ROBERT P. PRINCE

Co-Chief Investment Officer
Management Committee Member
Bridgewater Associates, Inc.

Bob Prince has been with Bridgewater since 1986. He manages the company's research and development of proprietary investment management models, designs client investment strategies and oversees the implementation of these strategies within client portfolios. Bob has undergraduate degrees in Finance and Accounting from the University of Tulsa and was a CPA. He also received an MBA from the University of Tulsa in 1985. Prior to joining Bridgewater, Bob managed the Treasury department for the Banks of MidAmerica in Tulsa, Oklahoma.

Bridgewater is one of the nation’s most innovative, effective and respected investment organizations. The group oversees more than $75 billion in investment funds for most of the world’s largest and most sophisticated institutional investors and central banks. Bridgewater was founded in 1979 and in 2009 was voted the most respected investment organization in America.

Bob has been married to his wife Sharon for more than 20 years, and they have three children. In addition to his work at Bridgewater, Bob is also very involved in a variety of community operations and is a committed church statesman.

BRIDGEWATER

Pure Alpha and All Weather Overview Information

April 2013

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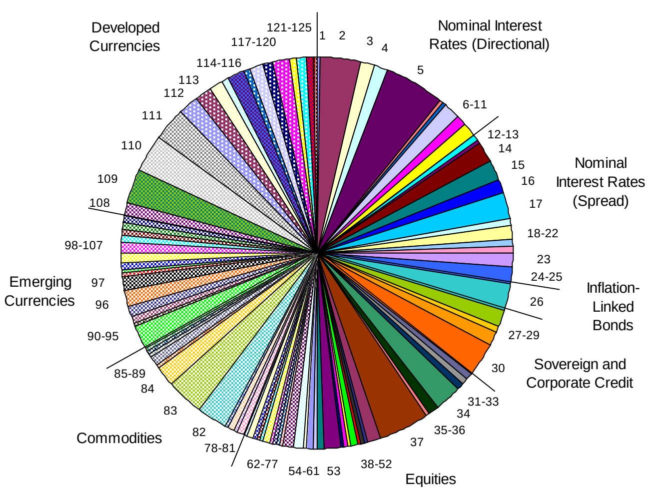
(203) 226-3030
www.bwater.com

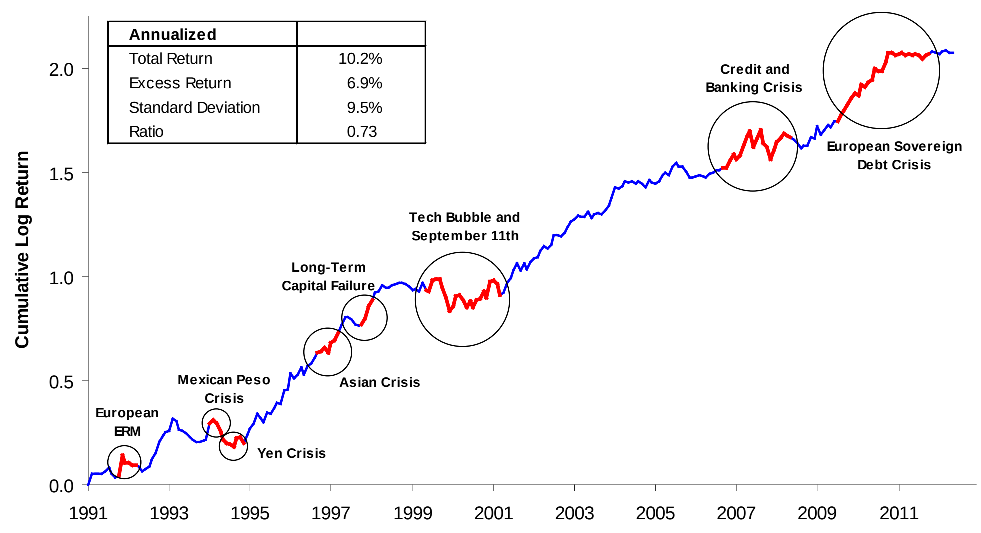
BRIDGEWATER PURE ALPHA STRATEGY OVERVIEW

- Active strategy designed to generate high and consistent returns uncorrelated to markets or other manager returns
- Investment process is fundamental, systematic, and diversified
- Takes long, short, and relative positions in liquid, global markets
- Offers monthly liquidity with no lock-ups
- 22-year track record
- Proven risk management through multiple crises

