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July 31, 2019

The Monthly Letter covers three topics this month. First, we provide our Quarterly Global Economic overview. With the Global Economy suffering a serious slowdown, Central Banks and Governments have moved to ensure that a Global Recession does not occur. While they likely will prevent a recession near term, the clock has begun to tick for the next recession. Second, we review the Equity Markets. The stock market rebounded during the first half of the year, wiping out the drop in Q4 and then some. Volatility continues to rise, as is typical in late stages of a bull market. With this backdrop, the market continues to resemble more and more the late 1960s and the market movements that ensued. And Third, as always, we close with brief comments of interest to our readers.

The Coming Global Growth Reacceleration

With the Global Economy continuing to struggle through a slowdown and, in some cases, a recession, like an apartment building on fire, the local fire trucks continue to show up, in the form of Central Banks around the globe, in order to quell the fire and prevent it from spreading to adjacent buildings. Central Banks have begun to pour water onto the flames in terms of lower interest rates, increased money supply, and higher credit availability. And, while this continues to hold the flames at bay, they await their larger brethren to truly put the flames to rest. The hook and ladder companies have been called, in the form of government spending, and are on their way to the scene. When they arrive, additional water will pour forth from their hoses, in the guise of government spending, to put the flames completely out. Whether in China, Italy, The United States, India, or elsewhere, governments around the world continue to put fiscal constraints aside to ensure economic growth continues, putting off the day of reckoning for the Global Economy and leaving the price of this spending to be paid at some indeterminant point in the future.

To date, over 20 Central Banks around the world, including those in the US, Europe, Brazil, Australia, China, Chile, Malaysia, Peru, New Zealand, and elsewhere have lowered interest rates by 25 or 50 basis points recently or indicated they plan to do so. And with the Global Consumer continuing to spend and, as a result, the Global Inventory Cycle headed to a bottom, the lagged impact of these actions should see Global Growth start to reaccelerate before year end. When these actions are coupled with the additional fiscal spending authorized over the past year in major economies, like the US, EU, Japan, and China, and the additional spending proposed or authorized recently, Global Growth should recover much more quickly than expected in 2020. Should the data continue to validate this scenario, the world will enter another period that looks like 1967 – 1969 and 1998 – 2000 with all the pluses and minuses these periods produced.

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Dragon Recessions

For China, the word "Recession" does not exist, regardless of the story the data tell. If a description of an economy included auto sales down 14%, TV sales down 7%, exports down, rising bank failures, increasing government stimulus, and central bank interest rate cuts, the normal conclusion would indicate that the economy stood in Recession. However, for China, such a state of affairs produces a stated GDP Growth of 6.2%. This level of GDP Growth stands consistent with the pronouncements from the central government indicating year ahead growth and with the goals of the Communist Party's latest 5 Year Plan. For China, while the rest of the world struggles with growth and all the variability that can occur, growth continues here at a predicted pace.

For those wondering how such a state of affairs can exist, a breakdown of China's economy demonstrates how the government can produce growth numbers despite what would produce a contraction in any other economy. China breaks its economic growth into Fixed Asset Investment (FAI), industrial growth, services, and government. Industry makes up ~40%+ of its economy. According to the latest statistics issued by the government, its Industrial Production (IP) grew at over 6.3% for the first half. Services/ retail spending, which make up 40%+ of the economy, continue to grow rapidly, at over an 8% rate. And lastly, Government spending on infrastructure coupled with State Owned Enterprise (SOE) capital investment, which drives FAI and which makes up the remaining portion of the economy, continues to grow with FAI Growing at almost 6% (5.8% officially reported) from January to June. Private Investment grew 5.7% and Public Investment grew 6.9%. When put together, it is easy to see how this Command and Control Economy could produce 6% stated growth despite a significant global growth deceleration.

However, some interesting facts emerge when viewing these growth statistics in context. China's Industrial Production, according to IMF data, stands at more than $10 trillion on a PPP basis (Purchasing Power Parity), an amount larger than Europe and the United States combined. Despite an industrial slowdown globally and a domestic drop in auto and TV consumption, China did not show a slowdown in the growth rate of its Industrial Production. And somehow, its exports grew at a 21%+ annual rate over the past three months at the same time as its imports contracted. This allowed its Net Exports to contribute 1.3% points of the 6.3% reported for year over year Q2 GDP Growth. In addition, despite global steel production dropping outside of China in the first half of 2019, reflecting the global inventory correction and manufacturing slowdown, according to data from the World Steel Organization, China increased its production by 10%. Entering 2019, China produced 51% of global steel. With its steel exports slowly but surely being systematically shut out of other countries, one might ask where China could use the incremental 12% to 15% of steel production internally with FAI spending up 6% or less. (For example, Iran will increase its steel production from 25 million tons in the year ended March, 2019 to over 30 million tons in the year ended March, 2020.) And if one states real estate

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investment, real estate already comprises 15% of GDP. And while Square Footage Started is up a little over 7% in H1, sales of real estate square footage are up just 2% year over year. And the cost of a typical apartment is 40x the average Chinese urban income in cities such as Beijing, Shenzhen, and Shanghai. Yet, according to the official statistics, real estate investment grew 10.9% in real terms in the first half. On the personal side of the equation, a real slowdown is unfolding. Hilton Hotels indicated it now expects REVPAR Growth (Revenue Per Available Room) to be flat in 2019 compared to 6% to 9% entering the year. Other data provide a similar picture. To the members of the Politburo, who see the real data, this growing evidence of a slowdown must be clear. Chinese Government Bond Issuance exploded in H1. It grew well over 100% year over year in Q1 and almost 20% in Q2. With the relaxation of the issuance of Local Government Bonds for use as Equity in Infrastructure projects by the Central Government recently, this issuance should reaccelerate in H2. As a result, China's Debt to GDP Ratio is forecast to rise 8 – 10 points this year. Non-Financial Sector Debt to GDP already stood over 250% of GDP entering 2019 and, at this rate, China will exceed 300% before 2025. So, while China can grow at 6.2% exhibiting its unique blend of Dragon Recession, the long term sustainability of such policies stands in question.

A Setting Sun

Japan continues to struggle with economic growth. Year over year GDP Growth fell to 0% in Q2, with the country narrowly avoiding a recession. This followed a rousing 0.9% GDP report for Q1. Overall Machinery Orders stand where they stood in early 2015 despite over 4 years of time passing. Reflecting this lack of growth, Japanese Industrial Production looks like an oddly shaped pancake from Q2 2017 to today. This reflects a flattening out in exports since early 2017. With a VAT hike coming in October, when the VAT Rate will rise from 8% to 10%, consumption likely will come under pressure later this year. And despite the normal rush to buy goods prior to a VAT Hike, there exists no evidence Japanese consumers opened their wallets ahead of time. And despite a budget deficit of 7.5% of GDP and a Government Debt to GDP Ratio of over 200%, the Japanese government talks openly of increasing spending to offset the expected hit to the economy from the VAT hike. In fact Prime Minister Abe publicly indicated that the government would spend significant monies to offset this tax increase. However, this will do little to address the looming structural issues facing Japanese growth. First, as China builds out its technology industries as well as high value industrial goods production, Japan will find its exports to China replaced by Chinese domestic production. Second, with the United States looking to reclaim its industrial production in areas such as autos, robotics, and industrial equipment, Japan's large trade surplus with the United States likely will come under pressure. While Japan can continue to stimulate its economy, using the Bank of Japan to monetize its debt, this will not solve the fundamental growth equation facing its economy as it faces A Setting Sun.

