

GREEN PARTNERS^{LLC}

March 31, 2011

Dear Partners,

"In a time of universal deceit, telling the truth is a revolutionary act." ~George Orwell

I mail my quarterly letters to my own household, hoping my wife takes a look at them being the voracious reader that she is. After she picked up our mail one rainy afternoon when my letter arrived, I asked her if she was going to read it—as it sat there, unopened...for a couple of days, no less.

I finally asked her, "Are you going to read my letter this quarter or what?" She admitted to me that she seldom reads them. When I asked her why she quipped, "It's because you tell the truth." She went on, "I don't want the truth; nor do most people. You should always paint a rosy picture or instead you could just make it fun. For example, you could share some of your recipes."

"Good grief, recipes in a financial letter?" I muttered. Then again, could she be right? Perhaps...but even if she were it wouldn't matter, since rose-colored glasses don't coordinate well with my genetic makeup and receiving cooking recipes in a financial letter would personally perturb me if I were on the other end of it.

So I retorted, "If you want good recipes you should read Emeril Lagasse, if you want good fiction you should read F. Scott Fitzgerald, and if you want fun you should go to Disneyland."

I suspect, though, the real reason she doesn't read my financial letters is because they are long, snowy correspondences that are excruciatingly boring to her. Or perhaps she just doesn't have the heart to tell me that I'm less than an average writer, in which case she should indeed stick to the collected works of Mark Twain or J.D. Salinger or perhaps Nathanael Hawthorne or the wisdom of John Steinbeck when she needs or wants something that is utterly brilliant, like the pure genius behind Steinbeck's classic *The Grapes of Wrath*, all of which I cannot compete against....especially if she reads them while hanging out at Chuck E. Cheese as my son frolics away in the background.

So after thinking about all this, and given my wife's desire for a Pollyannaish disposition, I agreed with her that ignoring my letters altogether is a fine idea. Taking it a step further, I also suggested that she sticks to the TD Ameritrade statements over longer time frames, in three to five year increments, which should also help calm the nerves.

Yes...indeed, much less anxiety that way, as she avoids the harsh and messy realities of our world economies while she leaves the dirty details to me.

And why not? If it works, why argue with success? And this is especially true now—just before I send this savage piece out, by far my most scathing and emotionally dangerous letter to date.

But before we get to it, I need to apologize for getting you involved in my family matters at all. But I imagine if my wife feels this way, there are probably more than two, but definitely less than five, partner-clients that feel the same way about reading my letters. If so, you can always take the same road to resolve as my wife, and perhaps even enjoy a good cup of chamomile tea with her on some vicious and heartless day in our great nation while you share the wisdom of Tom Joad from *The Grapes of Wrath*:

I'll be all around in the dark. I'll be everywhere. Wherever you can look, wherever there's a fight, so hungry people can eat, I'll be there. Wherever there's a cop beatin' up a guy, I'll be there. I'll be in the way guys yell when they're mad. I'll be in the way kids laugh when they're hungry and they know supper's ready, and when the people are eatin' the stuff they raise and livin' in the houses they build, I'll be there, too.

With that fitting segue, and for those that do read my letters, I present the following. For everyone else, enjoy the performance report. As Lord Buckley once said, *we stomped on the terra*.

Introduction

Well...shucks, here it is: a tale in a not so far away land, full of treachery, greed, and legerdemain so relentless and merciless that it would have Genghis Khan on an iron-horse blushing with envy...as the greatest transfer of wealth in human history is taking place right before our very eyes. Ho ho.

Yes sir. This is a long and brutal story, with a few critical points along the U.S. timeline, but one that I believe is worth sharing because it leads right up to these fateful days of 2011.

The timeline begins in 1913 when our early forefathers lost an epic battle against the banking cartels, who finally got their way and created the largest private bank in America—the Federal Reserve System. Once the Wall Street oligarchs seized control of the money supply, and oversight of their own member banks, the power shift was complete.

Since then, the U.S. dollar has lost 98% of its purchasing power. Many people will tell you that over the course of nearly 100 years this phenomenon can be understood as the mere consequences of demand-pull and long-term inflationary pressures.

Which is more or less true, of course. But the more complete explanation is two pivotal decisions in U.S. history that ultimately led us to where we are today of unprecedented deficit spending and dollar devaluation, which has manifested into egregious wealth consolidation for an undeserving few, and oncoming invoices for everyone else.

