CLEARVIEW
INVESTMENT PARTNERS

250 Newport Center Dr., Suite 300 Newport Beach, CA 92660 (877) 762-6208 www.cviewip.com November 9, 2011

Tech Spotlight

If ever there was any wonder whether we truly have a global economy, and that the global economy is very interconnected, we need look no further than all the action that is taking place in Europe right now and the concern that exists by the G-20 to "solve" the Eurozone financial crisis. And that global "concern" is showing up in the charts of the various asset classes – stocks, bonds, commodities and currencies.

The central bankers, finance ministers and treasury secretaries of the world have been very busy over the past couple of months and it looks like they will continue to be in the months ahead, if not longer. Why? Sovereign debt problems. Dubai got the public display of fiscal irresponsibility rolling two years ago (in the days before Thanksgiving 2009) when they required bailing out of their debt issues by their neighbor, Abu Dhabi. Within three months Greece came out of "fiscal hiding" as the newly elected prime minister Papandreou revealed that Greece's real budget deficit was three times bigger than the original estimates put out by his predecessor. A 110 billion euro bailout package was put together and has kept Greece from defaulting on their debt ever since. But it is not enough and they need more, much more, as do a number of other countries in Europe. Not to be outdone, our own politicians in Washington, D.C. waited until the very last possible second before we might default on our debt to the world (small though the default might have been) by putting on a very partisan and public display of politics over our country's own fiscal malfeasance in late July and early August.

It is clear that Europe does not have the financial resources to solve their tremendous debt issues on their own. Virtually all of the publicized meetings of the past two months concerning Europe have not been of just the finance ministers of the Eurozone countries, but have involved all of the G-20 countries. (The G-20 consists of the European Union and 19 other countries, which, collectively, represent two-thirds of the world's population and over 80% of the world's GDP. The U.S., Canada, Mexico, Argentina, Brazil, Australia, Indonesia, Japan, South Korea, China, Russia, India, Saudi Arabia, Turkey and the U.K. are some of the other 19 countries). Why is it that the G-20 are getting together to work on the EU's fiscal problems and not just the finance ministers of the 17 EU member nations? Because that is where the European Union has pinned its hopes for a bailout that they themselves cannot afford unless the European Central

Bank (ECB) elects to start printing euros out of thin air. Germany, the lynchpin to the European Union, is very loathe to "print" euros. German minds have a deep and indelible memory of the hyperinflation they experienced after the last time they cranked up their printing presses into overdrive in the early 1920's in an effort to invigorate their economy after having it destroyed by WWI and also being hit with huge war reparations as the losing side in that war. They are very fearful of a hyperinflation repeat if they allow the ECB to "freely" print euros to get all of the EU out of their various sovereign and financial institution debt problems.

Greece is one of the smaller problems in the EU. But it is the closest to an actual default on its sovereign debt. Greece is totally beholden to bailout monies from the other EU countries in order to keep from defaulting on their monthly interest and maturing debt payments. And Greece is not the only problem for Europe – if they were, the rest of Europe could most likely afford to bail Greece. Right on the heels of Greece are Portugal, Ireland, Italy and Spain (not to mention the problems that the EU's two biggest members, France and Germany are having). Consider the following from a piece we did last June on Greece and the EU (with euros converted to $):

Country	Annual GDP (2010)	Government Debt	Debt Owed to The "Other Four"*	Debt owed to Britain, France & Germany
Greece	$ 305 Billion	$ 436 Billion	$ 26 Billion	$ 135 Billion
Portugal	$ 229 Billion	$ 213 Billion	$ 97 Billion	$ 117 Billion
Ireland	$ 204 Billion	$ 196 Billion	$ 57 Billion	$ 412 Billion
Spain	$ 1.41 Trillion	$ 897 Billion	$ 89 Billion	$ 572 Billion
Italy	$ 2.06 Trillion	$ 2.45 Trillion	$ 103 Billion	$ 778 Billion
Totals:	**$ 4.21 Trillion**	**$ 4.19 Trillion**	**$ 372 Billion**	**$ 2.01 Trillion**

* "The Other Four" = The other four countries amongst Portugal, Ireland, Italy, Greece and Spain, aka - the "PIIGS"

Please note that these accumulated sovereign debts are rising, not falling or even stabilizing.