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Elephant Wanderings

In contrast to Japan, India stands in the early stages of Developing Economy growth. As it builds out the fundamental building blocks of its economy, economic growth should sustain at a reasonable rate for the foreseeable future. Consumption growth has accelerated with volumes of consumer goods such as paints, toothpaste, and spirits rising at over an 8% rate so far this year compared to less than 6% for the last few years. However, India does not stand immune from the global slowdown. Real Gross Fixed Capital Formation slowed from 12.2% year over year in Q4 2017 to just 3.6% in Q1 2019. Industrial Production growth ran at less than 3.5% year over year recently. In addition, the country possesses a rickety structure for a financial system, similar to the issues that the United States faced in the 1800s. Non-Bank Financial Companies (NBFCs) make up over 40% of its financial system. With the recent bankruptcy of a prominent NBFC, credit for areas such as auto sales became very tight. In fact, auto sales dropped 10% year over year at some points during Q2 as consumers could not get the loans to continue to purchase these vehicles. To offset this issue, the government entered into a 1 trillion Rupee stimulus program, equivalent to 0.7% of India's GDP. In addition, the government put pressure on the central bank to ease. Recent data indicate this may be having some salutary effects as two wheeler vehicle sales appear to be bottoming. While the worst may be over for the industrial side of the economy, the agricultural side faces significant potential stress. The Monsoon stands 17% below normal, according to the latest data. With 70% of India's population rural, this could portend some real issues later this year. For these rural consumers, food represents 50% of their spending. Any spike in food costs could significantly impact them. And even for urban consumers, food makes up 35% of their spending. So, with Elephant Wanderings due to the cross currents in the economy, developments in the Monsoon need close attention.

Tiger Feast

For Southeast Asia, the move away from China as a production hub for global industry stands as a boon that will help to sustain their fundamental economic growth. These countries appear well positioned to gain manufacturing production at the expense of China. For example, Vietnam's GDP grew ~7% in the first half of the year, as the economy continues to benefit from Foreign Direct Investment (FDI). Reflecting this FDI surge, July IP grew 9.7% year over year and its exports surged in the first half. Other countries in the region expected to benefit from this shift in production include the following: The Philippines expected to grow at almost 6%, Indonesia expected to deliver 5%+ growth, and Malaysia which should grow at 4.5% or better this year. The issue for these economies stands some few years in the future as the global trading system returns to the GATT. In the meantime, these countries will enjoy a Tiger Feast.

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Samba Anyone

For Brazil, the on the ground data suggest the economy continues to recover. This contrasts to the official statistics for GDP and industrial production which indicate an economy vacillating between growth and shrinkage. For example, core retail sales turned consistently positive on a year over year basis over the past few months. The Brazilian statistics office reported Q2 Broad Retail Sales growth at almost 4% year over year. This correlates with data published by hypermarket companies and wireless telecom companies indicating consistent growth in their businesses in Brazil. Truck sales recently grew over 30% year over year. Auto sales rose 11% year over year in July. Tractor sales are expected to grow strongly in the second half as the government restores the key loan program, FINAME, that was interrupted in the first half and farmers make up for postponed purchases of equipment. For the farmer, the agricultural sector continues to benefit from the significant depreciation of the currency as well as production problems around the world. Production exhibits no issues in Brazil. Soybean production should reach a new all time high and corn production will grow significantly. (See the latest WASDE report available at https://www.usda.gov/oce/commodity/wasde/) Combined, these should produce record farm profits. In addition to these positive data points, the government continues to enact pro-business policies that should encourage significant investment over time. In response to these actions, the Brazilian stock market exploded to the upside. With many positives going for it, economic data should start to reflect this underlying reality and see the ordinary Brazilian saying Samba Anyone.

The Old Man's Struggles

While the Emerging Economies possess fundamental drivers to their economies, Western Europe possesses a fundamental impediment, called the Euro. The Euro, combined with the decisions of the European Central Bank (ECB) on monetary policy, can not serve the interests of multiple countries who need differing monetary policies, fiscal policies, and currency policies. And it is this fundamental contradiction that stands in the way of European growth. The biggest loser in the past 20 year experiment is Italy. In 1999, prior to giving up the Lira for the Euro, Italian Industrial Production stood above that of Germany. Today, it stands over 20% below. The country endured the worst stretch of growth since the Great Depression over the past decade. And recent growth is nothing to write home about as Italian GDP grew at a rate of less than 1% in this year's first half. In addition, somehow, the EU blessed France's budget, which possesses a higher structural deficit than Italy, but told Italy to cut its spending. For those who wonder why the populist parties continue to rise in the polls in the boot, the answer is simple. The European Union (EU) cannot serve multiple masters. And the masters that have feasted at the table are Germany and the northern European countries.

For Germany, the benefits of the EU stand clear. With 40% of its economy export oriented, the Euro's value in the global currency markets stands well below where the German Mark on its own would stand.

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Thus, the undervaluation aided Germany's growth. Unfortunately for Germany, those who live by the sword, die by the sword. With China's economy maturing and needing to grow differently than over the past 20 years, the demand for German capital goods already has begun to wane. Furthermore, moves by the ECB to loosen monetary policy and lower the value of the Euro against the US Dollar now meet resistance. The current U.S. Administration understands fair value for the Euro stands 20%+ above its current valuation. And with currency depreciation off the table, Germany must compete with other countries in the Eurozone, such as Spain, which possess lower manufacturing costs. Lastly, with the UK leaving the Eurozone, other countries will consider similar actions. The obvious next candidate is Italy. Should Italy recreate the Lira, and the creation of the BOT sounds awfully close to the Lira, the country likely would massively depreciate its value to restore its global competitiveness, leaving Germany with a less competitive position and recapturing the lost 20 years of Industrial Production at Germany's expense.

For Central Europe, such a breakup will cause significant indigestion. These countries currently benefit from a transfer of monies from the mature countries in the EU that goes directly into investment to build infrastructure and manufacturing plants. This transfer contributes a not insignificant 1.5% to GDP growth per year for these countries. Should Pooh Bear, Central Europe in this case, find the honeypot empty, he would go hungry for quite some time. In addition, Central European countries, such as the Czech Republic and Hungary, supply significant amounts of auto parts to Germany's auto manufacturers. Should the Euro revalue upward to fair value against the US Dollar or should Germany find itself needing to recreate the Deutsche Mark, a hard currency, then the competitiveness of German exports could significantly deteriorate, with the expected economic impact on Central Europe. With the Old Man's Struggles coming to the fore, it seems just a matter of time until the economic structure holding the EU together collapses under its own weight.

The Climb To The Top

For the United States, the Federal Reserve finally relented in its tightening campaign. Late is better than never, sometimes. With a Yield Curve threatening to invert, the Federal Reserve finally lowered rates by 25 basis points, 0.25%, in order to forestall such an occurrence. However, with Chairman Powell indicating the Federal Reserve would not follow-up with additional cuts and indicating that this cut was begrudgingly given, the Yield Curve actually flattened, as the following chart demonstrates:

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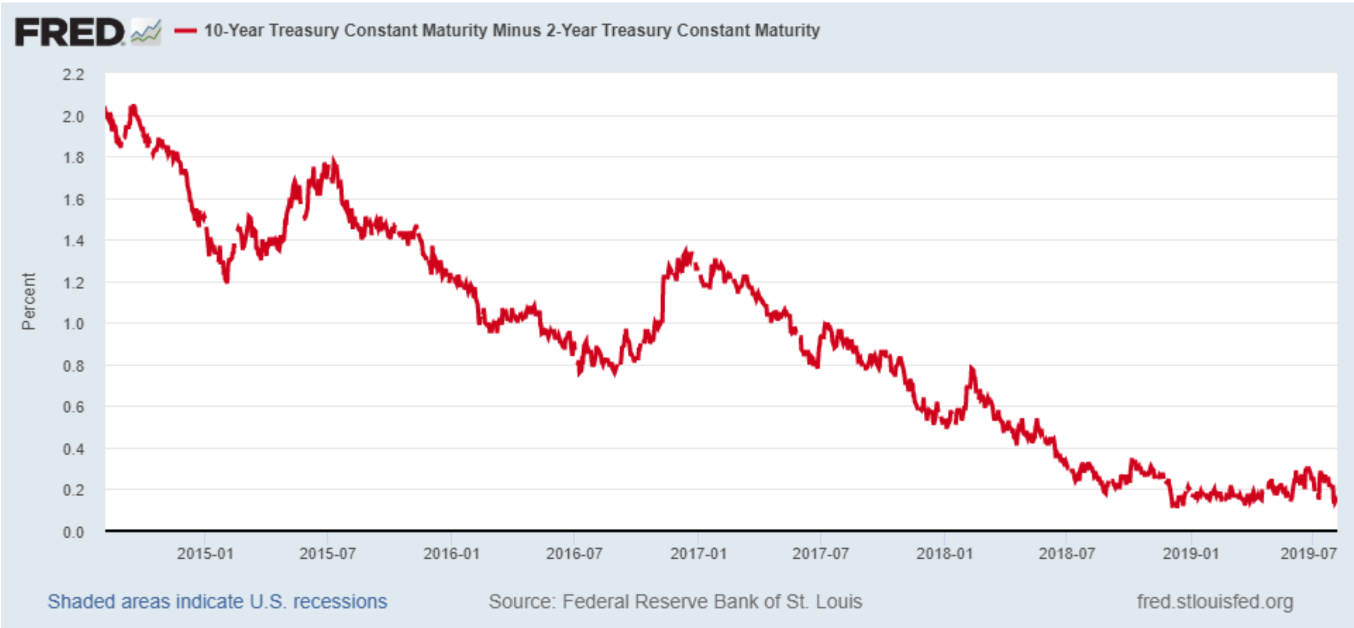

For the economy, this was not what the doctor ordered. It indicated serious issues with the economy that the Federal Reserve seemed to be missing, for the Yield Curve does not flatten in a vacuum. And this version of the Yield Curve tends to give a long lead signal on growth ahead.

