# The Answer We Don't Want to Know

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**By John Mauldin**

2012 will be the 11th time in my short life that I will be able to participate in the choosing of a president of the United States. While it may just be me, it seems like each and every election is cast as the most important election of our time and a defining moment for the American Experiment. The future of the Republic was being weighed in the balance, and only the proper outcome (which would of course be the election of the candidate you supported) would assure its survival. This week we will continue our meditations on the economic choices that confront the world, this time focusing on the US.

We will start with a thought experiment, in which I invite you to think about alternate histories. Just how important are presidents (or leaders in general) to the success or failure of the economy? And then how critical is the coming election this fall? We will assault a few of our most cherished beliefs, both from the left and from the right. If I do not offend you in the first few pages, I invite you to keep reading; I will get to you somewhere.

(Warning: I risk upsetting more people than usual, as this letter is centered on the politics of economics. I will do my dead level best to be even-handed, but there is just no pleasing everyone. So better to write what I think and at least have one person happy. Which is pretty much what I do every week, anyway.)

As I continuously argue, the most important issue facing the US is dealing with its deficit, just as that is the defining issue in much of Europe and will soon be in Japan. The longer we put off the decision, the more difficult the task and the more serious the economic impact. Without action, Italy all too soon becomes another Greece, but with real impact. They realize that and are making the efforts. But would it not have been easier for Italy with about 40% less debt-to-GDP? Perhaps not politically, at that time when they should have been working on it, but in hindsight I bet the politicians now wish they had done more. It seems we accept change only in the face of necessity and see the necessity only in a time of crisis (as one Italian more or less put it, long ago).

So we discuss politics, because the looming debt crisis (and its solution) is at its very core a political creation and must have a political solution. And once the bond market decides to provide its own solution by demanding much higher interest rates, it is too late. That's game over, and a prolonged recession if not a depression will ensue.

But before we go any farther, and quickly, if you are an accredited investor (or professional investment advisor or broker) in the US, let me invite you to a live discussion/webinar with myself and Tony Fenner-Letto of Winton Capital Management this next Tuesday, February 14, 2012 at 10:00 a.m. Pacific / 1:00 p.m. Eastern. This presentation will be hosted by my partners at Altegris Investments. Winton Capital Management is the largest and arguably the best-known managed futures firm on the planet. We will discuss their strategy for dealing with today's market environment. I will also share my current thoughts on the global economy and its outlook. Hopefully we can talk about something besides Greece (are you tired of Greece yet?).

You can get an invitation to the webinar by calling your Altegris representative at 800-828-5225. If you have not yet opened a relationship with them, I will have them call you if you register at The Mauldin Circle. A replay will be available to registrants unable to attend. I apologize for limiting this discussion to accredited investors, but we must follow the rules and regulations. I am working on doing a webinar in the near future that will not be restricted. Stay tuned. (In this regard I am president and a registered representative of Millennium Wave Securities, LLC, member FINRA.)

One further note. At the end of the letter, I will give you information and a link to be able to register for my Strategic Investment Conference, May 2-4. I expect it will sell out, as always, so I would suggest making your reservation promptly.

Now, we start today's letter in South Africa, as I wonder which continent I will finish it on. In order to be able to hit the send button while on layover in London, we'd better jump in.

## What Is a President to Do?

I have long maintained that presidents take too much credit for good economic times and get altogether too much blame for bad ones. That is not to suggest that they can't make a difference by promoting certain policies over others. Clearly they can. But I think we might find, if we think about what might have been if the "other guy" had been elected, that outcomes would often have been not very different. In fact, it is often not until after a president is gone that we see the results of his policies. Let's start with recent history and work backwards.

Let me preface this by pointing out that we are dealing with just the *economic* outcomes of the election of a particular president. I readily admit that other areas, such as Supreme Court nominees, regulations, social policy, and foreign policy would, perhaps, change a great deal. These developments are important, and perhaps more important than mere economic outcomes; but for this letter, let's just focus on the economic aspects of a particular election.

## Thinking About President Gore

In what seems like an eternity, but was only a short time ago, we were learning more about "hanging chads" on punched election ballots in Florida than any of us ever wanted to know. The world marveled as the denizens of the last Superpower fought tooth and nail over whether a ballot counted according to whether the holes were punched correctly. The difference between President Bush and a potential President Gore was in the end just a small number of votes in just one state. It was the closest of elections, with the results literally hanging by a chad. So, it is not at all far-fetched to imagine what would have happened if Al Gore had won the election. How much of an economic difference would there have been? I would suggest, not all that much.

