

Credit Equity Correlation (CEC) Strategy

Using Credit Market Information to Trade Cash Equities

Performance January 2008 – December 2008

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Summary

The following is a presentation of the trading strategy I have developed based on the correlation between movements in the Credit markets as evidenced by changes in the prices of Credit Default Swaps (CDS's) and the Equity markets. The Strategy focuses on individual names with all positions taken in the cash equity markets. Movements in the CDS market are the primary indicator of whether to be long or short a company's stock. An uncompromising risk management algorithm assists in cutting losses and taking profits.

The results are presented here in a series of tables and graphs illustrating the Strategy's risk/return characteristics. There is data on the Strategy's returns and the variation of those returns on a Daily, Monthly and Annual basis as well as a number of rolling periods.

It is hoped that the variety of ways in which the data is presented will accommodate the reviewer's format preference. This being said, any additional information necessary to fully understand the Strategy and/or the risks and rewards of implementing it, can easily be provided. Additionally, all comments and questions are welcomed.

There are two sections to this presentation. The first section presents return information from live trading of the CEC Strategy which began on January 9th of 2008. To the extent that this amount of data may not be sufficient to give the reader an idea how the Strategy performs across a wide variety of market conditions pro-forma results are included in [Appendix A](#). There is a complete explanation of how the pro-forma results were constructed at the beginning of Appendix A.

Thank you in advance for taking the time to review the following presentation.

Background

There has been much written about the relationship between Credit spreads and Equity price movement.

In 1974 Robert Merton characterized a company's equity as a call option on its assets. A number of models (Moody's KMV CreditEdge Plus, RiskMetrics and CSFB's Cusp) have followed on the heels of this work based on the premise that the movement of the equity price and credit spreads of a company are inversely correlated.

The CEC Strategy takes the empirical theory described by Merton and constructs a profitable trading methodology around it. The author's unique set of experiences in the equity, corporate debt, financial and commodity derivatives markets gave him the insight to employ the relationship profitably as well as the skills needed to build a sound risk management structure for the Strategy.

Markets Employed

CDS

Credit Default Swaps were first traded in the Interbank market in 1997 but have grown rapidly since, with outstanding notional of \$62.2 Trillion in volume at the end of 2007 up 81% from \$34.5 at the end of 2006. (ISDA).

What started out as a plain vanilla market on single company names now includes Indexes, Baskets, Constant Maturity and Recovery swaps all adding to the liquidity in the marketplace.

The price movements in the CDS markets reflect the participant's opinion on the financial health of a company. This is similar to corporate debt in that wider spreads are associated with weaker credits. It is different than corporate bonds in that the CDS market is not subject to the same liquidity constraints.

More mature companies issue debt, as the various rating agencies require an operating history and capital structure in order to rate the debt to be issued. While not every corporation that issues debt is quoted in the CDS market, every firm in the CDS market has issued debt and equity.

The CEC Strategy uses the movements in the CDS market as an indicator of equity price movement.

CDS Data

CDS data is currently available from at least three sources:

- CMA was founded in 2001 and currently has 40 employees with offices in London and New York. CMA also distributes data via its QuoteVision and DataVision products. Bloomberg publishes data from CMA as part of its basic subscription service.
- Markit Group Limited is the leading provider of independent, multi-asset class high value services for the global financial industry. Markit provides independent pricing, reference data, portfolio valuations, trade processing and desktop solutions. Daily data is contributed from over 70 dealing firms and the firm counts over 1000 global financial firms as customers.
- Interdealer Brokers including GFI and Tradition broker single name CDS contracts. Together these two firms represent approximately 55% of the IDB market in U.S. domestic names. Additionally, GFI maintains a CDS database that contains 1.5MM points representing real bids, offers and trades in the marketplace on 2,900 reference entities going back to 1997. Additionally, there are 14MM implied prices.

Equity Market

The equity markets in the U.S. are among the deepest most liquid markets in the world. The strategy will initially focus on U.S. domestic names trading on the NYSE, NASDAQ and AMEX stock exchanges. With the exception of stocks that become hard to borrow due to a high level of short interest, liquidity is not expected to affect the execution of stocks trades.

Other Markets

In its current form the strategy executes all views in the Listed Equity market. In the future, signals generated by the Strategy might be executed in Listed Options, CDS or other OTC products including but not limited to Variance Swaps. Options can also be used to protect unrealized P&L as well as short positions from M&A activity.

Credit Default Swap Price Information And The Investment Process

Although the market for single name credit defaults swaps is relatively new as compared to the equity and fixed income markets, it is quickly becoming one of the largest. Outstanding notional value in the CDS market was \$62.2TN as of 12/31/2007. The depth and breadth of this market have made the price information generated by the quotes and trades a reliable indication of changes in the market's perception of the credit worthiness of names traded. CDS price information differs from traditional rating agency analysis in that responds more quickly to exogenous factors when evaluating how events in the market place will affect a specific credit in the future.

The timeliness of changes in CDS levels, combined with the widespread availability of data has increased the use of CDS price movements in the equity trading decision process. There are a number of different ways in which this data is used.

Investors using fundamental analysis to make trading decisions may look at many factors before buying or selling a stock. These can include various ratios comparing assets, liabilities, cash flow and sales in an almost infinite number of combinations. More and more of these investors are incorporating CDS price and directional movement as one of the many indicators they use in their analysis.

The CEC Strategy also uses CDS price level movement in the investment decision making process. Unlike other investors using CDS as one of many indicators however, the CEC Strategy uses CDS as its sole indicator. The aforementioned approaches diversify the risk of buying or selling a particular security by including many factors in the decision. The CEC Strategy achieves its diversification by using a single indicator across a large number of securities. Additionally the CEC Strategy has very strict risk management criteria designed to limit the loss in a single position to have no more than a 2.5 basis point impact on the overall performance of the Portfolio.

Risk Management in the CEC Strategy Portfolio

The author's experience across multiple asset classes and trading disciplines has instilled a great respect for risk management. The CEC Strategy is constructed around the premise that losses should be cut and profits left to run. Proof of this can be seen in that, on average, winning trades are on the books almost twice as long as losing trades.

As mentioned above, positions can only be initiated as a result of the author's interpretation of CDS and equity price movement. Positions may be closed based on these same criteria but there are additional risk controls in place to make sure that losses never exceed a pre-defined limit.

Levels initially set to prevent losses on new positions are adjusted as those positions become profitable. Regardless of whether the stops are limiting losses or locking in gains, there is always a price where every position will be exited. This stop is never overridden. Overnight movements or the resuming of trading after a halt may not allow the Strategy to exit at the intended stop but that should not be interpreted as a lapse in risk management. Any exit based on the author's discretion will only result in a greater profit or smaller loss than would be otherwise realized if the stop were hit.

Long vs. Short

There are no limits on how long or short the CEC Strategy portfolio can be. During the Pro-Forma trading period (see Appendix A) the number of longs varied between 94% and 11% of total positions while the shorts comprised between 89% and 6%. It should be noted that this range has been seen during live trading as well. This variability is not a product of macro-level movement in the stock market but a result of the number of names exhibiting narrowing or widening CDS spreads.

The premise of the CEC Strategy is that narrowing CDS spreads coincide with improving financial health, and improving financial health results in higher equity prices and vice versa. Given this, it follows that the stock market would be rising when there are a greater number of companies with an improving financial outlook vs. those times when there are not. It also makes sense that in these times of a broad based improvement in the financial outlook of a majority of stocks the portfolio would see the percentage of longs vs. shorts be greater than when the opposite is happening.

This variability produces the added benefit of reducing the portfolio's volatility.

