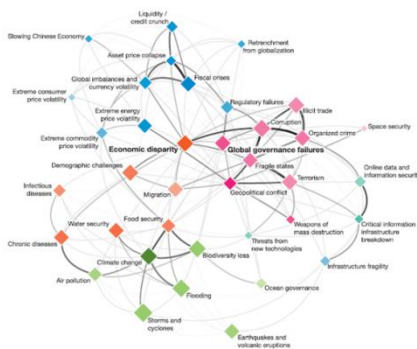


HIGHLIGHT TABLE - TIPPING POINTS

SOVEREIGN DEBT - PIIGS	
<p>SOVEREIGN DEBT - PIIGS</p>	<p>Sovereign Insolvency and an Inability to Stimulate Economic Recovery.</p> <ol style="list-style-type: none"> 1. Greece, Ireland and Portugal have sought EU financial bailouts which have yet to solve their problems. 2. Spain & Italy have escalating costs of borrowing and elevated CDS spreads. 3. The EFSF (European Financial Stability Facility) and the ESM (European Stability Mechanism) have inherent flaws which include: i) Collective Action Clauses, ii) Preferred Creditor Status and iii) Restructuring Pre-Condition clauses. All of which leave the EU unstable.
<p>EU BANKING CRISIS</p>	<p>EU Banks are seriously impaired and are insolvent if off balance sheet toxic debt is accounted for properly.</p> <ol style="list-style-type: none"> 1- Bank Ratios of 50:1 and higher 2- Toxic debt on/off the balance sheet 3- Sovereign Senior Haircuts Required 4- Inter-connected and interlocking EU banking relationships and funding almost guarantee that a major bank failure will ignite broad based counterparty contagion. 5- Non Performing Asset levels continue to climb in EU countries.
<p>RISK REVERSAL</p>	<p>We have experienced a historic level of market participation, inter-dependency and complexity due to global fiat currency printing. The problems that caused the 2008 financial crisis have</p>

| Risks Interconnection Map (RIM) 2011

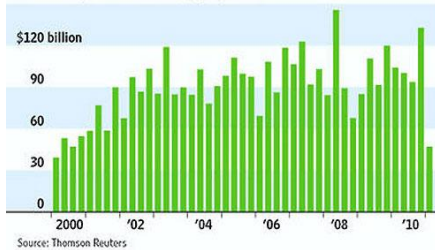


not been addressed but rather masked over.

- 1- Cash Levels are at extreme low levels.
- 2- An unprecedented increase has occurred in financial assets since the 2008 lows, without a substantial correction or consolidation.
- 3- Cyclical Earnings are at extremes without any matching increases in labor costs.

US STATE & LOCAL GOVERNMENT

A Drop in Debt
U.S. municipal-bond issuance, by quarter



Unprecedented budget shortfalls at the state, city and local levels of government. \$0.5 Trillion in unfunded Public Service Pension liabilities.

1. Plunging Tax Receipts
2. Rising social program costs associated with unemployment, homeless and healthcare.
3. Rising Operating costs.
4. Unfunded Pension Liabilities
5. Dependency on Federal transfer payments.
6. Labor and Pension obligations.
7. Inability to address public service collective bargaining pressures.

FOOD PRICE PRESSURES

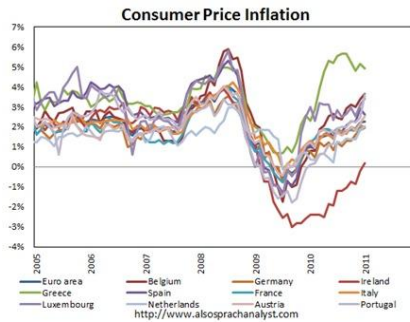
A dangerous rise?
FAO food price index



Production shortages, distribution break-downs with growing Asian demand

- 1- Crop Failures (Australia, Russia, China).
- 2- Demand versus Arable Capacity
- 3- Increasing Standards of Living

