

## Quarterly Newsletter to the Public Q4 2009

November 3, 2009

### Executive Summary:

The US and Global Economies appear to be in recovery and the stock markets have rallied to reflect this. And, while our short-term volatility control managers continue to worry about an economic setback, our long-term managers believe this is a good environment to pick stocks (especially in quality US and international companies). These managers are more concerned about inflation than deflation and feel stocks are the best way to hedge against inflation risk -- whatever may happen in the short-term.

At Global View, we have investment strategies to suit our clients' needs whether they are for income right now or to grow assets for future use/ leave assets to heirs or a legacy. Moreover and perhaps more importantly, as crisis perceptions have changed to stabilization and economic recovery, the "rising tides lift all boats" phenomenon is likely coming to an end and stock picking will become even more important. For assets that have an expected life of over five years, we remain convinced the long-term strategies will continue to work. For assets to be used within the next year, we prefer cash. For assets that may be used over the next 3-5 years as a supplement to income or as an emergency fund, we have a retirement income/ emergency fund strategy that has proven historically to be substantially less vulnerable to market fluctuations than investment alternatives. Below is a very brief summary of our managers' attitudes:

	View on Economy	View on Markets	Asset Allocation	Susceptibility to a Correction (volatility risk)
<b>Short-Term Volatility Control Managers</b>	<b>Generally more pessimistic</b>	<b>See potential for correction</b>	<b>Conservative</b>	<b>Low</b>
<b>Long-Term Low Volatility Managers</b>	<b>Confidently optimistic</b>	<b>Generally see upside through</b>	<b>Varies - some with high cash, some fully invested</b>	<b>Medium but less than income</b>
<b>Long-Term High Volatility Managers</b>	<b>Continue to relatively optimistic</b>	<b>More optimistic, see many opportunities</b>	<b>Fully invested</b>	<b>High</b>

### Economic and Market Update

Since March, the markets have rallied significantly and the global recession has ended. Questions about economic growth have changed from when it will occur to how durable it will be, what rate growth it will have, and whether the economy will drop again into a double-dip recession. These same discussions have occurred during every major recession in history. When we hear any extreme views (positive or negative), we have to question the motives of the "expert" and try to make historical comparisons. Similarly, our short-term volatility control managers, such as Dr. Hussman, are often pessimistic about the near future; therefore, it is important to keep in mind that these managers are focused on short-term volatility reduction. At the same time, we need to make sure our managers do not morph into market cheerleaders and ignore potential downside risks. Our long-term oriented managers believe the current environment is a good one for picking stocks and that some areas of the world are more attractive than others while our short-term volatility control managers have taken prudent actions to minimize downside volatility.

While it is irrational to expect unemployment to begin dropping immediately after a recession ends, it truly tests historical norms to assume that we will NOT have a V-shaped economic recovery, at least in the short-term. We certainly hope no one would call us Pollyannaish, but ... this time would be very different if any of the following were to occur:

- Unemployment were to drop so soon after the end of the recession (this would be a very good sign for the economy but is simply unrealistic)
- Unemployment were not to eventually recover; while unemployment peaked at 25% during the Great Depression and did not fully recover until the end of WWII, even during the dark years it recovered to 11%. The structural environment is much improved since that period. People seeking work will find work as long as entrepreneurs are allowed to create jobs and government does not create restrictions that prevent them from doing so
- Margin of Safety investment strategies, that have worked since the Great Depression, would stop working (over a reasonable time horizon of 3-5 years) whatever the broad market indices do

The question is: how long will it take the economy to rebound. According to JP Morgan, following the last 7 recessions, GDP has recovered at a rate of about 5% p.a. in real terms. Over the last 50 years, GDP growth in the US has averaged 3.2% in real terms, so if our more bearish managers and other experts are right and annual economic growth over the next few years is only 2.5% or less, then this will be a very sluggish recovery indeed.