One can fairly easily see that that the governments, banks and insurance companies of the U.K., France and Germany have a lot at stake if these five PIIGS countries start to default on their sovereign debt obligations. (Also note that there is another $1.8 Trillion of PIIGS' sovereign debt that is out there in other places in the world affecting non-European institutions.) Most of the talk over the past two months out of Europe concerns the recapitalization of European banks. In addition to the debt numbers listed in the above table 80% of the European debt market (including both sovereign bonds issued by countries and corporate bonds issued by private sector companies) are held by European banks. Less than 20% of the American debt market is held by U.S. banks (according to the Financial Times of London). With such a small list of European debt holders, there is quite a concentration of risk in the banks and insurance companies of Europe – making them quite vulnerable to any financial "hiccups", such as a sovereign debt default.

Another view into the concentration of risk in Europe's banks is to look at their total assets as compared to banks in the United States. U.S. banks hold about $13.5 trillion in assets. The U.S. GDP is around $14.5 trillion. European banks hold over $55 trillion in assets, in an economy with an annual GDP of $16.2 trillion. Why the over four-fold difference in assets given similar size in economies? Leverage. European financial institutions are leveraged to a much greater extent than U.S. financial institutions. European financial institutions rely on almost $30 trillion of funding from the institutional markets, markets which can be very fickle. Given their leverage, European banks cannot afford significant increases in interest rates. European governments also cannot afford significant increases in interest rates. And this doesn't even begin to touch on the problems that may ensue in the credit default swaps market and possibly the interest rate and currency swaps markets which involve all the major banks in the world (to the tune of $500 trillion in notional value; yes, that is $500 with a "T" for trillion).

The FOMC met last week and, in talking about the risks to the U.S. economic "recovery" in their released statement, they indirectly mentioned the issues in Europe as a threat to recovery (see the blue highlights below).

Release Date: November 2, 2011

Information received since the Federal Open Market Committee met in September indicates that economic growth strengthened somewhat in the third quarter, reflecting in part a reversal of the temporary factors that had weighed on growth earlier in the year. Nonetheless, recent indicators point to continuing weakness in overall labor market conditions, and the unemployment rate remains elevated. Household spending has increased at a somewhat faster pace in recent months. Business investment in equipment and software has continued to expand, but investment in nonresidential structures is still weak, and the housing sector remains depressed. Inflation appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

Consequently, you can begin to realize why the G-20 has gotten so deeply involved with helping to figure out a solution to the European debt problems – they don't want a European crisis to spread domino like to other financial institutions and economies around the world.

To drive home the point a little further, let's look at the interest rates that the market is asking of various European countries to buy their sovereign debt and how those rates have changed over the past year compared to the U.S.:

		10-Year Bond Yield		
Country	**One Year Ago**	**6 Months Ago**	**Nov. 7, 2011**	**Bond Price Discount Over 1 Year**
Greece	11.5 %	15.4 %	27.1 %	55.7% Loss
Portugal	6.5 %	9.5 %	11.7 %	28.6% Loss
Italy	3.9 %	4.8 %	6.6 %	18.1% Loss
Spain	4.4 %	5.2 %	5.5 %	7.6% Loss
France	2.8 %	3.5 %	3.0 %	1.7% Loss
Germany	2.4 %	3.1 %	1.7 %	5.7% Gain
U.S.	2.5 %	3.2 %	2.0 %	4.1% Gain