The market had already begun to collapse by the time Bush was inaugurated in January ’01. Could Gore have prevented a recession? The answer is no, because the weakness had already set in. There would still have been 9/11. That had been planned since Clinton’s presidency, when Gore was vice-president. An Al Gore as president would hardly have deterred bin Laden from his plans.

And the economic aftermath of the event would have been roughly the same. Greenspan and the Fed would have kept lowering rates and kept them low for too long, no matter who resided in the White House. Would Gore have nominated an old-school monetarist as Fed Chair? Hardly likely. Almost the entire establishment, both Right and Left, the latter of which Gore was a leading figure, were Keynesian to their core. And Greenspan (or Bernanke, or whoever) was not going to allow deflation on his watch, not without a fight, with his main weapon being low rates and easy money.

The regulations that fostered the housing bubble and the subprime crisis were already in place. Both parties were in thrall to Fannie Mae and Freddie Mac. Greed was already running rampant on Wall Street. Did I somehow miss loud, insistent calls for a tighter home-lending regulatory environment from the partisan leadership on either side of the aisle? No, there weren’t any.

Would consumers have borrowed less on their homes? Was anyone complaining (except those buying?) that housing values were climbing too fast? Indeed, my neighbors in Texas were lamenting our lack of participation in the seemingly nationwide skyrocketing of housing prices.

Would we have avoided a subprime crisis leading to a credit crisis under Al Gore? Did the Democrats protest the laws, passed by a Republican Congress, that allowed a few investment banks to massively increase their leverage? Or did they also take the lobby money and vote for the legislation?

The repeal of Glass-Steagall? That happened in 1998 under Clinton, with the full support, yea, the insistent urging, of the Republican leadership. (Shepherded by a certain Texas senator, who also called Alan Greenspan the “Greatest Central Banker in History.” I still fondly recall Senator Gramm, an economics professor in his prior life, who I think all in all was a very good senator, if just a tad overenthusiastic about Greenspan. (Side note: The conference I just spoke at here in South Africa voted overwhelmingly that the devil’s actual surname was Greenspan, from a rather dubious list of choices. Ah, how we fall from Grace. But back to our historical meanderings.)

Yes, we would not have had the Bush tax cuts, which some mathematically challenged individuals think are responsible for the whole deficit crisis. The tax revenues that were supposedly lost due to the cuts? Tax revenues were actually up just a few years later. To argue that the Bush tax cuts did not have a stimulative effect on the economy flies in the face of all credible nonpartisan research, which shows tax cuts do indeed provide a positive stimulus effect; so the recovery would have been even weaker without them.

But under Gore we would likely not have had the Bush spending increases (which is what he *should* be blamed for), as the Republican Congress would likely have continued policies started under Gingrich, which opposed spending wanted by a Democrat president and which resulted in the running of a surplus. It was only when Republicans could get credit for spending increases that they wasted the surplus. But my bet is that (sadly) they would have still figured a way to use up that surplus, post-2000.

Would a Gore presidency have reacted any differently to the credit crisis, in ways that mattered? There was initial bipartisan consensus (at least of a majority, although with some noted disagreements) of the need for a stimulus, although later there was serious disagreement as to what that stimulus should be.

Would Gore have launched a war in Afghanistan? To think he would not have is to ignore who Al Gore was. He was (and I assume still is) a very hard-nosed foreign policy and defense hawk, when he was in the Senate and as vice-president. Would he have gone into Iraq? Probably not, but when all the world's intelligence agencies (even the French!) believed Saddam Hussein had weapons of mass destruction and was close to a nuclear weapon, who can say?

(I should note that they all believed that because they had tapped Saddam's communication lines. His top scientists told him they were close, because they were afraid for their lives to tell him they were not. So even Hussein believed he was close to a nuclear device. It was all a colossal failure of the intelligence professionals – even those in Iraq! Without such "evidence," Hussein might still be in power today. If it was not so profoundly sad, with such a tragic loss of lives, the irony would be just too delicious.)

So, there would have been less accumulated debt, but not all that much in the grand scheme of things. The increase in debt under Bush just brought forward a few years the end of the Debt Supercycle. Instead of the necessity of dealing with the deficit in 2013, we might have gotten to 2016. But the math of the entitlement programs makes the Day Of Reckoning a future certainty. However, that is not the point.

