1 General Overview

Wednesday, 8 April 2009

Dear Partners:

The Fund finished the 1st quarter of 2009 9,28% in the plus. The Fund is up 16,16% since the start of the Fund versus -18,47% for the MSCI World Index.

Below are the results of the Tartaros Global Value Fund since its inception on the 21st of October 2008 (cf. part two for the fund overview); also shown is the return of a major market index (we would like to stress that there is no specific benchmark for the Fund; the comparison to the market index is only provided as an indication to the broader market context):

Returns % (in € - net of all fees)

2008	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund										5,36	-3,82	4,89	6,30
msci world										1,11	-6,50	-5,75	-10,90
2009	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	8,54	-2,06	2,8										9,28
msci world	-1,05	-9,25	1,91										-8,49

The MSCI World is a stock market index of "world" stocks. It is maintained by M.S.C.I., formerly Morgan Stanley Capital International. The index includes equities from 23 countries, and has been calculated since 1969.

It would be an understatement to say that the Fund had a very good start, both since the inception of the Fund and the start of the year. Moreover, this result was achieved with a sizeable cash position as back-up. At the moment – thanks to new commitments at the start of the current quarter by new and existing partners – the Fund has a 25% cash position. It should however be noted that we are and have been focusing all our efforts to finding extremely undervalued long only investment opportunities. This means that we are and will be in the near future subject to the vagaries of the overall market climate. We repeat again that we should be willing to take some short term pain (temporary market price losses) to be assured of longer term investment gains. We will do everything possible to avoid short term (financial) pain, but in all honesty we do not control these short term market gyrations. Moreover, we think that give the current long term market opportunities we should be willing to accept this short term volatility.

Who watches the watchmen?

"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."
- John Maynard Keynes

What is money? In the beginning there was commodity money. Some thing "is" the money: gold, silver or copper coins; deer skins; wheat, sugar or salt. Gold has been a preferred commodity money for thousands of years. It is relatively rare, doesn't spoil or corrode and it is infinitely

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divisible into a consistent quality and quantity of coinage. Today, we have fiat money. Fiat currency or fiat money is money that enjoys legal tender status derived from an authoritative order of the government. It is often associated with paper money because, without government fiat, bank notes are not a legal tender in payment of debt. Fiat money is often defined as paper currency not backed by gold or silver. The inherent value of this paper money is thus zero, except when it is measured against the value of consumables the bearer can exchange for each unit of currency in his or her possession.

The world has come to an important crossroad with respect the belief in fiat money. Up to today, it has been widely accepted that money is worth the goods and services for which it is routinely exchanged. This will probably change in the years to come.

Ironically, Alan Greenspan, Federal Reserve Chairman from 1987 to 2006, was an early critic of fiat money, arguing in his essay Gold and Economic Freedom in 1966:

The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds which – through a complex series of steps – the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims outstanding than real assets. The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion. In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.
This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the "hidden" confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights.

The United States abandoned the gold standard in the summer of 1971, by executive order signed by President Nixon. At that moment in history, the United States decided it would no longer exchange its paper dollars for gold. It is an interesting fact to consider: the United States and the rest of the world have been operating in a system of limitless money creation for only 38 years. 38 years is not an extensive period of time when reflecting on world history.

"It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."
- Henry Ford

As a result of the world's banking systems being multiples of the host country's gross domestic product and many multiples of government incomes, the countries have only one way out of this. What we have witnessed over the past months is that governments around the world have decided to try to save the structural stability of their banking systems in order to preserve the trust of the voters and their confidence in the financial system. Basically, governments around the world have to save their banks even, if it means bringing themselves into an unsustainable financial position. The path that the world's governments have adopted is the money printing press.