Diversification of Active Opportunities in 125 Markets



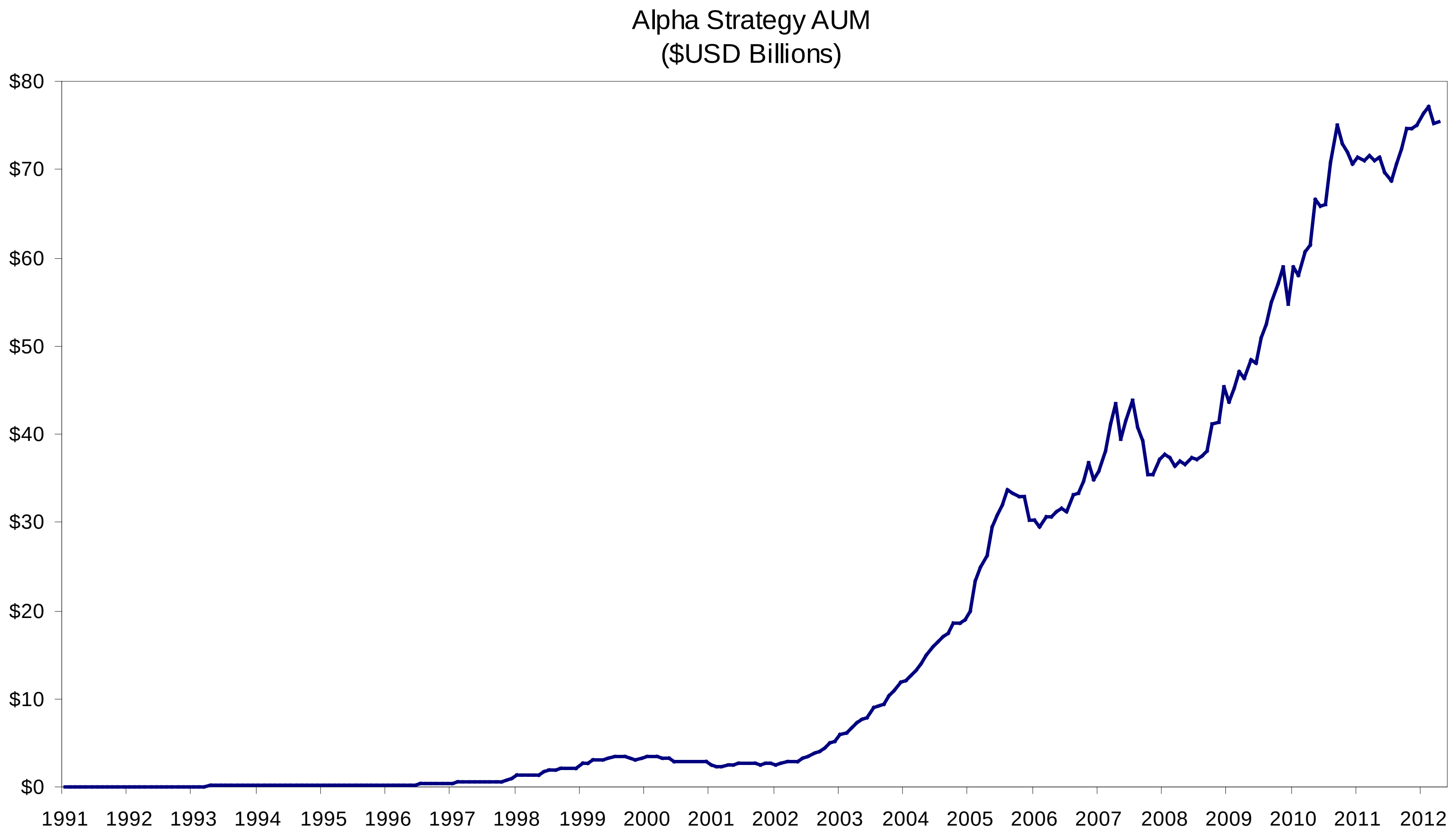
Pure Alpha Strategy @ 12% Target Volatility
(Net of Fees Total Return)



Past performance is not indicative of future results. Please review the “Important Disclosures and Other Information” located at the end of this presentation. Performance is net of fees and estimated through Mar 2013.

BRIDGEWATER

ALPHA STRATEGY AUM

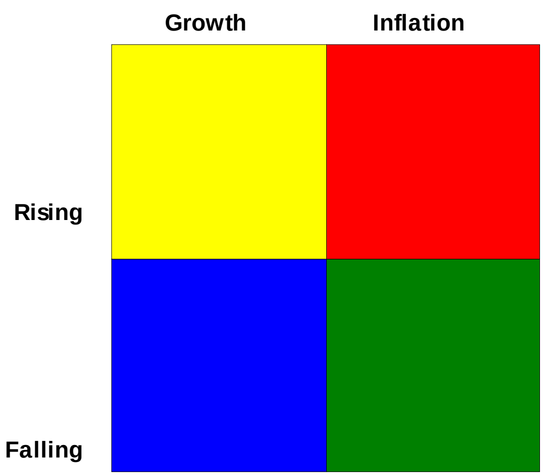


Note: Figures are estimated for the periods referenced. Alpha strategy includes Pure Alpha and Pure Alpha Major Market strategies. Inception of Pure Alpha was December 1991. Inception of Pure Alpha Major Markets was October 2010. AUM shown is inclusive of additions and/or withdrawals made as of the first business day of the following month. Please review the “Important Disclosures” located at the end of this presentation.

BRIDGEWATER ALL WEATHER STRATEGY OVERVIEW

- Strategic, long-only asset allocation designed to capture the risk premium embedded across assets as consistently as possible
- Balances asset classes with opposing sensitivities to shifts in the economic environment (growth and inflation)
- Targets 6.5% gross annual excess return with 10% volatility
- Trades liquid markets and offers monthly liquidity with no lock-ups
- 17-year track record