	Last 50 Years		Last 7 Recessions		Last 7 Recoveries		Most Recent Recession	
	Percent	Share	Percent	Share	Percent	Share	Percent	Share
<b>Overall GDP Growth</b>	<b>3.2</b>	<b>100.0%</b>	<b>-1.8</b>	<b>100.0%</b>	<b>5.0</b>	<b>100.0%</b>	<b>-3.8</b>	<b>100.0%</b>
<b>Consumption</b>	2.2	69.8%	-0.1	7.3%	2.8	55.6%	-1.2	31.7%
<b>Commercial Construction</b>	0.1	2.4%	-0.1	3.8%	-0.1	-2.3%	-0.7	18.6%
<b>Equipment</b>	0.4	12.3%	-0.3	15.7%	0.5	9.1%	-1.7	43.6%
<b>Residential Construction</b>	0.1	2.1%	-0.5	27.3%	0.7	14.5%	-0.9	23.5%
<b>Change in Inventories</b>	0.0	0.1%	-1.5	85.5%	1.4	28.6%	-0.9	24.6%
<b>Net Exports</b>	0.0	-1.6%	0.4	-23.8%	-0.6	-12.7%	1.1	-29.6%
<b>Government</b>	0.5	14.9%	0.3	-15.9%	0.4	7.2%	0.5	-12.4%

Jim Grant of the Interest Rate Observer, predicted the crash and now predicts a “zippy” recovery. See LINK to Jim Grant Interview <http://www.businessinsider.com/jim-grant-2009-11>

### Market in Historical Context

We believe the current economic environment is analogous to the recovery period following the recession of 1973 and 1974. Between 1974 and 1980, unemployment remained high for some time, and the stock market made very little gains after inflation, which averaged 8.7% p.a. from September of 1974 to July of 1982. The chart below illustrates that the latest bear market was nearly as bad as the bear market of the Great Depression; current *real* drop was 61% (inflation adjusted) from March 2000 peak to February 2009. The Great Depression bear market was only 7% more in real terms.

## "Real" Secular Bear Markets In U.S. Stocks, 1880 To Present

Dates	S&P 500* Price Decline	S&P 500 Real Price Decline**	Duration (Years)	S&P 500 Normal P/E*** At Low	S&P 500 Div. Yield At Low
June 1881 - August 1896	-42	-12	15.2	16.0 x	4.8
September 1906 - December 1920	-32	-71	14.3	6.1	7.5
September 1929 - June 1949	-55	-68	19.8	10.0	7.3
February 1966 - July 1982	17	-62	16.8	8.0	6.2
<b>Average</b>	<b>-28 %</b>	<b>-53 %</b>	<b>16.5</b>	<b>9.6 x</b>	<b>6.5 %</b>
<u>Latest Secular Bear Market:</u>					
March 2000 - February 2009	-51 %	-61 %	8.9	11.2 x	3.4 %

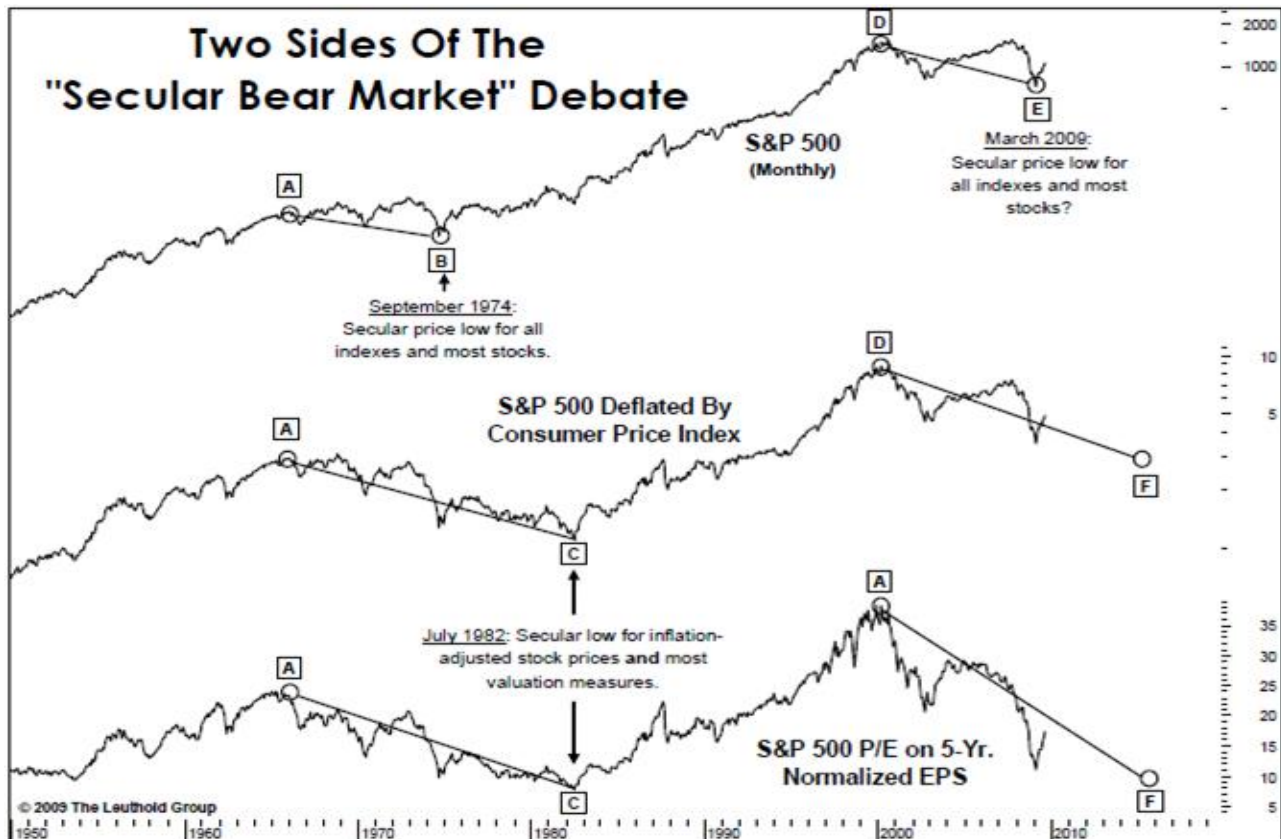
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\*Historical S&P 500 Sources: 1800-1871 - Global Financial Data; 1871-1926 - Cowles Commission/S&P