There is no surprise to see that investors in Greek 10-Year Bonds have lost over half the value of their invested principal over the past 12 months (the losses have been even higher in their shorter term debt … the Greek 2-Year Note has lost over 90% of its value over the past year). The surprise to many is that the losses in the value of Italian bonds are starting to rise significantly. Even France is seeing a small loss in the value of their bonds. “Everyone” has known about the problems in Greece, Ireland and Portugal and about the bailout packages they have received. But, Italy has been able to stay under the media radar despite the problem with its huge debt load and its rising deficits. Just look at the rise in the yield for the Italian 10-Year Bond over the past six months – the bond market is paying attention and apparently doesn’t like what it sees. This is why Italy has become even more of a focus in the news over the past week than Greece has been. Should the yield on Italian bonds rise much further (let’s say over 7%), it will become very difficult for Italy to service their debt loads and so become a candidate for default or a bailout. The problem with Italy, though, is that there is potentially so much more of their debt to bail out. Italy’s debt load easily outweighs the sovereign debts load of Greece, Ireland, Portugal and Spain combined. All the talk of the past several months has been how to recapitalize the European banks in the case of an “agreed upon” 50% haircut to Greek sovereign debt (and it is a problem that so far does not have a solution). When you try and consider how to protect/capitalize the banks in the case of, let’s say, only a 20% “haircut” to Italian debt, it becomes overwhelming.

Today, most of the talk is about the apparently negotiated resignations of prime ministers Papandreou of Greece and Berlusconi of Italy. The job of any of the talked about “unity governments” that will temporarily rule for the next few months in each country (until new elections are held) will be to implement austerity measures that will not be popular in order to qualify for financial aid from the ECB and the International Monetary Fund (IMF). At present, there does not appear to be enough money in the ECB kitty to handle the job. This is why the G-20 has been so intimately involved over the past months. The G-20 are also very concerned by any potential fallout in Europe affecting the rest of the world … we are truly an interconnected global economy.

Why am I spending so much time talking about the European debt issues? Because the perceived risk of the European problems spreading around the world have significantly affected the technical charts of many asset classes.

First, we’ll take a look at how this has affected the euro itself:

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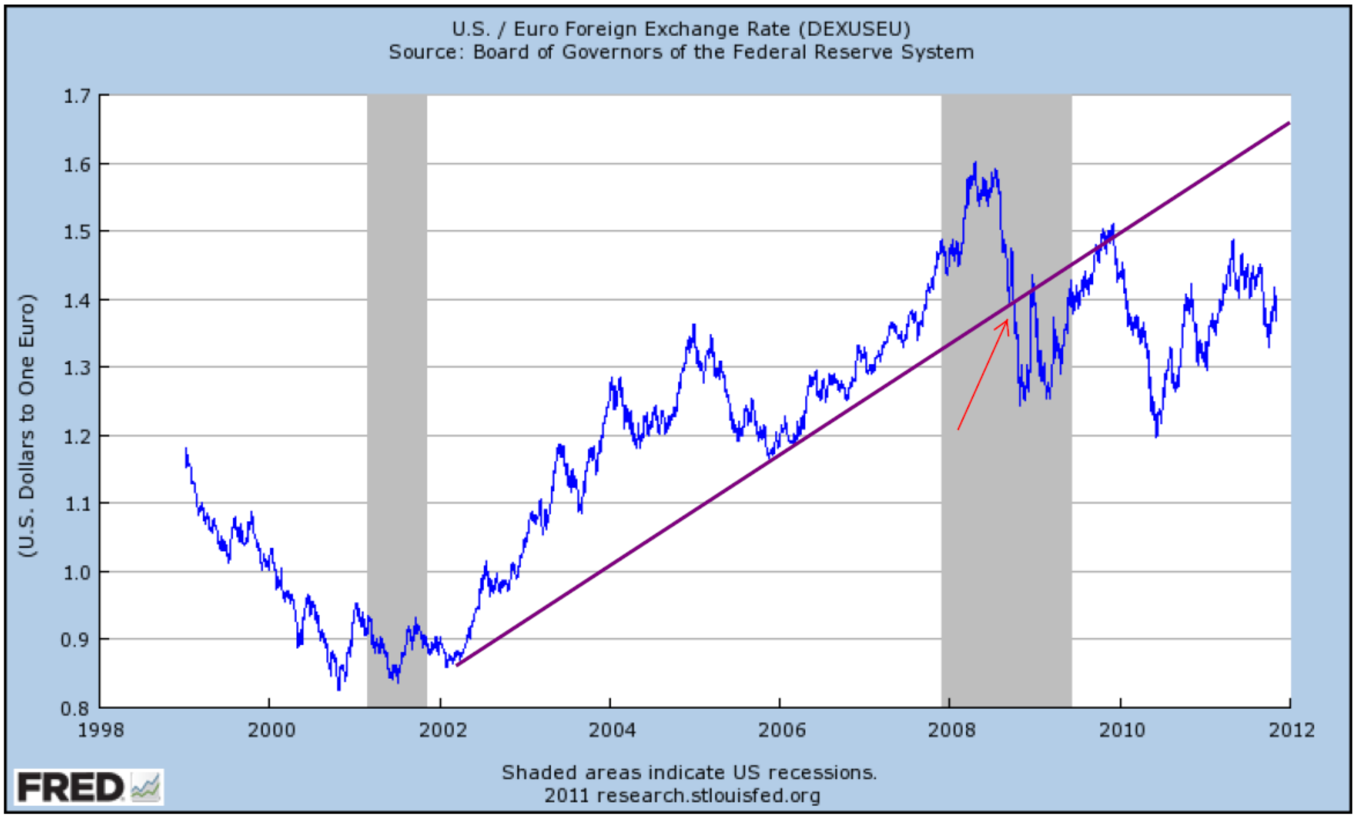

