



JDJames & Company
Developing Solutions in a Developing World™
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*'Tis time! 'tis time!
Round about the caldron go;
In the poison'd entrails throw.—
Toad, that under cold stone,
Days and nights has thirty-one;
Swelter'd venom sleeping got,
Boil thou first i' the charmed pot!
Double, double toil and trouble;
Fire burn, and caldron bubble.
Who knew the Bard priced CDS's!*

Let's review the last six months.

Stocks down, bonds up, gold up, crude flat, Euro sinking and meetings galore! While the deficit spending virus continues untreated, mainly in the West, the Euro sinks 20% versus the dollar and the U.S. 30 year bond sells at sub 4.00%. *Midsummer's Night Dream* this is not!

We see a continued, accelerating restructuring of the global economic setpiece. Improving infrastructure in the "developing" world continues the transfer of production and distribution capacity from the West. This augers for high(er) secular unemployment rates, low domestic and regional growth, increased political tension and a sharper refocusing of producers and intermediaries on the BRIC and other developing economies. Quasi State controlled European firms will intensify actions to retain or grow market share in former possessions as they are elbowed aside by BRIC and a growing domestic intermediation capability. Foreign policy tactics will focus more on economic and resource objectives than

Dec. 31, 2009 - June 30, 2010

Euro: 1.2233 (-14.6%) **Yen:** 89.00 (+5.00%) **RMB:** 6.7865 (+0.6%)
S&P500: 1030.71 (-7.6%) **SSE:** 2398.37 (-26.8%)
US 30 Yr.: 4.00% (+13.6%) **Gold:** \$1,250.00 (+10.00%)
US 10 Yr.: 2.95% (+23.0%) **Copper:** \$2.958 (-18.1%)
Crude (WTI): \$75.35 (-5.1%)

before.

As legislation and diligent pump-priming by the Fed continues, the financial disasters of the last three years have been pushed from our consciousness. Banks have been able to recapitalize themselves, to an extent. Unfortunately, this recapitalization has taken the form of, dare we say?, levered trading and arbitrage in global debt instruments, commodities and currencies! The consolidation of the U.S. domestic banking industry also yielded economies of scale, to the survivors. But the seminal question remains...Why are U.S. interest rates so low? Doesn't anyone else want or need credit? Where is the credit-worthy borrower who can repay more than 4% for 30 years or, 3% for 10 years? Could the world be so awash in cash? Or, is the specter of deflation and credit risk so powerful?

In our internal reviews, the constant drumbeat is, look at the math! If that expensively educated offspring hasn't told you; calculus and linear algebra rule the world and, it seems it is all about rate of change. Although the West, most recently the U.S., has long

dominated the global economic terrain, many curves and heights have been straightened and flattened during the last 40 years. But, again, **...Why are U.S. interest rates so low?**

We believe, to use the language of mathematics, we are at an "inflection point" or, as the sage of PIMCO coins it, "The New Normal". In brief, capital flows and economic growth will soon be led by non-western, "developing" economies, with global entities providing an increasing share of home country GDP growth through the necromancy of accounting. That said, we predict an even more substantial increase in lending and investment in developing economies as the reality of future growth trumps traditional money sensibilities. That "directional knowledge", as the great Walter Wriston once said, is the most important metric of investment strategy.





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Our Market

How does the new paradigm impact our market?

From Cameroon to Angola in West/Central Africa, our market is endowed with almost every primary resource needed by modern society. Energy, water, timber, agriculture, basic, precious and rare elements, a youthful population and; a practically non-existent infrastructure. Although low hanging investment fruit has always been available, the transition to independent, self financing political entities was a problematic issue for many businesses and investors, both internally and globally. The friction of dynamic technological advances coupled with an increasingly ravenous appetite for resources has accelerated the integration of these nations into the seamless factory of, *"the machine age"*. During the past decade, we have seen substantial macroeconomic restructuring.

Our market now has among the lowest debt/GDP ratios, globally. Creditworthiness, an underdeveloped resource base, unabated demand and manageable political realities all augur for explosive growth across obvious, and not so obvious, market sectors throughout the supply chain. We anticipate increasing corporate activity, across the scale spectrum; multilateral funding and lending, direct and portfolio investment and a deepening of the domestic business class as global demand grows. Terms like, "New normal" and "Paradigm shift" represent a recognition that the Wild West or in this case, "East", is about to experience dramatic capital inflows for investment and development.

Economy

We see continued accelerating economic activity throughout the region concentrated in Angola, Congo(s) - Brazzaville/Kinshasa, Equatorial Guinea, Gabon and Sao Tome. Large scale infrastructure projects, increased government and private sector spending, potential sovereign debt offerings. Heightened resource anxiety maintains price levels which have not been seen in decades.

The delivery of telecommunications technology changes, as a result of new landings, begins to impact various supply chain participants as a restructuring begins.

Potential reduction of hostilities in Eastern Chad as a result of a new sovereignty agreement between Sudan and the SPLA in its South. Energy finds and strong Chinese presence should moderate hostilities.

This is the start of election season for many of our markets.

Democratization requires massive government spending as a result of an inefficient manufacturing infrastructure. As fair elections become ubiquitous and a discipline of taxation, accountability and civil discourse takes root, manufacturing and service efficiency should show dramatic gains. Elections may also result in surprises and, in some of our market we are concerned about process and its implications.

We project oil prices to reach \$90 before the end of the year, We estimate the high yield for the US 30 year bond to be no greater than 4.37%. We believe precious metals have become an increasingly significant store of value for investors. 2010 continues to be a period of general recovery and expansion in our market.