Hedging

Although the net market exposure of the Strategy varies given the explanation in the Long vs. Short section above, it is a number that can be calculated on a real time basis. Additionally, given that approximately 85% of the stocks traded by the Strategy are included in the S&P 500 Index, it is possible that hedging the Strategy's net market exposure, if desired, be accomplished via the many Index and derivative products based on that Index.

Risk / Reward Expectations

The CEC Strategy is expected to outperform the S&P Index while maintaining a net long exposure of between 6% and 94% and short exposure of between 11% and 89%. Additionally, the Standard Deviation of the Strategy over the observation period was 0.33% per day or 5.311% annually vs. 2.60% and 40.912% for the S&P.

Affect of Market Environment During 2008 on Alpha and Beta

As a result of the sub-prime mortgage induced credit crisis the markets were extremely volatile during 2008. The constituent stocks in the CEC Portfolio often moved in unison as a result of news of write downs at financial institutions or Government intervention. This environment is not an optimal one for the CEC Strategy which performs better when individual stocks and sectors move based on changing fundamentals affecting the individual securities.

Additionally, with one year of trading there was a relatively small sample with which to calculate the Alpha and Beta numbers. Keeping this in mind the CEC Strategy generated 3.3819% Alpha with a Beta of -0.0312 for the observed period with t-Stats of 0.6416 and -3.877 respectively. The changes in the daily returns were regressed instead of regressing the NAV against Index to remove any bias caused by autocorrelation.

When examining these numbers it might be helpful to refer to the pro-forma trading period which is described in Appendix A. Pro-forma trading took place on a real time basis from March 2005 until December 2007. This is a much longer period from which to sample returns and encompasses a number of different market environments including the GM convertible bond collapse in May of 2005.

The Alpha and Beta numbers generated during pro-forma trading were 18.794 and 0.034344 respectively with corresponding t-Stats of 4.0846 for the Alpha and 1.4884 for the Beta.

Post September 2008 Performance

On January 9, 2008 a sub-account was created by Delta Force Capital (DFC) to trade the CEC Strategy's signals. The results of this trading are available upon request. At the end of September all accounts at DFC were closed and all trading ceased.

With the intent of maintaining the continuity of the trading history as well as providing information for the Credit Market Overview, a blog maintained by the author trades were documented in real time including execution prices that would have occurred were monies still available for trading in DFC's account.

As such performance for October through December, while pro-forma, were conducted in real time and are documented with the intent of providing continuity.

Additional Benefits of Employing the CEC Strategy

This presentation focuses on the CEC Strategy as a stand-alone system for trading the equity of companies that also have CDS contracts traded on their name. It should be noted however; that the signals generated by the Strategy compliment Statistical and Convertible Arbitrage programs as well. With over 400 names monitored by the Strategy there is valuable information generated for adjusting the weighting and exposure of a Stat Arb book or managing the hedging components of a Convert Arb book.

Signal Generation (Theory into Practice)

There are approximately 700 single name CDS's traded on U.S. domestic corporates: 425 of these names were traded by the Strategy; approximately 85% of these are included in the S&P 500.

A change in the directional movement of a CDS spread (either widening or tightening), is used as the trigger to analyze the relationship between that spread and the movement of the associated Equity to determine if a trade is appropriate.

Positions are entered based solely on CDS price movement. Signals to exit a position can be generated by either CDS price movement or the risk management algorithm.

Signals generated by the risk management algorithm cannot be overridden. All stop loss and profit capture signals are taken regardless of degree of movement or pattern exhibited by the CDS and/or Equity.

Trade Example I: Idearc Inc. (IAR)

CDS spreads for IAR widened during the 4th Quarter of 2007.

In analyzing the associated CDS and equity price movement it was decided that a short in IAR should be instituted. IAR was sold at the close on October 16th at \$31.20. (Closing prices were used for all of the trades so that they could be easily documented.)

The trade was kept on the books until December 12th when it appeared the majority of the move had occurred.

Trade Example I Chart: Idearc Inc. (IAR)



Trade Example II: RadioShack Corp. (RSH)

CDS spreads for RSH tightened in the 1st and 2nd Quarters of 2007.

In analyzing the associated CDS and equity price movement it was decided a long position in RSH should be instituted. RSH was purchased at the close on January 8th at \$18.76. (Closing prices were used for all of the trades so that they could be easily documented.)

The trade was kept on the books until May 11th when the CDS spreads appeared to be widening and the long position was sold.

Trade Example II Chart: RadioShack Corp. (RSH)



Results

Portfolio Data

The performance illustrated on the following pages is the result of live trading beginning on January 9, 2008.

Trade Initiation

The system only initiates positions in a stock when there was a change in the direction of the CDS price movement. Because of the nature of the movement of CDS prices, it takes some time before the system reaches “critical mass” in terms of number of positions. It is important, therefore, to take note of how the Strategy performs as it becomes more fully invested.

Risk Management

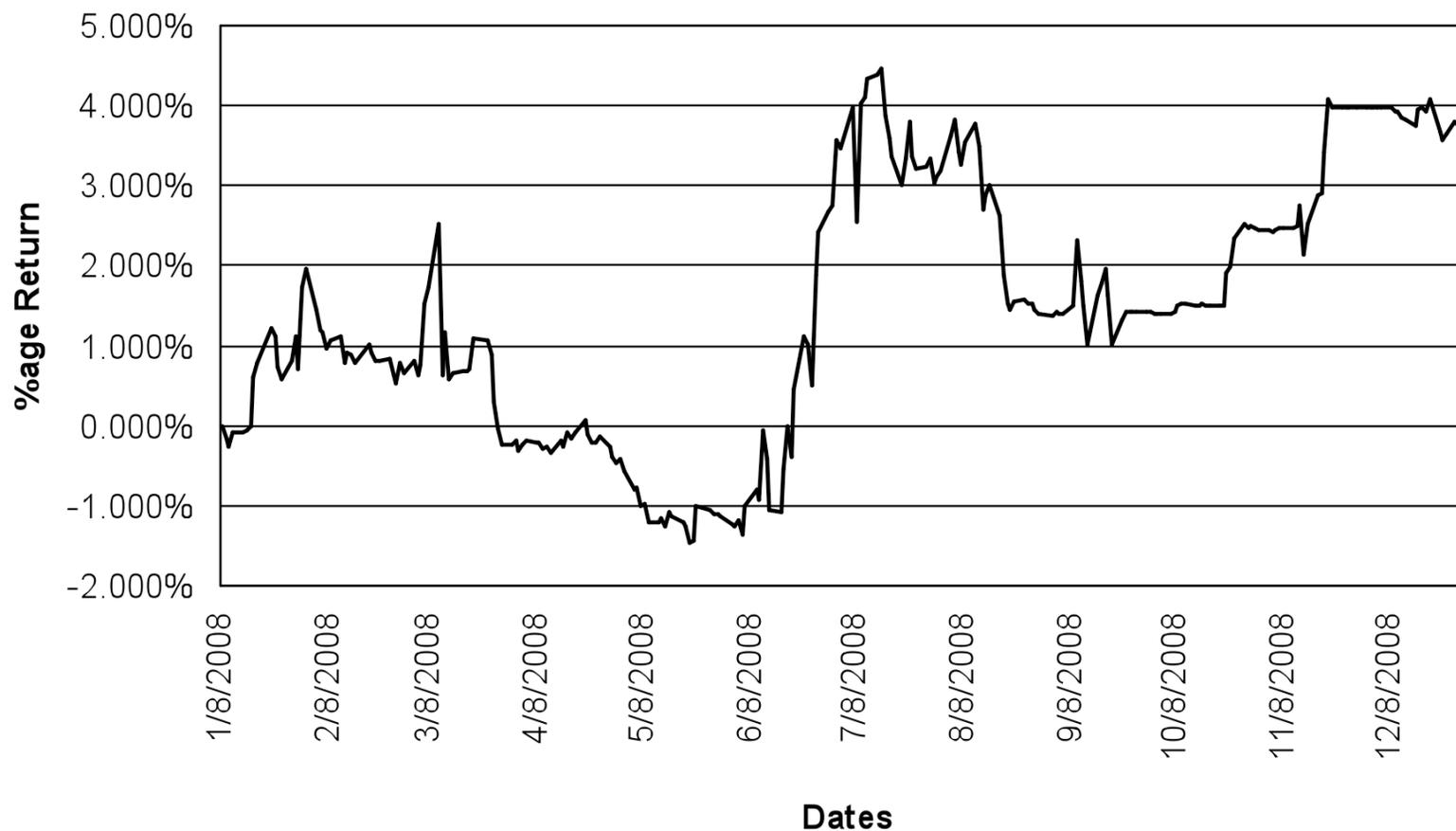
Risk management is the key to any successful trading strategy. A disciplined risk management and profit capture system is used to augment the discretionary portion of the CEC Strategy. The algorithm allows more fluctuation in the early stages of a position after which the trailing stop is used to minimize losses and capture as much profit as possible.