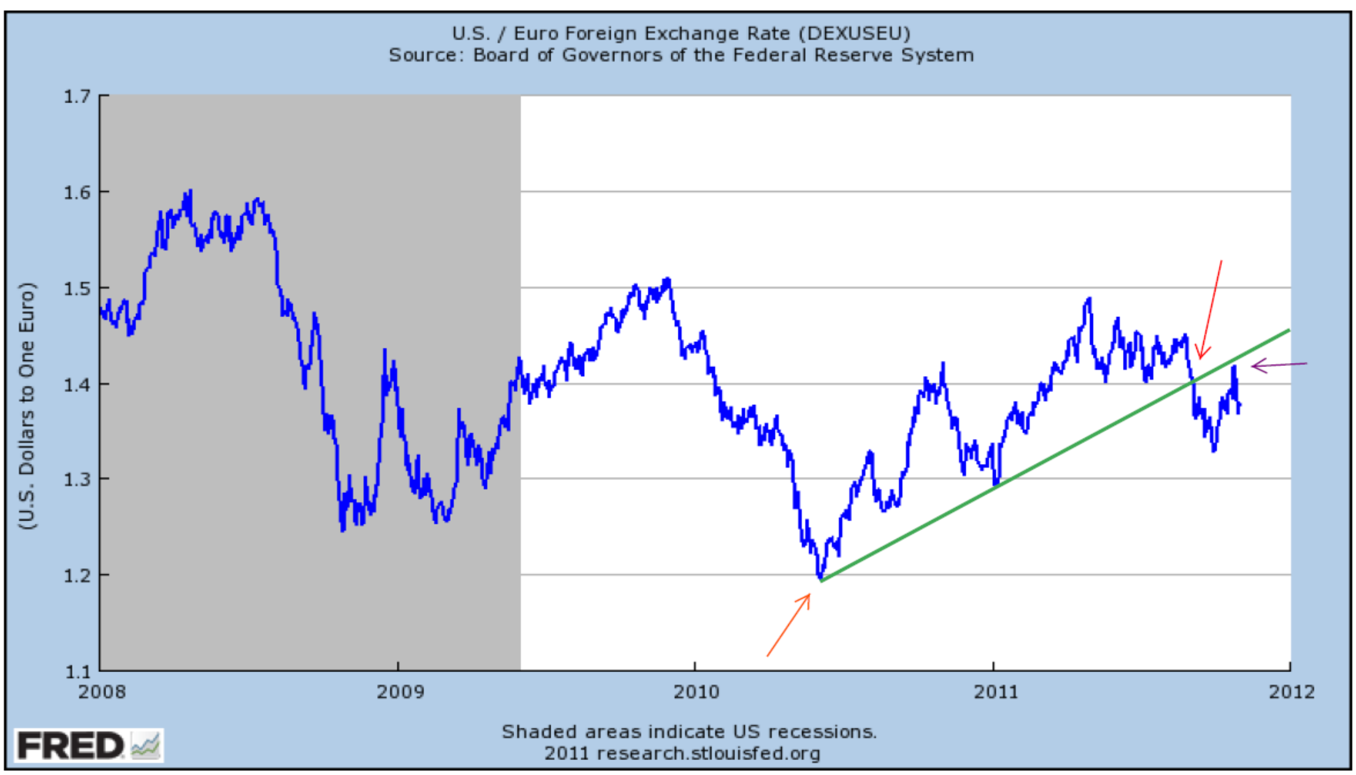

In the first chart above, you can see how the euro broke an almost 7-year upward sloping trend line in late 2008 (red arrow) – at least one year before the news of sovereign debt issues began to works its way into the news media. The best the euro could do was rally back up to that purple trend line in late 2009 before "kissing it goodbye" (coincident with news on the Dubai bailout).

The second chart above provides a nearer term picture of the price action of the euro and we can see the euro rallying on news of the approval of the first of two bailouts for Greece (orange arrow). Remember, the first bailout was for the 110 euros mentioned earlier. The markets at that time felt that the solvency issues for Greece were being taken care of and so the European economy would be okay. However, Greece was required to meet various ongoing austerity goals in order to continue receiving the aid promised in the first bailout package. By the middle of this summer it became evident that Greece was not going to meet those goals (even though a second bailout package was informally approved earlier this summer) and so the continued payments of financial aid from the ECB and the IMF to Greece were being called into question. By September (red arrow) the G-20 were now meeting about the EU's problems and so the euro broke down through a 15-month uptrend line. The best the euro has been able to do since early September is to rally back up to this short-term trend line and appear to "kiss it goodbye" (purple arrow) two weeks ago when the EU came out and announced they had come up with a solution to the EU's problems, but without details. The markets rallied on that announcement, but have since begun to correct down as the details don't seem to be there to support the announced "solution".

Following are charts of various stock indices from around the world, including the Dow Jones Industrial Average30 (DJIA), the S&P 500 Index (SPX), the Nasdaq (OTC), the English FTSE 100 Index, the German DAX 30 Index, the French CAC 40 Index, the Japanese Nikkei 225 Index and the Chinese Shanghai Stock Exchange Index. Each chart is drawn with a blue uptrend line that begins with the March 2009 market bottoms. Each chart contains a purple arrow indicating the last week in July as the European/Greek debt problems were making headlines and when our own Congress was in the middle of a very public and political fight over raising our country's debt ceiling. The point here is to see the correction in stock markets all around the world at virtually the same time. For the first six stock market charts, the correction resulted in the breaking of a 3+ year intermediate uptrend line. This is significant. If these markets do not repair themselves soon, the probability of a bigger market correction than the one in August and September grows larger.