Environmentally Balanced Portfolio

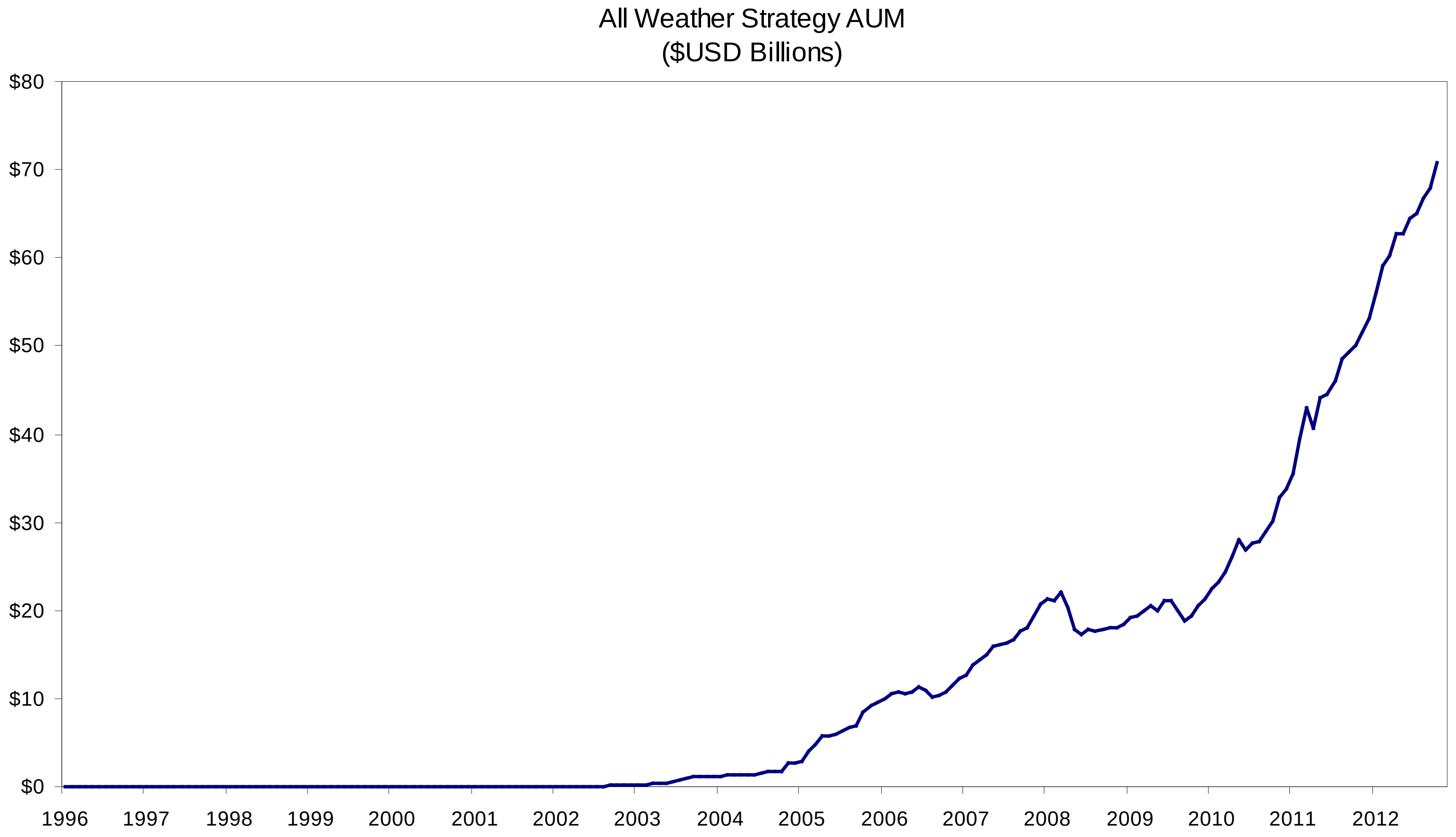


All Weather II Strategy Net of Fees Total Return	
1996*	20.4 %
1997	15.0 %
1998	- 1.8 %
1999	15.6 %
2000	9.9 %
2001	- 6.0 %
2002	10.2 %
2003	16.7 %
2004	17.7 %
2005	15.5 %
2006	1.2 %
2007	11.8 %
2008**	- 15.3 %
2009**	19.6 %
2010	18.4 %
2011	17.8 %
2012	15.3 %
2013+	1.0 %
Annualized Total Return	10.4 %
Annualized Excess Return	7.5 %
Standard Deviation	11.4 %

** 1996 performance is cumulative performance from Jun. 1996 to Dec. 1996*
2013+ performance is cumulative YTD performance through Mar 2013. Mar 2013 is preliminary.
**From October 2008 through September 2009 returns are simulated based on the All Weather target allocations constrained from shifts based on Bridgewater's depression gauge

HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. Past performance is not indicative of future results. Please review the “Important Disclosures and Other Information” located at the end of this presentation.

ALL WEATHER STRATEGY AUM



Note: Figures are estimated for the periods referenced. Inception of All Weather was June 1996. AUM shown is inclusive of additions and/or withdrawals made as of the first business day of the following month. Please review the "Important Disclosures" located at the end of this presentation.

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HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.

Any tables, graphs or charts relating to past performance, whether hypothetical, simulated or actual, included in this presentation are intended only to illustrate the performance of indices, strategies, or specific accounts for the historical periods shown. When creating such tables, graphs and charts, Bridgewater may incorporate assumptions on trading, positions, transactions costs, market impact estimations and the benefit of hindsight. Such tables, graphs and charts are not intended to predict future performance and should not be used as a basis for making any investment decision. Bridgewater has no obligation to update or amend such tables, graphs or charts.

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All amounts and percentages in this presentation are approximate and have been rounded for presentation purposes.

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PURE ALPHA STRATEGY PERFORMANCE DISCLOSURES

Pure Alpha Strategy Performance (Net of Fees)

	Pure Alpha Total Return in USD
Last 1 Year	0.8%
Last 3 Years	12.6%
Last 5 Years	7.8%
Last 10 Years	9.9%

Annualized Returns (Dec-91 through Mar-13)

Net Since Inception Dec-91 through Mar-13

Annualized Total Return	10.2%
Standard Deviation	9.5%
Information Ratio	0.73

Past results are not necessarily indicative of future results.

Bridgewater Pure Alpha Strategy 12% Volatility Performance Disclosure:

The performance history provided is based on actual Bridgewater Pure Alpha accounts. Returns since the strategy's inception in December 1991 through April 1999 are based on the actual performance of a partially funded account (where interest income has been removed to arrive at the excess returns), and are adjusted to include the imputed interest return on the full notional value using the US repo rate. Returns from May 1999 through present are the actual returns of the longest running fully funded Pure Alpha account with a target tracking error of 12%, a United States cash benchmark, and fully unconstrained active management guidelines. Bridgewater manages additional Pure Alpha portfolios not included in this performance history.

Gross of fees performance is gross of management and performance fees only and includes the reinvestment of interest, gains, and losses.

Where shown, from December 1991 through April 1999, net of fees returns have been calculated using the cumulative gross return of the Strategy starting in December 1991 and applying our standard Pure Alpha fee schedule, which are the highest fees charged. From December 1991 though April 1999, using a monthly high water concept (and after April 1999 a quarterly high water concept) deduction of incentive fees may vary and may be higher or lower than the fees actually charged to the account for the same time period. These returns reflect all fees (which are at our Pure Alpha standard rates), expenses and interest actually charged or credited to the account. Investment advisory fees are described in Bridgewater's ADV Part 2A.

No representation is being made that any account will or is likely to achieve returns similar to those shown. Trading in futures is risky and can result in losses as well as profits. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Performance as of the current month is estimated and subject to change.

ALL WEATHER STRATEGY DISCLOSURE

All Weather Strategy Performance (Net of Fees)

	All Weather Total Return in USD
Last 1 Year	11.4%
Last 3 Years	15.6%
Last 5 Years	6.1%
Last 10 Years	9.6%

Annualized Returns (Jun-96 through Mar-13)

Net Since Inception Jun-96 through Mar-13

Annualized Return	9.3%
Standard Deviation	10.6%
Sharpe Ratio	0.61

Past results are not necessarily indicative of future results.