Positions can be closed based on movements in the CDS market (similar to trade initiation) or as a result of the trailing stop. Any and all discretion used in the risk management process results in a smaller loss or greater profit than would be realized if the algorithmic stops were used. The algorithmic stops, should they be reached, are adhered to without question. When exiting, it is possible to either flatten or reverse an existing position.

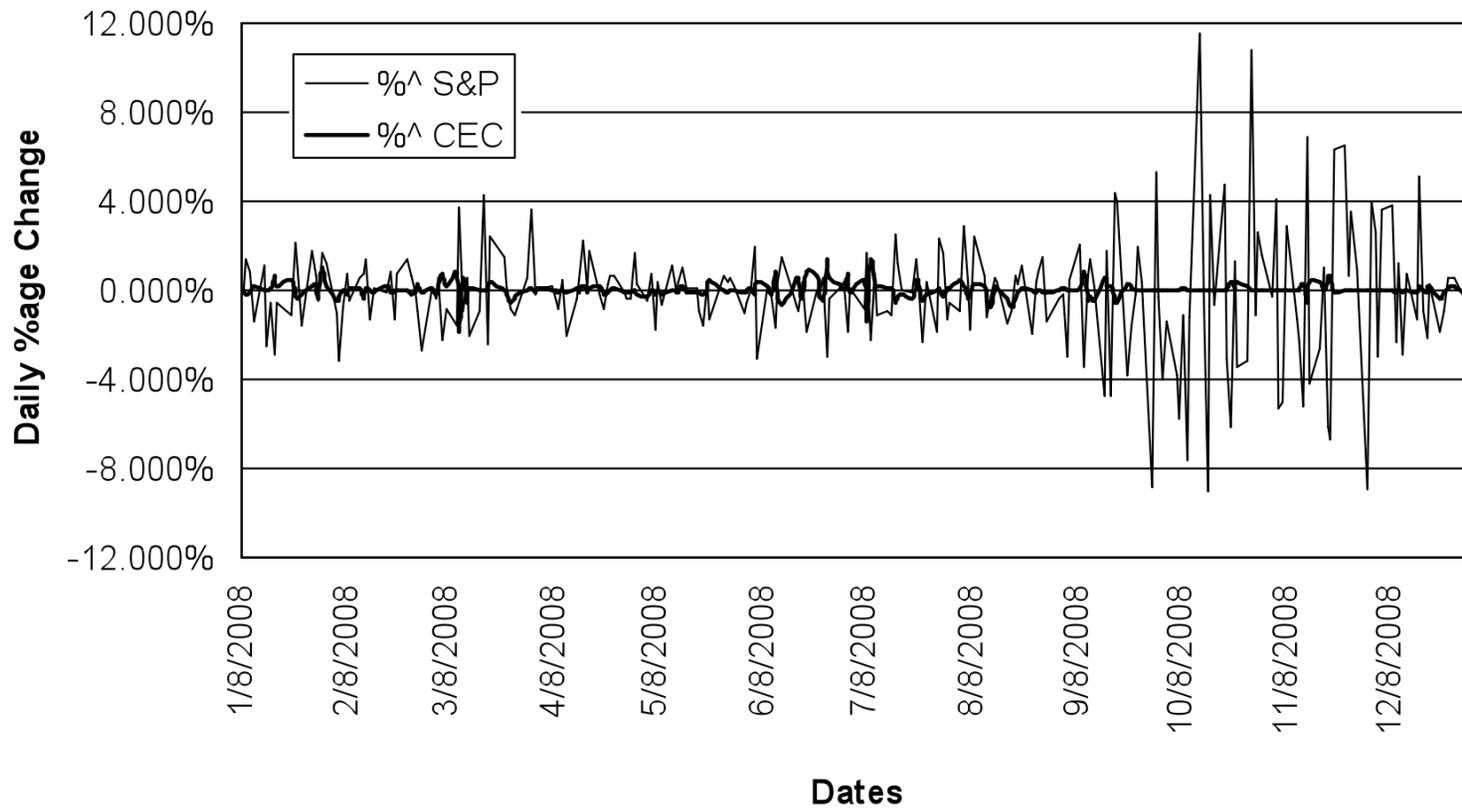
CEC Strategy Performance Statistics
January 2008 – December 2008 (See Post September 2008 Performance on page 6)

Trades	Total	2,8430	Open	59	Closed	2,784
Wins	Total	1,219	Open	42	Closed	1,177
Losses	Total	1,623	Open	16	Closed	1,607
Longest Trade Duration (Days)		68				
Shortest Trade Duration (Days)		1				
Average Trade Duration (Days)		11				
Average Winning Trade Duration (Days)		15				
Average Losing Trade Duration (Days)		7				
Biggest Realized Gain		66.081%				
Biggest Realized Loss		-44.229%				
Biggest 1-Day Gain (Portfolio)		0.775%		3/10/08		
Biggest 1-Day Loss (Portfolio)		-1.85%		3/11/2008		
Average Trade P/L		0.64%				
Average Winning Trade P/L		7.50%				
Average Losing Trade P/L		-4.40%				
\$ P&L for prior	3 mos	2.89%	6 mos	5.38%	12 mos	4.23%
Largest Draw Down (Peak to Valley)		-3.90%				
Recovery Period From Largest Drawdown		112	Days	3/10/2008	6/30/2008	
2nd Largest Draw Down (Peak to Valley)		-3.45%				
Recovery Period From 2nd Largest Drawdown		169	Days	7/15/08	Present	
3rd Largest Drawdown (Peak to Valley)		-1.41%				
Recovery Period From 3rd Largest Drawdown		38	Days	2/1/2008	3/10/2008	
Longest Drawdown		169	Days	7/15/2008	Present	
2nd Longest Drawdown		112	Days	3/10/2008	6/30/2008	
3rd Longest Drawdown		77	Days	7/15/08	9/30/08	
Average # Positions		89				
Max # Positions		287		7/8/2008		