RISING INFLATION PRESSURES & INTEREST RATES

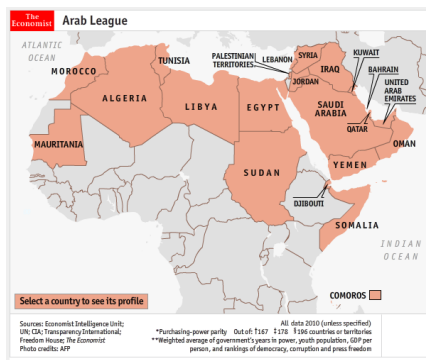


Reversal in Interest rate and impact on government financing budgets.

DRIVERS:

- 1- Negative Real Interest Rates Worldwide
- 2- Structural Shift By China
- 3- Corporate Re-Structuring & Consolidation

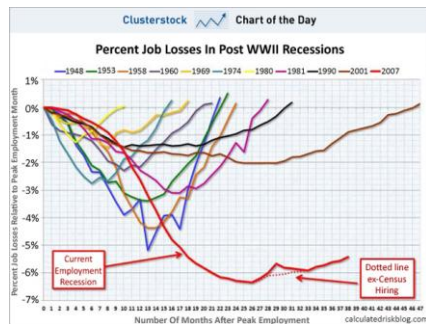
SOCIAL UNREST



Public rallies, protests and rioting against the government.

- 1- Inflation Pressures (Food, Energy)
- 2- Jobs (Unemployment)
- 3- Social Disparity

CHRONIC UNEMPLOYMENT



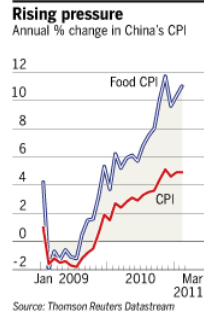
Historic Unemployment rates in G7

- 1- Schumpeter's Creative Destruction
- 2- Higher Skill Levels versus Labor
- 3- Agricultural and Manufacturing Productivity
- 4- Internet & IT Impact on Job Removal

CHINA BUBBLE

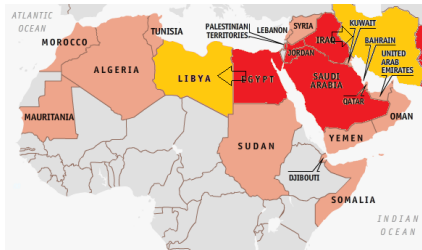
Real Estate & speculative bubbles

- 1- Forced Slowdown - Increased bank reserves and higher interest rates.
- 2- Overbuilt, Overcapacity
- 3- Export Dependent Economy with



slowing G20 growth.

GEO-POLITICAL EVENT



A sovereign country overthrow, rebellion or insurrection

- 1- North & South Korea
- 2- North Africa - Tunisia, Egypt, Libya
- 2- Middle East - Yemen, Bahrain, Syria

RESIDENTIAL REAL ESTATE - PHASE II



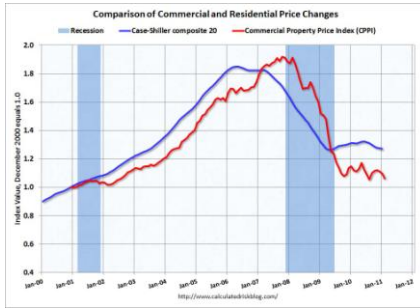
The housing bubble will continue to implode in a second wave down in US Real Estate Values. The US Recovery is not prepared for this.

- 1- Shadow Inventory Levels of 1.8M homes plus 2.2M in foreclosure.
- 2- 6.7M homes delinquent on mortgage,
- 2- Strategic Defaults,
- 3- Looming Option ARMS 'Python',
- 4- LTV levels - 2.0M more than 505 underwater and in arrears.

