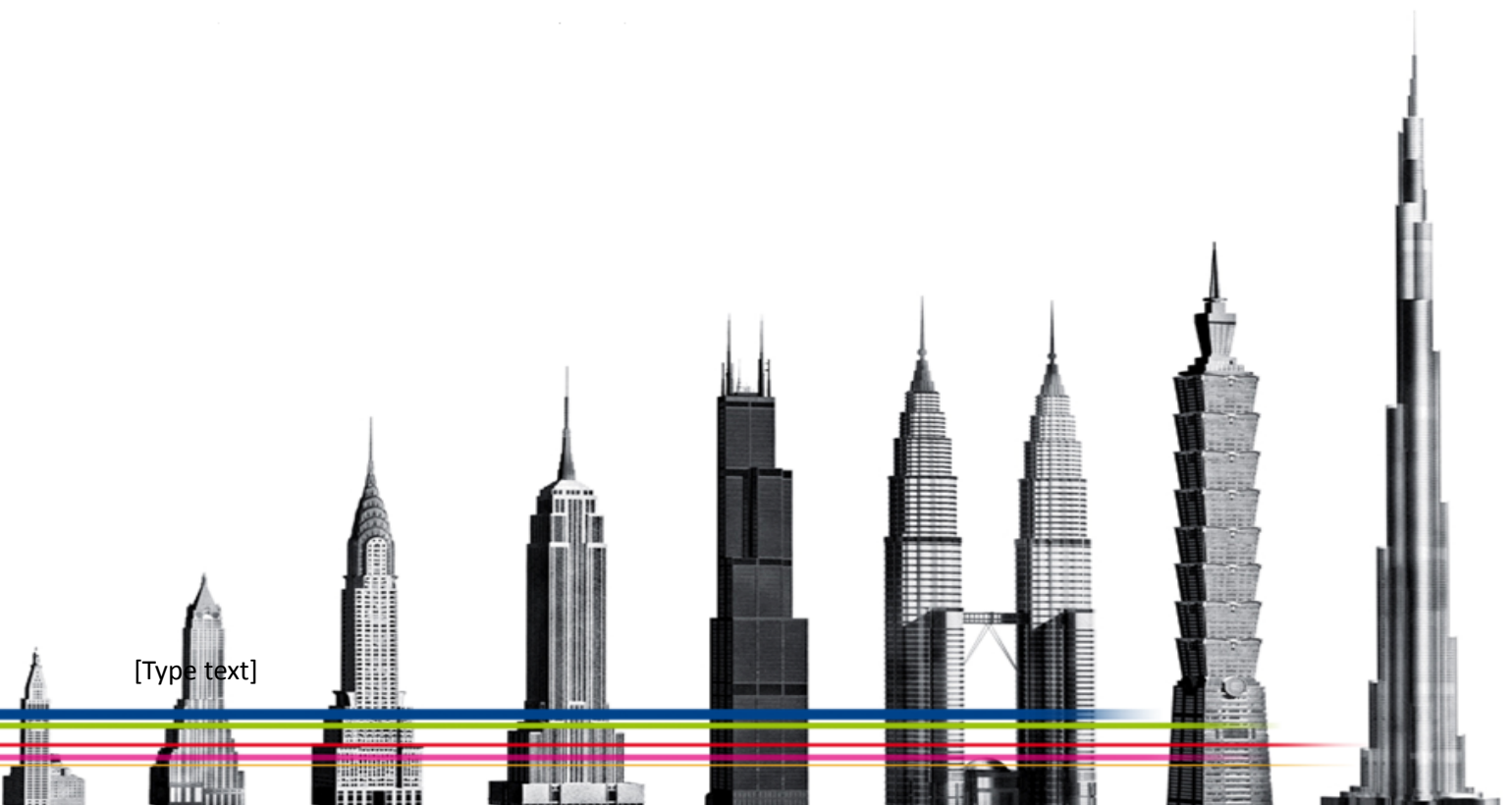


# NEWSLETTER

September 2011

Will European Politicians do the right thing, or NOT?

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## Will European Politicians do the right thing, or NOT?

We believe that the time has come that politicians in Europe should act together in order to deal with the problems which should have been dealt long before. Although we are aware of the risks associated with this argument, last 2 months saga cross all the asset classes, the fear indicators (volatility indexes), and last but not the least the negative sentiment at the market gave us comfort for good entry points to the markets especially equity sector. Our best picks are European blue chips. We recommend to be exposed those names through options on indexes. If you want to be still cautious, long call spreads (buy calls close to at the money and sell calls out of the money) for December contracts seems to be the best choice. We know that the premiums are still high because of high volatility at the market. However, you can adjust your strike levels depending how much you could spend for premiums and your expectations on how far the equity markets could rally in a bullish scenario. If you are more bullish then addition to the call spread you could also sell out of the money put options to make the premium much cheaper even for a positive income. Since put options' volatilities higher than calls you could go more out of the money. However, you should be aware that selling put options will make you vulnerable in a bearish scenario.

When we look at the credit sector the picture is not different. The yields on corporate bonds increased while the spreads widened dramatically. Although the crises originated in the developed parts of the world, emerging markets took their share as usual. Both the equity and credit markets in emerging countries experienced sell offs as a result of global risk aversion. Focusing on the credit markets, we observed that the spreads on the bonds of blue chips widened dramatically during this period. We believe that this widening of spreads in emerging market bonds has opened a window of opportunity to enter. As it can be seen from the figures above, the average yields of some corporate bonds that we cover have increased sharply within the last 4 months. Also the spreads of these averages as of October 2011 are close to historical levels. From our past experiences, we know that such opportunities do not last for a long period of time. Hence, we believe that that it would be wise to build bond position in good names in EM space now.

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