Perhaps more importantly, we will soon have another critical decision point for the U.S. dollar, and this is where the rubber will hit the road from an investment perspective and for all Americans. But, first, let's take a look at the chain of events that have led us to where we are today.

Key Decisions in Power Town

A historic decision occurred in 1971, when Nixon took the U.S. dollar off the gold standard by breaking the Bretton Woods agreement, which meant it was the last time the dollar had to be backed by a tangible asset—gold.

There was nothing entirely special about gold, but the significance of the dollar backed by gold can be lost on the casual observer. A dollar backed by a fixed ratio of gold put a necessary check and balance on government spending because of gold's finite properties: since gold can't be printed the amount of money that could be put into circulation through banking credit was therefore limited to gradual increases.

This is the moment our country went from what many considered to be good money to bad money. There is a widely used quote by Norm Franz that many passionate believers use to support this point of view, "Gold is the money of kings; silver is the money of gentleman; barter is the money of peasants; debt is the money of slaves."

Whether one agrees with a gold standard or not, debt slavery is certainly a compelling theory. This is especially true when hard working Americans become imprisoned by debt involuntarily, to wit: when money can be effectively created out of thin air to satisfy political, corporate, and social interests without it having to be backed by anything other than hot air it becomes tempting for those that control the purse strings to use unsound money principles for upward political and corporate mobility.

For politicians, this meant the possibility, and many times the reality, of giving the people what they wanted for re-election. For corporations, more specifically megabanks, it allowed them to create the largest credit expansion in our nation's history from 1971 to 2008, which was tantamount to more bank profits and larger bonuses.

This opening act, when Nixon took our currency off the gold standard, was dubbed the Nixon Shock. Those that named it the Nixon Shock knew all too well that the elimination of the Bretton Woods agreement created a no limit credit card that could be abused by sycophants.

However, while the Nixon Shock dangled out there it went without much ado until another critical decision was made. It was indeed this next decision that rammed the floodgates wide-open to digital confetti printing, which has sent the dollar into a tailspin.

The no limit credit card abuse began almost to the day that Hank Paulson, Alan Greenspan, and other influential financiers in 1999 pushed for the repeal of the Glass-Steagall Act, which would allow banks to leverage their balance sheets to anything they saw fit, and therefore make even more money.

"It was just nuts," a top economist said. "It was like giving a gambling addict the ability to bet the entire national bank on margin...put a dollar down and spin a hundred."

And just who would vote for such a thing? This is the point in time when our forefathers may have had a good point; did the interconnected relationships between the banking executives and the Federal Reserve board members wield too much power? It was Baron Rothschild who once uttered the ruthless wisdom that "if you control the money, you control the laws."

Editors Note:

With some fact-checking and not surprisingly, the Federal Reserve was set-up with the blueprint of the Rothschild family under the game-theory of Austrian economics. The Rothschild family established the central banking system in Europe in the eighteenth century and, at the time, became the wealthiest family in history for it.

John D. Rockefeller, a notable financier who despised competition and free enterprise, was the son-in-law of Republican law-maker Nelson Aldrich. Aldrich was, without question, the man who set up the Federal Reserve System under the Rothschild blueprint. JP Morgan, who also despised competition but worshipped money, it should be noted, nodded whole-heartedly in agreement with his crony, Aldrich, over the conception of the Federal Reserve, which JP Morgan itself had wanted for obvious reasons.

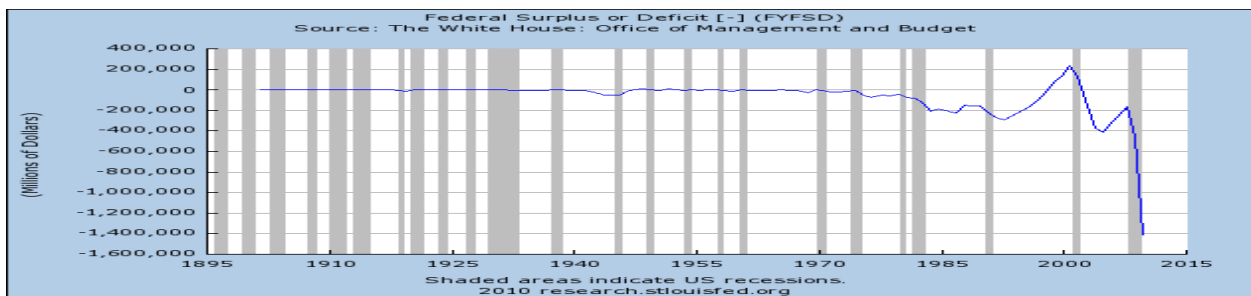
Okay, folks, back to the story at hand. The Glass-Steagall Act was, in fact, terminated in 1999 by our prominent financiers, and leverage limits had no out-of-bounds now...and the most unparalleled greed in human history took over as the housing bubble gained its momentum.