COMMERCIAL REAL ESTATE

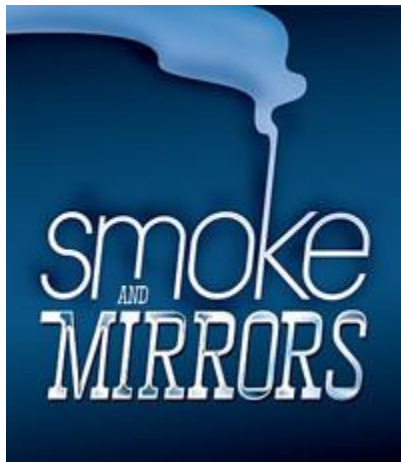
Market Values are down 45 - 55% with little write downs as of yet being taken by banks, insurance or financial holders.

- 1- The US CRE market was originally \$6T. It is down 45-55%. There are \$3T in as yet unrealized write downs on the



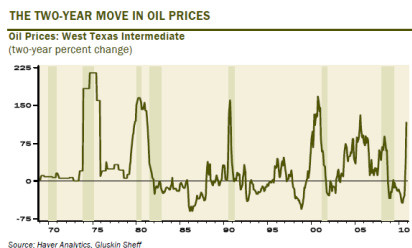
- books of financial institutions.
- 2- Mall Vacancies are at a historic high
- 3- Office Vacancies are near all time highs

PUBLIC POLICY MISCUSES



- Failure of Public Policy to address central questions of Employment, Standard of Living & Security.
- 1- ARRA did not deliver Jobs it was targeted to deliver.
 - 2- HAMP did not fix the housing mortgage debacle.
 - 3- Obama care is dead on the drawing board.
 - 4- Frank Dodd has addressed none of the questions of too big to fail. Regulators are bogged down with lobbyists.
 - 5- US is fighting 3 wars that never end.

OIL PRICE PRESSURES



Major Long Term Global liquid energy Demand / Supply issues are simply being ignored.

SITUATIONAL ANALYSIS:

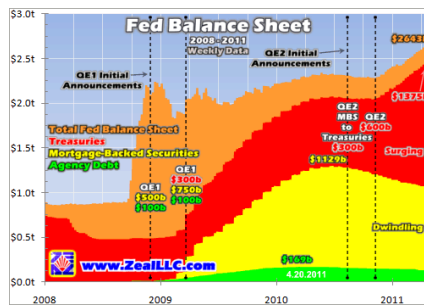
- 1- Peak Oil has arrived.
- 2- Supply has topped out with new wells no longer matching the rate of depletion.
- 3- Demand is growing in Emerging Markets as a larger middle class consumes energy related products
- 4- Cheap Oil is being replaced by more expensive oil to find and extract.
- 5- Western powers such as the US are predicated on cheap and readily

available energy.

6- Oil is used in consumer goods from plastics to cosmetics that a broadening middle class are consuming.

7- The Middle East & North Africa social unrest is likely to deliver another global oil shock as prices are maintained at elevated levels for a protracted period.

BOND BUBBLE



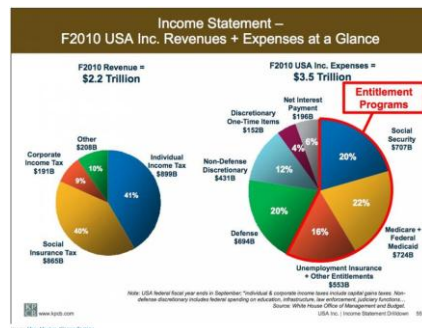
With interest rates having been so low for so long and inflation now clearly prevalent - who can afford to own bonds other than a central bank?

SITUATIONAL ANALYSIS:

1- The US Federal Reserve is presently buying in excess of all US Treasuries to keep prices up and rates low. Who will buy inflated bonds if not the government?

2- US Treasury Yields are at historic levels and below the rate of inflation.