Bridgewater All Weather Strategy Performance Disclosure:

For the period June 1996 (the inception of the strategy) through August 2001 the performance is based on the total return of the Bridgewater All Weather strategy as implemented for Bridgewater's principals and their affiliates and was not fully hedged to the US Dollar. The All Weather strategy is structured to be fully hedged, and the performance reflected after August 2001 includes these hedging transactions. For the period of August 2001 through present the performance shown is the actual total returns of the longest running fully funded All Weather account. For the entire history excess returns are calculated by subtracting the cash return of the US repo rate from the total returns described above. Of note, the All Weather strategy's target leverage, volatility and return, as well as the asset mix varied from June 1996 to July 2005. From August 2005 through the present the strategy has targeted 10% volatility. Bridgewater manages additional All Weather portfolios not included in this performance history.

Gross of fees performance is gross of management fees and includes the reinvestment of interest, gains, and losses. Returns will be reduced by the investment advisory fees and any other expenses that may be incurred in the management of the account.

Net of fees performance has been calculated using our standard fee schedule for a minimum size account, which are the highest fees we have or would currently charge an account. Investment advisory fees are described in Bridgewater's ADV Part 2A.

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All Weather Asset Mix Disclosure:

Where shown, simulated returns for All Weather are created using the All Weather asset mix. The All Weather asset mix performance is simulated by applying All Weather asset mix weights, which are determined by Bridgewater's proprietary process for building an environmentally balanced portfolio, to historical market returns. We use actual market returns when available and otherwise use Bridgewater Associates' proprietary estimates, based on other available data and our fundamental understanding of asset classes. Simulated asset returns are subject to considerable uncertainty and potential error, as there is a great deal that cannot be known about how assets would have performed in the absence of actual market returns. The All Weather asset mix simulation is an approximation of our actual process but not an exact replication, and may have differences including but not limited to the precise mix of markets used and the weights applied to those markets. It is expected that the simulated performance will periodically change as a function of both refinements to our simulation methodology and the underlying market data. Where noted, the All Weather Asset Mix Net of Fees returns have been calculated using our standard fee schedule for a minimum size account, which are the highest fees we have or would currently charge an account. Investment advisory fees are described in Bridgewater's ADV Part 2A. No claim is being made of the All Weather Asset Mix's ability to perform in absolute terms or relative to any market return in the future, during market events not represented or during market events occurring in the future. Market conditions and events vary considerably, are unpredictable and can have unforeseen impacts resulting in materially adverse performance results.

ALL WEATHER II STRATEGY DISCLOSURE

All Weather II Strategy Performance (Net of Fees)

	All Weather Total Return in USD
Last 1 Year	12.1%
Last 3 Years	16.0%
Last 5 Years	9.6%
Last 10 Years	11.3%

Annualized Returns (Jun-96 through Mar-13)

Net Since Inception Jun-96 through Mar-13

Annualized Return	10.4%
Standard Deviation	11.4%
Sharpe Ratio	0.66

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Gross of fees performance is gross of management fees and includes the reinvestment of interest, gains, and losses. Returns will be reduced by the investment advisory fees and any other expenses that may be incurred in the management of the account.

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The Economist

Ray Dalio

Man and machine

The economic ideas of the world's most successful hedge-fund boss

Mar 10th 2012 | WESTPORT, CONNECTICUT | From the print edition

And my returns look like this

"THE most beautiful deleveraging yet seen" is how Ray Dalio describes what is now going on in America's economy. As America has gone through the necessary process of reducing its debt-to-income ratio since the financial crash of 2008, he reckons its policymakers have done well in mixing painful stuff like debt restructuring with injections of cash to keep demand growing. Europe's deleveraging, by contrast, is "ugly".

Mr Dalio's views are taken seriously. He made a fortune betting before the crash that the world had taken on too much debt and would need to slash it. Last year alone, his Bridgewater Pure Alpha fund earned its investors $13.8 billion, taking its total gains since it opened in 1975 to $35.8 billion, more than any other hedge fund ever, including the previous record-holder, George Soros's Quantum Endowment Fund.

Mr Dalio, an intense 62-year-old, is following in the footsteps of Mr Soros in other ways, too. Mr Soros has published several books on his theories, and is funding an institute to get mainstream economists to take alternative ideas seriously. Mr Dalio, too, is now trying to improve the public understanding of how the economy works. His economic model "is not very orthodox but gives him a pretty good sense of where the economy is," says Paul Volcker, a former chairman of America's Federal Reserve and one of Mr Dalio's growing number of influential fans.

Whereas Mr Soros credits the influence of Karl Popper, a philosopher who taught him as a student, Mr Dalio says his ideas are entirely the product of his own reflections on his life as a trader and his study of economic history. He has read little academic economics (though his work has echoes of Hyman Minsky, an American economist, and of best-selling recent work on downturns by Carmen Reinhart and Kenneth Rogoff) but has conducted in-depth analysis of past periods of economic upheaval, such as the Depression in America, post-war Britain and the hyperinflation of the Weimar Republic. He has even simulated being an investor in markets in those periods by reading daily papers from these eras, receiving data and "trading" as if in real time.

In the early 1980s Mr Dalio started writing down rules that would guide his investing. He would later amend these rules depending on how well they predicted what actually happened. The process is now computerised, so that combinations of scores of decision-rules are applied to the 100 or so liquid-asset classes in which Bridgewater invests. These rules led him to hold both government bonds and gold last year, for example, because the deleveraging process was at a point where, unusually, those two assets would rise at the same time. He was right.

What Mr Dalio calls the "timeless and universal" core of his economic ideas is set out in a 20-page "Template for Understanding (http://www.bwater.com/home/research--press/a-template-for-understanding--papers.aspx) " that he wrote shortly after the collapse of Lehman Brothers in 2008 and recently updated. The document begins: "The economy is like a machine." This machine may look complex but is, he insists, relatively simple even if it is "not well understood". Mr Dalio models the macroeconomy from the bottom up, by focusing on the individual transactions that are the machine's moving parts. Conventional economics does not pay enough attention to the individual components of supply and, above all, demand, he says. To understand demand properly, you must know whether it is funded by the buyers' own money or by credit from others.