With an all too accommodating Federal Reserve, and overreaching politicians far too interested in short-term re-election, parasitic bankers ran completely amok with carte blanche as they doled debt out to anything that moved, then sliced and diced it, sold it in tranches, squared them, multiplied them, arranged them, hid them, and then blew up because of them.

You bet. When the going is good, leverage can magnify profits to obscene levels. But when the tables turn, which they always do in cyclical economies, history has proven leveraged losses turn wholly devastating.

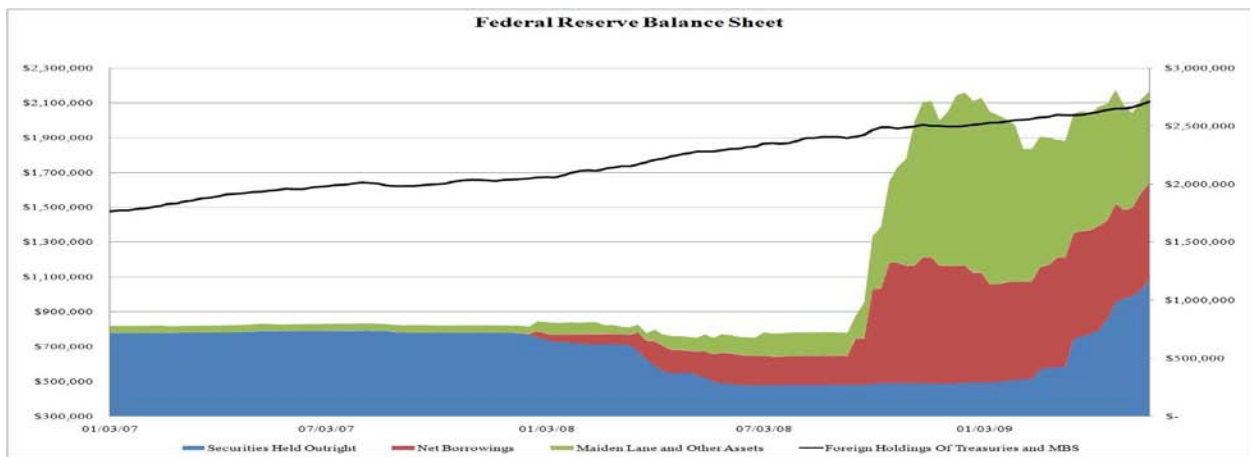
This is a finance lesson nearly every hard working American alive assumed banking executives, their cohort board members, their banking cronies at the Federal Reserve, and Congress would have been taught in Econ 101 on their Harvard, Yale, and Princeton stomping grounds. The complicated math, it has been said, goes something like this: a string of great returns multiplied by zero always equals zero.

But alas, as the financial crises of 2008 took hold and the grotesquely over-leveraged balance sheets of the mega-banks blew up, the mere possibilities of printing money at unprecedented levels, far beyond the tax receipts of our country, turned into reality, as the greatest transfer of wealth in U.S. history began in earnest:



This is it: the banker-bailout bonanza on the back of all prudent Americans, whom have barely begun to pay for it yet. This is effectively an inflationary tax on the entire world, as dollars get debased because of un-backed money printing, necessities like food and oil simply cost more, even if it is unseen to the untrained eye. There are other visceral taxes as well, and many more are surely forthcoming.

In addition to the dollar getting pressured by massive fiscal stimulus, monetary mechanisms by the Federal Reserve to preserve the banks were also put in place to ramp up asset prices with large scale liquidity injections. The Federal Reserve's balance sheet has gone vertical, breaking records never recorded in human history (chart courtesy of the Federal Reserve Bank of Cleveland):



All told, the Fed pledged \$20 trillion in taxpayer capital, on a mere \$14.5 trillion economy, to save the banks and make them even richer. We arrived at this ugly point in our American journey because the Nixon Shock allowed for this possibility, while the Glass-Steagall Shock opened the spigot to it, and the greed and power of the Wall Street banks carried it all out.

