Greenfield Seitz
CAPITAL MANAGEMENT

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2009 Mid-Year Letter

July 29, 2009

For the first half of 2009, the Greenfield Seitz Core Composite gained 8.42% (after fees). During this same period, the S&P 500 increased 3.16%.

In our 2008 Annual Letter (2/4/09) we described the panic in financial markets as a buying opportunity. Since then the S&P 500 Index has increased 17.5% and the EAFE Global Index has gained 25.0%. The markets have had an even more impressive rebound from their March lows.

In the face of this rally, we are concerned that the long-term prospects for the economy have not improved. The massive global injection of liquidity and countless other government programs can help the economy in the near term, but we question the ability to overcome longer term issues.

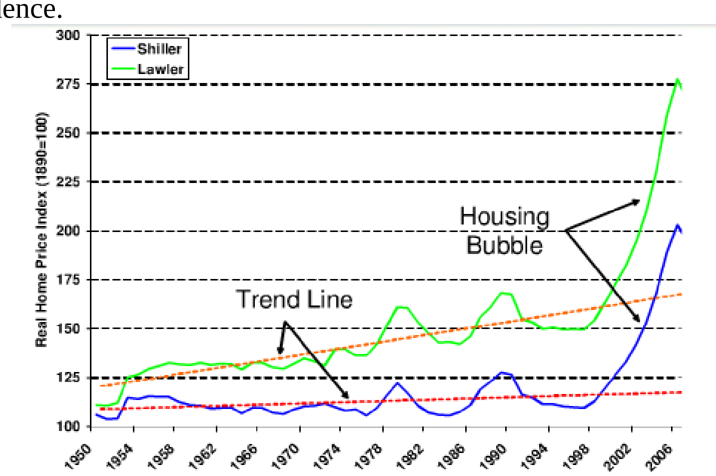
Strong Economic Headwinds

There are many issues that could negatively impact the future economy and thus stock prices.

Unemployment is currently at 9.4% in the U.S. But we believe this government figure is too low due to factors such as Birth/Death adjustment and the not included “discouraged workers.” When adjusted for these factors, current unemployment is 16.5%.[1] The consumer drives three quarters of the global economy. Without jobs, consumers will certainly spend less money causing further economic slowdown.

Many economists note that unemployment is a lagging indicator, which is often the case when companies are slow to re-institute hiring after a recession. But we fear in this case, unemployment may be a leading indicator, which portends weaker consumer spending and thus weaker GDP.

Housing may not improve anytime soon. We have been negative on the housing market for more than five years and remain so today. Corrections usually tend to overshoot and we need a further decline just to get back to long-term housing price trend (see June 2009 chart below). Rising unemployment and interest rates could further deteriorate housing. For most people, their home is their largest investment and this could further weaken consumer confidence.



Source: Robert J Shiller. Lawler Economic Housing Consulting

Equity valuations seem high with the S&P trading at 19x forward earnings. Most bear markets have seen P/E multiples bottom at 7-8x. It seems to us that many investors that panic-sold in December are now panic-buying for fear of missing the next Bull market.

Lastly, our government is expanding debt and printing money at an unprecedented rate. Since going off the gold standard in 1971, it has always been an option for our government to simply print money to solve problems. This should have long-term consequences such as higher inflation, weaker U.S. dollar, higher interest rates and increased national debt & future burden.

Adapting our Process to Current Environment

In normal economic settings, we spend our time working on bottom-up stock selection. This process has been rewarding over the years. However, in the current fragile economic environment, we are focusing our daily work on attempting to evaluate the economy and mitigate macro-economic risk to portfolios. Additionally, with record volatility, we have increased our level of trading in an effort to profit from short term opportunities.

Where to Put Money?

The age old question of 'Where to invest your money' is particularly difficult right now. Bonds are susceptible to having their interest payments eroded by inflation over time. Cash in money markets pays less than 1%, with the Fed lowering rates to essentially zero. Stocks do not appear cheap at current valuations and could be hurt by a downturn in the economy and subsequent earnings declines. The U.S. dollar has a lousy outlook as the government tries to print our way out of problems and foreign investors are increasingly nervous about holding dollars. In this tricky environment, we believe we have targeted the correct mix of defensive stocks, gold and cash.

Many people are now saying "the next bull market has begun." While we wish this was true, it appears to us to be a bear market rally. With this in mind, we are working to position your portfolios accordingly by reducing equity exposure and reducing exposure to riskier stocks. You may ask how we could switch from Bullish in January to Bearish today. Our concerns over the economy combined with the fact that many of our top holdings have more than doubled from their recent lows makes the outlook for stock prices less compelling.

Our investment process has performed well in a multitude of economic environments over the years. We are optimistic about profitable opportunities in all markets.

Sincerely,

Greenfield Seitz Capital Management

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1. The Wall Street Journal. July 2, 2009

Greenfield Seitz Capital Management's ("GSCM") returns are calculated using daily valuation, are time-weighted and include cash in the total returns. For GSCM disciplines, performance is based on a size-weighted (asset-weighted) composite of all fully discretionary, wrap-fee accounts managed by GSCM. Terminated accounts remain in the composites including last full quarter.

GSCM seeks to apply a consistent management style across all accounts managed within a particular strategy. However, because individual accounts contained in the composite vary by size and cash flows, the specific securities held and rates of return achieved may differ among accounts.

Net results reflect the deduction of investment management fees and any other expenses that may be incurred, but not domestic taxes. Performance includes reinvestment of all income, dividends, and capital gains. Total return is reported using accrual accounting except for dividends. GSCM's portfolios are individually managed and opened at different times and no inference should be drawn that new or existing accounts will achieve similar investment performance in the future. Rather, the above returns are presented to illustrate GSCM's portfolio management experience generally. GSCM performance measurement processes and procedures have been verified by an independent auditor. Any revisions will be promptly published.

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The S&P 500 is an unmanaged Index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Indexes cannot be invested in directly.

In February 2002, Stuart Greenfield assumed responsibility for stock selection and investment management from Eric Greenfield. Yancey Seitz has shared investment management responsibility since 1995.

Special risks are involved with global and international investing related to market and currency fluctuations, economic and political instability, and different financial accounting standards. These risks are magnified by emerging markets.

Price Earnings Ration (P/E) is the price of s tock divided by earnings per share.

GDP is the annual total market value of all final goods and services produced domestically.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Investing in energy, infrastructure and gold mining stocks involves risk and investors may incur a profit or a loss.

The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The index consists of the country indices of 23 developed nations including Canada and the United States.

Separately Managed Accounts (SMAs) are similar to mutual funds in that a professional investment manager takes care of security selection and monitoring of the portfolio. However, a separate account manager holds the investor's assets in a segregated account instead of placing them in a pool with other investors. Separate accounts are subject to market risks and investors may realize a profit or a loss. SMAs may not be appropriate for all investors.

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