A huge amount of Bridgewater's efforts goes into gathering data on credit and equity, and understanding how that affects demand from individual market participants, such as a bank, or from a group of participants (such as subprime-mortgage borrowers). Bridgewater predicted the euro-zone debt crisis by totting up how much debt would need to be refinanced and when; and by examining all the potential buyers of that debt and their ability to buy it. Mr Volcker describes the degree of detail in Mr Dalio's work as “mind-blowing” and admits to feeling sometimes that “he has a bigger staff, and produces more relevant statistics and analyses, than the Federal Reserve.”

Two sorts of credit cycle are at the heart of Mr Dalio's economic model: the business cycle, which typically lasts five to eight years, and a long-term (“long wave”) debt cycle, which can last 50-70 years. A business cycle usually ends in a recession, because the central bank raises the interest rate, reducing borrowing and demand. The debt cycle ends in deleveraging because there is a “shortage of capable providers of capital and/or a shortage of capable recipients of capital (borrowers and sellers of equity) that cannot be rectified by the central bank changing the cost of money.” Business cycles happen often, they are well understood and policymakers are fairly adept at managing them. A debt cycle tends to come along in a country once in a lifetime, tends to be poorly understood and is often mishandled by policymakers.

An ordinary recession can be ended by the central bank lowering the interest rate again. A deleveraging is much harder to end. According to Mr Dalio, it usually requires some combination of debt restructurings and write-offs, austerity, wealth transfers from rich to poor and money-printing. A “beautiful deleveraging” is one in which all these elements combine to keep the economy growing at a nominal rate that is higher than the nominal interest rate. (Beauty is in the eye of the beholder: Mr Dalio expects America's GDP growth to average only 2% over a 15-year period.)

Print too little money and the result is an ugly, deflationary deleveraging (see Greece); print too much and the deleveraging may become inflationary, as in Weimar Germany. Although Mr Dalio says he fears being misunderstood as saying “print a lot of money and everything will be OK, which I don't believe, all deleveragings have ended with the printing of significant amounts of money. But it has to be in balance with other policies.”

Mr Dalio admits to being wrong roughly a third of the time; indeed, he attributes a big part of his success to managing the risk of bad calls. And the years ahead are likely to provide a serious test of whether the economic machine is as simple as he says. For now, he is in a more optimistic mood thanks to the European Central Bank's recent moves, in effect, to print money. Although he still expects debt restructuring in Spain, Portugal, Italy and Ireland, on top of that in Greece, he says that the “risk of chaos has been reduced and we are now calming ourselves down.” Here's hoping he is right again.

See also: An interview with Ray Dalio
(http://buttonwood.economist.com/post/18847460014/leading-indicator)

From the print edition: Finance and economics

BARRON'S COVER | SATURDAY, MAY 19, 2012

Dalio's World

By SANDRA WARD

Ray Dalio, fabled hedge-fund manager, says the U.S. has done a "beautiful" job delevering, but sees a 30% chance Europe will stumble badly.

It's hard to imagine anyone navigating the rough seas of the past decade more ably than Ray Dalio, master and commander of money-management firm Bridgewater Associates, which oversees $120 billion for a roster of global clients that include foreign governments, pension funds and endowments.

The Westport, Conn.-based company is the world's largest hedge-fund firm and one of just a handful of players to place more than one fund on Barron's annual Top 100 Hedge Funds ranking. This year Bridgewater's flagship Pure Alpha II and its All Weather @12% global macro funds both make the list, (see below for list.). Pure Alpha has tallied a three-year average return of 22.75% while All Weather gained 17.24% on that basis. BarclayHedge's index of hedge funds returned 9.05% a year in that time; the Standard & Poor's 500 gained 14.11% annually.

The Bridgewater funds make strategic bets on commodities, currencies, bonds, and equities around the world based on analysis of valuations and macroeconomic trends..Dalio, who brings an unusually broad and deep perspective to investing, recently shared his latest views with us.

Barron's: *You've called the current phase of the U.S. deleveraging experience "beautiful." Explain that, please.*

Dalio: Deleveragings occur in a mechanical way that is important to understand. There are three ways to deleverage. We hear a lot about austerity. In other words, pull in your belt, spend less, and reduce debt. But austerity causes less spending and, because when you spend less, somebody earns less, it causes the contraction to feed on itself. Austerity causes more problems. It is deflationary and it is negative for growth.

Restructuring the debt means creditors get paid less or get paid over a longer time frame or at a lower interest rate; somehow a contract is broken in a way that reduces debt. But debt restructurings also are deflationary and negative for growth. One man's debts are another man's assets, and when debts are written down to relieve the debtor of the burden, it has a negative effect on wealth. That causes credit to decline.

Printing money typically happens when interest rates are close to zero, because you can't lower interest rates any more. Central banks create money, essentially, and buy the assets that put money in the system for a quantitative easing or debt monetization. Unlike the first two options, this is an inflationary action and stimulative to the economy.

How is any of this "beautiful?"

A beautiful deleveraging balances the three options. In other words, there is a certain amount of austerity, there is a certain amount of debt restructuring, and there is a certain amount of printing of money. When done in the right mix, it isn't dramatic. It doesn't produce too much deflation or too much depression. There is slow growth, but it is positive slow growth. At the same time, ratios of debt-to-incomes go down. That's a beautiful deleveraging.

We're in a phase now in the U.S. which is very much like the 1933-37 period, in which there is positive growth around a slow-growth trend. The Federal Reserve will do another quantitative easing if the economy turns down again, for the purpose of alleviating debt and putting money into the hands of people.

We will also need fiscal stimulation by the government, which of course, is very classic. Governments have to spend more when sales and tax revenue go down and as unemployment and other social benefits kick in and there is a redistribution of wealth. That's why there is going to be more taxation on the wealthy and more social tension. A deleveraging is not an easy time. But when you are approaching balance again, that's a good thing.

What makes all the difference between the ugly and the beautiful?

The key is to keep nominal interest rates below the nominal growth rate in the economy, without printing so much money that they cause an inflationary spiral. The way to do that is to be printing money at the same time there is austerity and debt restructurings going on.

How do you expect Europe to fare?