Aside from being a good American, you might be wondering why I'm sharing this series of historical, yet important decisions with you. It is because we are getting close to entering another crucial chapter of this tragicomedy, yet another pivotal moment, on how the fate of the U.S. dollar will eventually play out, and, therefore, almost all world markets.

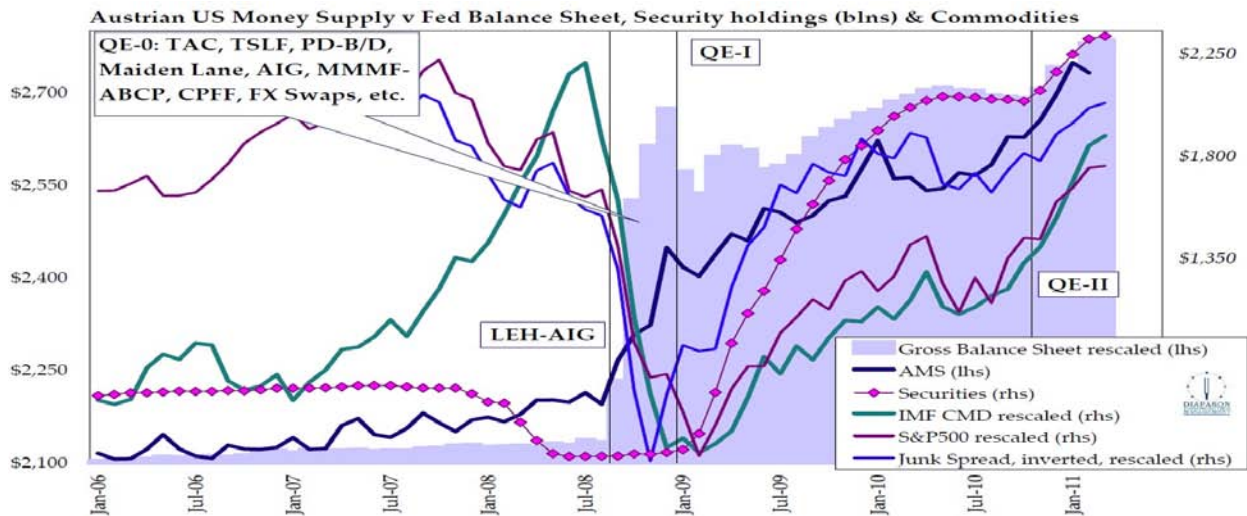
We will enter a third critical decision on economic policy because we have to: printing money out of thin air that isn't backed by anything can't last forever; it will end voluntarily or otherwise. It is the "voluntarily" or "otherwise" part that we need to

concern ourselves with going forward, and allocating our capital accordingly, as the data points continue to develop.

By doing so, I believe our success could be extraordinary—but not without hiccups—in the years ahead. Perhaps, pre-maturely, the next critical moment, might just be called the Stimulus and Deficit Shock.

The Sweet Spot in Convexity

On the previous page, I presented the parabolic increase in the Federal Reserve's balance sheet and what caused it, without addressing the effects of this stimulus. If there were just one all-important takeaway in this letter, understanding this chart would be it (courtesy of Sean Corrigan, Diapason Securities):



The purple area is the expansionary policies of the Federal Reserve—the money printing, also known as quantitative easing or QE, post the financial crash, brought on by the over-leveraged banks. The multi-colored, overlaying lines represent the security holdings of the Federal Reserve and various markets—all going higher and mirroring one another.

It is no coincidence that asset prices have increased with *near perfect correlation* with the increase in the Federal Reserve's balance sheet. This is money—quantitative easing—that has been injected into the banks: The hundreds of billions the Federal Reserve gives to the Wall Street darlings and banks at a weighted average cost of capital close to .00%, which then finds its way to risk assets, thus rising markets. The official Federal Reserve jargon for this legerdemain is called Portfolio Balance Channel and POMO (Purchase Open Market Operations).

Take a look at the chart again; the correlation to market prices is stunning, eh? A couple letters ago I said, "I believe we are investing with the Federal Reserve at our backs." Well, indeed, we have been.

