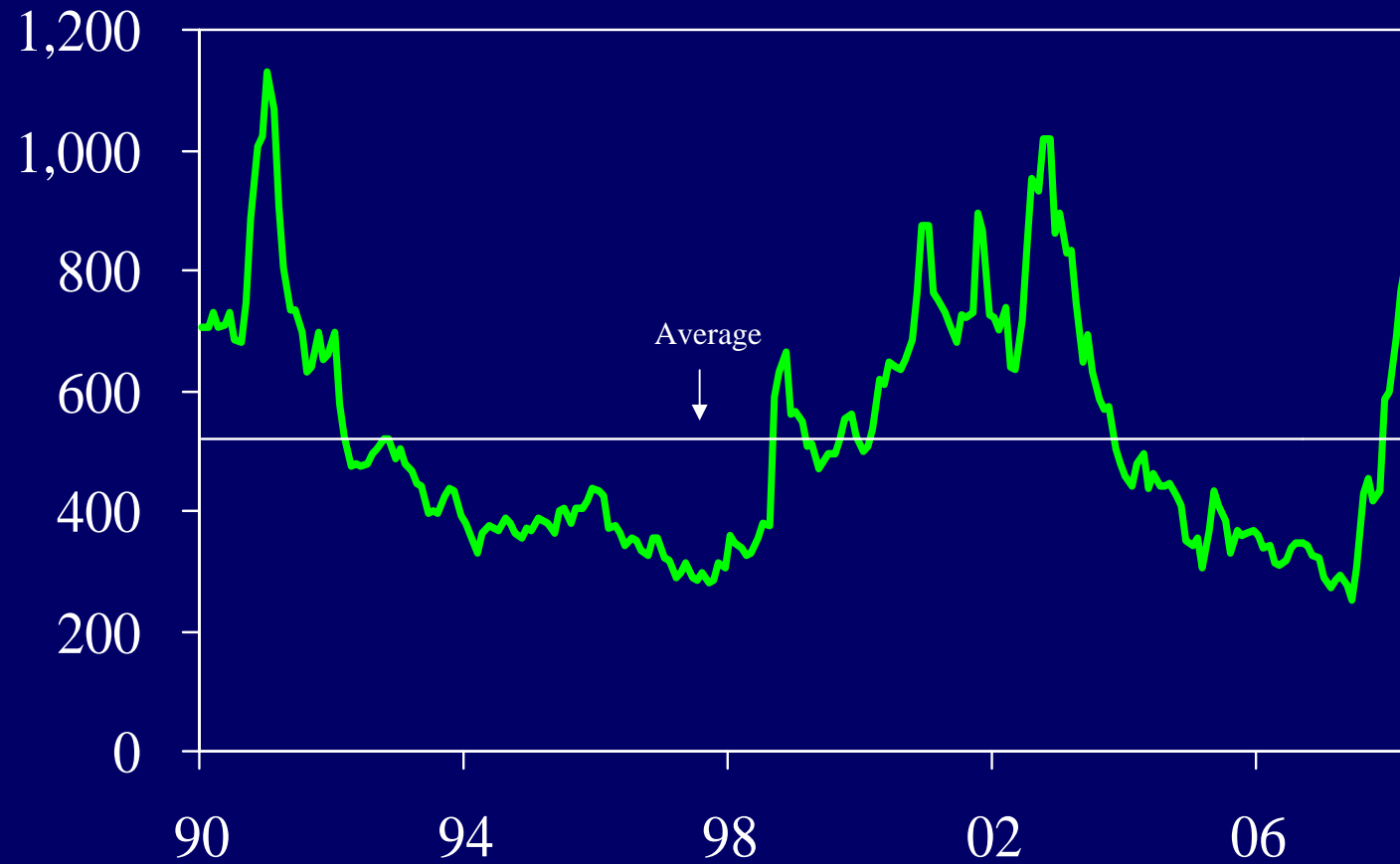
High Yield Bond Spreads – Tight...

