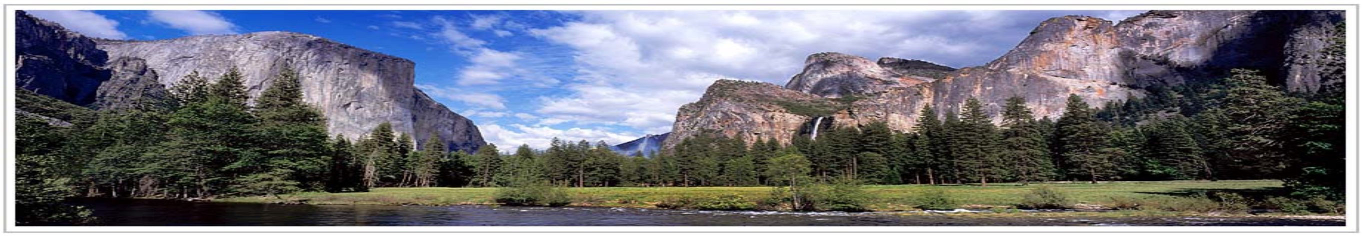

YOSEMITE CAPITAL MANAGEMENT

Third Quarter 2011 – COMMENTARY

Politicians are the same all over. They promise to build a bridge even where there is no river. – Nikita Khrushchev

Apparently there is some sort of crisis going on that has something to do with the government of the United States not paying its bills, politicians not compromising on something called a debt ceiling, and a rating change on U.S. Treasury bonds. Apparently this crisis suggests something bad might happen: interest rates will rise, the dollar will fall, stocks will go down, and some countries around the world won't like the United States. Apparently if any of those bad things happen, the American way of life will be over forever, and that worst of all Americans will never be able to chant obnoxious arrogant in-your-face-aren't-we-great chants like "U-S-A! U-S-A! U-S-A!"

In all seriousness, we are certainly aware of this particular current event as well as many other issues that could potentially affect the economy and the financial markets. We know there are potentially serious ramifications of not properly addressing some very real problems the country has, such as the lack of spending discipline by the federal government.

But we perceive that some people need to hold the hysteria.

The issue with the debt ceiling is a charade. This is more than anything else a big opportunity for politicians to be in the spotlight to spout their demagoguery, the news media to sell some fear and hype the election cycle, and partisan hacks to rabidly attack other partisan hacks. Never mind the fact that this little feature of our federal government has been routinely and often obscurely (though rarely without some blustering) raised dozens of times in its history, and that last-minute political deals to raise the ceiling are the norm. (It is also not uncommon for this political brinksmanship to be played out several times in the months leading up to general elections, so be forewarned about this happening in 2012.)

The rating of the United States doesn't matter. All the issues about the finances of the United States are in the open and well-known in this country and around the world. With open information, money goes where it is treated best (even if it's the prettiest horse at the glue factory). If American interest rates were to increase, it will be for systemic reasons such as rising inflation and not because of a pronouncement from a five-person committee at a ratings agency of potentially dubious credibility (their lack of diligence in fulfilling their raison d'etre was a prime contributor to the credit bubble that culminated in the 2008 economic and market debacle). As an aside, we wonder that if the rating were to be dropped one notch lower (still very strong, by the way) and nothing happened other than headline noise if this would not be an interesting reflection of the rating agencies.

In the meanwhile, there is a reason the Greek government must pay interest of about 14.8% to issue 10-year bonds and a corresponding reason why the United States government can pay interest of only 2.8% to issue 10 year bonds and only 0.1% to issue T-Bills (according to data from Bloomberg). Those who are seriously concerned or even frightened about the subject of Washington's kabuki theater might want to pause and think about those numbers and what they mean:

> ***In the weeks leading up to the brink of the supposed crisis that centers around the worth of US Treasury debt, panicked investors sold riskier assets to buy … US Treasury debt*.**

We don't know how the debt ceiling issue will be played out, as there certainly is a possibility that political intransigence and outright stupidity will prevail over pragmatism in the short term and trigger some potentially serious repercussions. We will not make a prediction, but we would not be surprised if there were a very last minute temporary or tentative agreement that will kick the can down the road for a few months when it will be revisited and we can all go through the fun and games again.

No matter what happens, we remind investors **there is ALWAYS uncertainty and there is ALWAYS something to worry about**. In that regard, **lose the news** and **keep politics out of investment decisions**. Unknown and unknowable future events are why we believe investment portfolios should be diversified across asset classes, and such diversification will ultimately serve investors well through the inevitable market storms and fears. We reprise what we wrote only a few months ago in our letter at the end of 2010:

> *For investment portfolios, we continue to preach they should be strategically structured based on investment objectives, risk tolerance, age, assets, etc., and not based on predictions or forecasts or emotional responses to what occurs in the economy, markets, political stage, or the news media.*

Investors who have the discipline and patience to adhere to their long term investment plan no matter what the headlines screech will likely fare better than those who insist on reacting to every real or imagined crisis du jour.

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