HAYMAN
ADVISORS, L.P.

October 17, 2008

Be Careful "Buying American"

While I wholeheartedly respect my elders, Mr. Buffet's comments today in the NY Times worry me. I am going to both agree and respectfully disagree with him. The disagreement is fundamentally based upon timing.

When referring to the Great Depression, the equity market "crashed" in October 1929. It fell from a level of 381.17 in September 1929 to 198.89 on November 15, 1929 (a decline of 48%). After a brief rally from November 1929 to April 1930, the market dropped **ANOTHER 86%OVER THE NEXT THREE YEARS** to a level of 41. If you bought stocks in mid 1929, **you didn't get back to EVEN until 1954!**

I wonder how much money Mr. Buffett will cost people with his Op-Ed piece today?

He says buy equities (one year into the largest levered bust the world has ever witnessed) without telling people exactly what happened to the markets back then. I believe his comments are, to a certain extent, incomplete. I believe that America is, and always will be, the best place to live, work, and invest. However, the financial innovation and excessive leverage employed by American and foreign corporations, asset managers, and even consumers will take many years and bankruptcies to solve. Many companies, individuals, and even countries will end up bankrupt. Take Mr. Buffet's comments in stride. He has recently invested in companies seemingly without doing ANY due diligence. His investments into GE and Goldman Sachs were announced the same day, admittedly hours after, the call to him was made pleading for investment. He has departed from his mantra of derivatives being the "financial weapons of mass destruction" to investing in one of the biggest financial bomb makers in the business. I am not attempting to knock Goldman Sachs here because I do believe they are the greatest Wall St. firm ever. I am trying to make a point on deep value investors buying perceived franchise value without understanding the explicit and implicit leverage levels in those businesses. I'm sure you can dig up articles of multitudes of deep value investors investing in Fannie, Freddie, Bear Stearns, Lehman, Wamu, Wachovia, and AIG all the way to the Davy Jones' Locker. That style of investing typically works when excessive amounts of leverage AREN'T USED. The system is levered the most it has EVER been RIGHT NOW.

There will be a time to buy stocks. My best guess is that time is a few years into the future when the strong have separated themselves from the weak...a time when unemployment has hit 10% and US GDP has dropped 4-5% (maybe more). Be wary of "trusted" individuals telling you everything is fine today and that it is safe to buy equities in general. Mr. Buffet has enough

2101 CEDAR SPRINGS ROAD, SUITE 1400 DALLAS, TX 75201 TEL. 214-347-8050 FAX 214-347-8051

money to be able to have his holdings drop 50% and still fly in his jets and live the way in which he has become accustomed. Do you have enough capital to take what you have left, cut it in half, and continue to live the way you have for the past few years? I don't.

Remember Alan Greenspan called the bottom in housing in November 2006. Here is what he said back then:

"I suspect that we are coming to the end of this downtrend, as applications for new mortgages, the most important series, have flattened out. I don't know, but I think the worst of this may well be over."

He was a bit early on this "call." Be careful buying ANYTHING today.

For those of you historians, I have attached a chart of the market from 1/4/29 to 12/30/32. It is the period of 29' to 33' that Mr. Buffet has left out of his discussion in the Op-Ed piece. Now isn't the time.

Respectfully,

J. Kyle Bass
Managing Partner

The information set forth herein is being furnished on a confidential basis to the recipient and does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to eligible investors by means of delivery of a confidential private placement memorandum or other similar materials that contain a description of material terms relating to such investment. The information and opinions expressed herein are provided for informational purposes only. An investment in the Hayman Funds is speculative due to a variety of risks and considerations as detailed in the confidential private placement memorandum of the particular fund and this summary is qualified in its entirety by the more complete information contained therein and in the related subscription materials. This may not be reproduced, distributed or used for any other purpose. Reproduction and distribution of this summary may constitute a violation of federal or state securities laws.