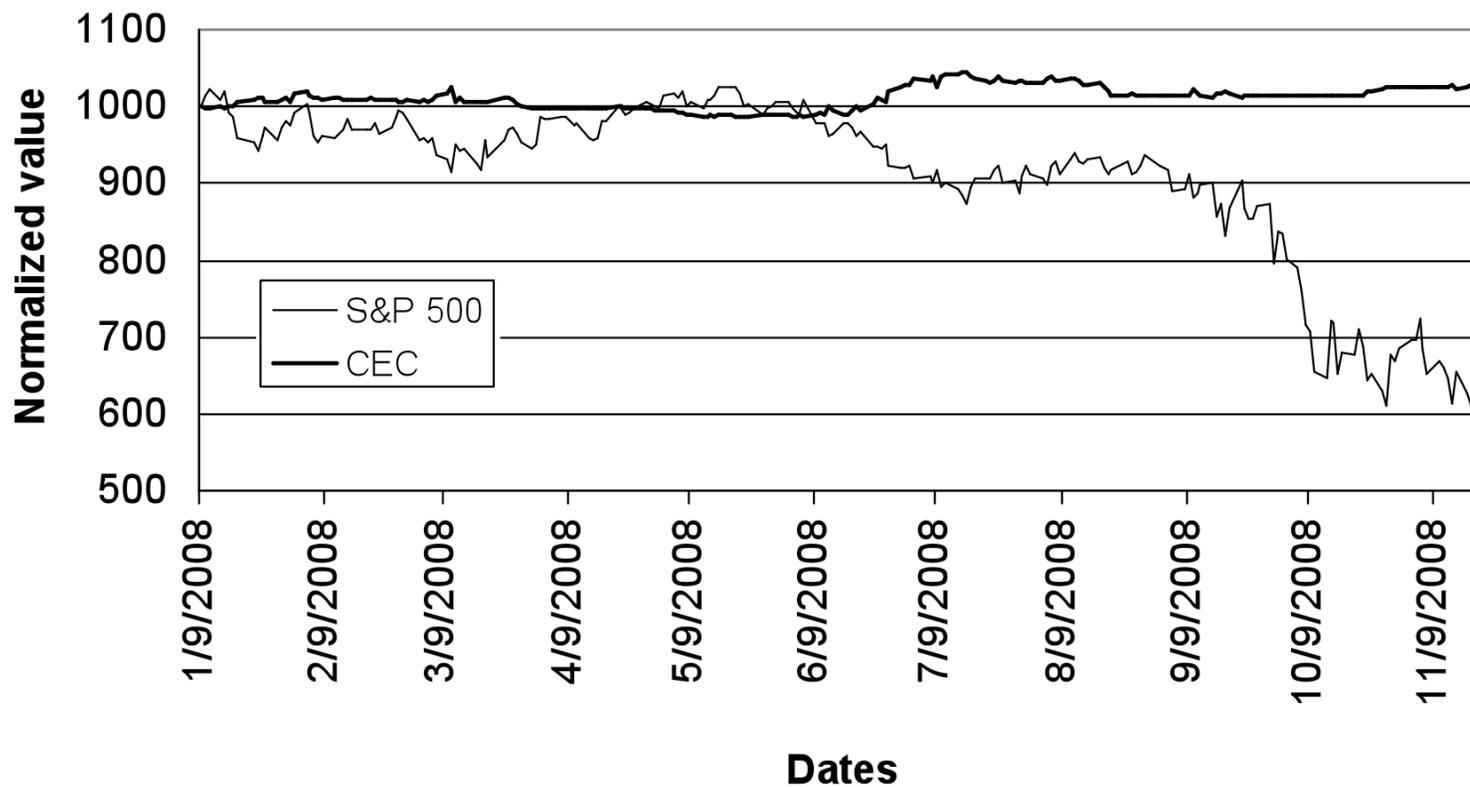
**CEC Strategy
Cumulative %age Return
January 2008 - December 2008**



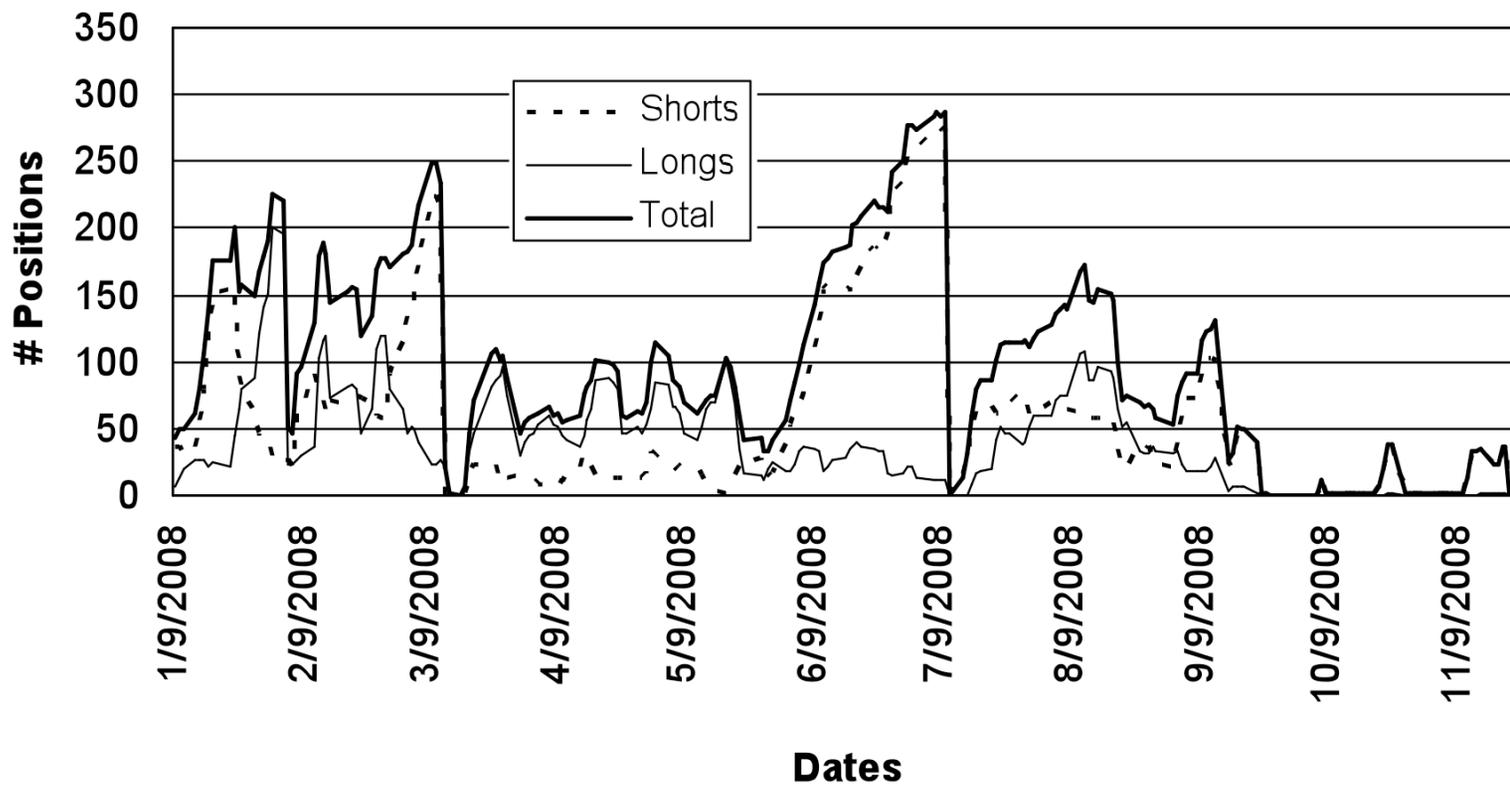
**CEC Strategy
Daily %age Change
CEC vs. S&P
January 2008 - December 2008**



**CEC Strategy
Normalized NAV
CEC vs. S&P
January 2008 - December 2008**



CEC Strategy Position Breakdown January 2008 - December 2008



Credit Equity Correlation Strategy (See [Post September 2008 Performance](#) on page 6)