PENSION – ENTITLEMENT CRISIS





The level of underfunded pensions and entitlement programs is of crisis proportions due to misleading accounting and politically motivated accounting treatment

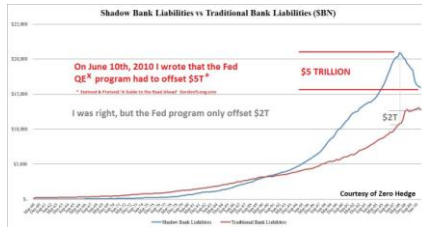
SITUATIONAL ANALYSIS:

1- The US Social Entitlement programs of Social Security, Medicare and Medicaid are unfunded to the tune of between \$62T and \$205T depending on accounting assumptions.

2- State, City and Local Pensions are unfunded to the level of approximately \$3.5T

3- US S&P 500 Pension plans are under funded to the level of approximately

<p>CENTRAL & EASTERN EUROPE</p> 	<p>\$0.5T</p> <p>Central & Eastern Europe is to the EU, what sub-prime was to the US. Unlike the US, it has yet to take its toll.</p> <p>SITUATIONAL ANALYSIS:</p> <ol style="list-style-type: none"> 1- Many CEE countries have a floating currency while fostering the borrowing of residential mortgages denominated in Euros. This has put many citizens in a position of not being able to afford their mortgage payments. 2- Many CEE Economies have slowed dramatically since the financial crisis and have not recovered. They are experiencing extremely high unemployment and debt levels. 3- Much of the CEE bank lending is based on loans from EU banks 4- Most experience fiscal spending deficits.
<p>US BANKING CRISIS II</p> 	<p>The US Banking Crisis of 2008 has not been solved, only deferred.</p> <p>SITUATIONAL ANALYSIS:</p> <ol style="list-style-type: none"> 1- Insufficient Write-offs have been taken for US Real Estate Residential Mortgages 2- Insufficient Write-offs have been taken for US Home Equity Loans 3- Insufficient Write-offs have been taken for US Commercial Real Estate Loans. 4- FASB 157 has still been deferred.
<p>CREDIT CONTRACTION II</p>	



The US Banking Crisis of 2008 has not been solved, only deferred.

SITUATIONAL ANALYSIS:

- 1- The collapse of the Shadow Banking System and its failure to resurface has left the Global Economy with shrinking liabilities. This is toxic assets that are non performing still not properly reported.
- 2- US M3 Money Growth is negative and contracting
- 3- US government fiscal deficits and the Fed's QE II has only partially offset this shortfall

JAPAN DEBT DEFLATION SPIRAL



Inability for Japan to continue to fund national debt with shifting demographic patterns.

SITUATIONAL ANALYSIS:

- 1- Japan has the highest Debt to GDP in the world at 218%.
- 2- The Earthquake, Tsunami and Fukushima Nuclear disaster will place a heavy burden on Japan's ability to finance the rebuilding efforts.
- 3- Japan has been able to finance much of its debt through domestic savings. Demographic shifts suggest this may be coming to an end.

FINANCE & INSUR. BALANCE SHEET WRITE-OFFS

Insurance and Finance companies hold the majority of commercial real estate loans in the US. They do not reflect their current Mark-to-Market values.



SITUATIONAL ANALYSIS:

- 1- Insufficient Write-offs have been taken for US Commercial Real Estate Loans.
- 2- Bond Yields do generate sufficient returns to fund annuity insurance contracts.

US STOCK MARKET VALUATIONS



Global Equity Markets are over-bought, over-extended and over-valued. The Market has risen as a direct result of the Federal Reserve's Policy of ZIRP and Quantitative Easing and is exposed to any shift in this policy. QE II is scheduled to end June 30th, 2011.