Europe is probably the most interesting case of a deleveraging in recorded history. Normally, a country will find out what's best for itself. In other words, a central bank will make monetary decisions for the country and a treasury will set fiscal policy for the country. They might make mistakes along the way, but they can be adjusted, and eventually there is a policy for the country. There is a very big problem in Europe because there isn't a good agreement about who should bear what kind of risks, and there isn't a decision-making process to produce that kind of an agreement.

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Top Hedge Funds 1-50

We were very close to a debt collapse in Europe, and then the European Central Bank began the LTROs [long-term refinancing operations]. The ECB said it would lend euro-zone banks as much money as they wanted at a 1% interest rate for three years. The banks then could buy government bonds with significantly higher yields, which would also produce a lot more demand for those assets and ease the pressure in countries like Spain and Italy. Essentially, the ECB and the individual banks took on a whole lot of credit exposure. The banks have something like 20 trillion euros ($25.38 trillion) worth of assets and less than one trillion euros of capital. They are very leveraged.

Also, the countries themselves have debt problems and they need to roll over existing debts and borrow more. The banks are now overleveraged and can't expand their balance sheets. And the governments don't have enough buyers of their debt. Demand has fallen not just because of bad expectations, although everybody should have bad expectations, but because the buyers themselves have less money to spend on that debt. So the ECB action created a temporary surge in buying of those bonds and it relieved the crisis for the moment, but that's still not good enough. They can keep doing that, but each central bank in each country wants to know what happens if the debtors can't pay, who is going to bear what part of the burden?

Have the French and Greek elections changed the outlook?

They are the latest steps in a long drama that is not in and of itself much more important than most of the other steps. It's normal that the pendulum swings to produce these sorts of changes, and it is to be expected that tensions will increase and agreements will be harder to come by. This will add to the risks over the next year.

So what is the solution to this? How will the European debt crisis be resolved?

What is happening in Europe now is essentially the same, almost totally analogous, to what happened in the U.S. in 1789. It is an interesting comparison.

Post-American Revolution?

Yes. In 1776, the colonies declared independence from Great Britain. We didn't have a country. We had independent states that had a treaty with each other, called the Articles of Confederation, and it was similar to

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Top Hedge Funds 51-100

the Maastricht Treaty that created the European Union and the euro currency. The independent states had debt problems and they had tariffs with each other. It wasn't until 13 years later, 1789, that those states started to form a central government, largely because of their debt problems. There was a constitutional convention, and we formed a country and we chose a president. We formed a treasury and imposed central taxation. That gave us the ability to produce revenue for the country and restructure our debts. There was the ability to have taxation and to issue bonds and to borrow. Europe does not have an ability to borrow. It doesn't have central taxation, that's material, and it doesn't have a treasury. It is a collection of countries operating for their own individual needs.

Enlarge Image

Matthew Furman

Ray Dalio

Europe is approaching a decision point. It will have to decide whether it wants to create a sufficient central government that has more than a treaty, that has the ability to collect taxes from the whole and the ability to issue debt that obligates the whole, or whether it does not. That is the crux of this issue. The question is how much pain is it going to cause in Europe, and does the pain cause a collapse before it causes the choices? When a debtor can't print money and depreciate its currency, it will go into a self-reinforcing terrible economic situation. The deleveraging in Spain is just beginning, and they already have nearly 25% unemployment. They need relief.

What does it mean for the world economy if Europe continues to struggle like this?

The ECB has increased the pool of assets that are eligible as collateral that it will lend against, and it could spread out these refinancing operations. The European banks must deleverage at an orderly pace. Wherever they are lending, they are going to be lending less. Countries and those that are depending on borrowing money from European banks will experience a tightening of credit.

Spain and Italy in the periphery and, to some extent, France and even Germany will be hurt by this. Europe will be in a depressed state. Certainly, the peripheral countries in Europe will be in depressions, and there will be high unemployment. But if it happens in an orderly way, which I think is most likely, the repercussions for the world economy won't be intolerable.

While the deleveraging of European banks and reduced European imports will be a depressant on the world economy, global markets and economic conditions won't collapse, because countries outside of Europe will be able to replace retrenching European bank lending with other sources of lending. They will borrow from American banks, and you will see the emergence of banks in large emerging countries such as China and Brazil.

Ireland was early to go down this path. What have we learned from their restructuring?

Well, for the most part, the Irish government has taken on the responsibility for most of the debt. Now the government doesn't have enough euros to service the debt. It has a problem. Portugal is going down the same route. And so, the EFSF -- the European Financial Stability Facility -- will loan to those countries as they go through an adjustment process. But the debt will have to keep being rolled and it will be difficult.

It will be a very long, difficult period for Ireland, and it will be a very long, difficult period for Portugal, and it will eat away money from the EFSF. It will be spread out over a long period of time. But in those cases, it is governments dealing with governments. In the case of Italy and Spain, most of the debt is still in the hands of the debtors and the banks and hasn't been put on to the government, because the resources, the sizes of the problem in Spain and Italy, are much bigger and more difficult for them to be handled in the same way as Ireland and Portugal.

And so?

So the main picture I'm trying to create is there could be a shock. I would say that there is maybe a 30% chance in the next six-month to two-year period of a really bad shock from Europe. And that shock is made worse because there is no clarity of who has got authority or control. When you have a centralized government and you have the ability to enforce laws, you can resolve problems. There might be a lot of arguments, but ultimately decisions can be made.

There are no provisions in the Maastricht Treaty for the breakup of the monetary union. There are no rules, there are no means. If a country is exiting the monetary union and then says I'm going to pay off the debt in my local currency, how does that work? The Maastricht Treaty doesn't have any provision for any country leaving the monetary union. It doesn't say if this happens, then that happens. There is a question of enforceability.

Every society has to have the ability to enforce laws. How does Germany actually force Italy to pay? It isn't clear. Supposing Spain decides they want to exit the union. The unemployment rate is terrible. That's a very scary thought. Maybe they say, "We're going to pay you back in Spanish pesetas even though the contract is for euros." That's the history, by the way: Argentina and Brazil and Mexico did that.

Yes, but local currencies no longer exist.

