25 Questions FOR YOUR PRIVATE BANKER

Market, business and economic conditions change fast. Are your advisors on the ball? Ask these questions and find out.

Robb Report Worth

1. Mexico's presidential election this year comes at a difficult time; the country's economy is being undercut by lower-cost labor in Asia, and the government's budget will be strained by the need to rebuild the tourist centers damaged by Hurricane Wilma along the Yucatan Peninsula. Traders expect the volatility of the peso to increase. Should I be reducing my business and portfolio exposures to Mexico?

2. Banks are lowering their lending standards in an attempt to attract hedge fund business, increasing their risk, according to a recent analysis from the European Central Bank. If a credit market crisis such as the one precipitated by the GM and Ford downgrades last spring occurs, will my banks be affected?

3. Russian regulators plan to limit the amount of capital domestic companies can raise overseas in order to boost activity on the Russian bourse. What does this mean for the value of Russian stocks trading on the London Stock Exchange, where many of these companies trade? If this spurs activity on the Russian stock market, should I increase my exposure?

4. U.S. and European credit markets are decoupling; spreads on European companies have tightened while those on many similarly rated U.S. companies have stayed the same or widened. Does this mean Europe's economy will begin to outperform the U.S. economy, at least in the short term?

5. Only one case of hedge fund fraud has been documented in Europe in the last 15 years, while there have been 20 cases in the U.S. last year alone, according to the London-based Alternative Investment Management Association. Do European funds have stricter regulators? Should I be investing in European funds rather than those in the United States?

6. Private equity-backed initial public offerings have had better long-term performance than other types of IPOs in 2005, according to data from Dealogic. Is this an aberration, or should I look to invest only in IPOs backed by private capital?

7. Foreign investors spent $1 billion on Chinese real estate last year, up from $150 million in 2004, according to foreign brokers operating in the Middle Kingdom. Most of the buyers were foreign corporations looking to establish a physical presence in China. Does this flood of capital mean there are still investment opportunities in the notoriously volatile and overpriced Chinese real estate market?

8. Investment banks are playing both sides of the field in an increasing number of leveraged buyouts, advising the sellers and providing loans to the buyers. Is this attempt to squeeze as much revenue as possible out of each deal as ethically dubious as it appears? Is it happening in any of the deals in which I or my private equity partnerships are involved?

9. Is the euro in peril? Standard & Poor's has released an analysis of sovereign bonds from Italy and Greece that examines what would happen if they withdrew from the Eurozone and devalued their currencies. Meanwhile, hedge funds are reportedly wagering billions of euros on a widening in the spread between German and Italian euro-denominated debt, essentially betting that Italy's disastrous economy will force it to abandon the euro. How would this affect my investments?

10. Mutual fund managers are beginning to criticize corporate executives and seek influence over management almost as aggressively as their hedge fund counterparts. Will this boost mutual funds' returns, or is it a waste of their time and efforts?

11. Hedging the value of a home will soon be easier; the Chicago Mercantile Exchange plans to unveil housing price futures based on residential real estate indices for each of 10 U.S. cities in April. The futures are designed for institutional investors and businesses exposed to the housing market. But would they also be useful for private investors?

12. What do David Bowie, Iron Maiden and Marvin Gaye have in common? They have all issued bonds backed by future record sales royalties from their existing song catalogs. Now bankers are engineering a bond that would be backed by royalties from several artists at once. If they are successful, would this be an attractive investment?

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13. **The venture capital** overhang nears $60 billion, according to a recent report by Ernst & Young and VentureOne. But despite the surfeit of raised but uninvested capital, venture capitalists are finding that limited partners are still willing to pony up new money. Does the overhang threaten venture-stage investment opportunities, or can the sector absorb it?

14. **Banks are adopting** green policies in an attempt to get some positive publicity (while aiding the environment). Goldman Sachs recently unveiled a set of environmentally friendly policies, joining Citigroup and others. Will this make banks and investment banks more, or less, attractive as investments?

15. **Islamic finance** is a fast-growing sector, with a host of sovereign issuers, including Germany and Malaysia, rolling out sharia-compliant bonds. Are these good investments overall, or are they only for those who must comply with Islam's sharia code, which prohibits the payment of interest?

16. **British companies** lose £72 billion a year to fraud, a figure representing 6 percent of their annual revenues, according to a recent analysis by the Association of Certified Fraud Examiners and law firm Mishcon de Reya. Is it riskier to invest in the UK than it is in the United States, where Sarbanes Oxley's antifraud provisions are in effect?

17. **The private equity** bubble will burst this year, at least in Europe, according to nearly all the industry experts surveyed late last year by the Financial News. Ninety-five percent believe leverage levels are reaching "dangerous and unsustainable levels." How should I position my investments in light of this?

18. **Energy asset returns** may have peaked, at least judging from moves by savvy financial buyers like Goldman Sachs to offload power plants and related investments. Although secondary market liquidity and interest in assets remain strong, should I begin to reevaluate my exposure?

19. **Some hedge funds** extended their lock-up period to two years in an attempt to exploit a loophole in the new SEC rule requiring them to register as investment advisors. Those with lock-up periods of two years or more are exempt from the new requirements. Have any of my funds done so? What recourse do I have?

20. **Banks can race** stocks and bonds to market faster than ever under new SEC rules that establish fast-track securities-offering procedures. But many fear this will further diminish the quality of due diligence, which has proven to be only a cursory formality in many cases. Should I avoid fast-tracked securities issues?

21. **The first index** of longevity debuted late last year, with its backers at Credit Suisse First Boston saying the tool will help insurers, investors and companies calibrate and hedge their longevity-related investment offerings and exposures. Could this be useful in developing products and strategies for multigenerational estate planning?

22. **Venture capitalists** are snubbing Britain for the Continent. Spending on UK acquisitions was down 15 percent in 2005, the first decline since the dot-com crash, according to Zephyr, a research firm. This turns conventional wisdom—that the UK is far more friendly to entrepreneurs than the Eurozone—on its head. Should I be reconsidering my allocation of risk capital in Europe?

23. **Fund of funds managers** destroy value when attempting to pick high-performing hedge funds—their ostensible skill, and the one for which they are paid—according to new research from the risk and asset management research arm of French business school Edhec. More than 80 percent of the value created by hedge funds of funds comes from strategic asset allocation, not picking hotshot fund managers, Edhec reports. Does this mean the incentive fees I pay my HFOF managers are buying me underperformance?

24. **Russia's business** reputation cratered after it cut off natural gas shipments to Ukraine—and therefore much of Europe—over a pricing dispute. The move has the energy-dependent Continent scrambling to reduce its dependency on Russian natural gas. Will this provide entrepreneurial opportunities in the energy sector?

25. **Credit-linked notes** are increasingly popular with institutional and private investors who want to express their investment view that the credit environment is set to deteriorate. Are these products appropriate for me?