# STRATEGIC BALANCE, LLC

June 4, 2012

| | Strategic Balance Partners, LP | S&P 500 |
|---|---|---|
| **May** | **-1.1%** | **-6.0%** |

The information provided is historic and should not be taken as any indication of future performance. SBPLP returns are unaudited for this year and net of 1% management fee and 10% incentive allocation. Actual returns may differ due to differences in contribution date, fee structure and new issue eligibility. All returns are time weighted with dividends reinvested. S&P 500 returns are provided strictly for informational purposes to reflect general equity market performance. Fund Inception 8/1/03.

Dear Investor:

We held up well during a tough month for stocks. While our longs cost us 6.6% last month, our shorts added 5.6%. Lower quality equities which comprise a major portion of our short book failed to correct enough to allow us to profit on the month.

We really see no need to expand on last month's long letter. Most of what we discussed in that piece needs only to be reiterated. Spain and Greece weigh heavily on Europe and China is in the midst of a painful slowdown. The U.S. was never nearly as strong economically as just about everyone believed only a couple of months ago.

We trimmed positions on both the long and short sides to take profits and become more nimble. We have bumped up our long gold stock position to over 10% of capital as the sector was hammered in recent weeks. Gold equities look quite inexpensive versus the price of the metal and they have attractive cash flow yields. They should also perform well if the world's central bankers embark on additional quantitative easing, which seems inevitable. We have begun to nibble on severely beaten up coal and natural gas stocks as well. With the global economy now near recession levels in our view, we expect our highly cyclical positions on the short side to prove quite profitable in coming months. We are 107% long equities and 62% short, with a risk-adjusted equity exposure of 1%. Please call with questions and comments.

Sincerely,

Scott E. Brown, CFA

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