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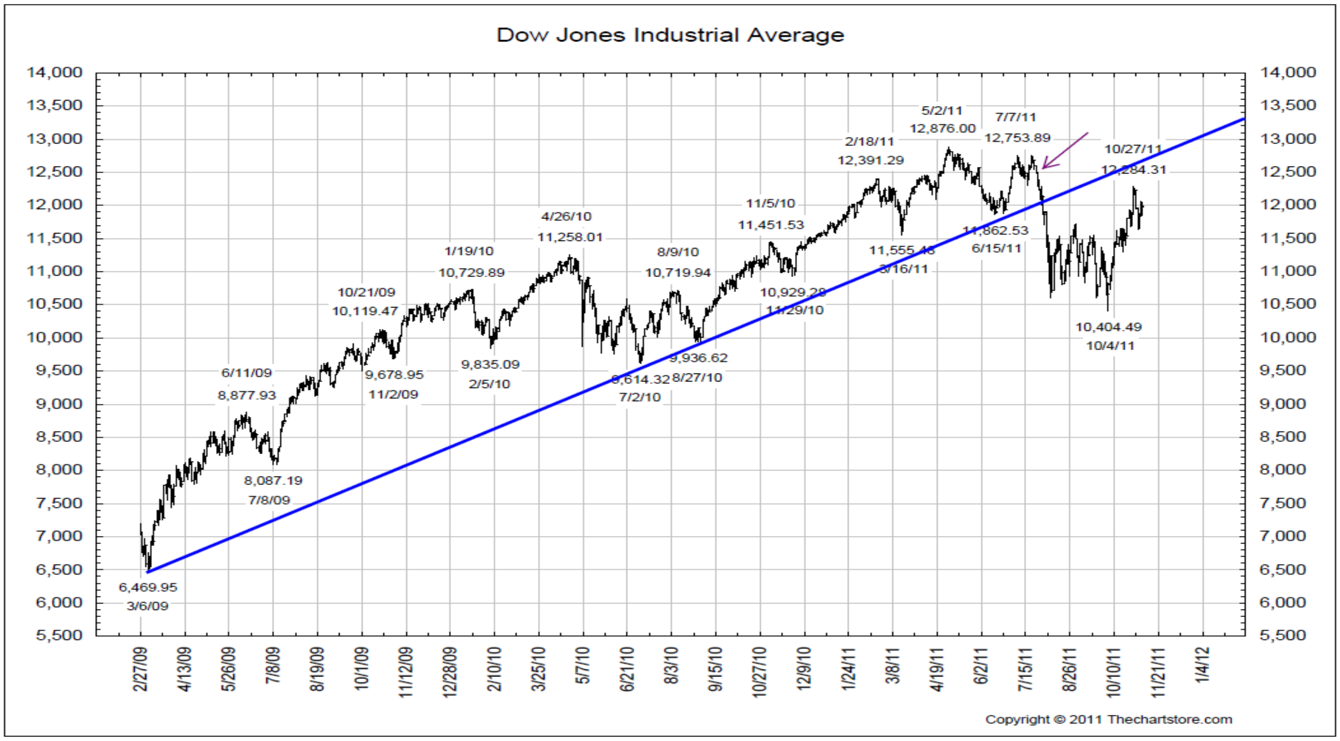
Data as of November 4, 2011



