

Headline News:

3/20/13: State, Mashpee Wampanoag Tribe Reach Revised Compact
(www.wbur.com)

3/20/13: Casino Pauma Wins Big In Court
(www.utsandiego.com)

3/19/13: NIGC Confirms Federal Authority Over Poarch Creek Indian Gaming
(www.marketwatch.com)

3/18/13: Tribes Say Rights Violated in 2012 Election
(www.usatoday.com)

3/13/13: Federal Judge Blocks Cowlitz Casino Plans
(www.tdn.com)

3/01/13: California Governor Brown Signs Compact with Fort Independence Indian Community of Paiute Indians
(www.californianewswire.com)

Phantom Growth

by Kristi Jackson

There is significant concern rising among economists, bankers, investors and business people regarding recent economic trends. This heightened concern can initially be puzzling. We are coming out of the deepest recession in recent memory and on the surface, the US economy is showing signs of a path to prosperity. We see positive signs in many areas that affect our economy and businesses. Most notably:

- Banks are lending again, in a frenzied fashion in some sectors
- Consumers are spending increasing amounts despite recent payroll and other tax increases
- Housing prices are recovering in most major markets across the country
- The stock market has shown double-digit gains thus far in 2013
- There has been a steady decline in the US unemployment rate

This sounds great. However, as is the case with nearly all too-good-to-be-true situations, unbridled optimism must be tempered. Several programs, policies and behaviors are in effect which are "propping up" our economy - providing a temporary springboard which results in growth, and in some cases, a crutch which helps to keep us moving forward. The fear many experts share is simple - if these aids are taken away, we may fall back into recession.

One highly regarded market participant, PIMCO's Bill Gross, has referred to the situation as the "Red Bull Economy" - one that is artificially being pumped up and seems to show growth - but only until the super-charged elixir is taken away. Fear revolves around not only the Fed's quantitative easing program

(Continued on Page 2)

Our results just keep stacking up.

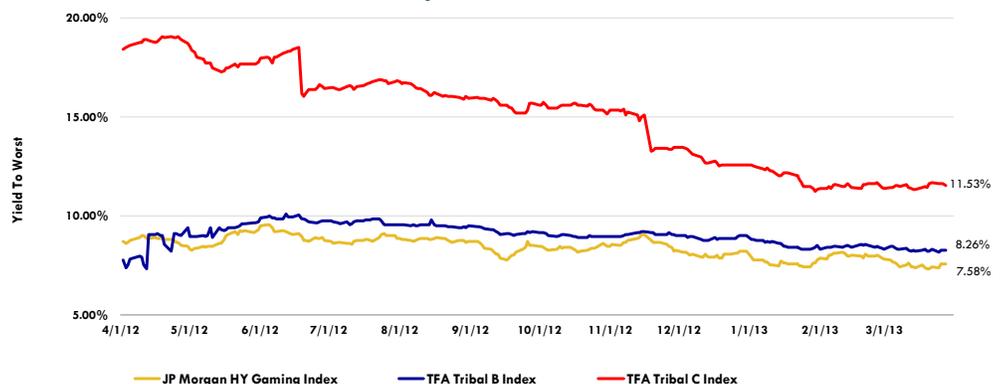
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TFA Index Chart: A Comparison of HY Bond Interest Rates



Source: Wall Street High Yield Research

Notes: Yield to Worst represents the current average interest rate on bonds that comprise each index. Composite Gaming Index represents the average market interest rate of over 80 corporate and Tribal high yield gaming issues

(Continued from Page 1)

(propelling the prices of certain securities due to the Fed's announced buying spree), but also around long-term government unemployment benefits (which can keep people from actively seeking work and thereby temporarily lowering the unemployment rate) and very importantly around the very low Fed-driven (and near-zero) interest rates.

Conventional thinking is that these support mechanisms cannot be maintained forever. When, not "if", the federal government takes the proverbial punch bowl away – the party will most certainly be over.

Of the current aids in effect, the low interest rate environment is quite concerning - at once a blessing and a curse. Long-term economic prosperity typically comes from investment and productivity. Businesses are borrowing again, as banks supply of funds is available and increasingly more attractive; however, if the use of proceeds of these loans is to refinance existing debt - this does not address the long-term need for investment to support future growth. Low-cost borrowing, while clearly helpful, will only exist so long as the Fed continues to keep the cost of funds near zero. The blessing is that the low-cost money is available. The problem is two-fold: interest rates can be quickly increased by a Fed policy change, and, the focus on refinancing

rather than investment suggests little growth will result.

What are Tribes to do with this mixed message? First, be cautious with respect to programs that depend on high levels of growth. Should government policies change - a slow growth economic environment could persist. We often say that "flat is the new up" - moderate your forecasts so that you don't get caught in a sudden downturn of business activity. Second, refinance now as the money is as low cost as we've seen it in years, and there seems to be plenty available for the time being. Knowing the root cause of the trends out there will serve to sustain tribal governments - whether the growth is phantom or not.

TFA will be at NAFOA next week - please let us know if you be there and have time to meet.



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