The point is that the main economic events would have happened under either president. Would there have been a difference in marginal tax rates? Yes, but I do not think tax rates were the cause of the debt crisis, or the subprime crisis. Would Republicans have avoided the temptation to spend under a President Gore? Not if Hastert and DeLay were still in charge of the House, at least if they continued to espouse the same policies. Less deregulation? But the subprime problem was not caused by deregulation.

The economy would have been basically the same under either president, though a case could be made that there would have been less accumulated government debt. Differences? Sure, I can think of many, but not *major* ones.

## Clinton on the Dole

Now let's go back to 1996. What if Dole had won? (Remember Bob Dole?) We would be talking about the Dole surpluses, as he would have taken the credit for them. Seriously, can you imagine President Dole giving credit to former President Clinton for the surpluses that had accrued by 1998? Hardly. We were at the end of the bull market and a roaring technology boom. Would Long Term Capital and the 1998 Asian crisis have happened under Dole? I certainly think so. The resident of the White House had no control over those events, and in any event was hardly likely to try and burst a technology and stock-market bubble. What politician runs against higher stock prices?

Let's push the clock back to 1992. What if Perot had kept his charts to himself? George Bush Senior wins rather handily. What would have changed? The economy was already on the mend when Clinton took office. The technology boom and the resulting bull market would have happened under any president. Deficits would have continued to grow.

Perhaps the defining moment of the decade was not a presidential election but Newt Gingrich becoming Speaker of the House, with a new cadre of troops that actually wanted to cut spending and rein in government. At least until Gingrich was gone and they were in Congress for another decade.

It was precisely the partnership between Gingrich and Clinton that laid the foundation for the surplus. Would that have happened with a Bush I? Hard to really say, but Gingrich was a true believer in smaller government back then, and was regarded as something of an oddity by much of the Republican establishment. He was just as much a firebrand back then as he is today, without some of the problems. In an odd way, if we want to revisit the differences in individuals and their importance to the economy, our economic future depended back then as much or more on Gingrich than the president. With a Republican President Bush, would he have had the same results? Could he have helped engineer surpluses? Would he even have become Speaker? Hard to say.

Without the reprieve of the surpluses we had for a few years, we would have been much closer to the end of the Debt Supercycle than we are today. Who knew we would be nostalgic for the economy fostered by the cooperation of Clinton and Gingrich?

If Bush I had lost in 1988? I can't think of anything that would have changed in the next four years. The recession was due. Dukakis would have raised taxes, just as Bush did.

Reagan and Carter? There you could argue that Reagan made a difference. But even then, Carter appointed Volcker, and the die was cast under his watch. Volcker started his war against inflation under Carter, not under Reagan. Reagan benefitted that it was early in his presidency that we had the double-dip recession. Did Reagan's tax reforms help spur growth? Yes, there is little doubt about that. Note that Reagan did not ask Volcker to stay on. Back then, Volcker was not very popular.

But Reagan also had the good fortune to start his presidency at the beginning of a bull market and a technology revolution. Stock market valuations were at historic lows, not because of Reagan but because of Volcker and the double-dip recession *he* caused. Reagan certainly helped the business climate by lowering taxes on small businesses and reducing the regulatory burden.

I would argue that the main effect of a Reagan presidency was felt after he left. It was his stamp on the economy, whether you liked it or not, that set the tone for the next 20 years.

### And Then There Was 2012

So, is the upcoming election a truly defining moment? Will this election change our economic future all that much? Or are things going to more or less unfold the same (in terms of the economy), whether Obama is re-elected or we have a Republican (whoever that may be)?

To get a sense of the answer, we have to go back four years, to a rather heated primary battle between Hillary Clinton and Barack Obama. Republicans were enjoying the spectacle of the two of them beating each other up, questioning each other's fitness to lead, debating the merits of their experience and their visions of the future. Let's really alter history and assume Hilary Clinton had won, as most everyone at the beginning of 2012 thought would happen. She goes on to beat McCain and then has to deal with the aftermath of the debt crisis, which would have been in full bloom as she entered office.

What would have been different? Bill Clinton always said they were a team, so let's assume for a second that she would have been similar to him with her policies. There is certainly nothing in her role as Secretary of State to suggest anything else. Bill Clinton was center-left, not as hard-left as Obama. He was a pragmatist who could tack to the center when it was the thing to do. But he also had his hand in every bit of policy decision. He wanted details on everything. To think Hillary would have not been deeply involved in whatever stimulus there was, and it would not have been similar in size, would not be consistent. The stimulus would have been less of a candy store for Democratic Congressman and more focused. Republicans would still have been deeply critical. Aren't we always, of a Democratic President, and vice versa? But I imagine there would have been more infrastructure and targeted spending. Both Clintons are policy wonks, to their credit. You might not like their policies, but they do know the detailed ins and outs of what they do, and why. They were at home in DC and they knew the players. President Hillary Clinton would have hit the ground running on a targeted stimulus, and it would have been her stamp and not Nancy Pelosi's on the bill. But the economic results would have been pretty much the same for the first three years.

