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To: [Confidential]

Subject: Amaranth Says Funds Lost 50% his Month on Gas Trades (\$5 billion)

I have been meaning to send an update to my July package in which I forwarded materials re the impending derivatives crisis and warning that the housing situation was much worse than being disclosed.

The following is my opinion based on events between now and then:

In it you may recall I stated that another major crisis was a matter of when, not if.

Since that time I have spent a great deal of time analyzing structured finance and have added a subscription to Fitch's database, which contains tranche by tranche analysis of all traded mortgage backed, asset backed, cdo's and credit swaps and anything else they rate .

The leverage inherent in these things is enormous and that is simply in each security and does not contemplate the leverage of the holders.

We are now at an inflection point where housing is cratering and the pressure on these structured finance vehicles will intensify dramatically.

Keep in mind they all have as an underlying premise that volatility is constant. Further the "constant volatility" being used is abnormally low since things have been fairly good the last few years. When pressure is applied the volatility will grow and there will be many more billion dollar and then tens of billions of dollar blow ups.

The situation described below was arguably containable because 10 billion is not all that much money and the natural gas trade is not widespread. The housing credit issue is global. **The same thing is going to happen only much worse than this. It is only a matter of time**

Amaranth Says Funds Lost 50% his Month on Gas Trades (Update5)

http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aZIRDznaiJEg