High Yield / US Treasury Spread

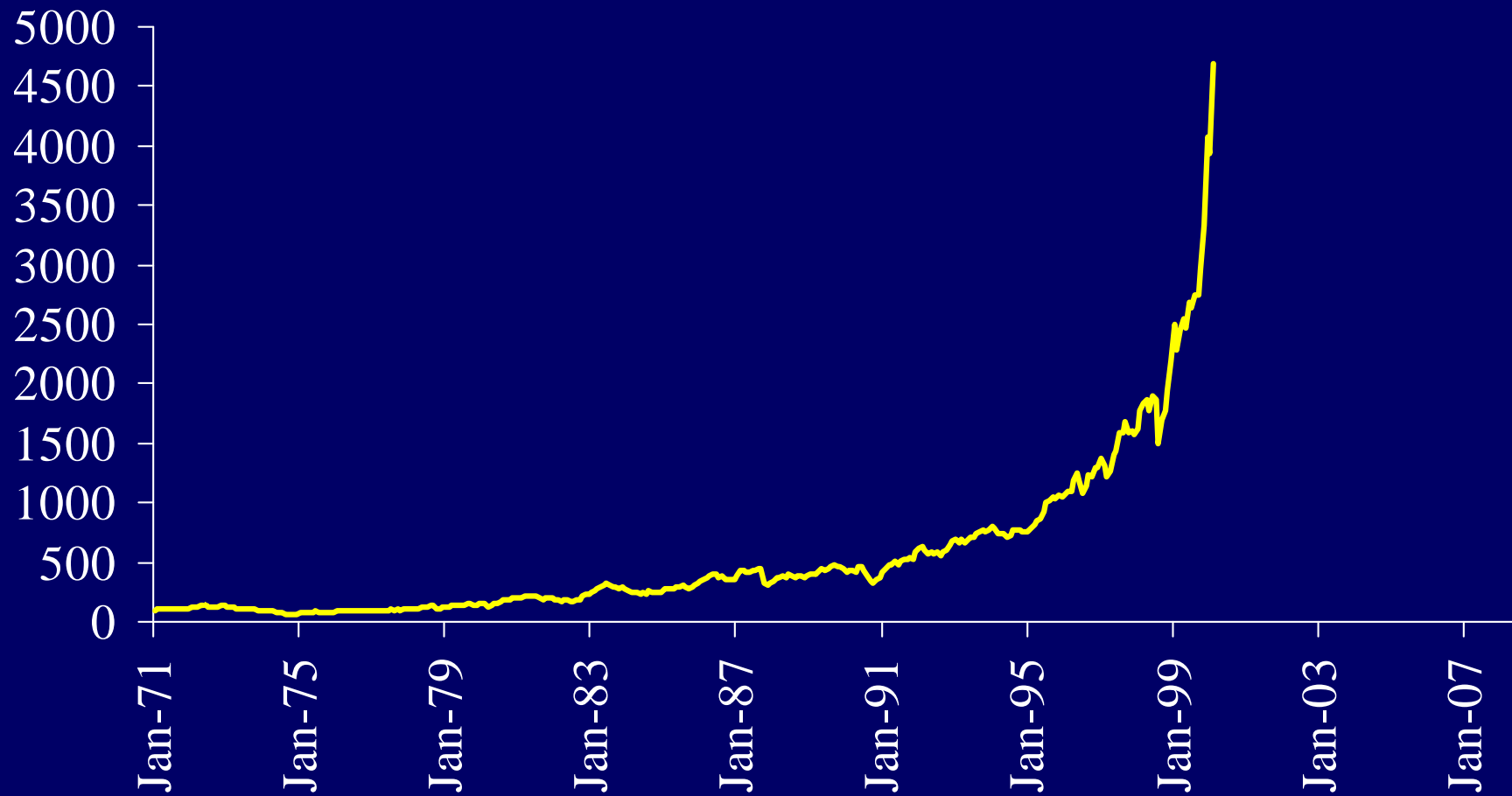


...To Wide

High Yield / US Treasury Spread

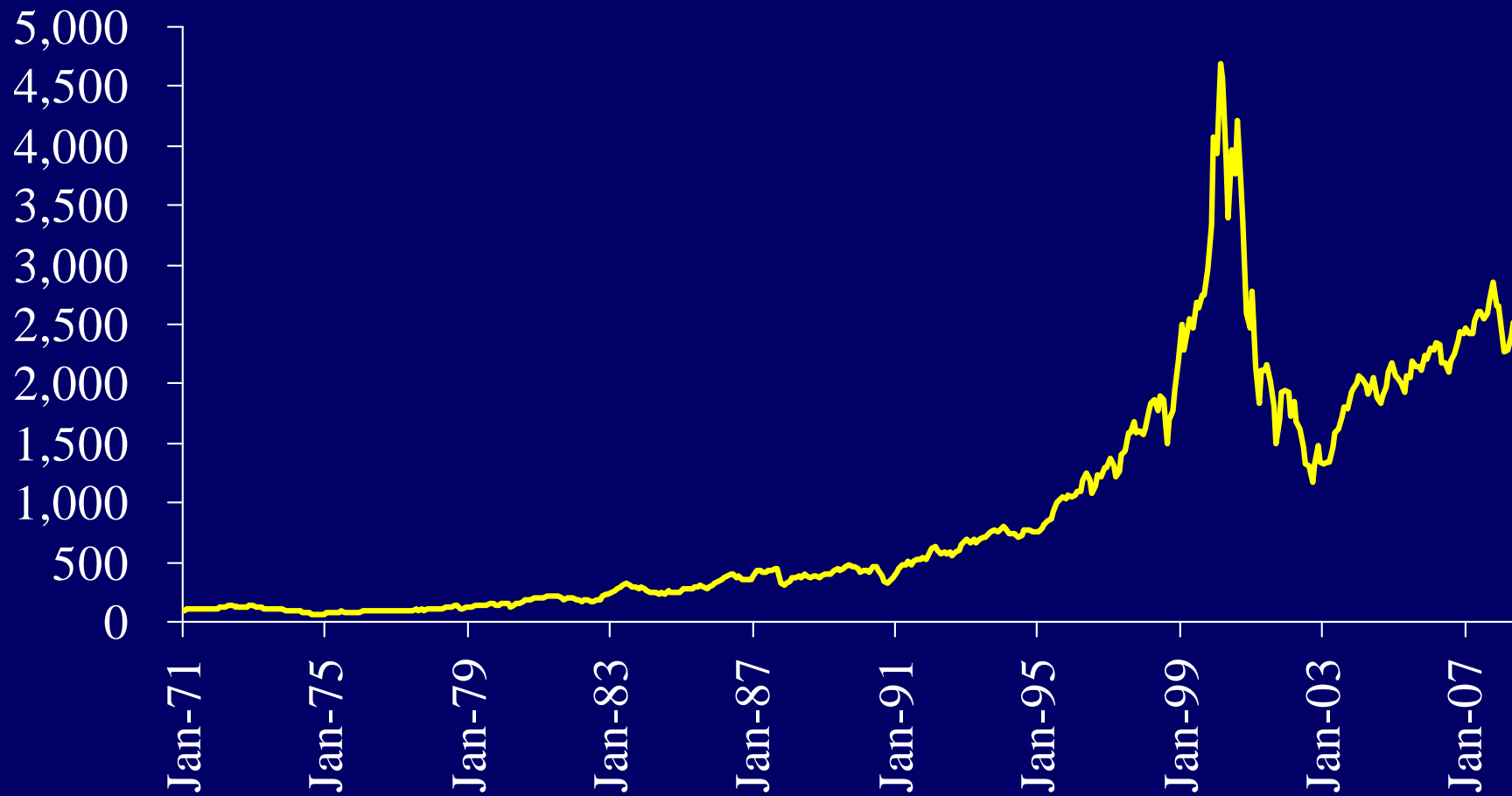


