

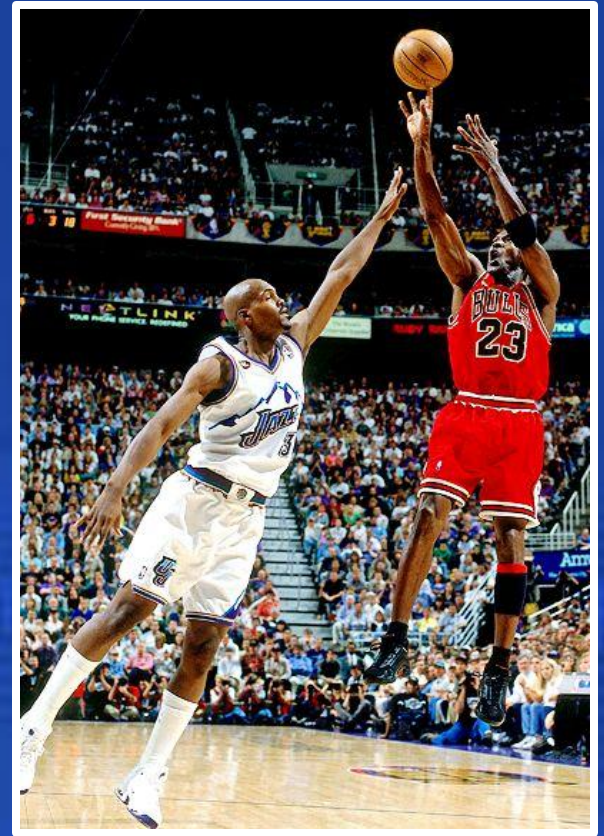
“My life has been nothing but a failure, and all that’s left for me to do is to destroy my paintings before I disappear.”

- Claude Monet



“I have taken more than 9,000 shots in my career. I have lost almost 300 games. Twenty six times I have been trusted to take the game winning shot and missed. I have failed over and over again in my life; and that is why I succeed.”

- Michael Jordan



1974

**The most important year
in financial history
since World War II.**

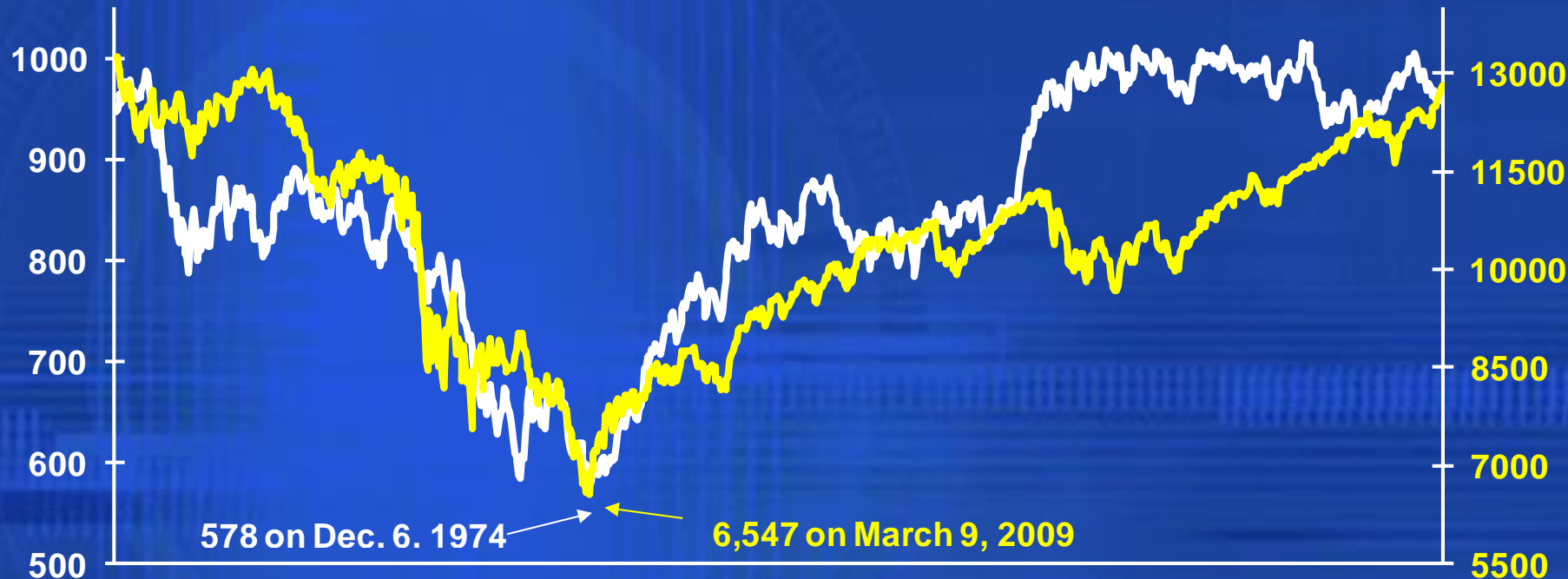
1974

- Interest rates double in one year; highest level in recent recorded U.S. history
- Regulation restricts lending
- Energy prices skyrocket
- U.S. stock market plunges 50%
- Unemployment almost doubles

Dow Industrials: 1973-76 and 2008-11

DJIA, 1973-1976

DJIA, 2008-2011



The Nature of Credit

1. Credit is what counts, not leverage.
2. Most loans to real estate are not investment-grade.
3. Interest rates are volatile and unpredictable.
4. Credit research is more than ratings.
5. Sovereign debt is historically risky.
6. Debt values underpin all capital markets.

Market disruptions are often caused by the inappropriate use of leverage.

At some times, for some companies, it's appropriate. For other companies, even \$1 of debt is too much.

Standard & Poor's Ratings

New Issues: 1/1/2000 to 9/30/2008

Investment-Grade Securities

AAA	16,907
AA+	240
AA	2,098
AA-	3,414
A	2,602
A-	2,027
BBB+	903
BBB	1,371
BBB-	1,359

Non-investment Grade Securities

BB+	238
BB	313
BB-	331
B+	339
B	330
B-	1,189
CCC+	293
CCC	214
CCC-	104
CC	36
C	11