

The Hedgebay Chronicle

Vol III...No 9

October 5th, 2006

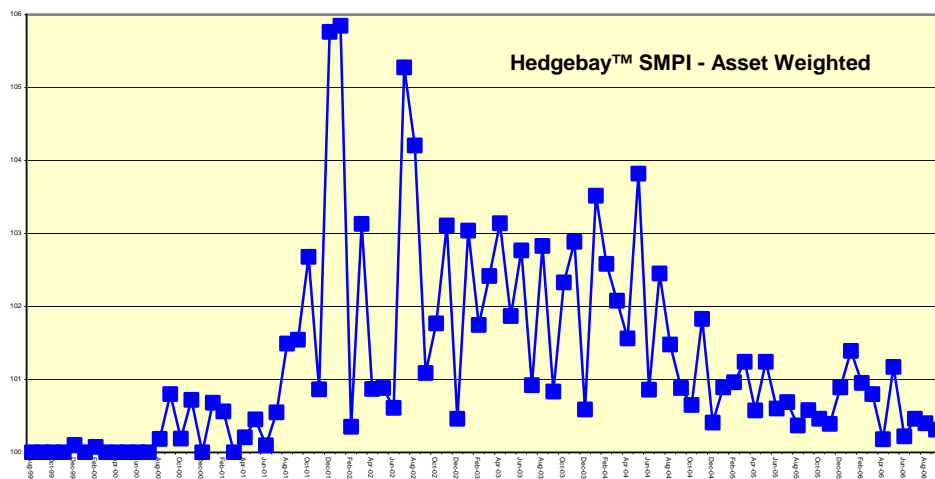
Secondary Market Activity Summary –September 2006

Several investors took advantage of liquidity that was provided in Amaranth last month. As news was gradually released, which ultimately confirmed fears of greater losses and an illiquid portfolio, bid levels eroded steadily. The current unwinding process has a striking resemblance to that of the Beacon Hill funds in 2002; once the majority of the losses were incurred a well respected, third party hedge fund manager was brought in to liquidate the remaining illiquid assets. When the liquidation was completed portfolio value was noticeably lower, notwithstanding the skill of the hedge fund manager. This sequence of events looks to be repeating itself at Amaranth with the hiring of Fortress. Looking forward, liquidity continues to be available as we work with known buyers, as well as develop additional buyers, and more information regarding the status and expected timing of the liquidation becomes available.

Surprisingly, premiums were only slightly lower from last month, although levels were meager across the board as compared with months past when much greater dispersion existed. Global macro and long/short equity attracted the highest levels of premium while relative value attracted the lowest. On the discount side, the vast majority of transactions took place in Amaranth, although some relative value with long liquidity traded at modest discount levels.

The outlook for the fourth quarter looks to be active as investors look to rebalance their portfolios in the wake of Amaranth. Leveraged and structured products should be the most active given the combination of negative news from not only Amaranth, but Jolly Roger and Vega as well.

Secondary Market Liquidity Indices



Premium Index Values (SMPI)

Composite Index	100.31
Relative Value	100.00
Security Selection	100.50
Directional Trading	100.50

Discount Index Values (SMDI)

Composite	69.56
< 3 Months	n/a
3 to 6 Months	n/a
6 to 12 Months	n/a
12 to 24 Months	98.00
None and/or Distressed	68.54

© 2006 Hedgebay Trading Corporation. All rights reserved.

The Hedgebay Secondary Market Premium Index (SMPI) is a proprietary, asset-weighted index that describes the average premium paid for hedge funds that trade in the secondary market in any given month. An investor may wish to use the index as a sentiment indicator to describe hedge fund investors' future expectations for performance as well as a benchmarking tool for hedge fund investors to assess latent value in their portfolios.

The Hedgebay Secondary Market Discount Index (SMDI) is a proprietary, asset-weighted index that describes the average discount required to liquidate hedge funds in the secondary market in any given month. An investor may wish to use the index and sub-indices as indicators of the cost of liquidity.

www.hedgebay.com

**

242-356-4147

SMPI & SMDI information is obtained through the Hedgebay website and its associated marketing licensees. There are limitations in using indices for comparison purposes because such indices may have different inclusion criteria and other material characteristics. No representation is made about the value of SMPI or SMDI as a predictive or other indicator or benchmarking tool or that any investor will achieve any results shown. This information is not intended to be, nor should it be construed or used as, a recommendation, or investment or other advice, or an offer, or the solicitation of an offer, to buy or sell any security, including an interest in any hedge fund, which may only be made through delivery of a fund's confidential offering documents, which must be read carefully. There are substantial risks in investing in hedge funds. Certain information has been obtained from third party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed. Past performance is not indicative of future results. The Chronicle is confidential and may not be distributed without our consent.