Nasdaq Composite Index



Source: Bloomberg

Nasdaq Composite Index



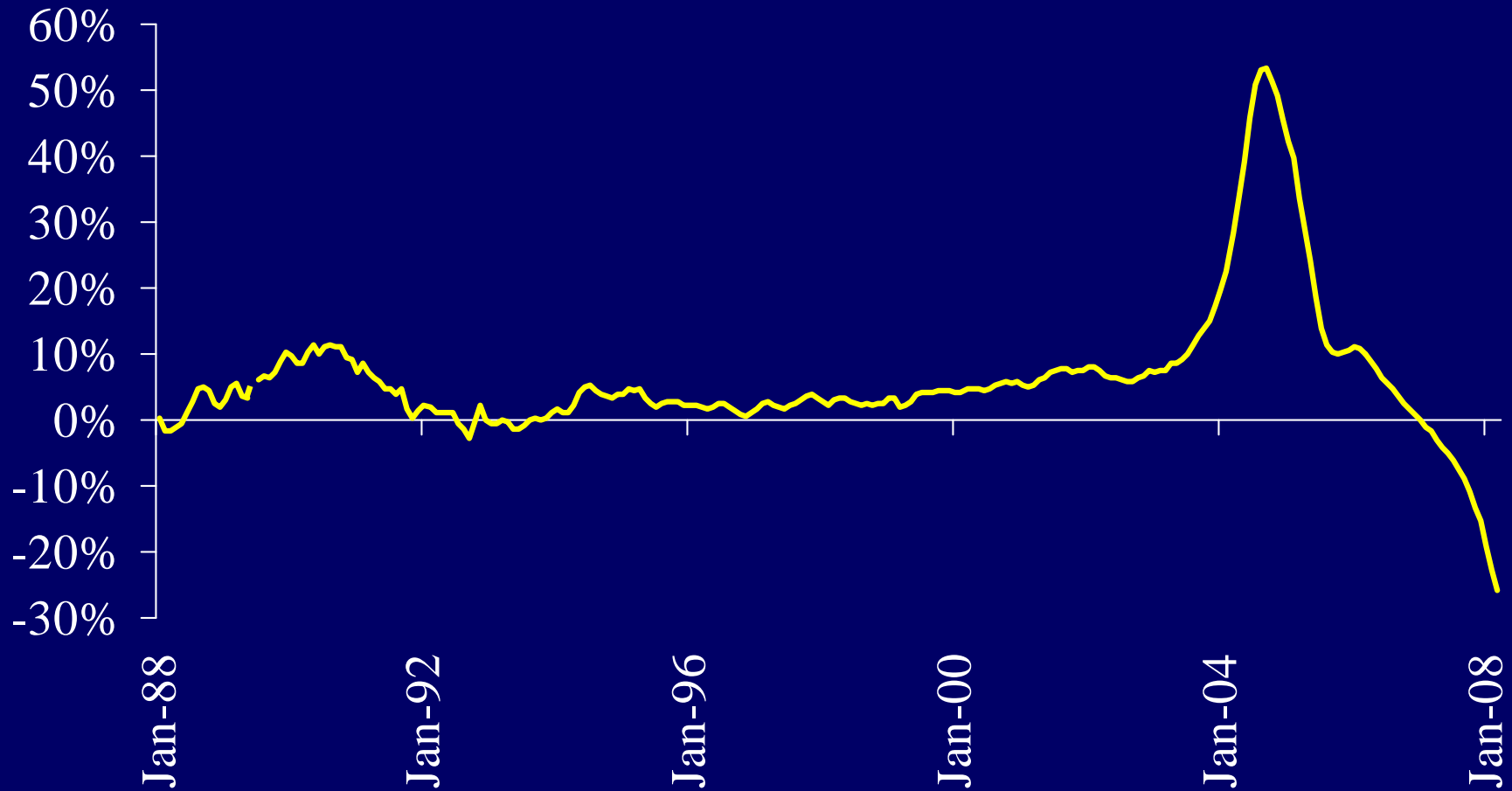
Source: Bloomberg

Las Vegas, NV Y/Y%



Source: Case-Shiller, Bloomberg