\*\*Price returns deflated by Consumer Price Index

\*\*\*Normal EPS = 5-Yr. Moving Avg. of Reported EPS

The chart below, prepared by the Leuthold Group, illustrates the effect of inflation on prices in the market. The top chart shows the price of the S&P 500 from 1950 to present in nominal prices. Point B is the 1974 price low. The next chart shows the S&P 500 in real terms (deflated by the consumer price index). Here, point C is the low, occurring in July of 1982 (8 years after the nominal low). The bottom chart shows valuations of the S&P 500 on normalized 5-year earnings. Here, we can see the low occurred in 1982 coincident with the real price low. If the current scenario follows a similar path, we might expect the *real* low (adjusted for inflation) to occur sometime in the future, say in 2017-2018 even if (as we believe) the price low has already occurred.



## Market Valuation

Leuthold calculates the Ben Graham intrinsic value of the S&P 500 is 1076. The more conservative Jeremy Grantham, of GMO, calculates fair value as 860. A fair value assumption of 975 seems prudent, taking the average of these two. At its current price of about 1066, the market is 9% over valued. However, the market generally trades in a range of at least 20% to sometimes over 40% of fair value. Because we do not use passive strategies, instead rely on our managers to make asset allocation decisions within their strategies, we do not want to be too quick to reallocate when other considerations do not arise, such as tax optimization.

Nonetheless, we do intend to tweak portfolios over the next quarter, especially for clients who have or need retirement income accounts.

## Estate Planning Update

Under the current law, the unified credit exemption is \$3.5 million per person and inherited assets are typically stepped up in basis. However in 2010, under the current law, the unified credit exemption is set to become unlimited and there will be no step up in basis. For this reason, many speculate that Congress will be in a rush to adopt a new rule. Recently, we attended an Estate Planning Update session where Professor Jeffrey Pennell, of Emory University, apprised us of some likely changes, summarized below:

1. The law does not have to be passed this year. In fact, for political reasons (to increase tax revenues) it is likely the law will be passed in 2010 (according to Professor Pennell)
2. The law can be enacted any time next year and be retroactive, i.e. just because there is theoretically no estate tax in the early months of 2010 does NOT mean those assets will not be subject to estate tax. President Clinton has already established a precedent for making tax law retroactive in 1993 when the new tax rules were put in place in August retroactive to January. Other historical precedents exist.

## Final Thoughts

The link below highlights the fact that the managers of over half of the mutual funds tracked by Morningstar don't even invest in their own funds. This is important because research shows that managers who invest alongside their clients typically outperform those who do not.

See LINK to Skin Deep: Most Portfolio managers avoiding their own funds

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Finally, for a laugh, you might find the next video entertaining; as apparently the famous NYU Economist Nouriel Roubini's track record for predicting economic outcomes is less than perfect:

See LINK : How to save a Friend from the False Prophet Nouriel Roubini

<http://www.stumbleupon.com/su/5gxy6/wallstcheatsheet.com/breaking%2%80%90news/economy/how%2%80%90to%2%80%90save%2%80%90a%2%80%90friend%2%80%90from%2%80%90the%2%80%90false%2%80%90prophet%2%80%90nouriel%2%80%90roubini%253Fp%253D2804/>

## Global View Investment Advisors Team

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