That's the whole other complication. There are good incentives not to take that course, and yet there are also big problems if you don't take it. In any event, there isn't a good decision-making process. There isn't a single means of achieving resolution in Europe, and that's the big problem here.

Again, how do you see world markets behaving as a result?

At the moment, there is a tipping toward slowing growth and a question of whether there will be a negative European shock, and that will favor low-risk assets. But to whatever extent we have negative conditions, central banks will respond by printing more money. There will be a big spurt of printing of money, and that will cause a rally and an improvement in the stock markets around the world. It's like a shot of adrenaline: The heart starts pumping again and then it fades. Then there is another shot of adrenaline.

Everybody is asking, "Are we going to have a bull market or a bear market?" I expect we will have both with no big trend. Typically, in these up and down cycles, the upswing will last about twice as long as a down swing. We are now in the higher range of the up-cycle.

What will this mean for U.S. Treasuries?

The printing of money has the effect of negating deflation. It doesn't produce high inflation and it makes it difficult for the economy to have a sustained upward move. If you have too much printing of money, then you'll begin a bear market in bonds.

We are now neutral on bonds. Over the next couple of years, long-term bonds will be a poor investment because the government will print money to leave real interest rates low. It doesn't mean that bonds will go through a big price selloff anytime soon. It's more likely the yields provided will be too low relative to inflation and growth to provide an adequate return.

What's your outlook for the U.S.?

The economy will be slowing into the end of the year, and then it will become more risky in 2013. Then, in 2013, we have the so-called fiscal cliff and the prospect of significantly higher taxes, as well as worsening conditions in Europe to contend with. This is coming immediately after the U.S. presidential election, which makes it more difficult. This can be successfully dealt with, but it won't necessarily be successfully dealt with. We have the equipment and the policy makers, and as long as policy is well managed, we'll be okay.

What of China and the emerging economies at this point?

They are doing much better in the following way: They were in a bubble, and when I say a bubble, I mean a debt explosion. Their debts were growing at a fast rate. Their debts were rising relative to income and they were growing at rates that were too fast. Those growth rates have slowed up significantly and probably will remain at a moderate pace. They are in pretty good shape but will be subject to the deleveraging of European banks.

What about commodities?

I'm not very bearish or very bullish on commodities in general. There is now a moderation of demand.

Are you still a fan of gold?

Longer term, yes. It could temporarily be a bumpy ride because Europeans will have to sell gold in order to raise funds because they are squeezed. Most people should have in the vicinity of 10% of their assets in gold, not only because I think it will be a good investment longer term, but because I think it is a very effective diversifier against the other 90%.

And are you treating it as a proxy for eventual inflation?

I'm treating it as an alternative currency. The big issue is debtor-developed countries, the U.S., Europe, and Japan, all have a lot of debt and will have to print money or they will have credit problems. I don't want to have all of my money in those currencies.

What is the asset class you expect to perform best in the next year?

It very much depends on the European monetary system. I believe the ECB will print money, and that will most likely alleviate concerns and produce another rally in stock and credit markets. But this is a tougher time to be very confident about that scenario.

It's amazing to think that four years into it, the world is still deleveraging.

Deleveragings go on for about 15 years. The process of raising debt relative to incomes goes on for 30 or 40 years, typically. There's a last big surge, which we had in the two years from 2005 to 2007 and from 1927 to 1929, and in Japan from 1988 to 1990, when the pace becomes manic. That's the classic bubble.

And then it takes about 15 years to adjust.

Thanks so much, Ray.

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OUR TOP 100 HEDGE FUNDS

Riding the recovery in credit and equities, the best-performing hedge managers easily beat both the Standard & Poor's 500 and the BarclayHedge index over the three years ending in 2011. Mortgage- and asset-backed specialists have remained the dominant money spinners while multi-strategy funds gained in the post-crisis environment. No. 1 was Zais Opportunity, with a remarkable three-year average return of 78.49%. With 2008's disaster no longer in the tally, familiar names like Citadel have regained their place. A familiar name joining the list this year: Leon Cooperman's Omega Capital Partners.