Rolling Period Analysis

Actual Results January 2008 - December 2008

DATE	INDEX	1 MONTH RETURN	3 MONTH RETURN	6 MONTH RETURN	12 MONTH RETURN	18 MONTH RETURN	24 MONTH RETURN
Dec-07	1000.0						
Jan-08	1018.6	1.86%					
Feb-08	1008.5	-0.99%					
Mar-08	996.3	-1.21%	-0.37%				
Apr-08	997.1	0.08%	-2.11%				
May-08	989.2	-0.79%	-1.92%				
Jun-08	1025.6	3.68%	2.94%	2.56%			
Jul-08	1027.6	0.20%	3.06%	0.88%			
Aug-08	1013.0	-1.41%	2.41%	0.45%			
Sep-08	1012.9	-0.02%	-1.24%	1.66%			
Oct-08	1023.1	1.01%	-0.43%	2.61%			
Nov-08	1038.6	1.51%	1.07%	4.16%			
Dec-08	1042.3	0.36%	2.89%	5.38%	4.23%		

Credit Equity Correlation Strategy (See Post September 2008 Performance on page 6)
Rolling Period Analysis
Actual Results January 2008 - December 2008

COMPOUND ANNUAL RETURN							4.23%
PERIOD RETURNS	1-MONTH	3-MONTH	6-MONTH	12-MONTH	18-MONTH	24-MONTH	
OBSERVATIONS	12	10	7	1	N/A	N/A	
LATEST RETURN	0.36%	2.89%	5.38%	4.23%	N/A	N/A	
AVERAGE RETURN	0.36%	0.63%	2.53%	4.23%	N/A	N/A	
STANDARD DEVIATION	1.41%	1.98%	1.63%	0.00%	N/A	N/A	
SHARPE RATIO	-0.1	0.4	5.3	N/A	N/A	N/A	
SORTINO RATIO	-1.2	3.5	N/A	N/A	N/A	N/A	
<u>POSITIVE RETURN ANALYSIS</u>							
MAXIMUM RETURN	3.68%	3.06%	5.38%	4.23%	0.00%	0.00%	
MINIMUM RETURN	0.08%	1.07%	0.45%	4.23%	0.00%	0.00%	
AVERAGE RETURN	1.24%	2.47%	2.53%	4.23%	N/A	N/A	
STANDARD DEVIATION	1.17%	0.74%	1.63%	0.00%	N/A	N/A	
<u>NEGATIVE RETURN ANALYSIS</u>							
MAXIMUM RETURN	-1.41%	-2.11%	0.00%	0.00%	N/A	N/A	
MINIMUM RETURN	-0.02%	-0.37%	0.00%	0.00%	N/A	N/A	
AVERAGE RETURN	-0.88%	-1.21%	N/A	N/A	N/A	N/A	
STANDARD DEVIATION	0.48%	0.72%	N/A	N/A	N/A	N/A	
POSITIVE PERIODS	7	5	7	1	N/A	N/A	
NEGATIVE PERIODS	5	5	0	N/A	N/A	N/A	
PERCENT PROFITABLE	58.3%	50.0%	100.0%	N/A	N/A	N/A	
		YEAR		RETURN			
		2008		4.23%			

CEC Strategy* vs. S&P 500
January 2008 – December 2008 (See [Post September 2008 Performance](#) on page 6)

Best					Worst				
<u>CEC</u>	Date	Strategy	S & P	S & P	<u>CEC</u>	Date	Strategy	S & P	S & P
Rank		% Chg	% Chg	Rank	Rank		% Chg	% Chg	Rank
1	7/9/2008	1.441%	-2.28%	214	248	3/11/2008	-1.849%	3.71%	16
2	6/26/2008	1.379%	-2.94%	224	247	7/8/2008	-1.389%	1.71%	38
3	1/31/2008	1.036%	1.68%	39	246	8/13/2008	-0.761%	-0.29%	139
4	6/11/2008	0.874%	-1.69%	201	245	8/19/2008	-0.726%	-0.93%	173
5	6/20/2008	0.841%	-1.85%	206	244	6/13/2008	-0.639%	1.50%	43
6	9/9/2008	0.797%	-3.41%	230	243	9/19/2008	-0.601%	4.03%	13
7	7/2/2008	0.785%	-1.82%	204	242	11/13/2008	-0.594%	6.92%	3
8	3/6/2008	0.781%	-2.20%	212	241	3/26/2008	-0.594%	-0.88%	165
9	3/10/2008	0.775%	-1.55%	197	240	7/16/2008	-0.568%	2.51%	24
10	11/20/2008	0.653%	-6.71%	244	239	3/13/2008	-0.562%	0.51%	88

CEC Std Dev 0.33% P/D 5.311% P/A

S&P Std Dev 2.60% P/D 40.912% P/A

<u>S & P</u>	Date	S & P	Strategy	CEC	<u>S & P</u>	Date	S & P	Strategy	CEC
Rank		% Chg	% Chg	Rank	Rank		% Chg	% Chg	Rank
1	10/13/2008	11.58%	-0.024%	154	248	10/15/2008	-9.03%	0.025%	101
2	10/28/2008	10.79%	-0.033%	159	247	12/1/2008	-8.93%	0.000%	135
3	11/13/2008	6.92%	-0.594%	242	246	9/29/2008	-8.81%	0.024%	134
4	11/24/2008	6.47%	0.000%	122	245	10/9/2008	-7.62%	0.653%	102
5	11/21/2008	6.32%	-0.100%	185	244	11/20/2008	-6.71%	0.491%	10
6	9/30/2008	5.27%	-0.005%	141	243	11/19/2008	-6.12%	0.397%	19
7	12/16/2008	5.14%	0.182%	51	242	10/22/2008	-6.10%	0.023%	25
8	10/20/2008	4.77%	0.008%	113	241	10/7/2008	-5.74%	0.032%	103
9	9/18/2008	4.33%	-0.329%	222	240	11/5/2008	-5.27%	0.235%	97
10	10/16/2008	4.25%	-0.014%	146	239	11/12/2008	-5.19%	0.014%	37

Alpha 3.3819 t Stat 0.6416 Beta -0.03115 t Stat -3.8771
 Corr Coef -0.24 R^2 0.05759 CoVar 1.13282E-05

The table above compares the rank of the daily returns of the CEC Strategy to the S&P 500 and vice versa. There were 248 trading days in the sample. The 1-ranked day is the most positive and the 248 - ranked day is the most negative. *424 different equities were traded from January 2008 through December 2008 of which about 85% were names included in the S&P 500.

Appendix A: Pro Forma Results

The pro-forma results are presented here in a series of tables and graphs illustrating the CEC Strategy's risk/return characteristics. There is data on the Strategy's returns and the variation of those returns on a Daily, Monthly and Annual basis as well as a number of rolling periods.

It should be noted that although the results illustrated in this part of the presentation are labeled pro-forma the CEC Strategy is not a black box algorithm. Signals were generated and documented on a real-time basis. The relative newness of the CDS market along with how trading decisions were reached made back testing virtually impossible. Instead, CDS and equity charts for the names in the CEC universe were analyzed during the trading day and the trades this analysis yielded were recorded as they occurred.

Portfolio Data

The results illustrated on the following pages are derived from documented real-time observations regarding the direction of CDS movement. These observations were entered into a database including the date, CDS level, equity price, ATM volatility and whether the CDS spreads were deemed to be widening or narrowing on the date observed. For the purpose of these pro-forma results \$100,000 was allocated to each new position. These positions were monitored and a disciplined risk management routine was employed.

Trade Initiation

The system only initiated positions in a stock when there was a change in the direction of the CDS price movement. Because of the nature of the movement of CDS prices, it takes some time before the system reaches "critical mass" in terms of number of positions. It is important, therefore, to take note of how the Strategy performed as it became more fully invested.

Risk Management

Risk management is the key to any successful trading strategy. A disciplined risk management and profit capture system is used to augment the discretionary portion of the CEC Strategy. The algorithm allows more fluctuation in the early stages of a position after which the trailing stop is used to minimize losses and capture as much profit as possible.

