

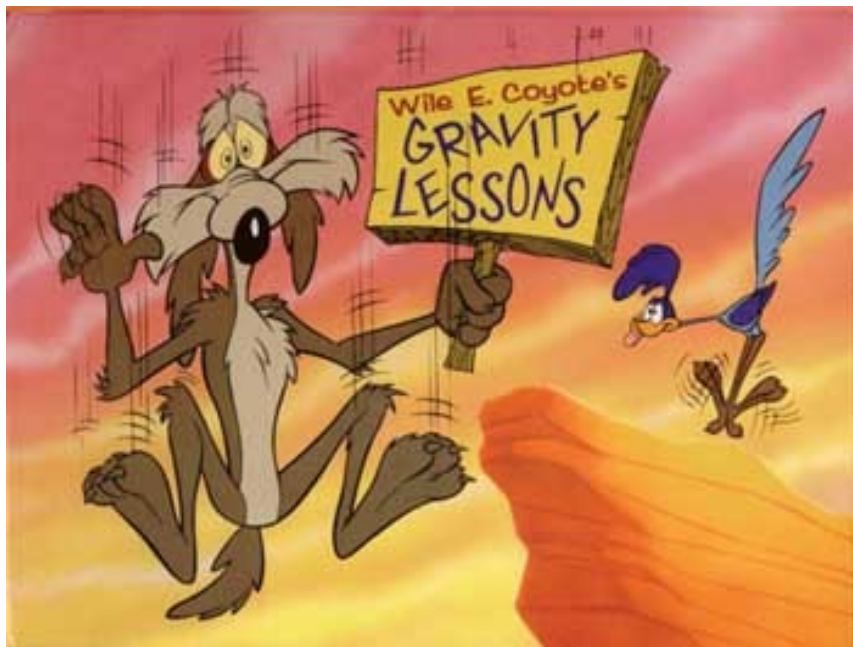
“All the art of living lies in a fine mingling of letting go and holding on.” –Havelock Ellis

Review & Preview

It's that time of the year again when we take a look at where we've been and where we're going. By now you know that in December we like to take a fresh look at the world and make a few predictions about finance, but also about life and trends in general. To start, however, it's fun (and humbling) to look back at last year's predictions.

Review

First on the list last year was the Utility Grid; we expected this part of our infrastructure to show its age and vulnerability. Though our prediction was for power surges from alternative energy sources to be the nemesis, it was really Super Storm Sandy that proved the catalyst that highlighted the weaknesses we outlined here one year ago (Sidebar: our prayers go out to all the storm victims on the east coast and hopes that you and yours are all safely accounted for). Second was our call for more Medicare cuts and we saw that highlighted in spades over the election



cycle as Republicans called out the President on the invasion of Medicare resources to fund The Patient Protection and Affordable Care Act. Debt levels continue to rise, which was not a tough call. However, the staggering pace of debt accumulation by governments the world over continues to astound us. Our fourth prediction involving Retail store closings was underscored from moves not only by Sears and Kmart closings, which had been announced by the time of our letter last year, but also by Gap, Abercrombie & Fitch, Blockbuster, Best Buy and, more recently, Staples. This is the short list, as there were many more regional operators trying to control cost and compete in the new

online world. This trend will continue. And finally, Volatility was actually somewhat subdued over the last year contrary to our prediction. We do foresee bouts of higher volatility, however, it appears Federal Reserve monetary actions are currently suppressing volatility somewhat ... How long can it last?

Preview

3-D Printing - Three-D printing is the term used to describe the actual “printing” of a three dimensional object using a modified print head and plastic polymers to print successive two dimensional layers one on top of the other to eventually produce a three-dimensional object. The technology has been used for years in the industrial complex to produce molds and limited production items. What’s changing is that new printer production companies are entering the markets with more sophisticated printers, better polymer adhesives and lower-cost devices. Expect to hear a lot more on this in the not too distant future. There may soon be a time when that plastic part for your washing machine is bought online, an electronic file sent to you via email, and the part “printed” out for replacement of the defective part in question! In the meanwhile check out these [videos](#) for yourself. If you have further interest check out [3-D Systems](#) website.

Regenerative Science - Regenerative medicine is rapidly advancing in the lab. It is the process by which damaged cells or tissue are replaced or regenerated so as to provide normal cell, tissue or organ function. Scientists can now grow normal functioning tissue in the lab and implant it into a patient to restore health. Several companies are now using the patient’s own *adipose tissue* (essentially the patient’s fatty tissue) to create regenerative solutions for the prostate, mammary gland and even skin grafts to heal burns. Work is being advanced and in clinical trials for heart disease and spinal injury as well. Although regulatory burdens slow the process, we expect deeper advances to be announced in the next year or two. In addition to the large biotech complex, a few other companies to watch are Cytori Therapeutics (CYTX), Osiris Therapeutics (OSIR) and Harvard Bioscience, Inc. (HBIO).



