Quarterly Newsletter to the Public Q2 2011
June 30, 2011

Executive Summary

The Economy is slowing, bringing with it a renewed risk; however, it is too early to determine if the slowdown will result in a recession.

- In June, the US and Global economies began slowing.
- While further accommodative policy may prevent a recession in the short-run, we are opportunistically removing risk for our more risk-averse clients.
- We are especially vigilant for signs of a recession which at this point could be brought on by a new shock. Should we view a recession as imminent, we will make a de-risking allocation to our Long-Term Portfolio, for all clients and will also make changes, as appropriate, to our (Retirement) Spending Portfolio.
- We believe our Margin of Safety Approach will continue to add value. Over the last quarter we met with Matt McLennan of First Eagle Global, David Winters of Wintergreen and had a phone conference with Robert Gardiner of Wasatch. This is a time to be very selective with investment choices.

Economic Update

While we wish we could be agnostic to the economy, in reality changes in the economic growth rate can have an enormous impact on investments. The Economic Cycle Research Institute has established credibility with us on their ability to determine changes in this growth rate, and with it changes in risk to investments. Armed with this information, we informed our clients in November that a double-dip recession was not going to happen.
See LINK: http://globalviewinv.com/wp-content/uploads/2010/10/Special-Update-No-Double-Dip-Recession4.pdf

ECRI has been analyzing data since the late 1800s, and has established a track record that others, including Jim Grant of the Interest Rate Observer, believe to be impeccable. We now subscribe to this service. Over the last several weeks ECRI has become more negative about the economy. Specifically, May 6, they publicly warned of a global industrial slowdown and June 9 they warned of an overall US economic growth rate slowdown. While no recession is currently in sight, the tailwinds that were in the economy's sails have faded and economic growth is slowing in the US and rest of the world.

The economic cycle is a natural rhythm independent of political actions; however, can be substantially influenced by economic policy in the short term, i.e. accommodative policy is helpful and restrictive policy is hurtful. If we can say we know one thing about politicians, it is that they generally strive, above all else, to stay in office. The current political administration, therefore, is likely to remain highly accommodative until the next election. Therefore, it seems the strongest political headwinds will appear sometime after the next election or at least until after results of the next election are expected. For this reason, and despite the relative imminence of a Greek default, we continue to expect slow economic growth for the immediate future and not an outright recession. This could change, however at any time, and for this reason we have subscribed to ECRI services.

Within this context, we are generally reticent to take risk off of our Long-Term Portfolio because of its self-regulating de-risking already in place. Remember, our managers hold cash, where appropriate, and sell, where appropriate, based on valuations. The big run-up in the stock market since March of 2009 has left our managers with few opportunities, therefore market corrections in this context are opportunities to buy. However, we also understand that economic slowdowns often precede recessions. Therefore, we are taking some risk off the table for our more risk-averse clients.

For all clients, we are vigilantly watching ECRI on the economy and should we gain confidence that a recession is imminent, we will take actions to reduce risk in our portfolios. According to ECRI, a recession is generally triggered when their US Long Leading Index (USLLI) turns down *and* is combined with a significant shock. Shocks may come in the form of tightening policy, an exogenous shock such as a war, natural disaster, an oil price spike, or a major firm bankruptcy. The US Long Leading Index turned down at the end of 2010. Therefore, a shock could now trigger a recession.

When Buy and Hold is Not Buy and Hold – Economic Risk-Based Asset Allocation

In the past, we intended to use valuation as a tool for rebalancing portfolios. This has two primary limitations. First, valuation often has little impact on the direction of stock prices in general over shorter time horizons and sometimes even for several years (such as the late 1990s). Second, valuation disparities exist across the globe making some markets relatively more attractive than others at any given time. When speaking of valuations, pundits usually look at the valuation of the US stock market (S&P 500). However, as we previously discussed, the valuation of the US stock market has little to do with the valuation of global equities.

All things equal, we like to exercise a light hand reallocating portfolios. A lot of thought went into picking the investments. We prefer institutional fund managers because we feel world-class talent adds value above the fee in relation to our ability to pick individual securities. We do extensive due diligence on these managers before hiring them and on an ongoing basis. Moreover, our managers self-regulate risk by owning undervalued securities and cash where appropriate. See LINK: http://globalviewinv.com/wp-content/uploads/2011/04/How-We-Select-Managers-4_25_2011.pdf

To quote Marty Whitman of Third Avenue Funds: "***there are very few instances when general market considerations are more important than individual security analysis.***" His intention with this statement was to dissuade investors from worrying about the economy and overall market. However, the recession of 2008-2009 was such a period. While our portfolios fared better than most indexes during the downturn and bounced back well, we strive to avoid losses of this magnitude in the future, if we possibly can. There are reasons to believe we continue to live in highly uncertain times because many of the causes of the crisis have not been corrected. The problem has simply been moved from the private sector onto the government balance sheet. We have been, and remain, worried that another crisis may arise. In this environment, we believe general market considerations may become, once again, more important than individual security analysis.

The Economic Cycle Research Institute (ECRI) has done a phenomenal job at predicting when key inflection points occur in the economy. To learn more about this, read our paper on it.
See LINK: http://globalviewinv.com/wp-content/uploads/2011/04/Economic-Risk-Based-Asset-Allocation-6_20_2011.pdf

Therefore, we will take aggressive action to substantially reduce portfolio risk if we get strong confirmation from ECRI that a recession is imminent.

Information on our Asset Allocation and Investment Updates Available to Clients or As Requested

Please contact admin@globalviewinv.com for more information or for access to the links above.