Positions can be closed based on movements in the CDS market (similar to trade initiation) or as a result of the trailing stop. Any and all discretion used in the risk management process results in a smaller loss or greater profit than would be realized if the algorithmic stops were used. The algorithmic stops, should they be reached, are adhered to without question. When exiting, it is possible to either flatten or reverse an existing position.

How the CEC Strategy Pro-Forma Track Record Is Constructed (Appendix A)

As stated above, the CDS markets are already as big as the the equity market while only having been around a fraction of the time. While this liquidity is important to the efficacy of the CEC Strategy the rapid growth means that the current depth and breadth were only available in the past few years. This lack of real history makes back testing highly problematic.

Entry signals for all positions are based on the sole discretion of the author using technical analysis. Because of the subjectiveness of this process going back and imputing trading decisions would leave the performance record with little integrity. This is another reason back testing the CEC Strategy is not possible.

Given these limitations the only way to determine if the CEC Strategy would work and if so, how its performance would compare with the appropriate benchmark, was to begin recording buy and sell signals as they occurred. A database of these signals, available for inspection on request, contains the symbol, CDS spread, stock price, option volatility and directional decision for the equity in question on the date specified. Positions are reviewed daily for appropriateness with respect to current market conditions. This process takes most if not all of the trading day. Closing levels for the stock, CDS and option volatility are used to ensure that all prices are verifiable.

Dividends, Rebates, Commissions and Slippage

The pro-forma performance represented on these pages does not include any dividends received from being long stock or rebates received when short. Additionally, commission costs and slippage incurred in trading were not included. The reasoning behind this is as follows:

85% of the stocks traded by the CEC Strategy are in the S&P 500. This group of stocks represents some of the largest corporations in the world. A high proportion of these names pay dividends in the 2%-4% area. Not including this revenue source gives a more conservative estimate of the Strategy's return.

Rebates on short sales are also not included. It is believed that given the float in the majority of names traded by the Strategy shorting stock should not pose a problem. Rebates are not included to provide a cushion for those times when certain issues go on “special”. Experience so far has shown that the CEC Strategy is usually short a name well before it goes special. Additionally, given the capitalization of the companies traded it is unlikely that the shorts in the portfolio would be squeezed.

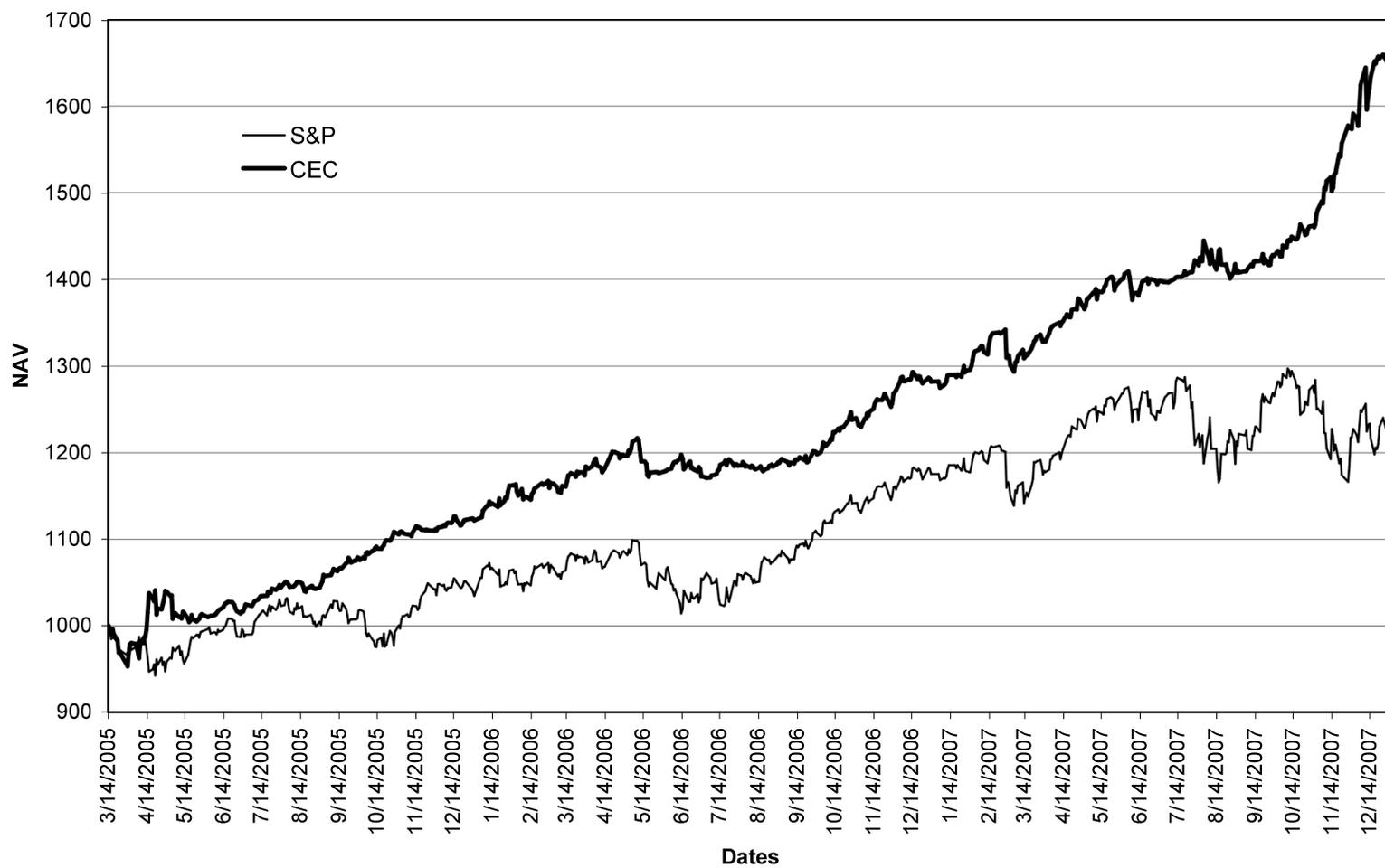
It is expected that commission costs for the CEC Strategy will not be prohibitive. Since the Strategy serves as its own idea generator it does not require the Street’s research and so it should not incur a research premium on executions. Additionally, with the number of electronic execution outlets and competition for execution by off-floor operations, it should be relatively easy to find the best cost/execution combination.

With regard to slippage, given that 85% of the names the Strategy trades are in the S&P 500 and that these stocks are usually the most liquid, it is expected that the tightest bid/offer spread should be seen in these names and slippage should be kept to a minimum.