Recent economic data fully justify the continued flattening in the bond markets, despite the Federal Reserve's statements to the contrary. First up is the PMI. With the ISM's PMI (Purchasing Manger Index) hovering near 50, a potential contraction in the manufacturing economy lies ahead as the global inventory correction rolls onward. This can already be seen in Industrial Production (IP) growth which now hovers around the zero line:

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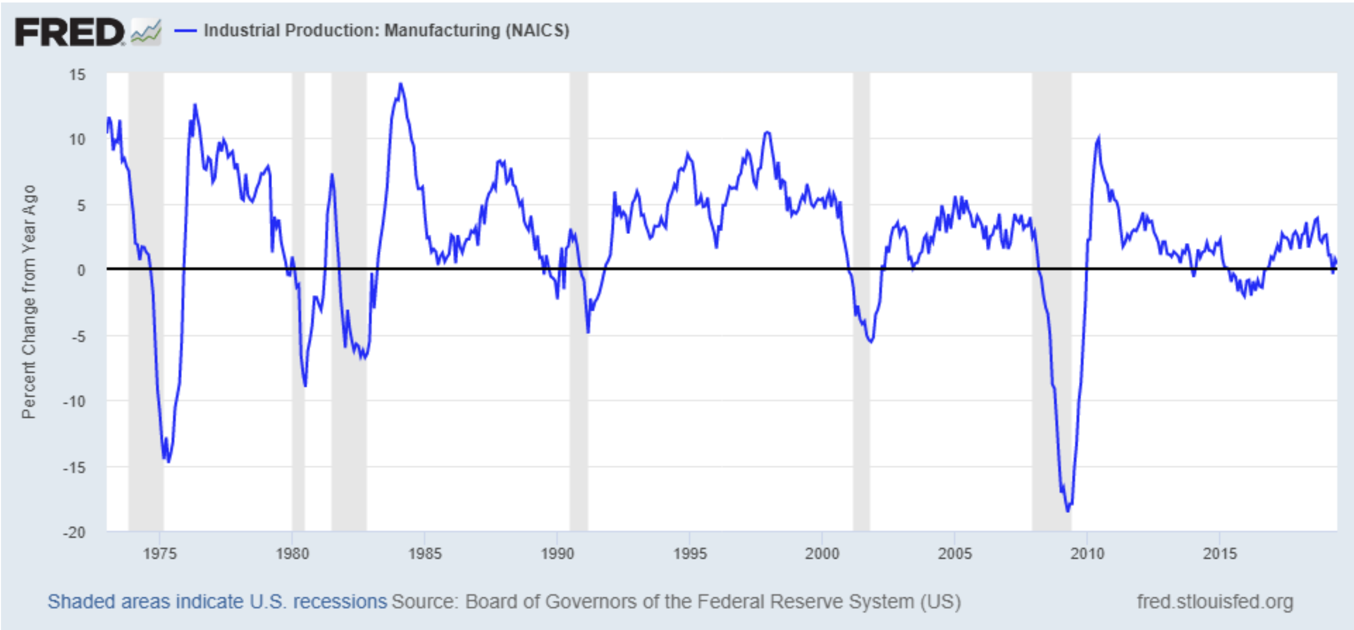
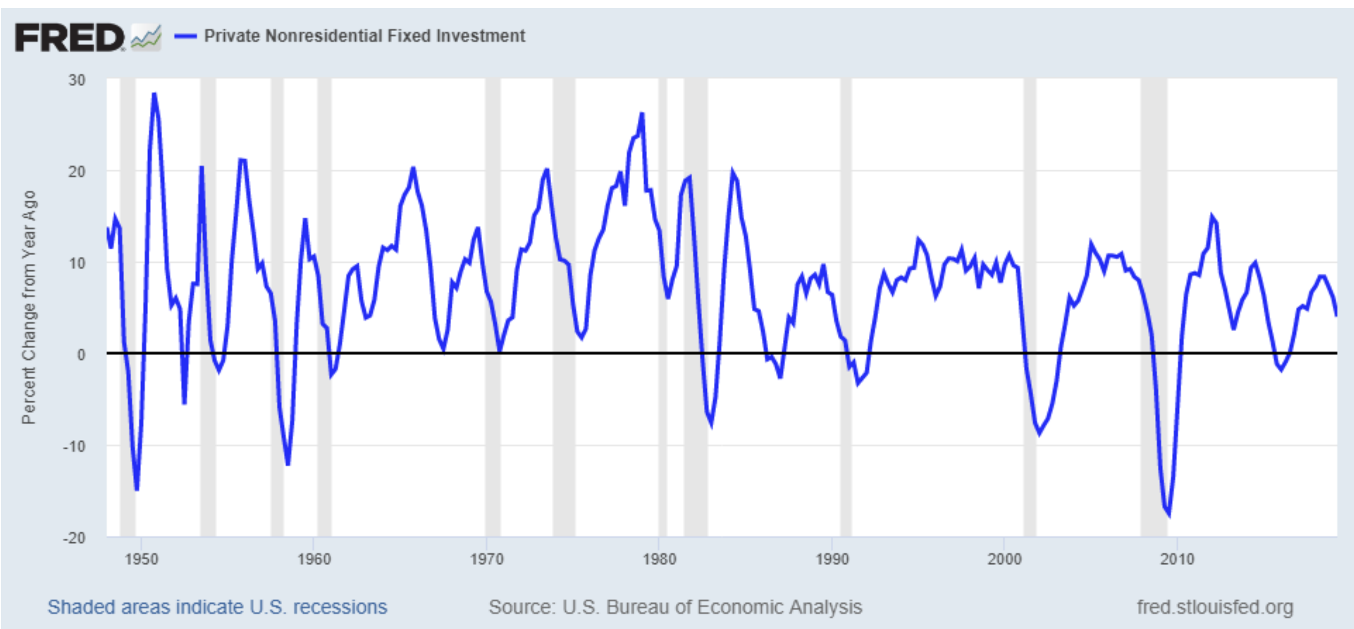


And, as would be expected, if there is no growth in IP, then Investment growth slows down. The following chart of Non-Residential Fixed Investment Growth clearly demonstrates this:



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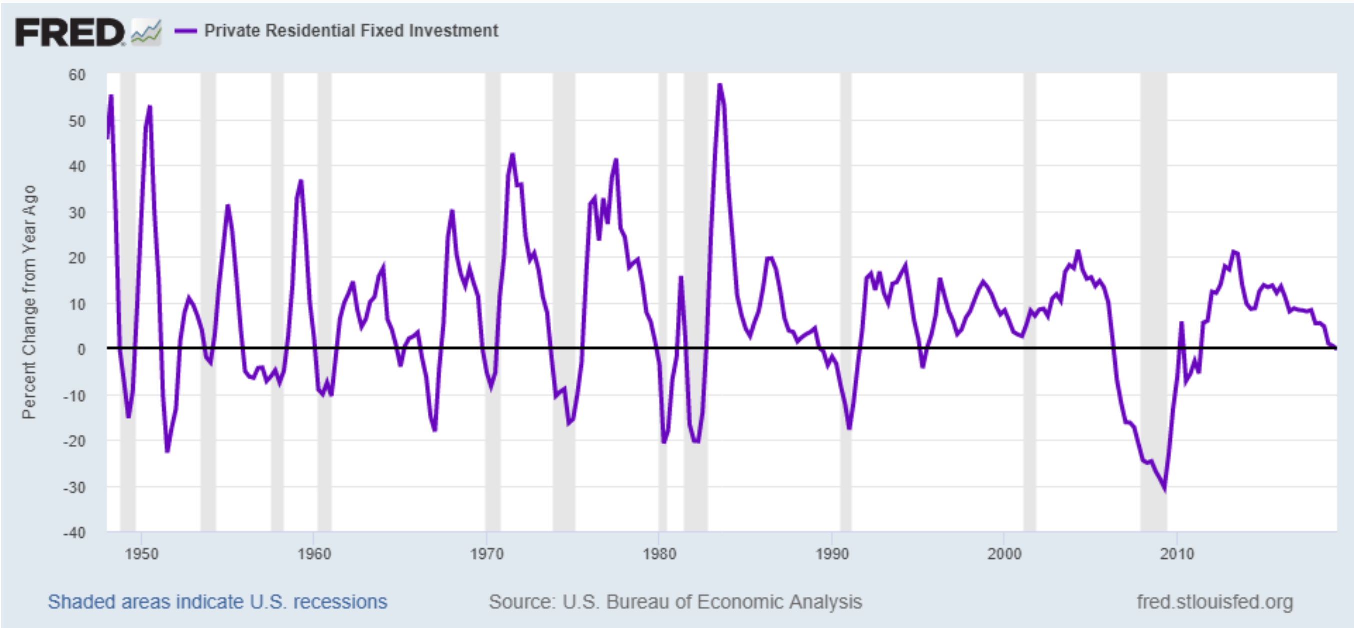
And should one examine the residential side of the economy, it looks no better:



While it is difficult to tell from this chart, due to the scale, Private Residential Fixed Investment turned slightly negative on a year over year basis recently. This downturn originates in the Single Family sector, which clearly rolled over last year and is now dragging the total down:

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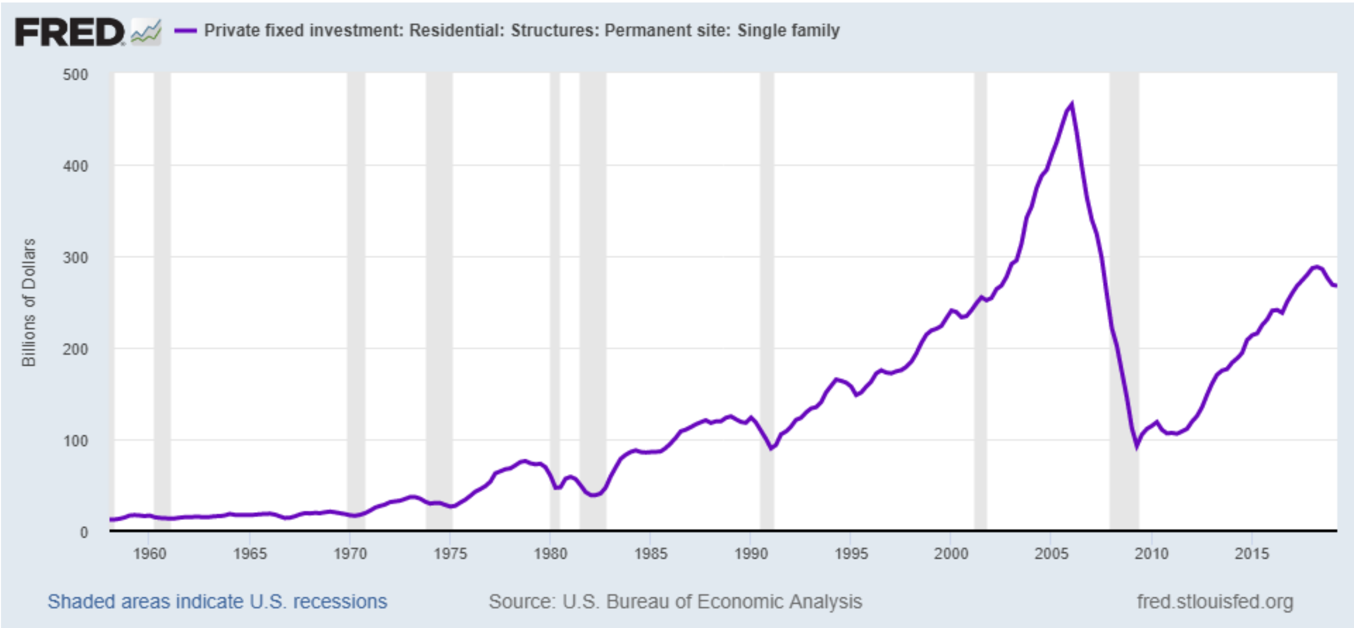

And while multi-family continues to grow, its' growth is slowing.

There exist only two areas keeping the U.S. economy growing. First, the consumer continues to spend:

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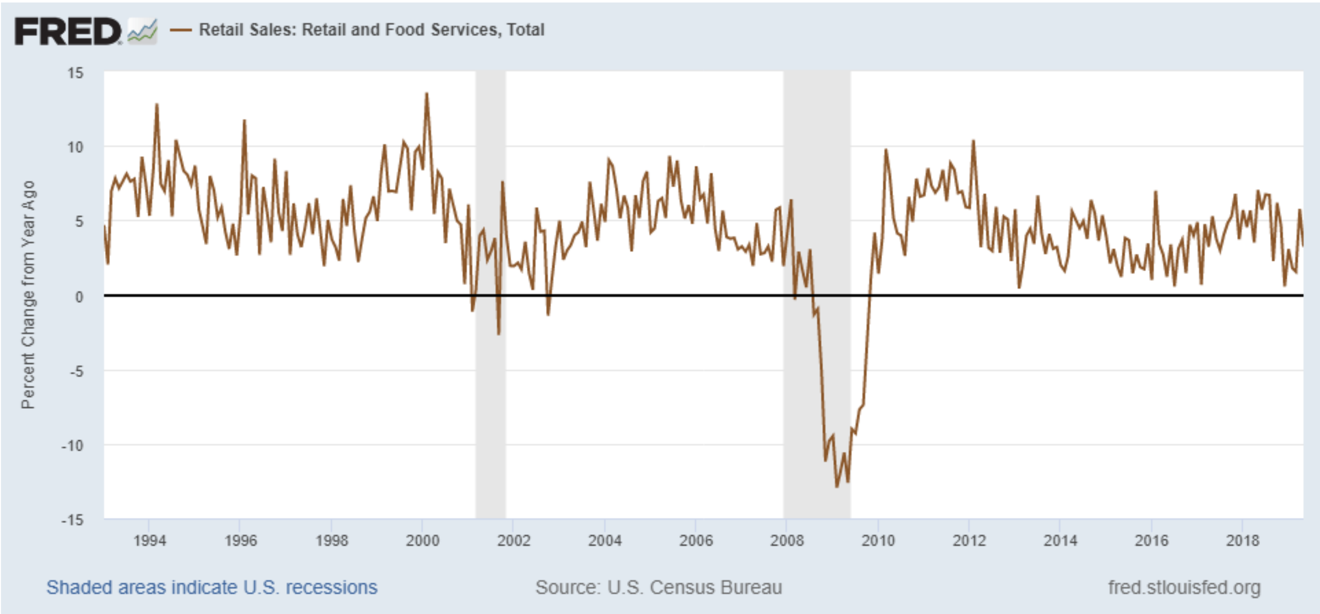
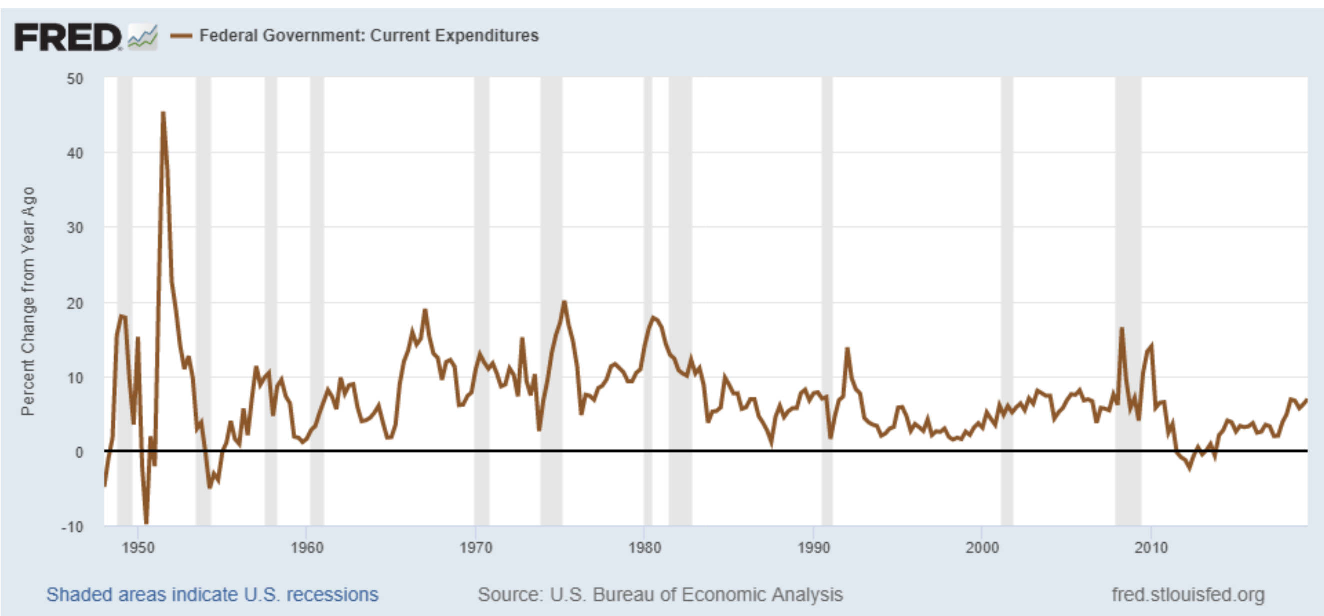