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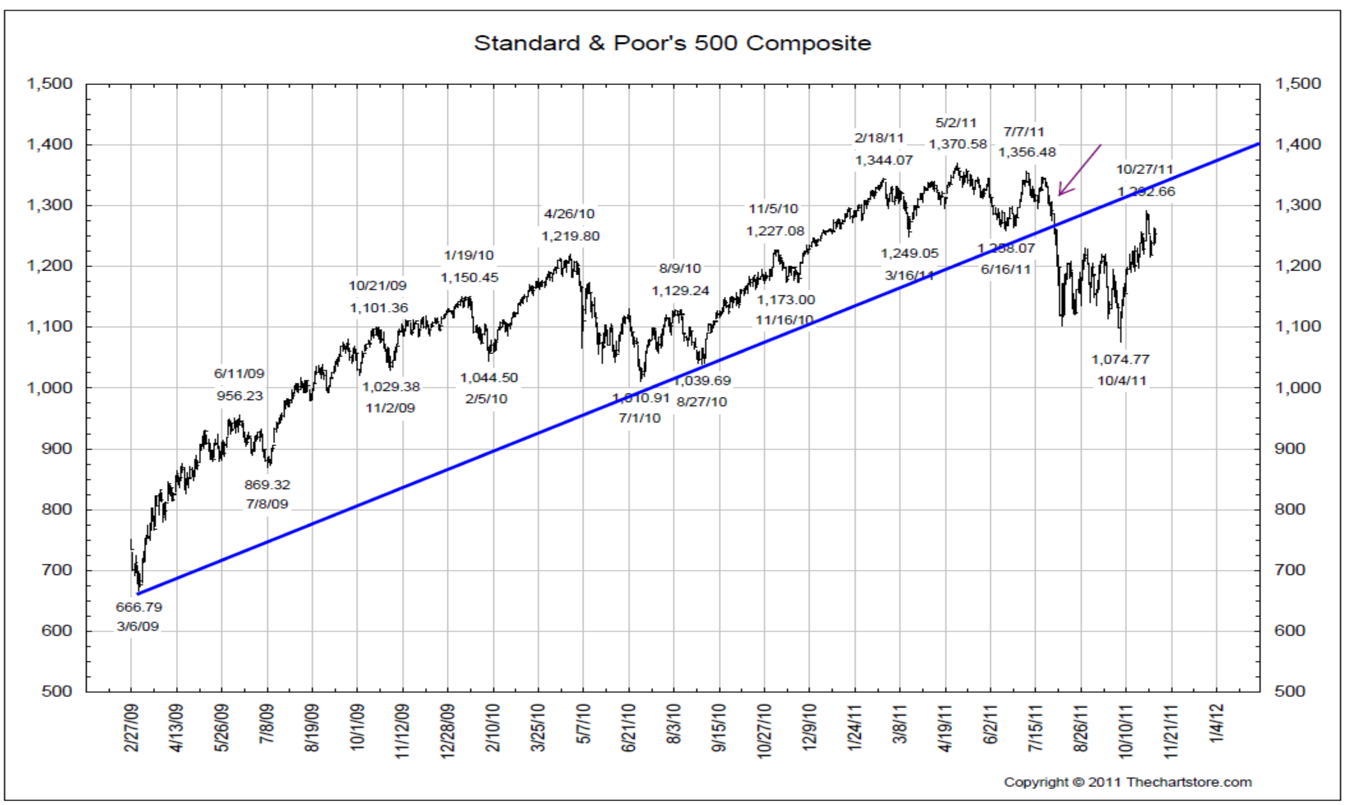