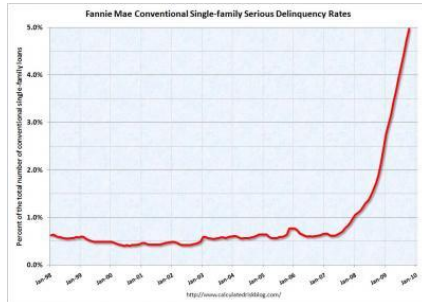
SITUATIONAL ANALYSIS:

- 1- We have Cyclical Adjusted PE's (CAPE) that are at the upper band & richly valued.
- 2- We have earnings rising slower than revenue which means we have potential PE compression.
- 3- The Rule of 20 suggests full market valuation.
- 4- Q Ratio says market is over-valued.
- 5- Shiller PE Ratio is very high and warning.
- 6- The Real S&P Composite Regression to Trend is at the high end.

GOVERNMENT BACKSTOP INSURANCE

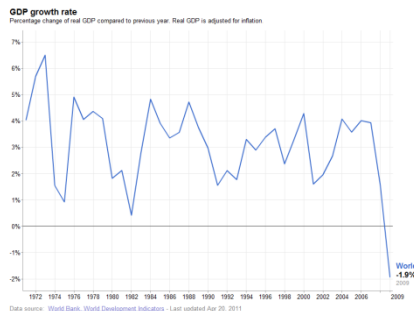
The ability of Fannie, Freddie, Ginnie, FHA, FDIC, Pension Guarantee to maintain being government backstop funding insurance.

SITUATIONAL ANALYSIS:



- 1- FANNIE MAE & FREDDIE MAC was in such serious shape that they needed to be taken over the government. Delinquencies, Defaults & Foreclosures are once again worsening and no action has been taken to address the problem.
- 2- Ginnie Mae has student loan default problems.
- 3- The FHA is filled the gap Fannie and Freddie left but is now seriously undercapitalized.
- 4- FDIC has warned of problem banks and insufficient funds at FDIC to properly cover. They have raised fees but they are still insufficient.
- 5- PBGC is seriously underfunded due to corporate benefits defaults.

SHRINKING REVENUE GROWTH RATE



Slowing Corporate Top-Line revenue growth rates

SITUATIONAL ANALYSIS:

- 1- We have slowing real global growth after a brief period of recovery due to historic levels of government fiscal spending, monetary expansion & guarantees and extend & pretend policies resulting in broad based accounting gimmickry.
- 2- The growth of Asia and Emerging markets hides the global slowing of real GDP.
- 3- Real GDP is camouflaged due to inaccurate inflation rates.

GLOBAL OUTPUT GAP

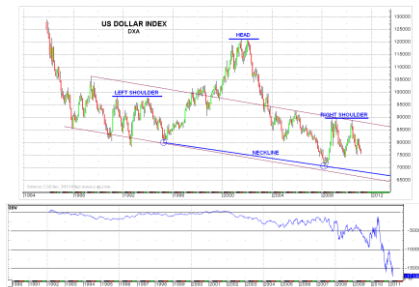
Excess money creation has fostered mal-investment and a resulting global overcapacity build out.



SITUATIONAL ANALYSIS:

- 1- The global consumer engine that has fostered global mal-investment and over-capacity is the US consumer. The US consumer is now tapped out, debt burdened and experiencing shrinking real net income.
- 2- A virtuous capacity build out and the potential to be a vicious capacity glut unless Asia quickly increases domestic personal consumption levels.

US DOLLAR WEAKNESS



The US Dollar is signaling a long term 'head & shoulders' technical pattern that portends major weakness ahead.

SITUATIONAL ANALYSIS:

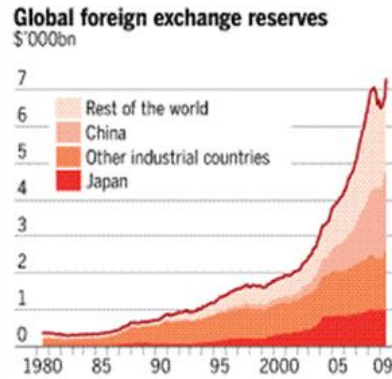
- 1- The inability for the US to get its fiscal house in order has placed the US dollar in a precarious and seriously over valued position.
- 2- The Federal Reserve's Monetary Policy of Quantitative Easing along with an extended period of ZIRP, have seriously undermined the US dollar around the world as a secure 'store of value'.

