EMERSON LETTER™

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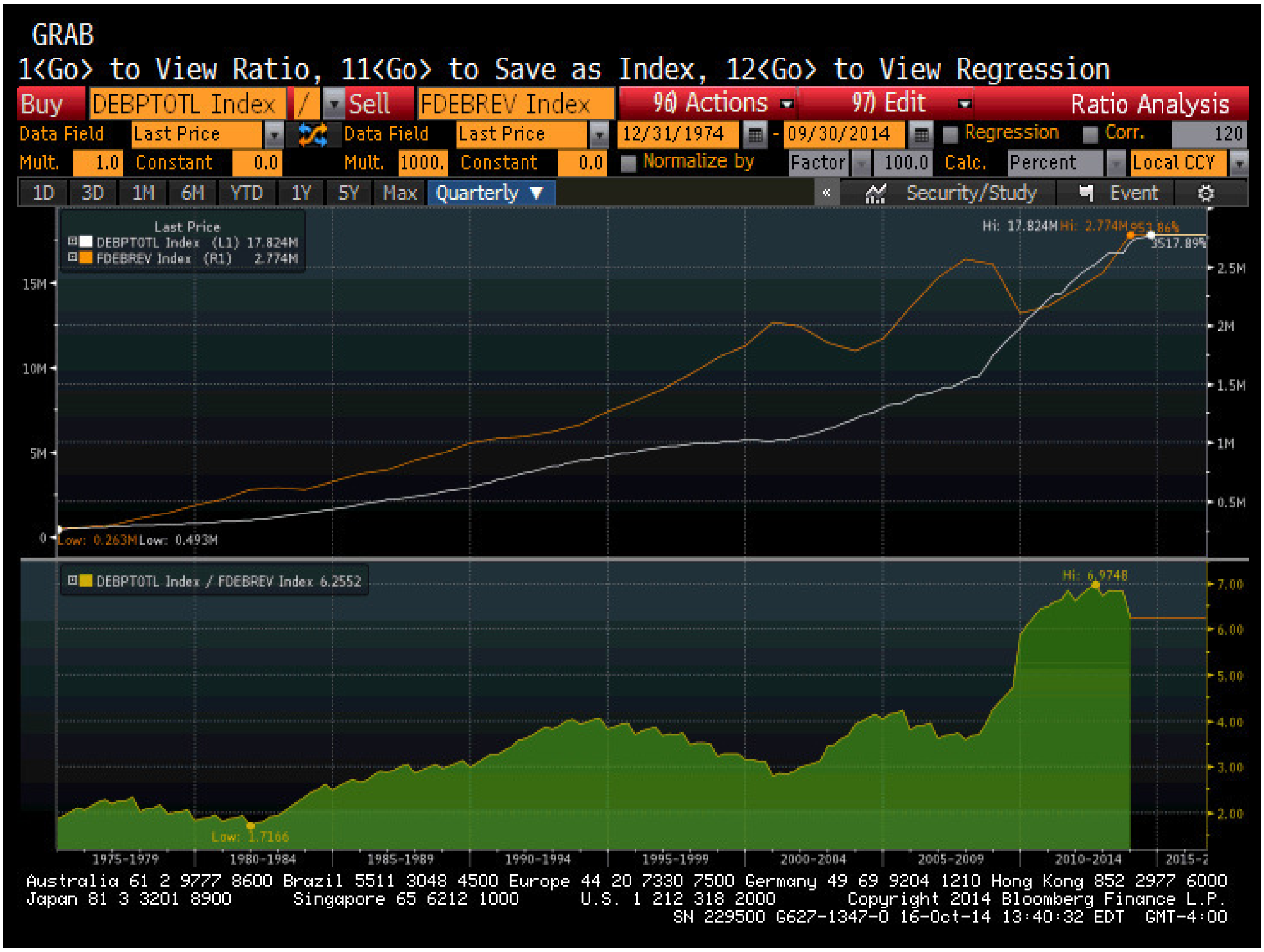
Everyone Wants a Free Pony

One true measure of a sovereign's ability to service its debt is Total Debt to Total Revenues. In the last dozen years, Total US Public Outstanding Debt to Total US Treasury Revenues has doubled from 3.25X to 6.50X. Even after 4 years of ZIRP and a Nationalized Yield Curve, US Treasury Debt to Revenues remains at historically high levels. And these debt figures don't even include Fannie and Freddie debt which together would add another $5 trillion to the tab. The administrators of this country simply spend too much. This addiction to spending started a long time ago, and has continued unabated for decades.

We continue to hear arguments that rising debt inhibits economic growth, retards inflation, and thus pushes down interest rates. Although rising debt levels inhibit growth and retards inflation, at a certain point rising debt levels will no longer result in lower interest rates. It is illogical and unsustainable to assume that debt levels can continue to climb without an eventual exhaustion of a sovereign nation's balance sheet. At a certain level, new debt created to service old debt and "create growth", is simply ineffective. Furthermore, it is also unreasonable to assume that the cost to service this debt will remain low forever, due to current artificially low interest rates.

The following chart characterizes this addiction to debt, and the urgent need to address this issue before we fall into the footsteps of Greece and other sovereign nations who simply spent more than they earned.

Total US Public Debt Outstanding / US Treasury Yearly Revenues



Source: Bloomberg

Respectfully yours,

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