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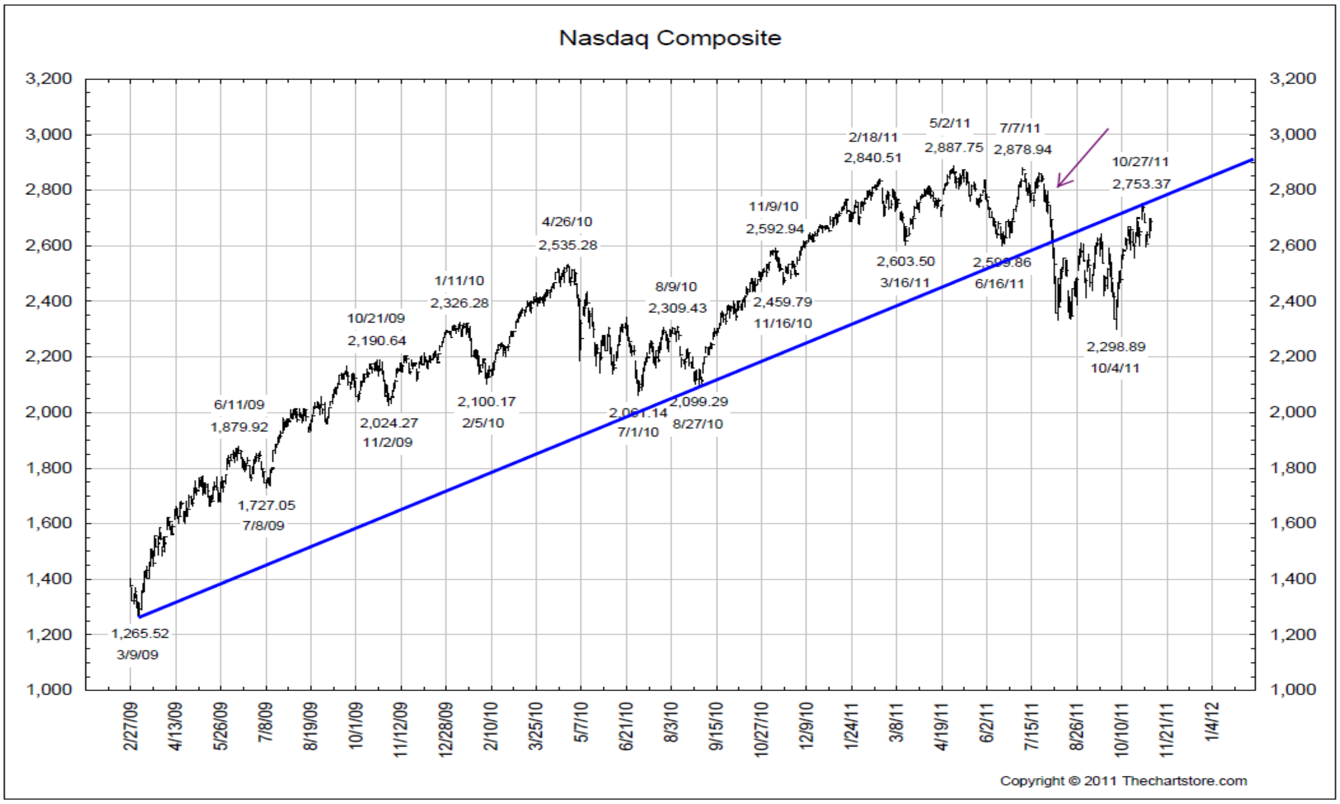

