



ATLANTIC ADVISORS, LLC
ASSET MANAGEMENT

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Beware the Ides of March

Financial instruments held by a corporation are classified in three groups.

Type 1: mark to market (market prices are readily available)

Type 2: mark to model

Type 3: mark to a reasonable estimate

Many think that Type 3 bonds are the worst kind, but once you have marked down Type 3 and Type 2, what do we really have to fear? TYPE 1. Yessiree, MARK TO MARKET.

My Bloomberg screens have been littered with multi-billion dollar bid lists today, some of which are quality items that we trade regularly, and some are the problem securities that most people are trying to unload before today. This includes a forced liquidation of a reported \$3.5 billion levered hedge fund in high quality municipals at yields approaching 6%, up from 4.5% a month ago.

Many of these items were sold at fire-sale prices, and once their prices are recorded, everyone will have to mark their bonds down to the same prices. Because this is currently happening, I would not trust my brokerage statement for long dated municipal bonds and especially not the Net Asset Values of open end and closed end municipal bond funds.

This re-pricing will likely reverberate through hedge funds, investment banks, commercial banks, regional banks, credit unions, mutual funds, and to individuals who own some of the most problematic securities.

Harsh words to be sure, but this unprecedented debt experiment will likely have an unprecedented unwind. And folks like Bear Stearns (BSC) and Lehman (LEH) are going to have to 'fess up'. Others like JPMorgan (JPM) are sure to follow suit. We continue to avoid credit risk in long only accounts, and are short credit risk in J.P. Morgan, Lehman, Bear Stearns and Goldman in the Harbor Pilot Fund.

If this note makes you a bit queasy, I am afraid that it probably should. Beware the ides of March. The Great Credit Experiment has shifted, in my opinion, to The Great Credit Unwind.

Bennet Sedacca
President

Robert Roy
Principal

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