The economy would still have been down 8 million jobs. Tax revenues would have fallen in any event. Would the stimulus have been less under McCain? Yes, but it would have still been massive. Hillary would finally have gotten her health-care project, but it would have been different in its scope and reach, I think. And just like Bill, she would have found a way to get bipartisan support. While Obama talked about a new post-partisan era, the last time the parties actually worked together was under a Clinton.

And there would more than likely have been a Republican takeover of the House in 2010, as mid-term elections often do change things up (as in 1994).

So, one way or the other, we would arrive at 2011 and the crisis over raising the debt ceiling.

During that crisis I had the privilege of being at a three-hour-long private dinner with the Speaker of the House, John Boehner. There were about 12 of us at the table. My book *Endgame* was just out, and I was invited to be the agent provocateur for the evening. I made a short (for me) presentation of the problems confronting the country, particularly the deficit crisis – not much different from what I write here, just maybe a tad more colorful and pointed. There were also a couple of members of the House Republican leadership present, and I wanted to make a few very serious points, as these were the people who would be tasked with coming up with some solutions. I don't get many chances like that.

About halfway through the dinner, and afer some very sobering and frank conversation, I light-heartedly remarked that, "It's too bad you had to deal with Harry Reid over the debt ceiling" (as nothing was getting done at the time).

Boehner turned and looked at me and said with some passion, "Harry? [rising voice] Harry? Hell, Harry ain't the problem. If it was just me and Harry we could sit down tomorrow and get it done."

The problem, at least from Boehner's point of view, was they could not get an agreement with Obama. (It would be interesting to get Reid's version. Note: I will be in DC next Thursday. Just saying.) And later, when they did reach an agreement on a rather modest beginning to a real deficit-reduction package, I am told that when Boehner called to say he had the votes lined up on the deal he thought they had agreed to, at no small expense to his political capital, Obama decided he wanted another $400 billion in taxes. Which was a non-starter. And thus the gridlock.

My bet, in my alternative world history, is that Hillary Clinton would have gotten that deal done. And more. Because the math of not dealing with the deficit is apparent to most of the politicians I have talked to in DC, whether Republican or Democrat. They have different ways to solve the problem, but they know it has to get done. The economic health of the Republic is truly at risk.

But that is not where we are. We do not have a Hillary Clinton as president. There is a very clear divide in Washington DC on the path forward. Whether you blame it on Obama or Republican recalcitrance, the problem is not being dealt with.

This election is ultimately about dealing (or not dealing) with the deficit, and putting the country on a path to a sustainable budget deficit, one that is less than the growth rate of the country. As I have argued elsewhere, and will argue in future letters, that is the paramount issue. Not dealing with the deficit runs the very real risk of the bond market treating us just as it is treating Italy and any other country that gets to the point where its debt is unsustainable. Not this year or the next for the US, but almost certainly before 2016. And once the bond market loses faith in a country, it takes a massive restructuring to restore that confidence. And we can see how that is playing out in Europe.

The next president must have the ability to get a consensus. Let me shock a few of my fellow Republicans and say that I think the deficit is such a deadly disease that it would be better for the country for the Democrats to be in power and forced to deal with the situation than to do nothing. I would not like their solution, and I think it would be harmful, but not as harmful as a second Depression, brought on by not dealing with the deficits and entitlement problems.

As a businessman, I would rather pay higher taxes on profits than to have no profits at all. Just tell me the rules and I will figure out how to adjust. A Depression 2 would mean 20% unemployment (at least) and a real lost decade, with the Boomer generation trying to figure out how to deal with no money and no jobs and being old.

And the choices we would be forced to make? The spending cuts would be far deeper than anyone can now imagine, and the taxes needed far greater. Think what happens when any country has hit that debt limit. Greece is not having fun. And either Italy is going to be unhappy with the longer-term recession it will have, or Germany is going to be unhappy with the ECB backing Italian debt at below-market rates for a long time, which means printing money and a much lower euro. Actually, I think both must happen if the euro is to remain a viable currency. That's just what happens when you don't deal with deficits before they become a problem. If Italy is to remain in the euro, there must be a back-door bailout by the ECB, accompanied by Italian austerity (is that an oxymoron?). And don't forget Spain.

