

E-Memo

TO: INVESTORS/MEMBERS AND FRIENDS
FROM: Jon Bruss and Bob Ollech
Date: July 17, 2006
Subject: On the Power of Persistence and the Importance of the Banking System

“In life you have to set goals. Whoever lives in fear doesn’t deserve to live.” - Luis Grass

A recent issue of *Time Magazine* featured an article about Luis Grass, a Cuban immigrant, and his quest to reach the United States. What follows is our “CliffsNotes” version of that story.

At 3:00 a.m. on July 15, 2003, Luis Grass, 38, drove his 1951 Chevy two-ton truck into the Cuban surf and set sail for Miami, hoping to start a new life in the United States for himself, his wife and son, and nine friends.

Grass, trained as a naval engineer, made his living in Cuba hauling sugar-cane with his old truck. He also ran an illegal car-repair business (most of the cars in Cuba are 1950’s era U.S. models) from his backyard. When the government closed his shop and confiscated his truck, Grass decided the time had come to leave Cuba. With a spare key in hand, Grass walked into the military depot where his truck was being stored, started it up and drove it, unchallenged, to a friend’s house where he hid it. Soon after, he drew up plans and scrounged the pieces needed to turn his truck into a boat, which he planned to sail to Florida. The bottom of the truck was given a sheet metal hull and a metal prow was affixed to the front bumper to part the waves. Six empty 55 gallon oil drums were attached to each side for floatation. The truck’s 92 horsepower engine was connected to a shaft that turned a 16 inch propeller and a rudder was connected via cables to the truck’s steering wheel. Grass’ plan was to simply drive the truck off the beach in Cuba, cross 90 miles of ocean, and drive onto another beach in Florida. After stopping for to fill up at the first gas station they came to, he planned to drive to Miami. Grass, and most other Cubans, knew that the Cuban Adjustment Act of 1966 automatically entitles any Cuban citizen who reaches the U.S. to stay. (Cuba is the only country to which this privilege applies.)

All went according to plan until 40 miles from Florida, they were spotted by a U.S. Customs plane and intercepted by a Coast Guard cutter. Grass and his passengers were transported to the U.S Naval base at Guantanamo Bay; the Coast Guard cutter’s deck guns sank his truck. Grass spent seven days under house arrest at a Cuban military base before he was released. With his truck resting on the bottom of the ocean and his repair shop closed, Grass had no way of making a living and no desire to stay in Cuba. He was soon preparing to try for Miami again, this time in a 1959 Buick Electra. Based on the lessons he’d learned from his first effort, Grass modified the Buick with a V-shaped hull, a more pointed prow and tunnel around the Buick’s V-8 engine and drive train to make it more efficient. He stuffed the nooks and crannies of the car with Styrofoam to make it more seaworthy. At 7:00 p.m. on February 4, 2004, Grass, along with his family and eight others, drove off the Havana beach and headed for Miami. Ten miles from the Florida coast they were again intercepted. This time, however, Grass convinced the U.S. Immigration authorities that his family and passengers would face grave consequences if they were returned to Cuba. They were sent back to Guantanamo where they were held for 10 months while U.S. authorities figured out what to do with them. Finally, Costa Rica offered them refugee status and they were flown to that country on December 1, 2004. But since Grass’ goal was to get to Miami, they didn’t stay long. They hitch-hiked 2,100 miles through Costa Rica, Nicaragua, Honduras, Guatemala and Mexico, finally, six weeks later, crossing into the U.S. at Matamoros. The entire trek was completed without passports, visas or other legal documents, although relatives in the U.S. did send him some cash via Western Union. In Brownsville, Texas, Grass and his group applied for, and were granted, political asylum. Two days later, they were in Miami, where they were quickly assimilated into the Cuban community. Grass now works as a mechanic at a Chevrolet dealership and his wife works at a Shell gas-station. They think they are in heaven. The general manger of the

dealership where Grass works found a 1953 Chevy truck, which Grass and several other mechanics are rebuilding into a duplicate of Grass' original craft.

Whatever your views on immigration, this is an amazing story of the power of persistence and the results that can be achieved by the single-minded pursuit of a worthy goal.

What does all this have to do with banking? Not very much, perhaps, but the story did get us to wondering about the state of banking in Cuba and other countries and the role the banking system plays in economic growth, both here in the U.S. and around the world. One of the reasons that we are so fond of banks is that they provide the "grist for the economic mill." Without banks, there would be no payment system (if you don't think that is important, try to pay for your next tank of gas with a sack of potatoes) and no mechanism for people and businesses to "rent" capital from each other in the form of loans and deposits. Banks serve as the intermediaries between borrowers and depositors, enabling people to buy homes and businesses to expand, while providing depositors with a fair return. Without banks, business simply would not get done and the economy would quickly grind to a halt.

Cuba provides an interesting microcosm that demonstrates that point. In 1958, Cuba had 49 commercial banks with over 200 branches. Banks from numerous foreign countries, including the U.S., also had offices in Cuba. Cuba, like other Caribbean countries, was starting to develop a viable modern economy. Its banking system was dynamic and was contributing to the economic development. Deposits totaled the equivalent of nearly \$1 billion U.S. dollars. Fidel Castro came to power in 1958 and by June of 1960, nationalized the private banking system (as well as most other private businesses). This effectively eliminated credit operations and limited the circulation and use of money. The banking system, and the rest of the Cuban economy deteriorated and Cuba became dependent on the old Soviet Bloc to finance its deficit. Several generations of Cubans have suffered as a result and the country has remained an economic backwater while its Caribbean neighbors have thrived.

A country's banking system is one of the most important instruments of economic development, but it can only flourish in a democratic and free market system as it does so in the U.S. and many other countries around the world. As investments, we think banks, an essential engine of the economy, are hard to beat.

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