

GREY INVESTMENTS, LLC

“Continue Playing Defense”

As we discussed in our investment letter at the beginning of the year, “2010 A Time to Play Defense”, we began the year thinking about how to protect gains made in 2009. This posture served you well in the recently ended second quarter of this year, as the S&P 500 Total Return Index fell 11.4% during the quarter and the index for developed stock markets in Europe, Asia and the Far East (“EAFE”) fell by 14.9%. This pushed the two indexes to year-to-date losses of 6.7 and 14.7 percent, respectively. Our focus on “playing defense” served you well as most accounts we manage show year-to-date losses of 2-3%, as large allocations to bonds protected portfolios, with the Barclays Bond Index gaining 5.3% through June 30, 2010.

The most recent Bureau of Labor Statistics reports continue to show U. S. unemployment at 9.5%. However, a better measure of unemployment (includes people who gave up looking, working part-time, etc.) shows a 16.5% rate! It is also interesting to note that while many European governments have moved to adopt so-called austerity budgets, the U. S. government seems paralyzed by political differences, unable to bring spending under control.

We continue to believe that the large deficits in the U. S. will ultimately lead to, among other things, the U. S. losing its AAA rating. Although talk of a “double dip” recession has become much more prevalent, we continue to be more concerned by future inflationary pressures. We prefer municipal and corporate bonds to U. S. debt. At current market levels, we believe that large cap, high dividend-paying stocks may have a value as an alternative to bonds to protect a portfolio against a rising interest rate scenario.

We remain concerned that marginal tax rates on the wealthiest households will be heading much higher, making municipal bonds our best idea to ride out what may be a difficult economic future, where growth rates remain low for the next several years. Low bond yields currently reflect a concern regarding deflation; however, we remain much more concerned by runaway inflation robbing portfolios of spending power in the longer term.

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