### The Fed Has a Printing Press

What would the Fed do in such an event? Does it succumb to the worst fears of the Austrian economic crowd and monetize the debt in an effort to fight deflation and depression? Or does it trash the dollar and make gold bugs happy? Or does it find its inner Bundesbank (Austrian) core and eschew the easier way out?

This is a question to which we do not want the answer. Whether it's yes or no, the answer is a disaster. Just choose the form of disaster you prefer. To the unemployed, retirees, and the young, it will make little difference. Ask our grandparents (or my father and mother), who lived through the Depression.

And doing nothing will mean that we find the answer to that question. The very answer we want to never know in real life. It makes for interesting speculation now, but living through it will be hell.

Both Obama and whoever the Republican nominee is owe the American people an answer today as to what they will do if given the chance. To blame Congress for doing nothing is not a solution. A generic answer of cutting spending will not do. Allowing the Bush tax cuts to expire gets us less than 20% of the way there. The "rich" do not make enough money, even if you take 60%. We would still be down a half a trillion or more, probably much more, as income vanishes as taxes rise. Funny thing about that: people respond to higher taxes by making less.

What cuts will you actually make if you are Obama? And do not suggest that it can be done by getting rid of waste. Everyone promises to do that, and it doesn't happen. Not that we shouldn't try. There is just not all that much there, and certainly not enough to close the gap. Blaming a "do-nothing" Congress is also not enough. What do you want them to do? Not bits and pieces, but what is the whole game plan for dealing with the deficit?

If you are Republican, what programs and spending will you cut? What actual reforms of entitlements will you ask for? And if that's not enough, what taxes will you raise? On whom? Or will you be willing to stop giving tax deductions for mortgage interest, charities, and (literally) 3000 other tax "incentives." Actually, if no deductions were allowed for the so-called tax expenditures (or targeted deductions), the budget would come into balance. Those tax deductions are over $1 trillion a year. Of course, everyone thinks their favorite tax deduction is vital to the future of the Republic, and losing them will make a lot of people upset.

Who will the candidates be willing to upset? The country does not need vague policies and ideas, we need specifics. A real budget proposal, with details, just like a family or business in crisis would create. We don't need someone to tell us what they think we want to hear, but what they will actually do to deal with the most pressing issue of our time.

Will you consider radical tax reform? A VAT instead of an income tax, or reduced income taxes and no Social Security or Medicare tax, if that is the deal on the table? What is your opinion on various types of taxes? A flat tax? At what rate?

Then run on that plan, or set of choices. Make it clear beyond the vague platitudes of politics as usual. This election is that important. Take it to the voters and get a mandate. It is time for a national conversation on debt and the deficit. It will be no secret what I prefer, as I will be writing on that theme in the coming weeks. But it is more important that we come to a consensus than that it be done in any particular way. I will admit to believing it would be better if we do it with less government and the most reasonable tax burden we can settle on. But creating a path to a sound, controllable budget is the important thing, the primary objective. It will not be easy to forge a consensus from our very diverse views, but we must if we want to give our children any hope of a better world than the one we have now.

Actually, that is what is needed throughout the "developed" world. We are running out of easy solutions. In many places there are not solutions, just ugly choices and pain. In the US, we must look around and realize that time is running out. We do have time, but we need to use it wisely.

## The Strategic Investment Conference in Carlsbad, California, May 2-4

As I said at the beginning of the letter, we are now ready to take reservations for the 9$^{th}$ Annual Strategic Investment Conference, May 2-4, which this year will be in Carlsbad, California for the first time, at a venue that will allow us to take a few more attendees but still keep that intimate feeling. I host the conference, along with my partner Jon Sundt and his team at Altegris Investments.

Each year I wonder how we could make the conference any better, but I think we have done it. I must say that I do not think any conference anywhere has the quality speaking line-up that we do. It is the finest collection of top-notch raconteurs posing as economists assembled anywhere. Each speaker is a headliner in their own right,  wherever they go. We have nothing but the best each year.

Look at this line-up: Dr. Woody Brock, Mohamed El-Erian, Marc Faber, Niall Ferguson, Jeff Gundlach, David Harding, Dr. Lacy Hunt, Paul McCulley, David McWilliams (from Ireland), David Rosenberg, Jon Sundt, and your humble analyst. Plus the surprise guests. Seriously, where else can you find all that talent under one roof? I design the conference each year to be the one that I would want to attend. And Sundt and team run as smooth and enjoyable a conference as you will find anywhere. You can learn more and register by going to http://meetings.StrategicInvestmentConference.

