

GREEN PARTNERS^{LLC}

June 30, 2011

Dear Partner-Clients,

As I pointed out in our last letter, I believed there might be a hiatus in quantitative easing—a.k.a. liquidity ramping, money printing—by the Federal Reserve due to the harsh criticism they were starting to receive by many credible opponents. And we can now put a *check* next to that.

I also said I believe we'll ultimately see more rounds of money printing due to many problematic areas of the economy, not least of which is how the U.S. deficits get funded. Thus far, we're likely headed for just that outcome. However, I don't have to be right, even though I'll likely be so. What is important is that we keep a pulse on how this conundrum develops, to print or not to print, and move accordingly because of this all too heavy hand in asset price correlation.

Historic events are coming. The next 3-5 months will be, as Yogi Berra once said, "very interesting."

Our country entered the deficit and stimulus quagmire in May when the United States technically breached the congressionally mandated debt ceiling limit of \$14.29 trillion. Considering the anemic response, one wouldn't know much of anything has transpired, let alone anything of significance. This is likely due to mere apathy, because the government continues to operate uninterrupted for now, as the treasury plunders government employee pension funds to avert a government shutdown.

The treasury, which funds U.S. obligations, can get away with this for a little while longer until they can't. U.S. Secretary Treasurer, Timothy Geithner, will run out of crafty maneuvering space by his own admission on or around August 2, 2011.

If Congress hasn't raised the mandated debt ceiling before August 2, apathy will be replaced with anger, fear, and chaos as the United States officially defaults on many of its obligations. This might certainly awaken the American spirit. Especially when one considers social security checks could be halted, Medicare payments are no longer accepted, wide scale teacher and police layoffs occur, and a whole range of other unsettling events transpire should congress sit on their thumbs. But I seriously doubt that the United States won't pay its bills and default in this way.

What career politician, or group of constituents, will want to be held responsible for that particular sequence of events in *The Great Stimulus and Deficit Shocker* that is unfolding with the 2012 elections right around the corner? This is exactly why I believe the debt ceiling will ultimately be raised before August 2, 2011 after lots of gnashing and political grandstanding.

But even if the proverbial U.S. credit card limit is raised all our concerns don't suddenly disappear; spending more money on credit cards just to keep it all going isn't a recipe for stability, safety, and long-term prosperity—just ask the many homeowners who used their homes as virtual ATM's to pay for an unsustainable lifestyle or the banks who lent money with reckless abandon. Indeed, spending money that isn't backed by anything makes poor bookkeeping turn into a poorer reality at some point.

As I conveyed in my last letter, I believe Congress and the Federal Reserve are stuck between a rock and a hard place with no easy answers to a difficult equation, which looks something like this:

$$fHxLN = \text{à}0\text{¥}... \text{à} \text{¥} fHm, s, xL fHs, s1, sL fHs1, s2, s1L \dots fHsN-1, sN, sN-1L \text{âs} \text{âs1} \text{âs2} \dots \text{âsN}$$

Putting aside quant and quaint math, the treasury simply can't spend \$1.5 trillion a year it doesn't have in a mere \$14.6 trillion dollar economy, while the balance sheet is laden with debt that is already 100% of GDP, for too much longer, without major consequences to the U.S. dollar.

On the other hand, how drastic can federal budget cuts be, at least anytime soon, since deficit spending accounts for north of 10% of our entire economy, which hasn't structurally recovered?

This is the rock and the hard place our elected and non-elected (the Federal Reserve) officials have put themselves into that I believe is as clear as a pane of glass: there will be some tough choices, Austerity (deflation) or money printing (inflation as dollar declines), and whatever develops will help us keep an eye toward optimum tactical allocation.

Micro or Macro?

I have not lost my value oriented ways but I recognize my letters have been predominantly macro related lately so one might think so. But I can assure you that every investment I make is based on time-tested value investing principals.

With that said, any shrewd investor worth their salt should be able to figure out that valuing assets when all markets are being supported by artificial mechanisms (what is real and what is not when 10-15% of our economy, or Gross Domestic Product, is unfunded deficit spending that can't possibly be sustainable and interest rates are being pegged at artificially low rates) is far more troubling than when the markets are functioning on their own accord. And, as we print money, and quite possibly continue to print ever more money, the dollar declines in value and discounting cash flows back to net present value becomes ever more problematic.

Moreover, one would have to be bury their head in the sand not to recognize the correlation to asset prices with money printing, no money printing, in the environment we've been in for over two years now. In fact, studying currency issues couldn't be any closer to fundamental, intrinsic value truths. Indeed, I'll spare no expense to protect, preserve, and grow your capital over the long-term and my only allegiance, at the end of the day, is toward the goal of our mutual assured success.

Alignment of Interests

If you don't succeed I don't. We are completely aligned. I have the best investment partners in the country. You are smart, savvy, and wonderful to work with. If you have any like minded acquaintances don't forget to send them my way, though I know they can't possibly be as good looking as you all.

Thank you for your continued confidence and trust in my services.

Yours,

Nicholas Green