Rank 2011	Rank 2010	Fund Name	Fund Assets (mil)	Fund Strategy	3-Year Compound Annual Return	2011 Return	Company/Location	Total Firm Assets (mil)
1.	N.R.	**Zais Opportunity Ltd Class B**	$418	Structured Credit	78.49%	33.09%	Zais Group / Red Bank, N.J.	$6,400
2.	N.R.	**Metacapital Mortgage Opportunities Ltd**	853	Mortgage-Backed Securities	61.99	23.61	Metacapital Management / New York	853
3.	2.	**SPM Structured Servicing Holdings LP**	1,682	Mortgage-Backed Securities–Non-Agency	61.84	19.63	Structured Portfolio Management / Stamford, Conn.	3,049
4.	N.R.	**SPM Directional Mortgage Prepay**	645	Mortgage-Backed Securities–Agency	50.73	27.10	Structured Portfolio Management / Stamford, Conn.	3,049
5.	N.R.	**Marwyn Value Investors LP**	303	Event Driven	50.30	26.74	Marwyn Investment Mgmt / London	479
6.	18.	**ECF Value LP**	847	Event Driven	45.50	2.65	Gates Capital Management / New York	847
7.	1.	**Providence MBS Ltd**	1,393	Mortgage-Backed Securities	45.04	25.39	Providence Investment Mgmt / Providence, R.I.	1,393
8.	29.	**Barnegat Ltd Series B**	501	Fixed-Income Arbitrage	44.16	11.17	Barnegat Fund Mgmt / Hoboken, N.J.	501
9.	45.	**VR Global Partners LP**	1,504	Emerging Markets/Distressed	44.13	3.56	VR Advisory Services / Dubai	1,504
10.	7.	**Palomino Ltd**	4,400	Distressed Credit/Opportunistic	41.49	-3.55	Appaloosa / Chatham, N.J.	12,000
11.	8.	**Investcorp Silverback Arbitrage**	778	Diversified Arbitrage	41.44	5.01	Investcorp Investment Advisers / New York	4,700
12.	N.R.	**Pine River Fixed Income Ltd**	1,866	Mortgage-Backed Securities	38.60	4.78	Pine River Capital Mgmt / Minnetonka, Minn.	5,500
13.	N.R.	**Alden Global Distressed Opportunities Ltd**	1,889	Distressed Securities	36.06	-20.36	Alden Global Capital / New York	2,500
14.	N.R.	**GLG Market Neutral**	840	Multi-Strategy	35.45	0.80	GLG Partners / London	26,400
15.	N.R.	**Autonomy Global Macro**	1,200	Global Macro	34.52	13.61	Autonomy Capital / New York	2,200
16.	4.	**Element Capital Ltd**	3,118	Macro/Relative Value	34.03	5.54	Element Capital Management / New York	3,118
17.	N.R.	**Pine River Master Ltd**	1,069	Multi-Strategy	31.99	5.72	Pine River Capital Mgmt / Minnetonka, Minn.	5,500
18.	N.R.	**Serengeti Opportunities**	580	Event Driven	31.94	-1.10	Serengeti Asset Management / New York	846
19.	6.	**NZC Guggenheim**	992	Opportunistic Credit	31.82	11.21	Guggenheim Partners / New York	125,000
20.	68.	**Danske Invest Hedge Fixed Income Strategies**	625	Fixed-Income Relative Value Arbitrage	31.77	19.18	Danske Capital / Copenhagen	105,660
21.	N.R.	**Citadel Kensington Global Strategies Ltd**	5,999	Multi-Strategy	29.36	20.30	Citadel / Chicago	12,000
22.	66.	**Whitebox Multi-Strategy LP**	967	Multi-Strategy	29.16	1.46	Whitebox Advisors / Minneapolis	2,270
23.	N.R.	**GCA Credit Opportunities Offshore Ltd**	522	Credit Long/Short	28.49	4.48	Global Credit Advisers / New York	522
24.	N.R.	**Cambrian Ltd**	649	Equity/Long	28.38	-1.63	Atlantic Investment Management / New York	1,544
25.	N.R.	**GoldenTree Master Ltd**	2,575	Credit	27.95	-0.27	GoldenTree Asset Management / New York	14,200
26.	N.R.	**ValueAct Capital Master LP**	6,582	Equity Long/Short	27.95	14.40	ValueAct Capital Management / San Francisco	N.A.
27.	N.R.	**Titan Partners LP**	444	U.S. Equity/Long	26.54	3.70	HHR Asset Mgmt / Berkeley Heights, N.J.	1,368
28.	N.R.	**Quantitative Tactical Aggressive Ltd**	704	Equity Long/Short	26.49	38.65	Quantitative Investment Mgmt / Charlottesville, Va.	704
29.	N.R.	**Discovery Global Opportunity Ltd**	5,061	Emerging Markets Multi-Asset	25.95	3.58	Discovery Capital Mgmt / South Norwalk, Conn.	6,673
30.	12.	**Libra LP**	2,003	Equity Long/Short	25.89	-9.85	Libra Advisors / New York	2,003
31.	N.R.	**Centerbridge Credit Partners LP**	7,640	Distressed Credit	25.20	0.03	Centerbridge Hedge Advisors / New York	17,361
32.	14.	**Pharo Trading Ltd**	460	Emerging Markets/Macro	25.03	-2.64	Pharo Global Advisors / London	2,900
33.	N.R.	**Passport Special Opportunities LP**	522	Global Equity Long/Short	25.00	-20.00	Passport Capital / San Francisco	3,800
34.	N.R.	**Kayne Anderson Capital Income Partners (QP)**	440	Multi-Strategy	24.93	7.18	Kayne Anderson Capital Adv. / Los Angeles	14,200
35.	N.R.	**Vertex Fund Class A**	951	Multi-Strategy	24.78	-11.70	Vertex One Asset Management / Vancouver	1,260
36.	N.R.	**PH & N Absolute Return A**	699	Multi-Strategy	24.59	8.15	RBC Global Asset Mgmt / Vancouver	252,649
37.	69.	**Trilogy Financial Partners International Ltd**	1,050	Credit Long/Short	24.07	2.31	Trilogy Capital / Greenwich, Conn.	1,354
38.	N.R.	**Lazard Rathmore Ltd**	436	Convertible Arbitrage	23.64	-1.65	Lazard Asset Management / New York	127,000
39.	53.	**Finisterre Sovereign Debt Fund**	595	Emerging Markets: Global	23.09	10.34	Finisterre Capital / London	1,738
40.	N.R.	**Glenview Capital Partners Ltd**	3,585	Equity Long/Short	22.87	-11.00	Glenview Capital Management / New York	5,255 [1]
41.	54.	**Pimco Absolute Return Fund IV**	2,157	Credit Long/Short	22.81	1.82	Pimco / Newport Beach, Calif.	1,400,000
42.	N.R.	**Third Point Offshore Ltd**	6,939	Event Driven	22.80	0.00	Third Point LLC / New York	7,500
43.	35.	**Pure Alpha Fund II**	57,080	Global Macro	22.75	25.34	Bridgewater Associates / Westport, Conn.	120,300
44.	17.	**GS Gamma Investments Ltd**	848	Mortgage-Backed Securities	22.57	12.07	GS Gamma Advisors / New York	848
45.	13.	**CQS Directional Opportunities Fund Ltd Class A (USD)**	1,213	Multi-Strategy	22.54	-10.47	CQS / London	10,400
46.	N.R.	**Guggenheim Prtnrs Opportunistic Invst Grade Securities**	1,669	Structured Credit	22.31	10.86	Guggenheim Partners / New York	125,000
47.	N.R.	**Green HG LLC**	1,577	Emerging Markets: Multi-Strategy	22.22	-5.71	CSHG / Sao Paulo	29,200
48.	N.R.	**Value Partners Classic Class A**	1,596	Emerging Markets: Asia	22.07	-17.28	Value Partners Ltd. / Hong Kong	2,636
49.	65.	**Fore Multi Strategy Master Ltd**	1,522	Multi-Strategy	22.03	7.86	Fore Research & Mgmt / New York	2,415
50.	N.R.	**CapeView Recovery (USD)**	384	European Credit	21.84	1.49	CapeView Capital / London	630
51.	41.	**Pershing Square LP**	10,404 [2]	Equity Long/Short	21.71	-1.16	Pershing Square Capital Mgmt / New York	10,404