

To: Oakmont Corporation

From: Damon de Laszlo

DABERIAM XXXV

November 2007

Global Economic Indicators

World Economic Growth (World Bank figures)	2006	4.00%	2005	3.60%	2004	3.40%
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Base rates: 29 Nov 2007	USD	4.25%	EUR	4.00%	GBP	5.75%
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MSCI World Equity Index	31/10/2007	299.601	29/12/2006	235.243	YTD %	27.36%
Gold (PM London Fix \$ per ounce)	31/10/2007	789.50	29/12/2006	635.70	YTD %	24.19%
Oil (WTI Crude \$ per barrel)	31/10/2007	94.54	29/12/2006	61.06	YTD %	54.83%

The general press has now caught up with the banking world and it is clear to everyone that we are going through a crisis in the financial markets. It has sometimes been observed that no plan of battle survives the first shot being fired; until the smoke clears the outcome is uncertain. We are at the moment when virtually all pundits have joined in on the game of predicting a stream of potential disasters as contagion spreads through the financial system, but the outcome is not certain.

The structured debt unwinding still has some way to go. In general financial institutions are probably not through the write offs of their positions and there is still another six months to go before company auditors and the rating agencies have cycled through the portfolios and captured all the write-downs.

The unravelling of the structured debt market is causing major problems in the inter-bank market, and causing banks to distrust each other. This in turn is causing a huge reduction in liquidity in all the financial markets in the West, that could possibly in turn lead to a deflationary spiral.

To return to the military analogy: under the pall of smoke that is obscuring the banking system, the financial institutions are fighting their individual battles to sort out the carnage in the structured debt market. The weaknesses in some of the institutions have and will continue to appear but the overall battle for liquidity is likely to be subsiding by the third quarter of '08.

The prognostications of disaster are based on historic experience but there is today a major difference. While the banking situation is causing the markets to be very nervous, the underlying economies in China and the rest of Asia remain exceedingly strong and are producing enormous amounts of liquidity. Europe is still suffering from its highly rigid economies, but USA's more flexible economy is responding to the dollar depreciation as already the downturn in imports and upturn in exports is starting to correct the burgeoning trade deficit.

The Fed is highly likely to reduce interest rates and this is forcing the other Central Banks to either hold or reduce interest rates in turn in order to stop their currencies appreciating against the dollar, so reducing the pressure on the system.

It is also worth noting that while volatile commodity prices are still at the high end of the charts, this does not indicate a major weakness in the global economy. Indeed the high commodity prices, in particular food and oil, are feeding inflation in China and the rest of the world. The upward pressure on the RMB will also inevitably feed into US inflation. While half of the economic community that are looking at historical statistics see no inflationary problems, those that look forward, including the Central Banks, are making nervous noises.

One can predict that interest rates in two years time will be higher than today, but where they go in the meantime is the key question, to which the answer is almost certainly lower.

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We are at the point where it seems that the pessimists have it all their own way, but it is probably the turning point. While corporate profitability and global growth will certainly slow, the lower interest rates are likely to enable growth to be rekindled by the end of next year. Stock markets tend to anticipate and there is a high probability that they could take off in the run up to Christmas. There is also a high probability that in post-Christmas gloom, there will be another financial institutional train wreck.

I have to end on an optimistic note as we run into Christmas and conclude the world is not coming to an end just yet.

Damon de Laszlo
29th November 2007