

Strategies for 2008

Lets see how wrong I can be in a year's time:

US:

Distressed will do poorly relative to expectations. Too much money chasing too few defaults.

Risk arb to do well. Dispersion of valuations and financial strength, cross border opportunities for emerging market acquirers. Currency effects, cheapening USD makes US companies interesting targets.

Equity long short. Hard to generalize but dispersion likely to increase, so positive for the strategy.

Direct lending. Good place to be. Bank credit contraction is very positive for the strategy. PIPEs will struggle in the exit though.

Europe:

Distressed to do well. Fewer players, less capital, more economic leverage even if less financial leverage.

Risk arb to do well. Mid caps heating up. Cross border heating up.

Equity long short. Dangerous place to be given how export dependent Europe has become. German economy very levered to China and Asia. Infrastructure growth in Asia to support demand for capital goods and intellectual property in countries like Germany.

Risk arb, interesting currency angle across the pond.

Generally:

Convertible arbitrage. CBs are cheap by any measure. Asian

CBs, India, Japan, India, cheap. European CBs are less interesting.

Vol arb should profit as volatility remains high. Implieds have cheapened while real vol remains high.

Cap structure arbitrage. A very interesting strategy for the times. Ample opportunities to get it horribly wrong. Temptation is very high to double up and pray for convergence. Stability of capital will reward this strategy. Arbitrage profits exist and remain quite rich but mark to market risk is high.

Strategies to do poorly:

US distressed debt. As above, too much money, legacy of cov lites. Strategy likely to do well but not in 2008. In 2009 should be a roaring strategy.

Commodities. Too many directional traders taking a long view on energy and ags, chasing returns, riding momentum. Demand picture is strong but not robust.

Direct lenders. The ones who give up yield for equity upside are going to find their kickers more volatile than valuable. IPO markets moribund. No exits.

Not many strategies will do poorly. As the world works its way out of recession most strategies will find tailwinds.