Though, as the chart makes clear, consumer spending growth appears slower than over the recent past. And second, the government continues to spend. Both the federal government:



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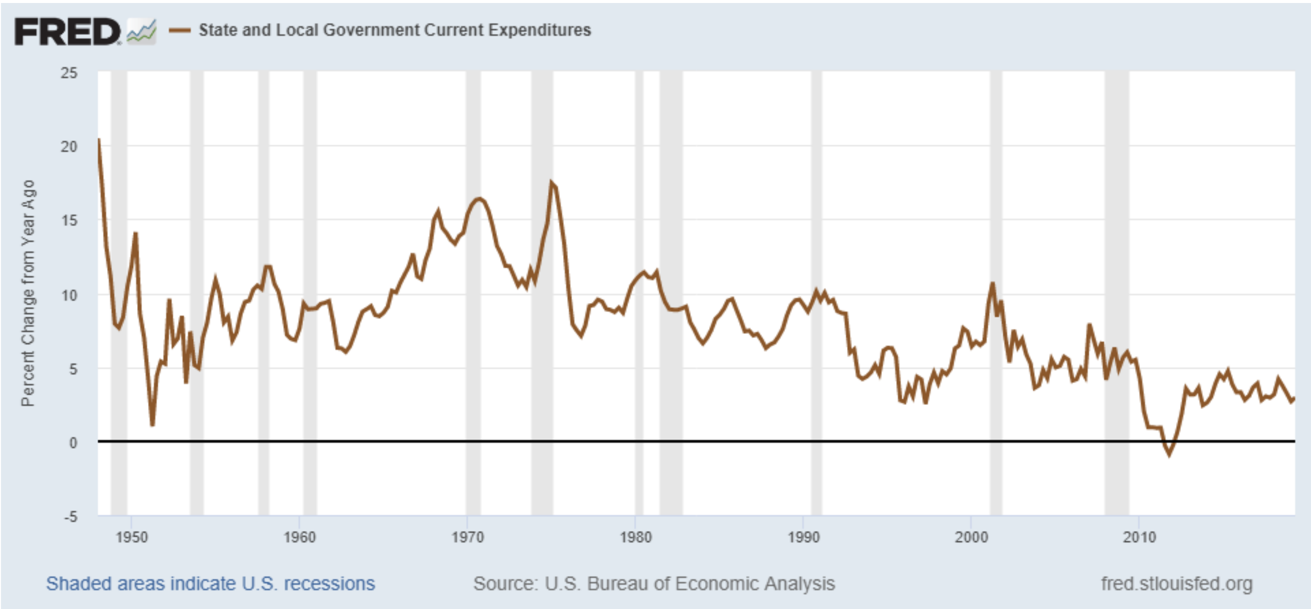
And the states:



However, there lie significant risks with these two remaining drivers. First, consumer spending depends on continued job growth and income growth. Job growth slowed significantly over the past year. And the leading indicators for it appear to have stalled out. This is most easily seen in Small Business Optimism, which is tracked by the NFIB (National Federation of Independent Business):

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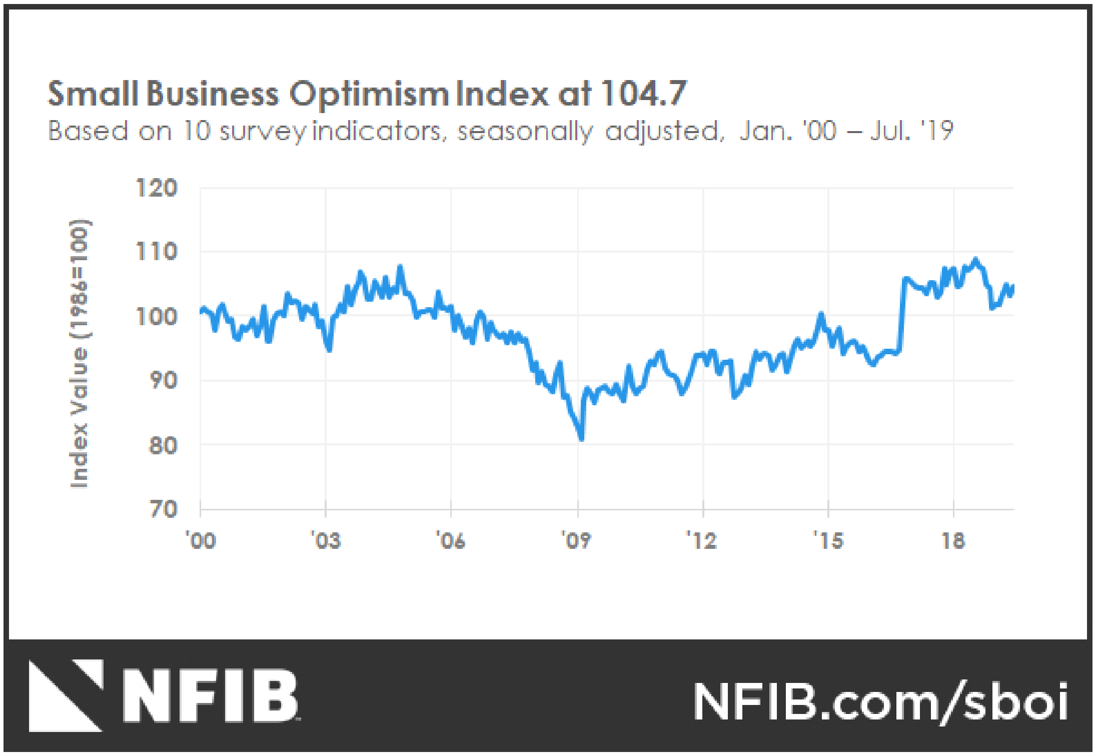

As the chart above indicates, Small Business Optimism pulled back in a similar fashion to 2005. This long lead indicator typically starts to deteriorate 2 years prior to a recession. And it feeds back into hiring, as small businesses contribute a disproportionate share of the growth in workers.

In addition, State and Local Spending exhibits highly pro-cyclical movements. In other words, when the economy grows, so do taxes. Therefore, states and municipalities spend more. When taxes slow down growth or shrink, states and municipalities must slow their spending growth or actually cut spending. This is due to the fiscal regime under which states operate. Unlike the Federal Government, states possess balanced budget requirements. Thus, when the revenue does not appear, either taxes rise or spending gets cut or both. Either impacts economic growth negatively.