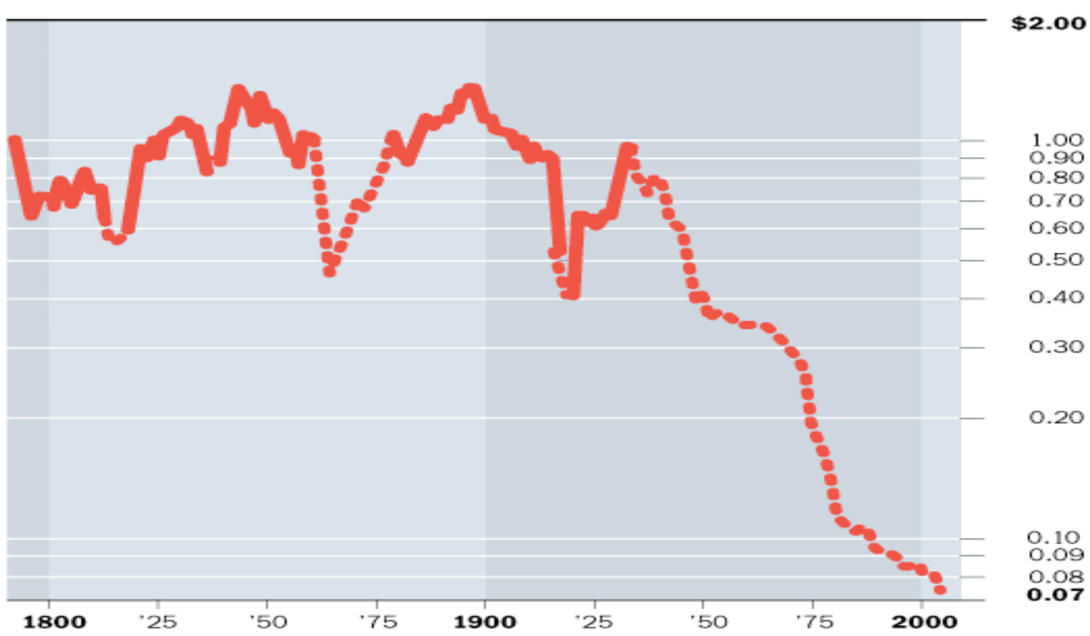
Ben Bernanke – the central banker of all central bankers – has finally lived up to his nickname, Helicopter Ben. In his now infamous 2002 speech, Ben Bernanke stated:

The conclusion that deflation is always reversible under a fiat money system follows from basic economic reasoning. A little parable may prove useful: Today an ounce of gold sells for $300, more or less. Now suppose that a modern alchemist solves his subject's oldest problem by finding a way to produce unlimited amounts of new gold at essentially no cost. Moreover, his invention is widely publicized and scientifically verified, and he announces his intention to begin massive production of gold within days. What would happen to the price of gold? Presumably, the potentially unlimited supply of cheap gold would cause the market price of gold to plummet. Indeed, if the market for gold is to any degree efficient, the price of gold would collapse immediately after the announcement of the invention, before the alchemist had produced and marketed a single ounce of yellow metal.

What has this got to do with monetary policy? Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.

The Greenback's Purchasing Power

This log scale chart of the purchasing power of the dollar begins with an index value of 100 at the passage of the Mint Act of 1792. The solid lines present periods when the dollar was convertible into a specific quantity of gold, and the fluctuations represent changes in the purchasing power of gold. The dotted lines present periods when the dollar was not pegged to gold, during and after the War of 1812, the Civil War, World War I and World War II. There was limited convertibility from 1945 to 1971, but the dollar lost purchasing power during the period. The last link between the U.S. currency and gold was cut in 1971 and the loss of purchasing power accelerated. By 2004, the dollar had lost more than 92% of its original purchasing power.



Source: Chart by American Institute for Economic Research, from the Wholesale Price Index compiled by the Bureau of Labor Statistics

When we look back into history (cf. Monetary Regimes and Inflation, Peter Bernholz), almost every experiment with fiat currency has ended poorly. Moreover, it should be noted that all hyperinflations in history have occurred during the 20th century, that is in the presence of discretionary paper money regimes; with the exception of the hyperinflation during the French revolution, when the French monetary regime, too, was based on paper money standard.

We have entered a time in which all of the world's central banks are starting up the printing presses (they don't even need paper and ink anymore) and start printing money to attempt to cover up their mistakes. If you are following stocks or bonds (like in 1923 Germany), you are likely to get hustled because you are not watching the government steal your hard-earned savings with their magic tricks, i.e. creating money out of thin air.

I have lost all feeling for numbers (during the last phase of the German hyperinflation). Yesterday (8 October 1923) we paid for the cinema together with the fare for the tram 104 million (marks). Yesterday (6 November 1932) w experienced our wildest day concerning money. On Monday morning I had received about 870 billion – who still counts figures below 100? – (as part of my salary), received yesterday the same amount and the notice that I would get double the sum today…
Since the dollar rose from 65 to 130 billion yesterday (29 October 1923), I will have to pay a doubled price for my gas bill and several other things compared to yesterday. This will amount for gas to a difference of 150 billion.
- Victor Klemperer, Professor of Romance Languages at Dresden University

Alan Moore and Dave Gibbons' "Watchmen" has deservedly been praised as one of the most innovative and influential graphic novel ever published, as well as one of the great works of literature of the 20th century. The graphic novel is about a vigilante group of corrupt and subversive so-called super-heroes, whose mission is to watch over humanity, but they end up destroying many human lives, in order to further their own agenda. As it makes its way to the big screen and even wider popularity, its central message is more important than ever, as suggested by the question that appears through the book, "who watches the watchmen?" The central bankers were supposed to be the watchmen of our financial system and, more importantly, of the value of our money. Contrary to accepted wisdom, they were never really in control, but today they don't even have a hidden agenda anymore. In the absence of money's mandatory convertibility into a precious metal central banks have been tasked with preventing inflation (or the devaluation of fiat money by printing too much of it). The only institutions in the world that can legally print, or better, counterfeit money are supposed to watch over the unruly debasement of our money. The watchmen have the monopoly on money creation. But nobody is watching the watchmen.