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Cyber Attacks - Attacks on our banking, electricity grid ,electronic and transportation networks through the use of malicious viruses are a real and serious threat. Those threats were recently highlighted by comments made by both Leon Panetta, the U.S. Secretary of Defense, and Ben Bernanke, the Federal Reserve Chairman. Because both of these influential men have recently made comments about our vulnerabilities on this front, it leads us to believe we are on high alert with regards to a more serious threat than many realize. This is one forward looking statement we genuinely hope we're wrong about. *Preparedness* is an active strategy, however. Use the new year to take stock of emergency items in and around your house. Canned foods, blankets, water and alternative fuel sources are a good starting point to prepare for both cyber attack threats as well as natural disasters (remember that a large water heater can provide [potable water](#)). Other items to consider are currency, gold, firearms and gasmasks.

Federal Reserve Actions - The Federal Reserve will likely purchase for their account upwards of \$1 trillion dollars in a combination of treasury bonds and mortgage backed securities in 2013. *Where will they get the money for these purchases*, you might ask? The money is generated by the U.S. Treasury “miraculously” through a few computer strokes (in other words it’s electronically “printed”)! Those purchases could accelerate with an unwanted rise in interest rates. The reason for this is that the Federal Reserve is in uncharted territory with regard to actions taken since the downturn in 2008, which is forcing them to keep interest rates low to spur a recovery. A rise in interest rates would suggest market participants were less willing to purchase those securities to fund our deficit and, hence, the Federal Reserve would have to step up their buying.

The Federal Reserve’s balance sheet has grown from roughly \$800 billion in 2008 to about \$2.9 trillion today, a 260% increase! Gold has gone from \$750 an oz., when the Federal Reserve started expanding it’s balance sheet, to \$1700 today, a 126% increase. If the relationship of Federal Reserve balance sheet swelling and it’s impact on the gold price holds, we can expect gold to move into a range of \$2000 to \$2100 an oz. before the close of 2013. Because other G7 countries are also accelerating their sovereign bond purchases by “printing” money, the trend may be exacerbated, shooting gold to even loftier levels (possibly \$2400 an oz. or more). Silver may be an even greater beneficiary. By a combination of factors including production, demand and price characteristics, silver could revisit its 2011 highs near \$50 (a 45% increase over today’s price).



Sidenote: Even with a compromise on the 'Fiscal Cliff' issue, the U.S. budget deficit will likely start to rise again in 2014 after a brief respite next year. The reason for this is that the likely compromise will only affect about 2% of all government spending over the next 10 years (even with tax hikes on the wealthy). The real serious heavy lifting will have to be borne by everyone if we are to restore fiscal soundness, but there is little political will to accomplish this. Our estimates put the U.S. Government total debt at \$28 trillion in ten years, up from \$16 trillion today.

Doctor Shortage Developing - More an issue of pure demographics than any other factor, it remains a fact that the U.S. is in the early stages of a supply and demand mismatch for physician services. The aging population of physicians, who will soon retire, is one reason. The simple fact that we are aging as a society, and therefore will consume more medical services, is another. A study published in 2005, [The Complexities of Physician Supply and Demand: Projections Through 2025](#) by the Center for Workforce Studies and a 2008 paper, [The Physician Workforce: Projections and Research into Current Issues Affecting Supply and Demand](#) by the U.S. Department of Health and Human Services both highlight the issue. The 2005 study suggests a modest increase in demand above their baseline forecast if the 47 million uninsured Americans were to be afforded medical coverage, further exacerbating the supply/demand mismatch. Several states are bucking the national trend, however. Texas, for example, has increased its licensed physicians above its rate of population growth by passing some medical lawsuit reforms back in 2003. Nevertheless, the overall trend is disturbing and may require a policy response to improve the doctor/patient dynamics. Emerging trends that offer reasons to be optimistic are ideas such as Medical Tourism (where patients or doctors travel to non-domicile destinations for treatment), Remote Medical Consultation, the use of Physician Assistants (P.A.s) for more diagnosis and treatment procedures, and technology tools that increase physician productivity.

That's it for this year. Clearview Investment Partners wishes all of our clients and friends a Merry Christmas and a prosperous and healthy New Year!

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