Las Vegas, NV Y/Y%



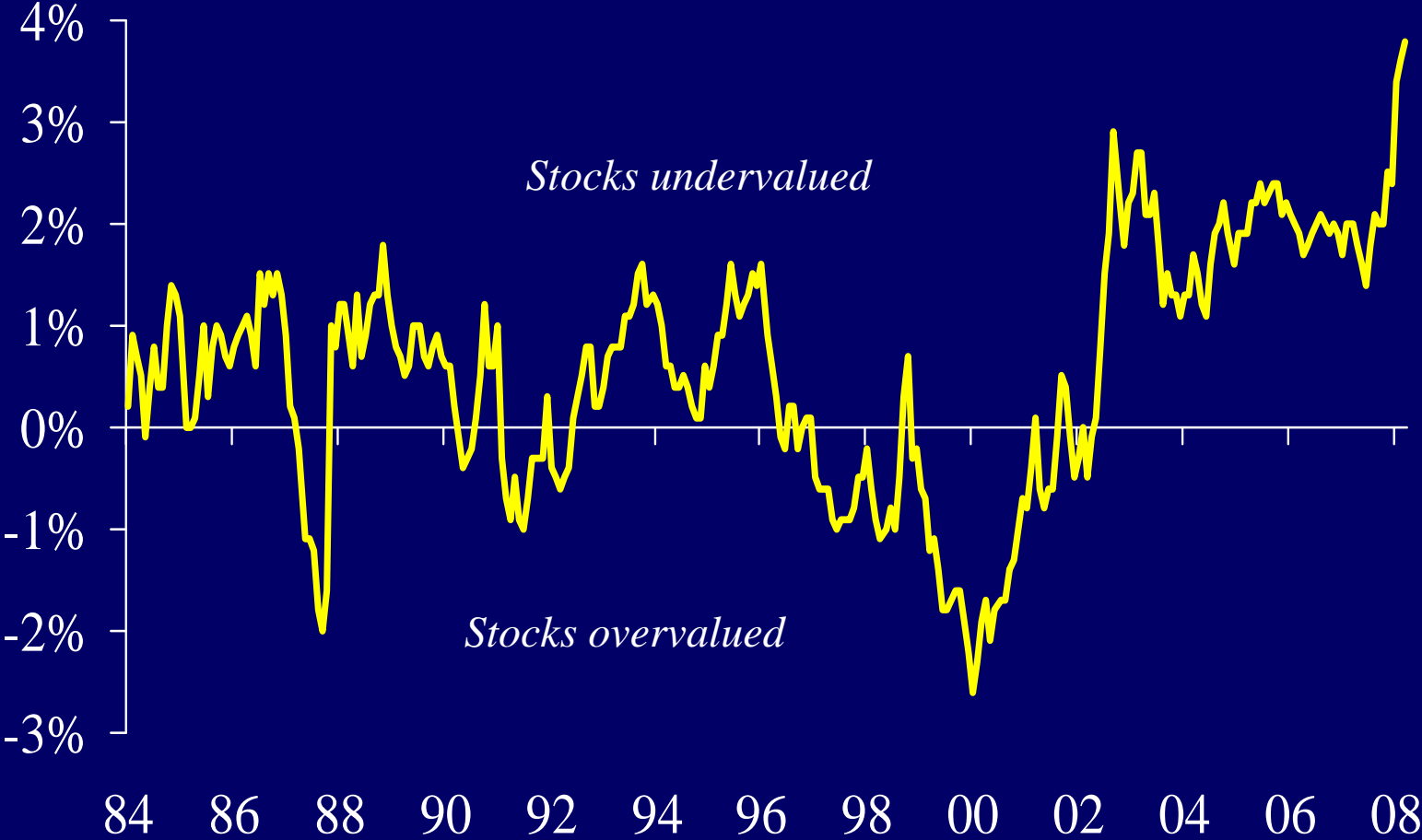
Source: Case-Shiller, Bloomberg

Rolling 10 Year Annualized S&P 500 Returns



Source: Morgan Stanley, Ibbotson

S&P 500 Forward Earnings Yield Minus 10 Year Bond Yield



Source: Morgan Stanley, Federal Reserve Board

Risk Aversion

Total Assets in Money Market Funds (\$ Bn)