For those paying attention still, congratulations! For everyone else, enjoy your time. This is indeed the data that we need to follow for optimal asset allocation as we head into the next shock.

The Stimulus and Deficit Shock

As we head toward the treacherous reality that vertical debts matter, I believe the Federal Reserve and Congress are caught between a rock and a hard place.

On one hand, if our central bank continues to print money out of thin air like it is confetti paper, many markets will continue their parabolic rise. I believe precious metals and commodity stocks will continue to be the largest beneficiaries in this scenario.

Common equity, especially those companies vulnerable to rising input costs, will have less certainty in this scenario going forward; they might go up 20%, if they are lucky, in a year but if the U.S. dollar loses 30% of its value it ultimately means a loss of purchasing power in real terms, and even less than that for the majority of the population, whom own little to no equity of any kind.

In the ongoing paper confetti scenario, Americans with very few assets—the majority of the population—will get squeezed like they've never seen before on basic necessity purchases as their income and dollars continue to become far less valuable as the dollar continues to lose ground. This also means cash and fixed income investments are the least attractive areas for investment on this particular trajectory as these sources of income are inflated away.

On the other hand, if our despots at the Federal Reserve stop printing money immediately, a fiscal crisis is likely to ensue as the U.S. Treasury loses their bridge for deficit spending.

This is the same problem the proverbial heroin addict faces: keep injecting, which clearly has its own side effects, or deal with harsh withdrawals.

Righty-O. Junkies will tell you that heroin use is profoundly addicting, and that the physical withdrawals are so brutal and nasty that death feels like a viable option. Smart kids will tell you that seedy little habits like heroin use are doomed from the get go and should be deftly avoided—which is one of those half-bright axioms that is surely worth heeding...

But the problem is that our economy is already high; it is being injected with three fully loaded syringes, which would give any junky, anywhere on earth, a run for their money. Our nation will spend roughly \$1.65 trillion *on credit* this year alone, add in the close to \$3 trillion or so in quantitative easing to date, plus the zero interest rate policy, and we've got bankers, politicians, and an economy addicted to constant injections of pure, grade A smack.

Congress apparently wants to pull in their nearly \$2 trillion in deficit spending slowly, to not "hurt the frail economy;" a low level, drawn out methadone program of sorts. This means someone will have to keep funding our unfunded deficit spending in the meantime, which leaves the Federal Reserve's digital printing presses as the buyer of last resort.

For that reason, among many others—such as the likelihood of higher interest rates without debt monetization, ongoing state deficits and municipal deficits, the high unemployment rate, the still overleveraged bank balance sheets and their shadow liabilities, ongoing consumer deleveraging, and structural problems like our trade imbalances—I strongly believe there will be more rounds of digital money printing.

But I also believe there might be a hiatus between rounds of quantitative easing, and not surprisingly as QE I ended last summer, before QE II started, the markets began to fall precipitously (see chart).

As rapid price inflation is beginning in all things needed and printing money hasn't solved the employment picture nearly enough, Bernanke is starting to receive some harsh criticism by credible opponents, such as Richard Fisher from the Federal Reserve of Dallas, Ron Paul of the House Finance Committee, the finance minister of China, and a host of others. With this mounting pressure, I believe Bernanke and the other Fed members will try to deflect blame to congress for overspending before they institute the next round of QE, or debt monetization.

So while we're positioned with a bias for continued heroin abuse, we'll initially approach the end of this current round of money printing—which ends June 30th, 2011—with caution.

In other words, we don't have to be dogmatic. Once we know for certain what the Federal Reserve plans to do, we'll adjust accordingly and quickly. As we do, we should be well positioned for yet another good run, in whatever direction she goes.

Alignment of Interests

If you don't succeed, I don't. It's that simple. We've made it through every obstacle thrown at us and have come out ahead for it. The Stimulus and Deficit Shock that is sure to come our way is just another opportunity for those that awaken to it. We will navigate through it—and should end up on the other side of it vastly richer for it.

Most advisors, financial planners, and Americans are completely oblivious to the next, upcoming shock and haven't done any preparation whatsoever for it. It is vital that you tell your friends, family, and co-workers about me or someone that understands this so they can try to protect themselves as well.

Sincerely,

Nicholas Green