For the U.S., the economy can now see the peak as the long leading indicators indicate downturn ahead. But, they do not indicate an imminent downturn. With the Global Inventory Cycle headed towards bottom in H2 2019 and Global Central Banks easing aggressively, one more reacceleration likely lies ahead. And as the U.S. economy likely picks up steam in 2020, as global growth reaccelerates, it truly will be The Climb To The Top. (Data from The Federal Reserve, U.S. Census Bureau, Foreign Government Releases, and company data coupled with Green Drake Advisors analysis.)

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Equity Markets: Those 1960's Again

> "*There was, however, a radical fallacy involved in the new-era application of this historical fact. This should be apparent from even a superficial examination of the data contained in the small and rather sketchy volume from which the new-era theory may be said to have sprung. The book is entitled Common Stocks as Long-Term Investments by Edgar Lawrence Smith, published in 1924. Common stocks were shown to have a tendency to increase in value with the years, for the simple reason that they earned more than they paid out in dividends, and thus the reinvested earnings added to their worth…*
> *The attractiveness of common stocks for the long pull thus lay essentially in the fact that they earned more than the bond-interest rate upon their cost. This would be ture, typically, of a stock earning $10 and selling at 100. But as soon as the price was advanced to a much higher price in relation to earnings, this advantage disappeared, and with it disappeared the entire theoretical basis for investment purchases of common stocks. When investors paid $200 per share for a stock earning $10, they were buying an earning power no greater than the bond-interest rate, without the extra protection afforded by a prior claim. Hence, in using the past performances of common stocks as the reason for paying prices 20 to 40 times their earnings, the new-ear exponents were starting with a sound premise and twisting it into a woefully unsound conclusion.*"

Chapter XXVII: The Theory of Common Stock Investment
Part IV: Theory of Common Stock Investment. The Dividend Factor
Security Analysis, 1934
By Benjamin Graham and David Dodd

For those unfamiliar with stock market history, the recent market movements appear to resemble more and more the second half of the 1960s. This is due to the economic growth and actions of the Federal Reserve. In September, 1961, the Federal Reserve began to gradually raise interest rates. This continued until 1966. At that point, the Federal Reserve began to worry about inflation. So, it pre-emptively tightened in 1966 to prevent a surge in inflation. By the time it finished in October, 1966, the Federal Reserve succeeded in slowing economic growth dramatically, from 8% to less than 4%. The stock market swooned. Then, in response to the slowdown, the Federal Reserve lowered rates from 5.76% to 3.90% in August of 1967. The market took off, making a new high in 1967. The economy responded, with a lag, reaccelerating in the second half of 1967. As the economy began to reaccelerate, the Federal Reserve began to raise rates once more in late 1967. They paused briefly from April to November 1968 due to the Presidential election. They then raised rates rapidly from January 1969 to their peak in October 1969. The market continued upward until November 1968. It then began, what

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came to be known, as the 1968 – 1970 Bear Market, which brought the S&P 500 back to the lows seen in late 1966.

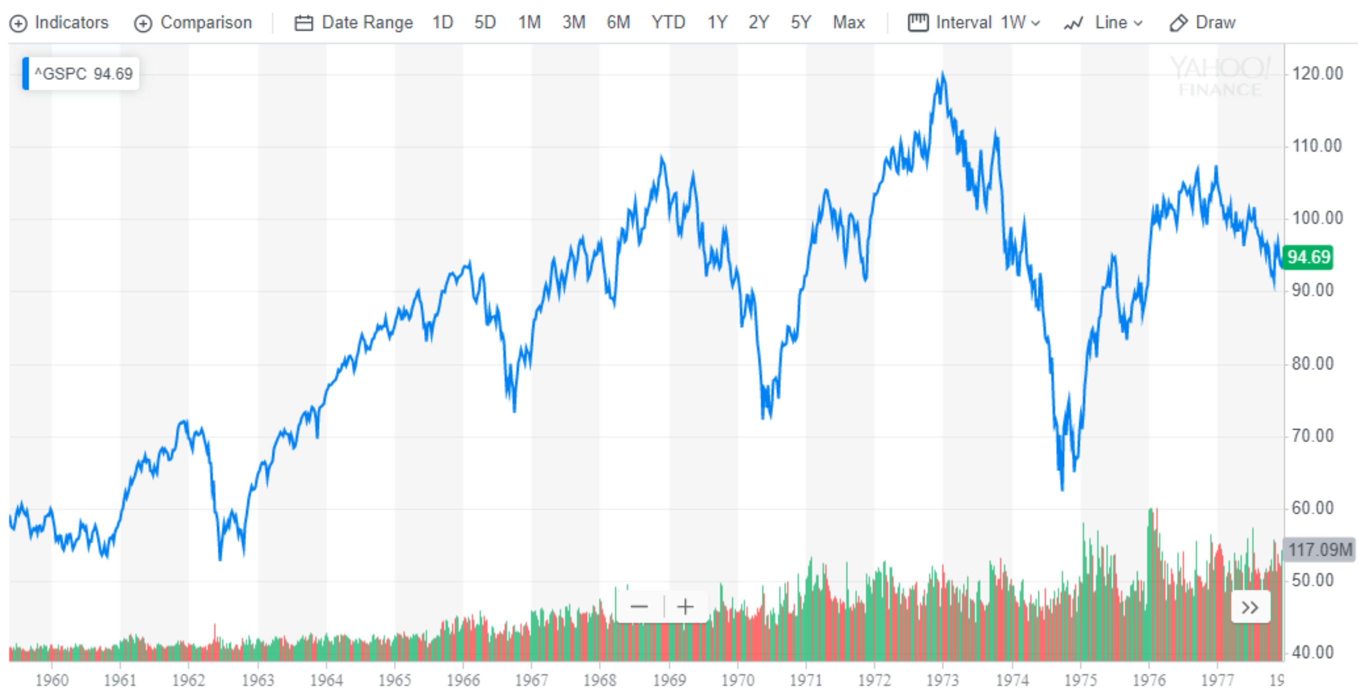

Chart courtesy of Yahoo Finance (https://finance.yahoo.com/)

A similar tale appears to be unfolding today. With the end of Quantitative Easing in 2014 and the beginning of Quantitative Tightening, the Fed effectively raised rates, even though the stated rate stayed at 0.0%, as the chart below demonstrates:

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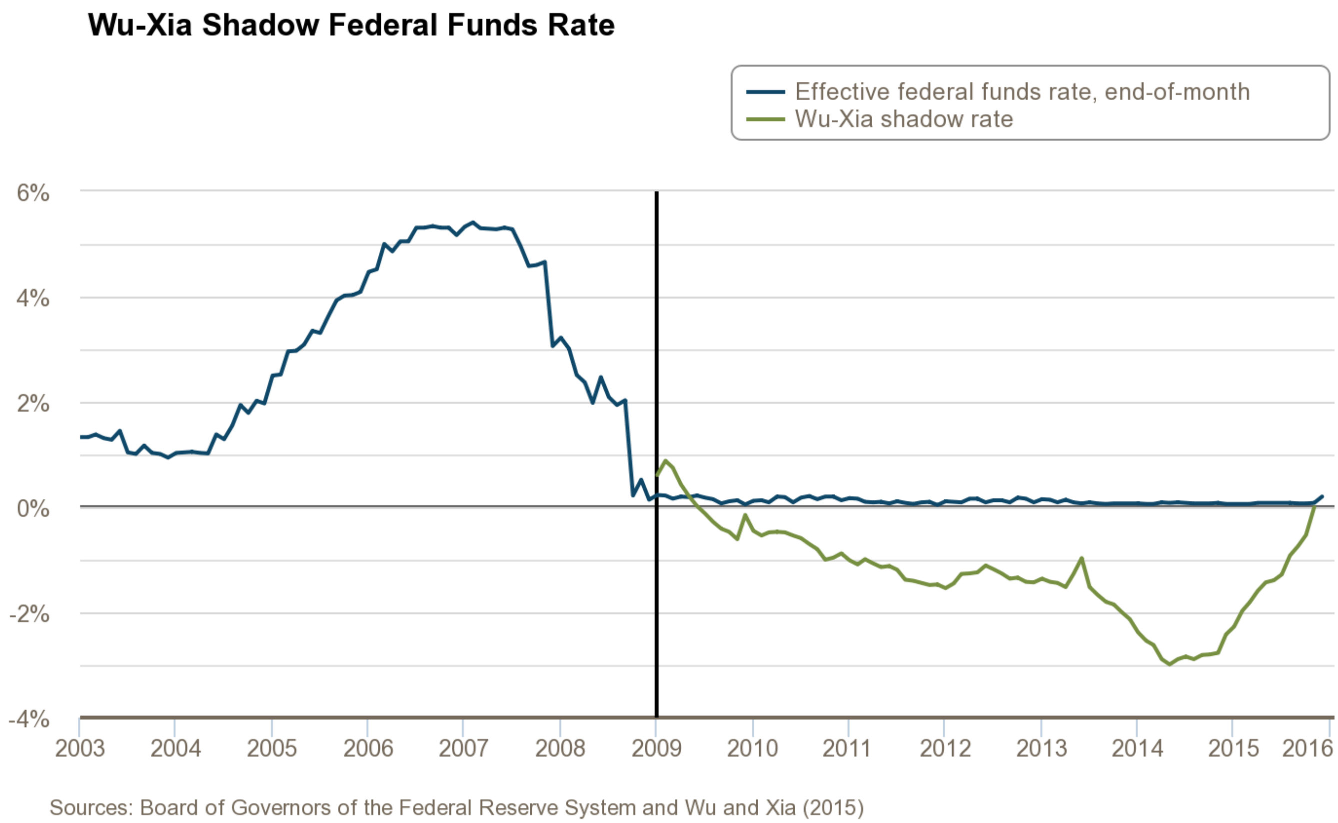