Source: Investment Company Institute

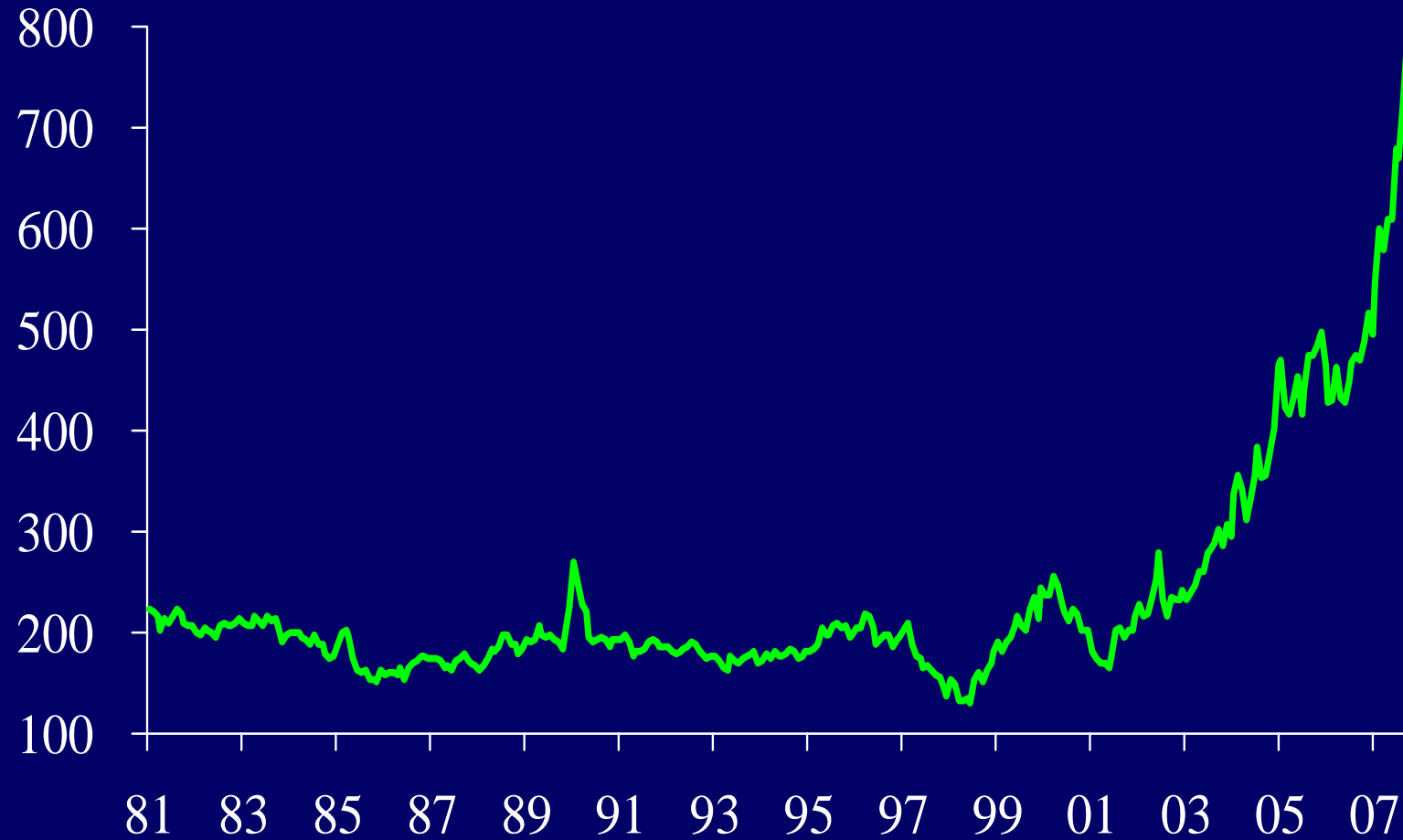
Risk Aversion

Total Assets in Money Market Funds (\$ Bn)