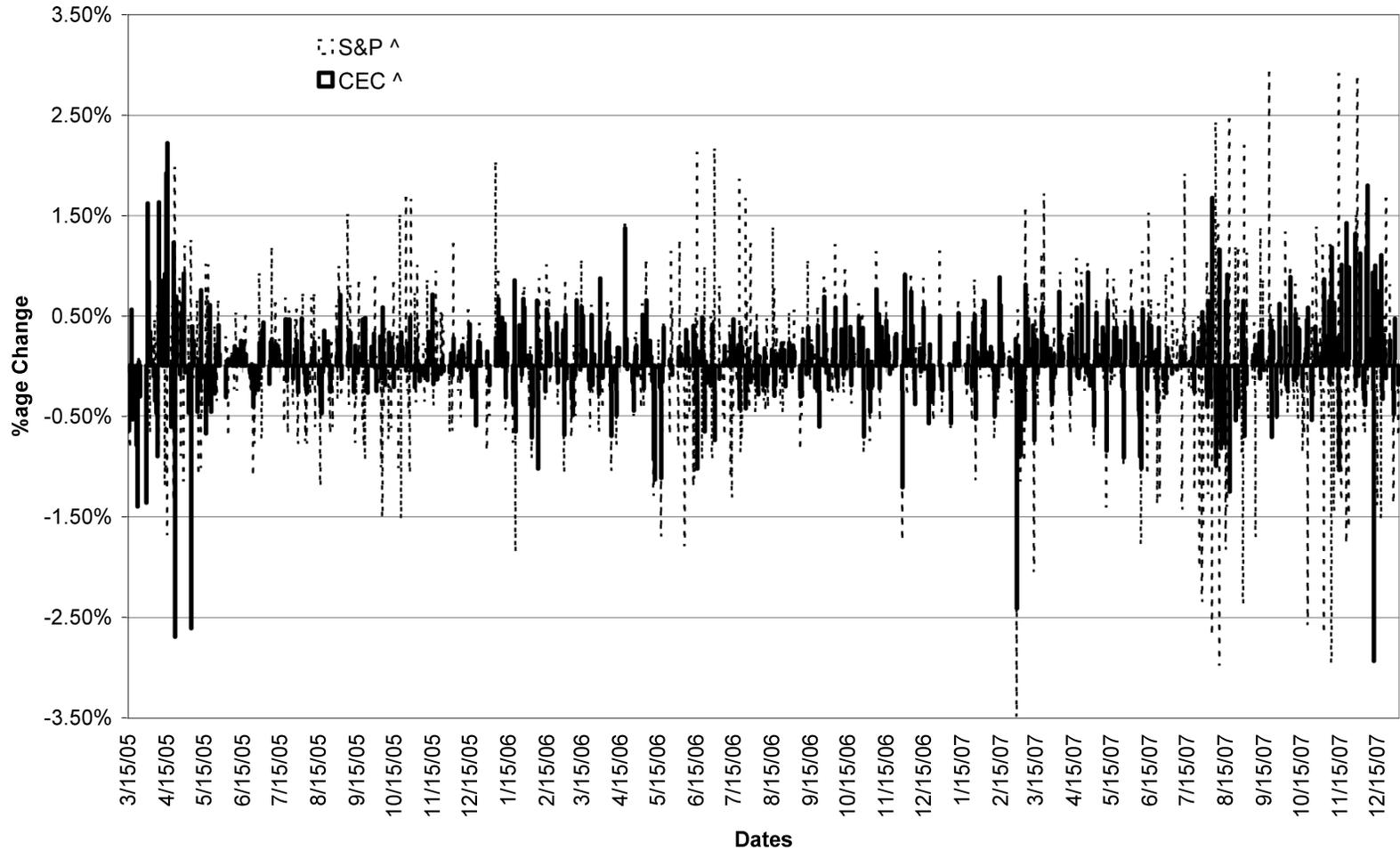
CEC Strategy Pro Forma Performance Statistics March 2005 – December 2007

Trades	Total	5,461	Open	273	Closed	5,188
Wins	Total	2,889	Open	197	Closed	2,692
Losses	Total	2,572	Open	76	Closed	2,496
Longest Trade Duration (Days)		693				
Shortest Trade Duration (Days)		1				
Average Trade Duration (Days)		26				
Average Winning Trade Duration (Days)		34				
Average Losing Trade Duration (Days)		17				
Biggest Realized Gain		\$110,990				
Biggest Realized Loss		(\$47,128)				
Biggest 1-Day Gain (Portfolio)		\$638,384		12/6/2007		
Biggest 1-Day Loss (Portfolio)		(\$1,031,312)		12/11/2007		
Average Trade P/L		\$4,364				
Average Winning Trade P/L		\$7,852				
Average Losing Trade P/L		(\$3,489)				
\$ P&L for prior	3 mos	\$4,592,322	6 mos	\$5,367,493	12 mos	\$8,206.632
Largest Draw Down (Peak to Valley)		1,510,086				
Recovery Period From Largest Drawdown		157 Days				
2nd Largest Draw Down (Peak to Valley)		1,371,369				
Recovery Period From 2nd Largest Drawdown		55 Days				
3rd Largest Drawdown (Peak to Valley)		\$1,031,313				
Recovery Period From 3rd Largest Drawdown		10 Days				
Longest Drawdown		157 Days				
2nd Longest Drawdown		85 Days				
3rd Longest Drawdown		60 Days				
Average # Positions		199				
Max # Positions		354				

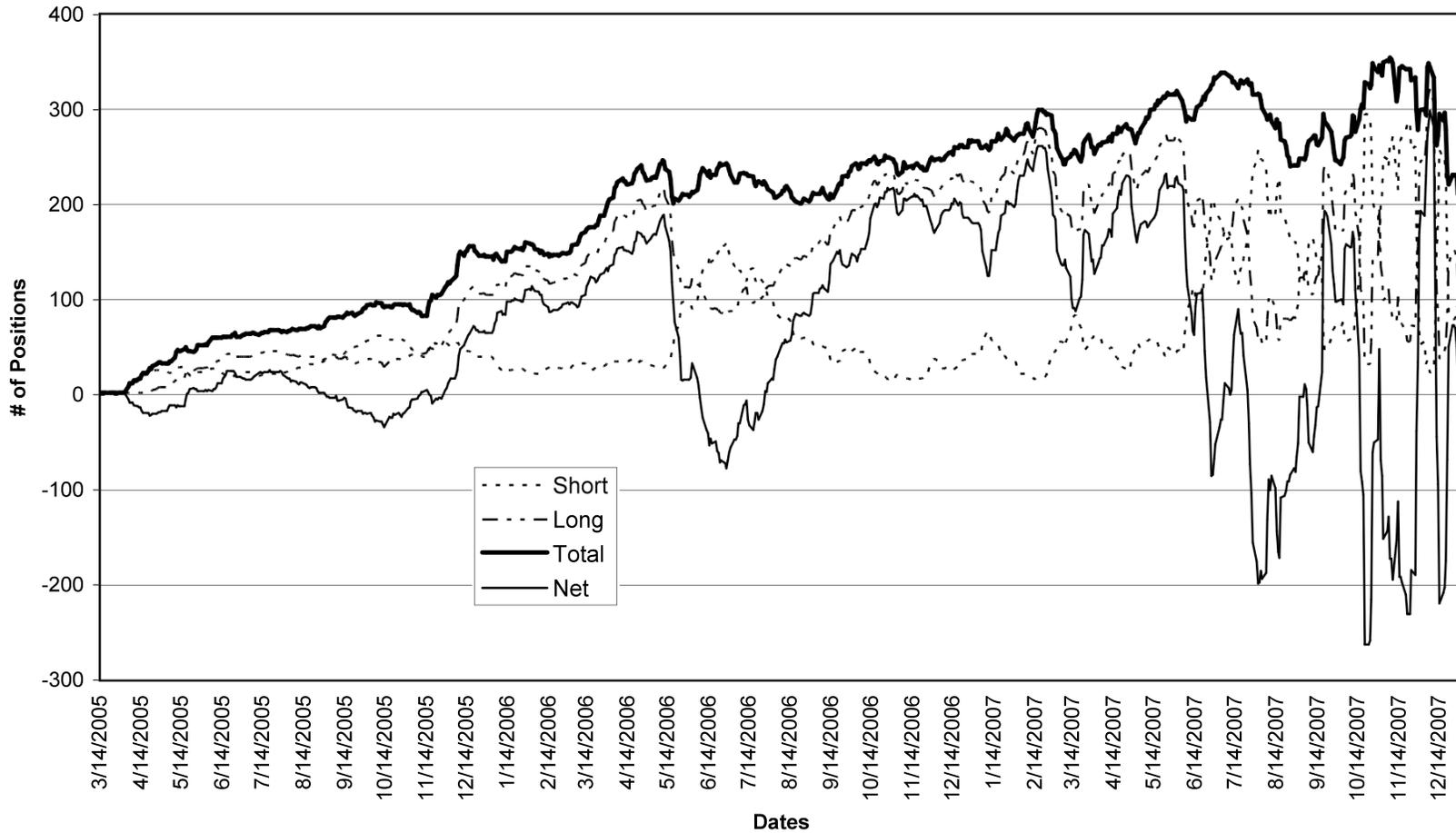
**CEC Strategy
Pro-Forma Results
CEC vs. S&P Normalized NAV
March 2005 - December 2007**