It is unclear whether the real Fed Funds Rate actually reached an effective rate of -3.0%. Based on other data, a reasonable rate of -1.50% appears to have been achieved, which was gradually raised to 0.0% by late 2015. The Federal Reserve then began to raise actual rates steadily beginning in 2016, driving the Effective Fed Funds Rate to 2.40%. Increases of 3.0% or more in rates by the Federal Reserve historically lead to corrections or bear markets in the Equity Markets. The drop of 21% in 2018 exactly matched the drop in 1966. With the Federal Reserve realizing its mistake in January 2019 and Central Banks around the world easing, the Equity Markets rebounded, moving to new highs, as in 1967. With more Federal Reserve rate decreases ahead, to prevent an inversion of the 2 Year – 10 Year Yield Curve and prevent a recession, markets will likely grind higher over time, much as in 1967 – 1968. (Please Note: Should the Fed allow the Yield Curve to invert significantly and refuse to ease, then an alternative scenario called a Bear Market would ensue followed by a Recession. With a Presidential Election in 2020, the Federal Reserve will likely move to preserve its independence.) The following chart shows market movements over the past 5 years:

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Chart courtesy of Yahoo Finance (https://finance.yahoo.com/)

As is clear from the chart, the market movements in 2019 look eerily similar to 1967. Should the Federal Reserve follow the script from that era, which looks more and more likely, then tightening would resume in late 2020 or early 2021, leading to a late 2021 or 2022 recession.

Stocks continue to exhibit valuations reminiscent of this period as well. As the following CAPE Chart from Robert Shiller makes clear, valuations continue at historically high levels:

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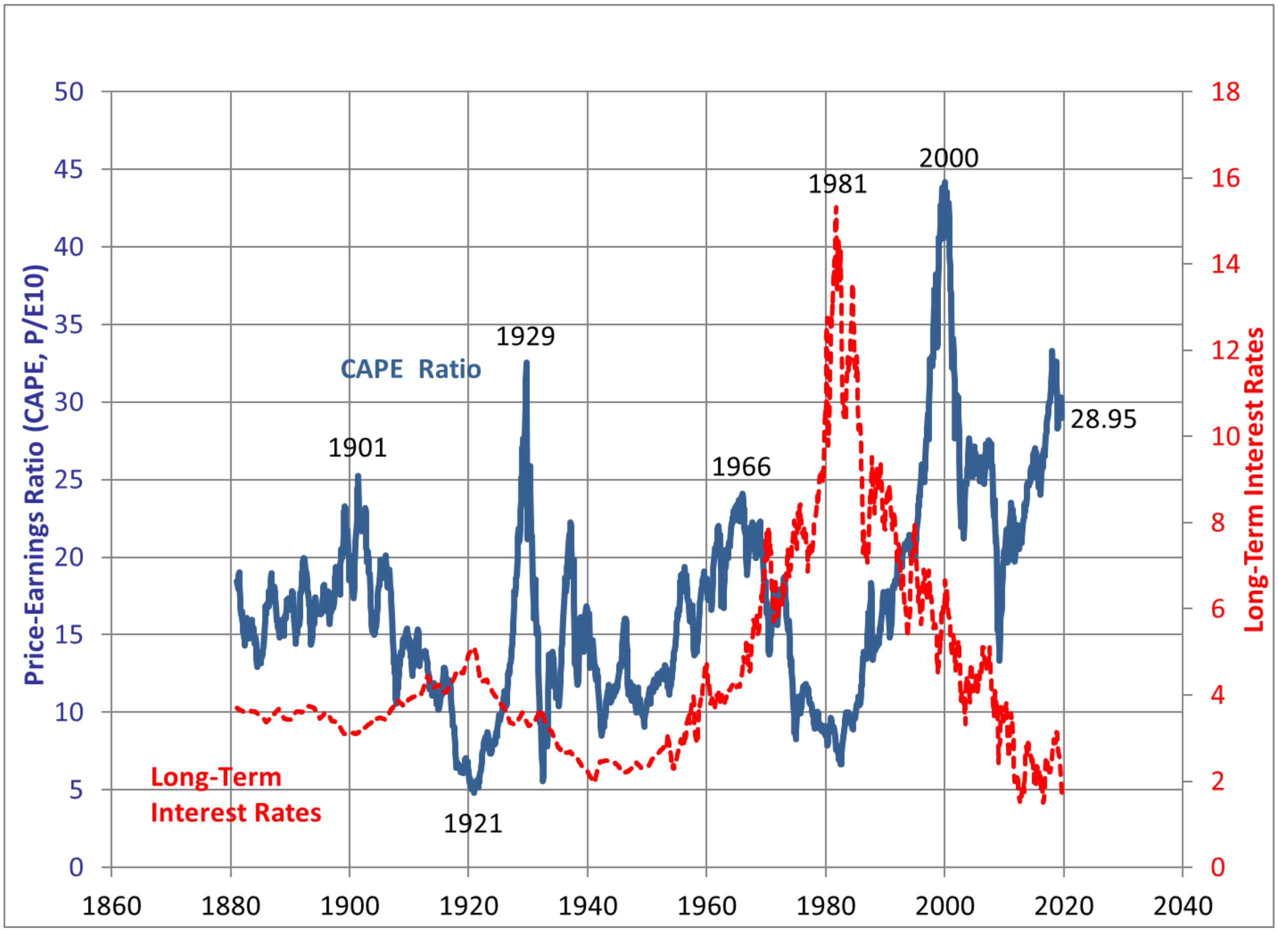

Chart courtesy of Robert Shiller available at http://www.econ.yale.edu/~shiller/data.htm .

This reflects the benefits of the WTO, leading to very high levels of corporate profits to GDP, coupled with the massive cut in corporate tax rates.