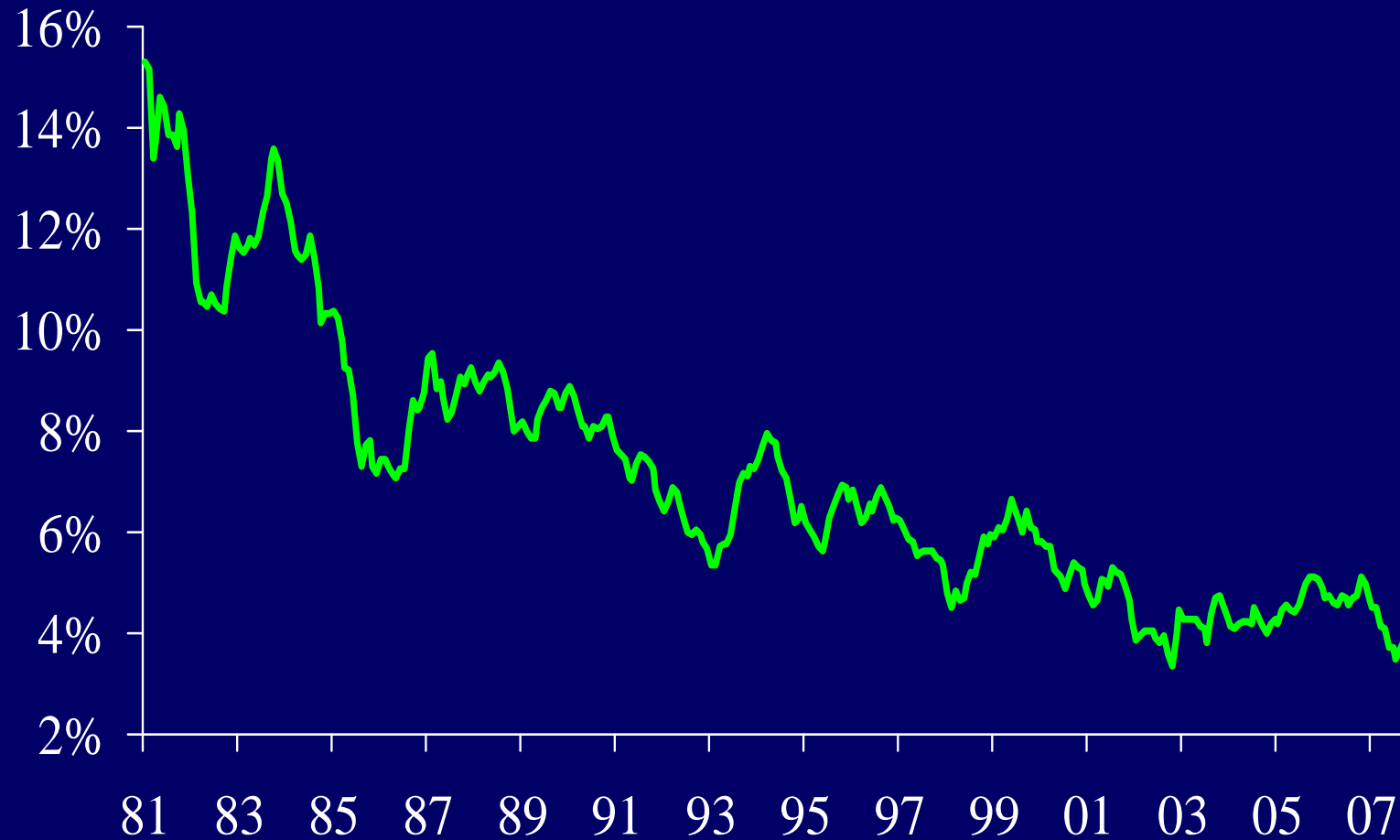
Source: Investment Company Institute

GSCI Index



Source: Standard and Poors, Bloomberg

Yields on 10 Year Government Bonds



Source: Federal Reserve Board

Summing Up...

- Obvious investment tailwinds are gone. Old-fashioned stock selection will be critical to adding value.
- Industry barriers to entry are low, but barriers to success are high and probably rising.
- Firm business risk is too often over-looked by investors.