CEC Strategy
Daily %age Change Comparison
Pro-Forma CEC vs. S&P 500
March 2005 - December 2007



**CEC Strategy
Pro-Forma Results
Long/Short Position Breakdown
March 2005 - December 2007**



Credit Equity Correlation Strategy
Rolling Period Analysis
Pro-forma Results March 2005 - December 2007

DATE	INDEX	1 MONTH RETURN	3 MONTH RETURN	6 MONTH RETURN	12 MONTH RETURN	18 MONTH RETURN	24 MONTH RETURN
Feb-05	1000.0						
Mar-05	999.9	-0.01%					
Apr-05	1004.1	0.42%					
May-05	1000.7	-0.34%	0.07%				
Jun-05	1002.5	0.18%	0.26%				
Jul-05	1007.8	0.53%	0.37%				
Aug-05	1009.5	0.16%	0.88%	0.95%			
Sep-05	1017.1	0.76%	1.46%	1.72%			
Oct-05	1026.0	0.87%	1.80%	2.18%			
Nov-05	1025.8	-0.02%	1.62%	2.51%			
Dec-05	1029.2	0.33%	1.19%	2.66%			
Jan-06	1049.5	1.97%	2.29%	4.14%			
Feb-06	1046.5	-0.29%	2.02%	3.67%	4.65%		
Mar-06	1058.4	1.13%	2.83%	4.06%	5.85%		
Apr-06	1069.5	1.05%	1.90%	4.24%	6.52%		
May-06	1052.4	-1.60%	0.56%	2.59%	5.16%		
Jun-06	1048.3	-0.39%	-0.95%	1.85%	4.57%		
Jul-06	1059.1	1.04%	-0.97%	0.92%	5.09%		
Aug-06	1062.0	0.27%	0.92%	1.48%	5.21%	6.20%	
Sep-06	1068.7	0.62%	1.95%	0.97%	5.07%	6.88%	
Oct-06	1096.6	2.62%	3.54%	2.54%	6.88%	9.22%	
Nov-06	1118.4	1.99%	5.31%	6.28%	9.03%	11.77%	
Dec-06	1130.3	1.06%	5.77%	7.82%	9.82%	12.75%	13.03%
Jan-07	1156.0	2.28%	5.42%	9.15%	10.15%	14.71%	15.62%
Feb-07	1160.7	0.41%	3.78%	9.29%	10.91%	14.98%	15.60%
Mar-07	1169.6	0.77%	3.48%	9.44%	10.51%	14.99%	16.88%
Apr-07	1198.3	2.45%	3.65%	9.27%	12.04%	16.79%	19.53%

Disclaimer: Results in Appendix A are Pro Forma Returns. Past performance is not indicative of future results.

May-07	1226.9	2.39%	5.70%	9.70%	16.59%	19.61%	21.74%
Jun-07	1224.9	-0.16%	4.73%	8.37%	16.85%	19.01%	21.34%
Jul-07	1248.4	1.91%	4.18%	7.99%	17.87%	18.95%	22.74%
Aug-07	1236.9	-0.92%	0.81%	6.56%	16.46%	18.19%	20.55%
Sep-07	1250.8	1.12%	2.11%	6.94%	17.04%	18.18%	21.93%
Oct-07	1276.1	2.03%	2.22%	6.50%	16.37%	19.32%	23.99%
Nov-07	1362.4	6.77%	10.15%	11.04%	21.81%	29.46%	29.82%
Dec-07	1403.8	3.04%	12.24%	14.61%	24.20%	33.92%	34.14%

Credit Equity Correlation Strategy
Rolling Period Analysis
Pro-forma Results March 2005 - December 2007

COMPOUND ANNUAL RETURN							12.3%
PERIOD RETURNS	1-MONTH	3-MONTH	6-MONTH	12-MONTH	18-MONTH	24-MONTH	
OBSERVATIONS	34	32	29	23	17	13	
LATEST RETURN	3.04%	12.24%	14.61%	24.20%	33.92%	34.14%	
AVERAGE RETURN	1.01%	2.85%	5.50%	11.25%	16.76%	21.30%	
STANDARD DEVIATION	1.46%	2.83%	3.59%	5.85%	6.87%	5.57%	
SHARPE RATIO	1.6	1.2	1.2	1.1	1.0	1.3	
SORTINO RATIO	13.7	854.8	N/A	N/A	N/A	N/A	
<u>POSITIVE RETURN ANALYSIS</u>							
MAXIMUM RETURN	6.77%	12.24%	14.61%	24.20%	33.92%	34.14%	
MINIMUM RETURN	0.16%	0.07%	0.92%	4.57%	6.20%	13.03%	
AVERAGE RETURN	1.47%	3.11%	5.50%	11.25%	16.76%	21.30%	
STANDARD DEVIATION	1.35%	2.74%	3.59%	5.85%	6.87%	5.57%	
<u>NEGATIVE RETURN ANALYSIS</u>							
MAXIMUM RETURN	-1.60%	-0.97%	0.00%	0.00%	0.00%	0.00%	
MINIMUM RETURN	-0.01%	-0.95%	0.00%	0.00%	0.00%	0.00%	
AVERAGE RETURN	-0.47%	-0.96%	N/A	N/A	N/A	N/A	
STANDARD DEVIATION	0.51%	0.01%	N/A	N/A	N/A	N/A	
POSITIVE PERIODS	26	30	29	23	17	13	
NEGATIVE PERIODS	8	2	0	0	0	0	
PERCENT PROFITABLE	76.5%	93.8%	100.0%	100.0%	100.0%	100.0%	
		YEAR		RETURN			
		2005		2.92%			
		2006		9.82%			
		2007		24.20%			

The table above compares the rank of the daily returns of the CEC Strategy to the S&P 500 and vice versa. There were 679 trading days in the sample. The 1-ranked day is the most positive and the 679-ranked day is the most negative.

*400 different equities were traded from March 2005 through December 2007 of which about 85% were names included in the S&P 500.

Biography

James Delaney began his career managing the import financing for a major European automobile manufacturer. This experience led to an opportunity to manage the cash flow of a Fortune 50 company with over \$8 billion in annual sales.

Mr. Delaney gained experience trading investment grade corporate debt for Drexel Burnham, which led to managing the interest rate options desk for Barclays Bank Plc. To further expand his skills, he then worked with Tamiso & Co., a long established and well-proven Commodity Trading Advisor where he assisted in conducting the research necessary to develop new trading models. Additionally, Mr. Delaney was responsible for the coordination of marketing and media exposure as well as speaking at industry-sponsored conferences.

Mr. Delaney worked at GFI from May of 2001 through February 2007 and led the Capital Structure Arbitrage effort from the equity side. He began identifying opportunities in the CDS market, making them known to equity traders and salespeople. This effort matured into writing a “daily comment” at which point he began tracking the efficacy of the signals. The strategy Mr. Delaney employs is a direct result of this work.

The experience Mr. Delaney gained throughout his career allows him to understand the empirical work that defines the relationship between credit spreads and equity price. Additionally it has given him the skills to design the signaling and risk management algorithms necessary to bring his theory to fruition.

James Delaney holds a BA in Economics from Montclair University in New Jersey and an MBA from Pace University in New York as well as Series 7, 3, 63, 55, 24 registrations.