Unfortunately, it appears that the benefits of the WTO to corporations will come under increasing pressure as workers demand a greater piece of the economic pie and a new Cold War heats up between China and the US. This can already be seen in Corporate Profits:

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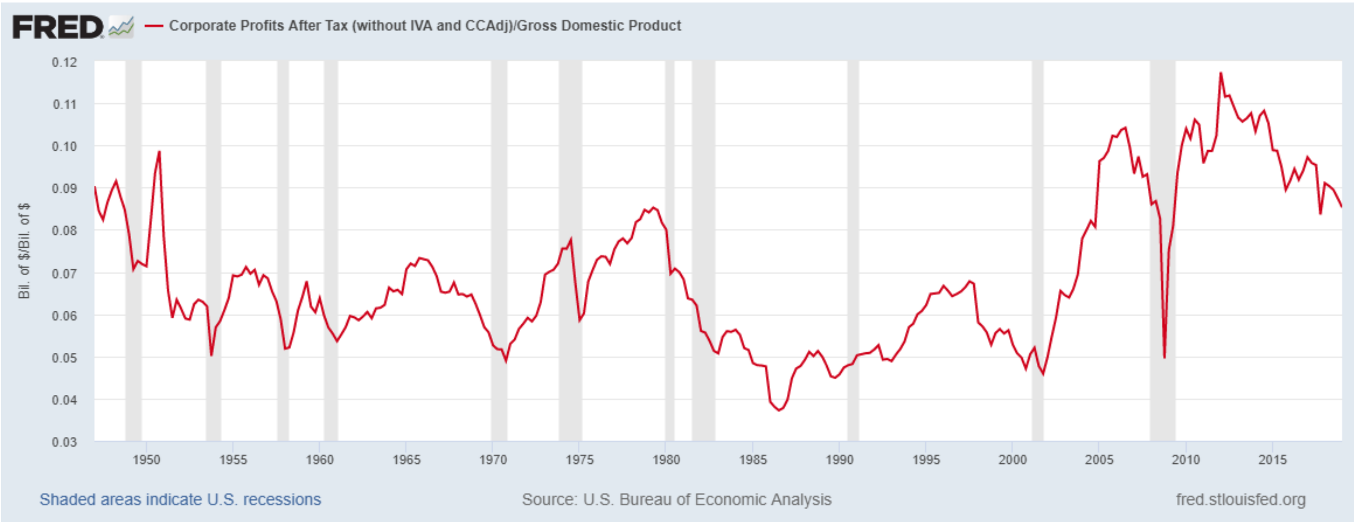

As the chart makes clear, corporate profits to GDP effectively hit a plateau from 2006 – 2014, with a dip for the recession. Since then, corporations' profits steadily lost share of U.S. GDP. (Note: This coincides with the slowdown in Global Trade growth.) With continued pressure on China, the WTO and the location of plants overseas, this trend likely will not reverse anytime soon. In fact, it likely will return to its 1950 – 1980 range as corporations must spend more on plant and equipment, increasing Depreciation as a percent of revenues. And, as the Shiller CAPE Chart above makes abundantly clear, any time the CAPE reached a peak and began a mean reversion in the past, it subsequently fell by more than 50%.

The other piece of "Good News" for the Equity Markets, concerns the drop in the Equity Risk Premium (ERP). The ERP began to drop in the late 1950s reflecting the rise of Western economies as the dominant economic power. Excluding the inflationary late 1970s, the ERP continued to drop into the l980s, as Ronald Reagan become President and the Western World won the Cold War with Russia. Starting in 2001, the ERP began to rise again, reflecting China's rise as an economic power and the new challenge to U.S. hegemony. The following chart demonstrates this sequence of events:

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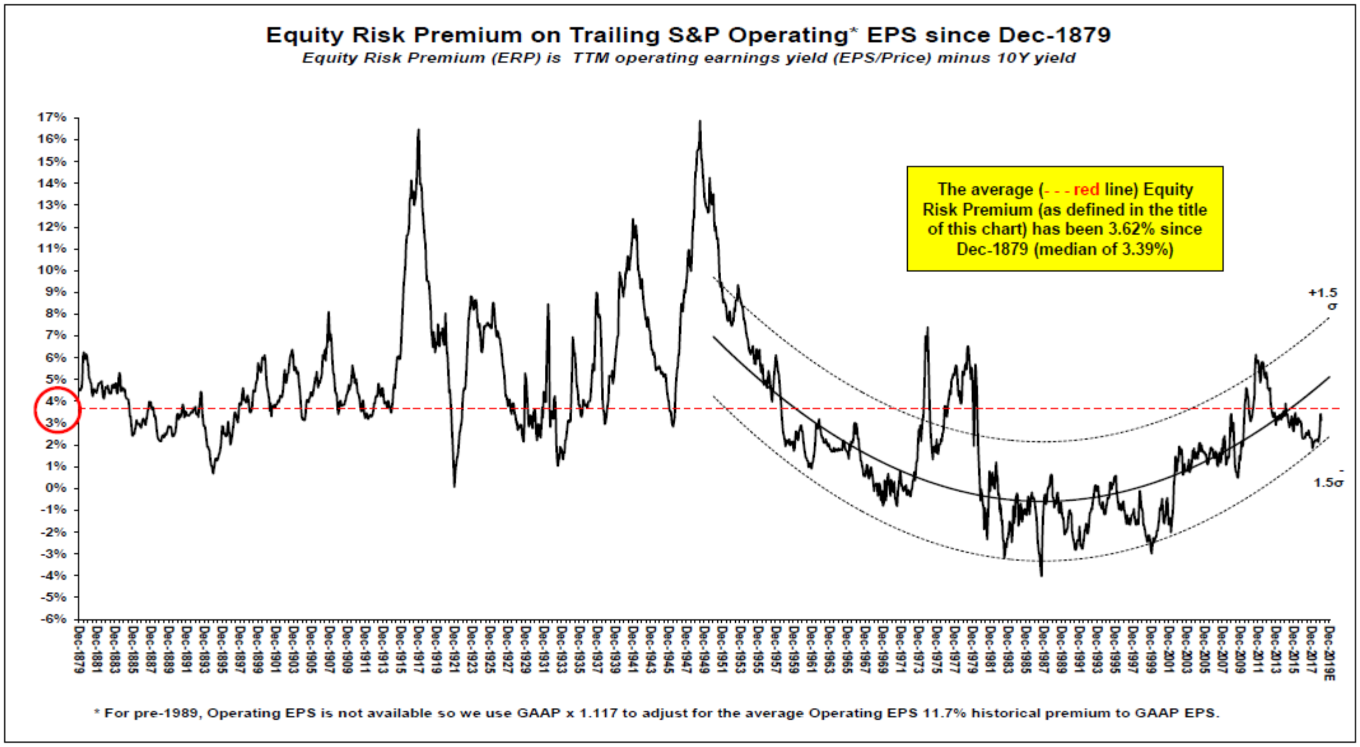

Source: Bloomberg Operating EPS 1989 to present. Before 1989 we use S&P/Shiller/Yale S&P price data and GAAP EPS data which we convert to estimated Operating EPS levels. Stifel format.

Chart courtesy of Stifel Nicolaus & Company.

With the ERP headed upward, a return to earlier levels would represent a major challenge to today's P/Es. And would reinforce the reversion to the mean ahead for P/Es indicated by the Shiller CAPE Chart above.

For the Equity Markets, it feels like 1967. There are further heights to be scaled ahead. But a true Bear Market lies just beyond. And then, should policies like Modern Monetary Theory come into fashion, likely in the 2020s, resembling policies followed during the 1940s in a war economy, true inflation like the 1970s could once more come to dominate. But, in the meantime, as the markets retrace their history from 1965 to 1970, it is Those 1960s Again. (Data from Yahoo Finance, Robert Shiller and Yale University, and public sources coupled with Green Drake Advisors analysis.)

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A Solar World, Lazing Around, and Printing The Bionic Human

Finally, we close with brief comments on A Solar World, Sitting Around, and Printing The Bionic Human. First, Los Angeles just inked a contract for very low priced solar power and battery power. This project will offer electricity at less than $0.02/kwh, below competing fossil fuels. In addition, the project will store the excess power it produces that exceeds transmission line capacity and offer it to LA at just $0.013/kwh at night. With this type of cost structure, it is A Solar World ahead. Second, according to the CDC (Centers for Disease Control and Prevention), 25% of Americans spent over 8 hours per day seated in 2016. In addition, almost 60% of Americans do no exercise (44.6%) or do insufficient exercise (15.0%). Given this data, we see Americans just Lazing Around. And Third, the American Medical Association (AMA) is preparing for a 3D Printed world. The AMA just enacted their first reimbursement codes for 3D Printed anatomic modeling as well as surgical cutting and drilling tools. It seems only a matter of time until codes are published for items to be implanted in the body such as bones, veins, or organs. With this acceptance of 3D Printing, we see this as one more step on the path to Printing The Bionic Human.

In Closing

Should you have any questions on how the above issues or the items discussed in our accompanying cover letter impact your family's financial position or your business's future as well as the potential actions you could take in response, please do not hesitate to contact us. We welcome the opportunity to discuss this with you.

Yours Truly,

Paul L. Sloate
Chief Executive Officer
& Senior Advisor

Steve Rodia
President
& Senior Advisor