US RESERVE CURRENCY

The US is quickly losing its global financial leadership position. Central in this shift is a growing desire amongst the G20 emerging nations and Asia to replace the US dollar as the global reserve currency.

SITUATIONAL ANALYSIS:

- 1- A main contributor to replacing the US dollar as the global reserve

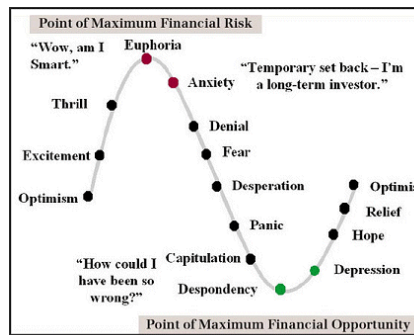


currency is because of the US\$'s inability to maintain being a safe 'store of value'.

2- Foreign trade which has typically been conducted with US dollars is increasingly being replaced with direct currency swaps between trading parties. By doing this it reduces their dependency on maintaining large central bank reserves denominated in depreciating and continuously debased US dollars.

3- The emergence of the IMF's SDR is increasingly becoming the reserve currency of choice.

PUBLIC SENTIMENT & CONFIDENCE



Though Confidence and Sentiment is off its lows of 2008, it is still low by historical standards despite a historic rise in equity markets.

SITUATIONAL ANALYSIS:

1- Surveys of bullish sentiment from Investors Intelligence (II) and the American Association of Individual Investors (AAII) at year end showed the ninth highest combined reading since 1987, and it was the sixth period ever where the combined reading was above 120%.

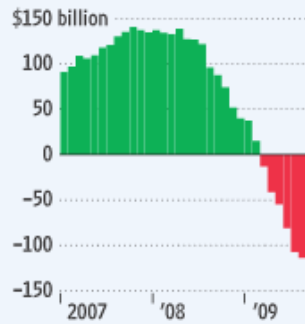
2- However, The University of Michigan Consumer Sentiment Index plunged from 77.5 in February to 67.5 in March.

SLOWING RETAIL & CONSUMER SALES

The impact of slowing consumer sales and a forced rate of increased savings on 70% consumption US Economy is a potentially major problem. The forced savings is more appropriately the

Cutting Debt

Total consumer credit outstanding, change from a year earlier



Note: Seasonally adjusted
Source: Federal Reserve

reallocation of real disposable income towards basic staples and compounding debt burden.

SITUATIONAL ANALYSIS:

- 1- Shrinking Real Disposable Income is placing a real burden on an already over extended US consumer.
- 2- Additionally, compounding debt burden, rising food and energy inflation, healthcare & education cost increases are shrinking the consumers ability to consume.
- 3- Employment security is weakening the consumers' willingness to take on more consumption.

NORTH & SOUTH KOREA



Though the North and South Korean tensions of diminished in 2011 this is a tinderbox ready to ignite at any moment.

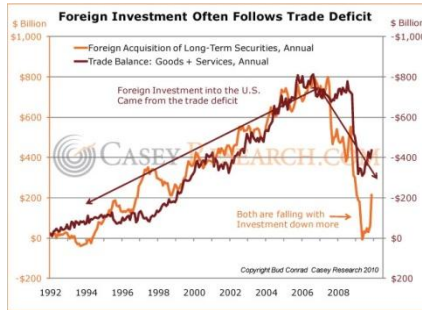
SITUATIONAL ANALYSIS:

- 1- A leadership change in North Korea will herald potentially increased tensions.

US FISCAL, TRADE AND ACCOUNT IMBALANCES

The US consistently runs: 1- Fiscal budget deficits, 2- Negative Trade balances and 3- Negative current account balances. The US has consistently shown an inability and weak desire to address any of these imbalances.