I should note that the best feature of the conference is the attendees themselves. You will make new friends and meet old ones. And the speakers are very accessible. The price goes up considerably on March 15, so register early. We always sell out, and I get calls asking to get in at the last minute, and have no way to help. Don't procrastinate. Register now.

### Washington DC, Kansas City, and Europe

I am finishing this letter in London, at the Admirals Club, and will soon hop a plane back to Dallas, hoping to catch some shuteye and magically adjust to Texas time en route. I stayed up and wrote, coming from Cape Town, in the hope that this will be a better way to adjust to the time change.

Next Wednesday I go to Washington DC for some quick meetings and then back home the next evening.  I will be in Kansas City on Tuesday Feb 21, speaking along with my other US partner, Steve Blumenthal, at the Roth Companies (affiliated with RDA Financial) client conference. If you are in the area and interested in attending, please email Linda@cmgfunds.net. Or you can call CMG at 610-989-9090. (There is limited seating.)

I am then home for a few weeks, working on my next book. I will go to Stockholm on March 20 and then to Geneva for a day for some quick meetings; and then I will weekend in Paris to attend the Global Interdependence Center's conference on central banking, which starts Monday the 26th. That promises to be a very lively and vigorously debated theme; and a lot of good friends will be there, so there will be a nice spirit of bonhomie for springtime in Paris. I don't go to many conferences as a participant, but this one is the topic du jour. Think about joining me: http://www.interdependence.org/programs/inaugural-meeting-of-the-global-society-of-fellows/).

Let me say thanks to the wonderful people at Rand Merchant Bank in Cape Town. What hosts, and I must admit to having one of the finest meals I have had anywhere in the world at the Greenhouse Restaurant. And such wonderful dinner companions, with their very savvy senior economist, Rudolph Gouws, and CEO Alan Pullinger making me feel like I was at home. It was a special night and one I will remember.

It really is time to hit the send button, as they are calling my flight. Have a great week, and tell your political friends it is time to step up.

Your wondering what time zone I'm in analyst,

John Mauldin

offerings with other independent firms such as Altegris Investments; Capital Management Group; Absolute Return Partners, LLP; Fynn Capital; Nicola Wealth Management; and Plexus Asset Management. Funds recommended by Mauldin may pay a portion of their fees to these independent firms, who will share 1/3 of those fees with MWS and thus with Mauldin. Any views expressed herein are provided for information purposes only and should not be construed in any way as an offer, an endorsement, or inducement to invest with any CTA, fund, or program mentioned here or elsewhere. Before seeking any advisor's services or making an investment in a fund, investors must read and examine thoroughly the respective disclosure document or offering memorandum. Since these firms and Mauldin receive fees from the funds they recommend/market, they only recommend/market products with which they have been able to negotiate fee arrangements.

PAST RESULTS ARE NOT INDICATIVE OF FUTURE RESULTS. THERE IS RISK OF LOSS AS WELL AS THE OPPORTUNITY FOR GAIN WHEN INVESTING IN MANAGED FUNDS. WHEN CONSIDERING ALTERNATIVE INVESTMENTS, INCLUDING HEDGE FUNDS, YOU SHOULD CONSIDER VARIOUS RISKS INCLUDING THE FACT THAT SOME PRODUCTS: OFTEN ENGAGE IN LEVERAGING AND OTHER SPECULATIVE INVESTMENT PRACTICES THAT MAY INCREASE THE RISK OF INVESTMENT LOSS, CAN BE ILLIQUID, ARE NOT REQUIRED TO PROVIDE PERIODIC PRICING OR VALUATION INFORMATION TO INVESTORS, MAY INVOLVE COMPLEX TAX STRUCTURES AND DELAYS IN DISTRIBUTING IMPORTANT TAX INFORMATION, ARE NOT SUBJECT TO THE SAME REGULATORY REQUIREMENTS AS MUTUAL FUNDS, OFTEN CHARGE HIGH FEES, AND IN MANY CASES THE UNDERLYING INVESTMENTS ARE NOT TRANSPARENT AND ARE KNOWN ONLY TO THE INVESTMENT MANAGER. Alternative investment performance can be volatile. An investor could lose all or a substantial amount of his or her investment. Often, alternative investment fund and account managers have total trading authority over their funds or accounts; the use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. There is often no secondary market for an investor's interest in alternative investments, and none is expected to develop.

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