



Quarterly Update



4th Quarter 2011

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FROM THE PORTFOLIO MANAGER

"You can have cheap equity prices or good news, but you can't have both at the same time." Joe Rosenberg, veteran investment manager, Loews Corp, stated in an interview with Barrons on December 3, 2011.¹

2011 has been a tumultuous year for the markets to say the least! It capped off ten years of underperformance by equities and provided almost no return. Our recent overemphasis on equities, especially foreign companies, has not worked well and this will not be a good year for us. In this letter, I am revisiting our unchanged thesis on this subject.

High quality equities continue to grow their free cash flow, dividends, and earnings. We believe this is the most obvious place for opportunities as far as total return potential is concerned. Many of our holdings in this asset class have free cash flow yields of 5-10%, dividend yields over 3%, and price to earnings ratios of 10-12 times. In contrast, high rated corporate bonds yield very little. Even five year and ten year US Treasuries yield barely 1% and 2%, respectively. In our opinion, buying US Treasuries now may not be a wise investment as the return may not cover taxes and inflation leaving little or no any real yield for investors. It mostly serves as a place to hide for those who are panicked.

We define free cash flow as a company's cash flow from operations minus their maintenance capital expenditures. Basically, this is the excess cash not needed by the business to sustain current operations. If a company has a free cash flow yield of 5-10%, that money, in general, can be used in one of four ways: (1) reinvest in the business, (2) buy back stock, (3) increase dividends or (4) leave in cash. Many companies with high quality balance sheets run the numbers and have the ability to borrow at close to Treasury rates or at around 1% for five years. These companies can turn around and use the borrowings to buy back their own stock. Assuming the stock price does not decline, this makes a nice investment, capturing the difference of 4-9% on its buybacks. The math seems compelling.

Let us assure you that we are not ignoring the current problems with the Euro. Despite our thesis regarding equities, investors continue to liquidate their holdings and depress the market. We believe this crisis of confidence will eventually be replaced by a confluence of rising earnings, stock prices, and interest rates.

Anecdotally, Buffett recently announced his first share buyback in 50 years and added substantially to his equity holdings. Similar actions are taking place by many corporations. Like us, none of these corporations can tell you when this thesis will kick in, so patience is required while we collect attractive current and growing dividends.

Finally, we are typically a low turnover firm, but lately we have made a lot of trades. Most of this activity stems from our desire to use various tax strategies (double ups, swaps, and outright sales) to minimize the amount of capital gains realized by our clients. In addition, we have tried to be "cautiously opportunistic" during these volatile times and upgrade some of our holdings.

All of us at Greystone, thank you for your continued patience and loyalty during these trying times and wish you a Happy New Year!

Peter F. Levin, CFA

¹ Bary, Andrew, "The Best Opportunities in Half-Century," *Barrons*, December 3, 2011, <http://www.online.barrons.com/article/SB50001424052748703922804577066323160174632.html>, accessed December 2011.

FOURTH QUARTER ACTIVITY

Alphabetical listing of all equity block buys and sells in the quarter with a summary of the largest (by block trade value) buy and sell.

BUYS:

Bank of New York Mellon (add)
Berkshire Hathaway
Encana Corp. (add)
Hang Lung Properties Ltd.
Nestlé SA ADR (add)
Novartis AG ADR (add)
PepsiCo, Inc. (add)
Republic Services, Inc. (add)
Wells Fargo & Co. (add)

SELLS:

Encana Corp. (tax loss)
Henderson Land Dev. Co.
JPMorgan Chase & Co.
Wheelock & Co. Ltd.

BUY: Hang Lung Properties (HLPPF)

Hang Lung Properties is a real estate developer and investor in Hong Kong and Mainland China. The Company owns a portfolio of commercial, office, residential, industrial properties and serviced apartments in Hong Kong, and a portfolio of commercial and office properties in Mainland China. Led by an outstanding management team, Hang Lung is one of the highest quality real estate companies in Asia. Our decision to invest specifically in Hang Lung is based on the following:

1. The Company's long-term strategy is to replicate its highly successful commercial properties (Grand Gateway and Plaza 66) in Shanghai by building commercial properties in the fast-growing,

second-tier Chinese cities of Shenyang, Jinan, Wuxi, Tianjin, and Dalian.

2. Ronnie Chan, Hang Lung's Chairman, knows the Hong Kong and China real estate markets well and has an uncanny ability to buy and sell properties opportunistically.

3. We bought the shares at a dividend yield greater than 2.5% and the Company has a history of increasing the dividend over time.

4. The Company was recently able to use its strong financial position to invest in some land at a time when many competitors are financially weak.

5. We bought the stock at what we believe appears to be an attractive discount to our estimate of intrinsic value.

SELL: Henderson Land Dev. Co. (HLDVF/CY)

While Henderson Land appears to be one of the cheapest Hong Kong real estate companies, we grew impatient with the company's subpar capital management and decided to exit the position. Unlike its strongest competitors, Henderson has been slow to monetize assets and increase its dividend. We chose to reinvest some of the proceeds into Hang Lung, a much higher quality property company with a better management team and stronger balance sheet.

GREYSTONE NEWS:



We would like to introduce our newest member of the Greystone team, Melissa Anderson. She will be serving as our part-time Compliance Officer.

PLEASE NOTE:

- The link to our latest 13F filing can be found on our website. This quarterly filing reflects all equity holdings in discretionary accounts.
- **Investment Objectives. Please let us know if you have any changes.**
- Proxy Voting—If you would like a copy of how we voted your proxies and/or our guideline, please send us a written request.



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