SITUATIONAL ANALYSIS:



- 1- The US faces massive structural issues that are illustrated in across the board financial deficits.
- 2- All US deficits are increasing in size with the additional problem of the cumulative effect of sustained imbalances.
- 3- There are no realistic public policy initiatives to address any of the imbalances.

CORPORATE BANKRUPTCIES



Mal-Investment , Reverse Gearing & Margin Pressures will be the catalyst for a future avalanche of corporate bankruptcies.

SITUATIONAL ANALYSIS:

- 1- Mal-Investments: Too many companies were initiated based on easy & cheap money that will not stand the test of tight credit, more expensive money and a slowing economic environment.
- 2- Reverse Gearing: The Private Equity buyouts prior to 2008 have left corporate balance sheets gutted and highly leveraged. They will be unable to weather difficult economic conditions.
- 3- Margin Pressures: Inflation in all areas of basic resources will squeeze corporate profits which have been maintained at the expense of labor and cheaper cost of money.

TERRORIST EVENT

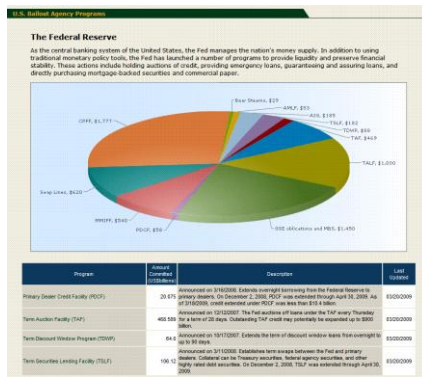
Unknown black swan event.

SITUATIONAL ANALYSIS:



- 1- An Al-Qaeda attack.
- 2- Islamic or Arab anger over events in North Africa and the Middle East.
- 3- A deranged individual with a plan.
- 4- A suitcase nuclear bomb
- 5- A biological attack
- 6- Anti government protestors

FINANCIAL CRISIS PROGRAMS EXPIRATION



Withdrawal of Financial Crisis Triage Programs and interest rate normalization

SITUATIONAL ANALYSIS:

- 1- Ending of QE II and ZIRP
- 2- Ending of raft of Federal Reserve Programs still in effect (click right)
- 3- Interest rate normalization.

IRAN NUCLEAR THREAT



An Israeli attack on Iran over Iran's Nuclear Program threat resulting in an escalation of Middle East tensions.

SITUATIONAL ANALYSIS:

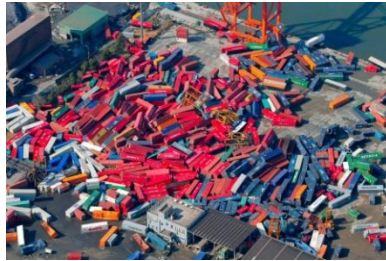
- 1- Though presently quiet, the situation in Iran has not been resolved.

NATURAL PHYSICAL DISASTER

Earthquakes, Tsunami, Flooding, Nuclear Event, Oil Spill, Hurricanes ever present and potentially economically crippling.

SITUATIONAL ANALYSIS:

- 1- 2011 - Japan: Earthquake, Tsunami, Nuclear Accident.

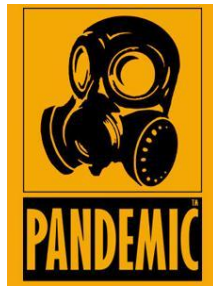


2- 2010 - Gulf Oil Spill and Economic fallout

3- 2010 - Haiti Earthquake

4- 2005 - Hurricane Katrina

PANDEMIC /EPIDEMIC



A Pandemic or Epidemic could breakout at any time, in a form the world is unable to effectively combat.

SITUATIONAL ANALYSIS:

1- 2009 Influenza A/H1N1

2- HIV and AIDS

3- 2003 SARS

4- Avian Flu - H5N1