"The Reserve Act lets us print all we'll need. And it won't frighten people. It won't look like stage money. It will be money that looks like money."
- Treasury Secretary William Wooden, 1933

We believe the world is in an ongoing deflationary spiral of debt that will likely continue for quite some time (possibly years). The printing of money around the globe is not likely to be immediately inflationary as the private sector deleverages. The greater concern is the potential inflationary time bomb that grows as governments continue to borrow and print in order to save the financial system. It should be noted that we do not even take into account the coming generational storm (i.e. coming the pension crisis) and its consequences.

"I sincerely believe ... that banking establishments are more dangerous than standing armies, and that the principle of spending money to be paid by posterity under the name of funding is but swindling futurity on a large scale."
- Thomas Jefferson

The governments around the world are sacrificing the confidence in our money to try to keep the confidence in the financial system and the economy. How many of people do you think it will take to begin to question the value of paper money when it is being debased in an attempt to save economies and governments?

Housekeeping and next update

The Tartaros website should be ready by the middle of May.

I would like to stress again that Bank Delen Luxemburg is the Fund's custodian and administrator and that they are obliged to follow the administrative rules. They diligently do so.

You should receive the next update at the beginning of July.

As always, please feel free to call or e-mail us with any questions or comments you have.

Thank you for your continued referrals, interest and support!

Best Regards,

The Tartaros Team

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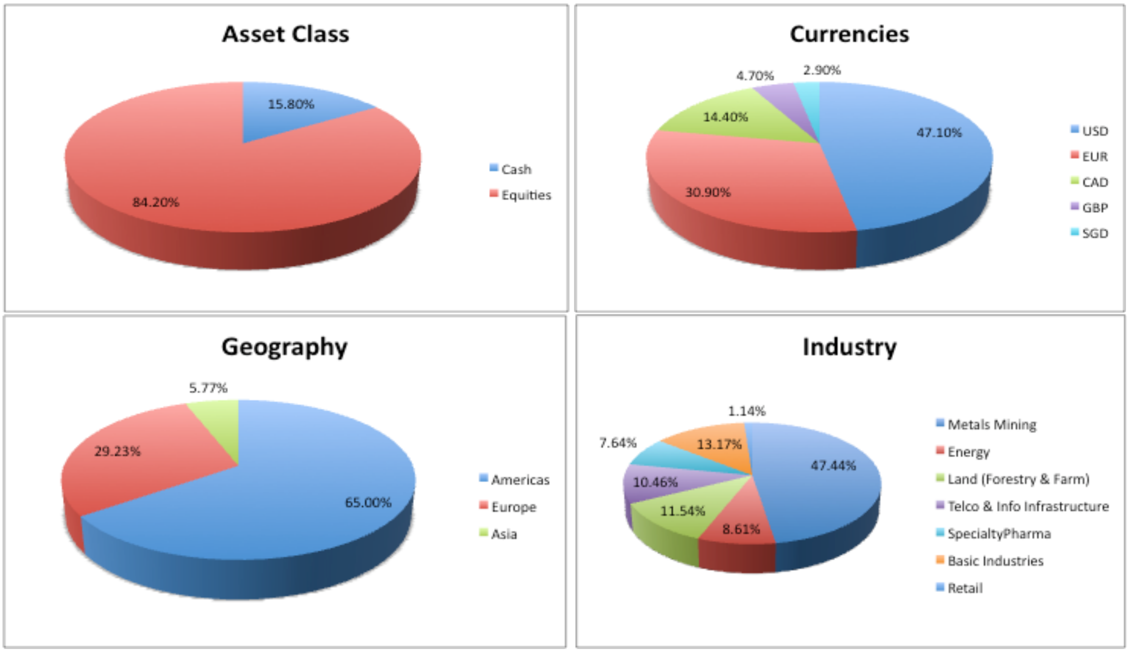
2 Fund Overview

2.1 General Overview (end of Q1 2009)



2.2 Fund Positions

At the moment – after new commitments at the beginning of the second quarter – the Fund still has a 25% cash position. We are invested 75% long across 26 investment positions. We currently have no short positions and no leverage. The portfolio is invested in companies across a range of market capitalizations:

Market Capitalizations in USD	% of equities invested
> 5 Billion	16%
1< 5 Billion	28%
0,5 < 1 Billion	12%
< 0,5 Billion	44%

We sold out our positions in Deutsche Boerse and Intralot at a loss in order to replace cheap with cheaper and at the same maintain a healthy cash position.

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