

## THE VIEW

*“If life were predictable it would cease to be life, and be without flavor.” - Eleanor Roosevelt*

A review of our 2010 forecast is mixed and that is how it should be. A recovery year plagued by fits and starts and further government intervention should be just that. We get some things right, maybe not so good in other aspects - we are human after all. Of course, our call for a rise in populism was underscored by the tea party movement and a resounding resurgence of republican victories in the fall (more on that later). Nanotech and bio-chemistry advances can be categorized as medium term and probably scored neutral for 2010 in that we had some advances (for those paying attention), but not as profound as expected. Sunspots? Well, the jury is out on global temperatures for 2010, but crop and agriculture prices tended to rise in 2010 even if not for scarcity reasons or cooler climes. This year Clearview has made a commitment to make our annual review and forward predictions more formal and timely in that it will occur in December. Five is a good round number so we will try to divine five of the most compelling headline issues for the coming year. Several of

these should be financial simply because that is the profession we have chosen to ply, but a number of them should also be of diverse interest because innovation and new developments are what have driven society to advance in this wacky world of ours (“Google it”, Come on, who would have said that 10 years ago!).

O.K. So on to 2011 ...

1. **Munis!** As in tax-free municipal bonds. We are ending 2010 on a bit of a choppy note as pricing has deteriorated for the better part of a month. A number of factors are contributing: increasing supply, buyers for alternatives such as BABs (Build America Bonds) waning with the scaling down of the program, year-end profit taking by mutual funds, and our speculation that hedge funds are unwinding positions in a liquidity driven squeeze similar, but less pronounced, than in 2008. The concern about states’ budget reconciliations for 2011 is not helping either. There seems to be a growing concern for defaults escalating in 2011 and we are pretty much in sync

with that camp. Our take away, however, leads us to our first significant position and a bit of a return to the election results we alluded to earlier. Clearview believes that republican wins in both houses will result in less help for the states in the current budget year. This could, in fact, be the concern the municipal market is transmitting in lower prices currently. Any significant weakness could create a buying opportunity as we believe the treasury will use QEII to buy municipal debt in 2011. (QEII is the acronym that is being used to describe the Federal Reserve's monetary intervention to buy securities in the open market). In fact, the intervention of the central bank into the municipal market may have the effect of forcing the yield on municipal debt back closer to historical harmony with treasuries, suggesting a reversal of the conditions that have persisted over the last 3 years or so and quite a rally in municipal debt. Caveat Emptor, stick with GO (or general obligation) bonds as these will most likely be the prime beneficiaries.

2. **Real Estate**. There is a small but growing chorus of financial professionals calling for more aggressive action on

the foreclosure and housing glut. Several suggestions are sounding very similar and we think may have some credence. The coming year may see a proposal for a U.S. Residential REIT. The biggest banks and, possibly, Fannie Mae and Freddie Mac, may devise a structure to reduce principal balances on troubled mortgages allowing people to stay in their homes while giving up any equity gains to the REIT which could be traded on the major exchanges. This would effectively be a restructuring of the mortgage notes and a debt for equity swap. We are not passing judgment on the viability of such a solution, only that it appears to be gaining some momentum in circles that matter where policy is concerned.

3. **China**. Veering from the obvious macro concern currently (which is European debt) our next prediction leads to China. Chinese growth and a massive injection of stimulus in 2009 is leading to major imbalances in China (and the world writ large). China's 10% annual GDP growth is masking some very poor economic decisions being made there. Just as rising housing prices in the U.S. had masked the

building/mortgage debt debacle, so is China's seemingly unrelenting growth. The Chinese are deeply concerned about the social unrest that could ensue with any growth slowdown and therefore are less concerned about economically feasible projects at the expense of that growth. This has led to a huge misallocation of capital that will eventually catch up with them. Timing is so very hard to predict with any accuracy and we are often very early in our assessment; however, it is apparent to us that 2011 or possibly 2012 will see some repercussions with respect to economic growth in China. Some interesting statistics may help convince you as well: a) China has approximately 3.3 Billion square **meters** of empty real estate in the form of high rise condos and office space; b) The ratio of prices to rents is approaching 40x (in the U.S. right before the housing collapse the price-to-rents ratio was 22x)<sup>1</sup>; c) Chinese banks' nonperforming loans are upwards of 40% and growing, however, unlike U.S. banks' independence, Chinese banks are generally owned by the state which has ample foreign currency reserves and a printing press that can shore up the

banks' capital as they've done in the past. Read more on China [here](#).

4. **Smartphones!** Nothing new about their popularity here. They will only become more prominent in 2011 ... apps, apps, apps! The real news in 2011 will be smartphone security or, rather, lack of security. The phones use different encryption technology than most computers and it tends to be weaker. Unsuspecting users are a treasure trove for fraud operators. On the plus side, new applications that allow you pay at your local grocery store with your smartphone may become more and more popular as the year progresses. On the downside, this gives con artists more opportunities to attack consumers. Many technology users pride themselves on early adoption. This is one area you may want to consider treading lightly. The convenience of any application introduced in the smartphone world are what make them so attractive, however, it will pay to read reviews, investigate the source and really do your homework before you decide to allow an application to run on your phone. A good resource for technology addicts is [Lifehacker.com](#), where you can find news,

information, and tips on many technology related topics.

**5. Another Year Will Pass!** In my boldest prediction yet, I suspect we'll see 2011 coming to a close sooner than most of us would hope. Pigs will fly, we'll all fall in love with our in-laws and we'll reverse the growth of our national debt ... sarcastic, and yet, so satisfying in that we can be most certain none of these things will come to pass in 2011. We *can*, however, count our blessings and we should. Be thankful for those around us that love us and enrich our lives and do something to enrich theirs', too!

Thanks to all of our clients and friends for making Clearview Investment Partners, LLC a great success in 2010.

Happy New Year from all of us!!

Raymond M. Lombardo, CIMA  
Managing Partner

1. The Telegraph (U.K.) Nov. 29, 2010, article on Mark Hart, hedge fund manager at Corriente Advisors, Fort Worth Texas