Media Modeling and Budgeting at DMI

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What was LTCM?

LTCM's Strategies

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Contribution to Efficient Markets
- Provided liquidity
- Markets needed buyers and sellers
- Took positions no one else would
- Targeted market inefficiencies

Major Trades

Despite all the success:

LTCM Minimized Their Use of Equity

Catalysts of LTCM's Failure

Conclusion

What lessons can we learn??

Two steps short of the perfect model...

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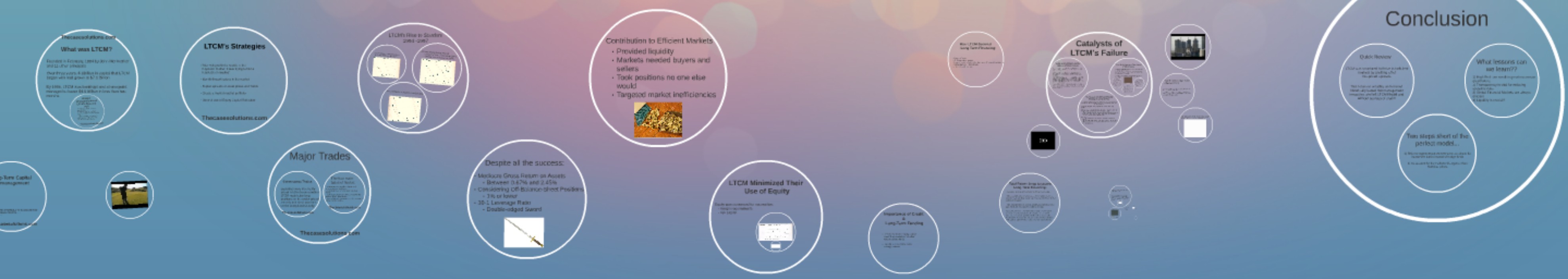
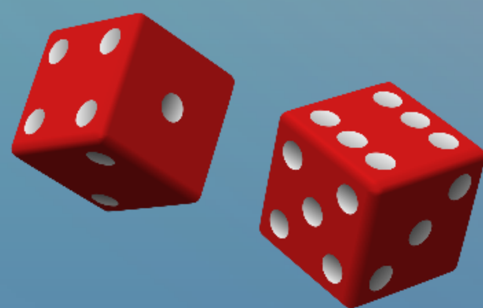


Long-Term Capital *Mis*management



**HOW THE PERFECT FORMULA TO ELIMINATE RISK
MADE PHENOMENAL PROFITS . . .
AND LOSSES . . .**

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What was LTCM?

Founded in February, 1994 by John Meriwether and 11 other principals

Over three years, $ 1Billion in capital that LTCM began with had grown to $7.1 Billion

By 1998, LTCM was bankrupt and at one point managed to loose $4.5 Billion in less than two months

Unique Characteristics of LTCM's Rise and Fall

No laws were broken and no-one went to prison
No-one was fined or censured
No LTCM employee was indicted for fraud
No internal or regulatory authority audit report ever highlighted any risk, or operational concerns

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LTCM’s Strategies

- “Not trying to find a needle in the haystack; Rather, it was trying to find a haystack of needles”
- Identify Imperfections in the market
- Exploit spreads of asset prices and Yields
- Create a market-neutral portfolio
- Minimal use of Equity Capital Risk taker

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Major Trades

Convergence Trades

Securities were incorrectly priced relative to one another LTCM would take long positions on the under priced security and short positions on the overpriced security

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The four main types of trades:

- Convergence among U.S., Japan, and European Sovereign bonds;
- Convergence among European sovereign bonds;
- Convergence between on-the-run and off-the-run U.S. government bonds;
- Long positions in emerging markets sovereigns, hedged back to dollars

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