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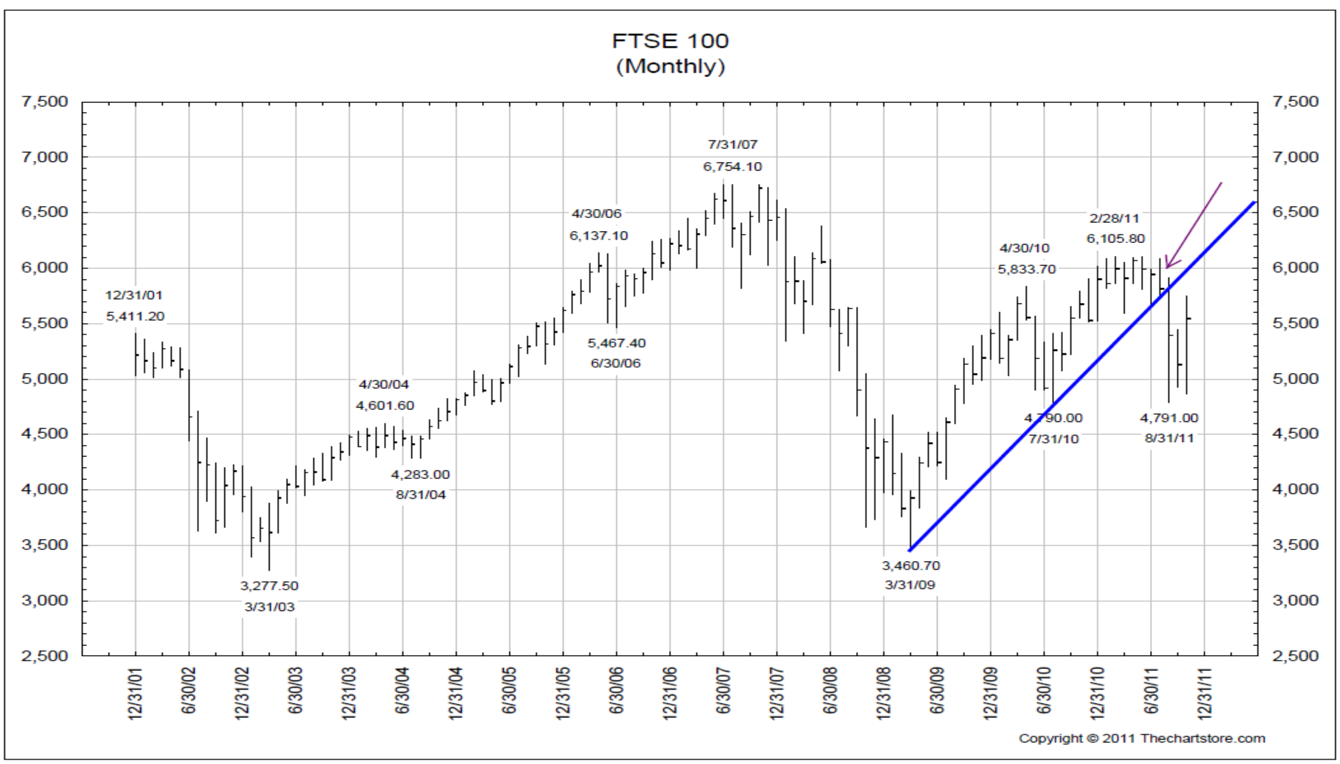

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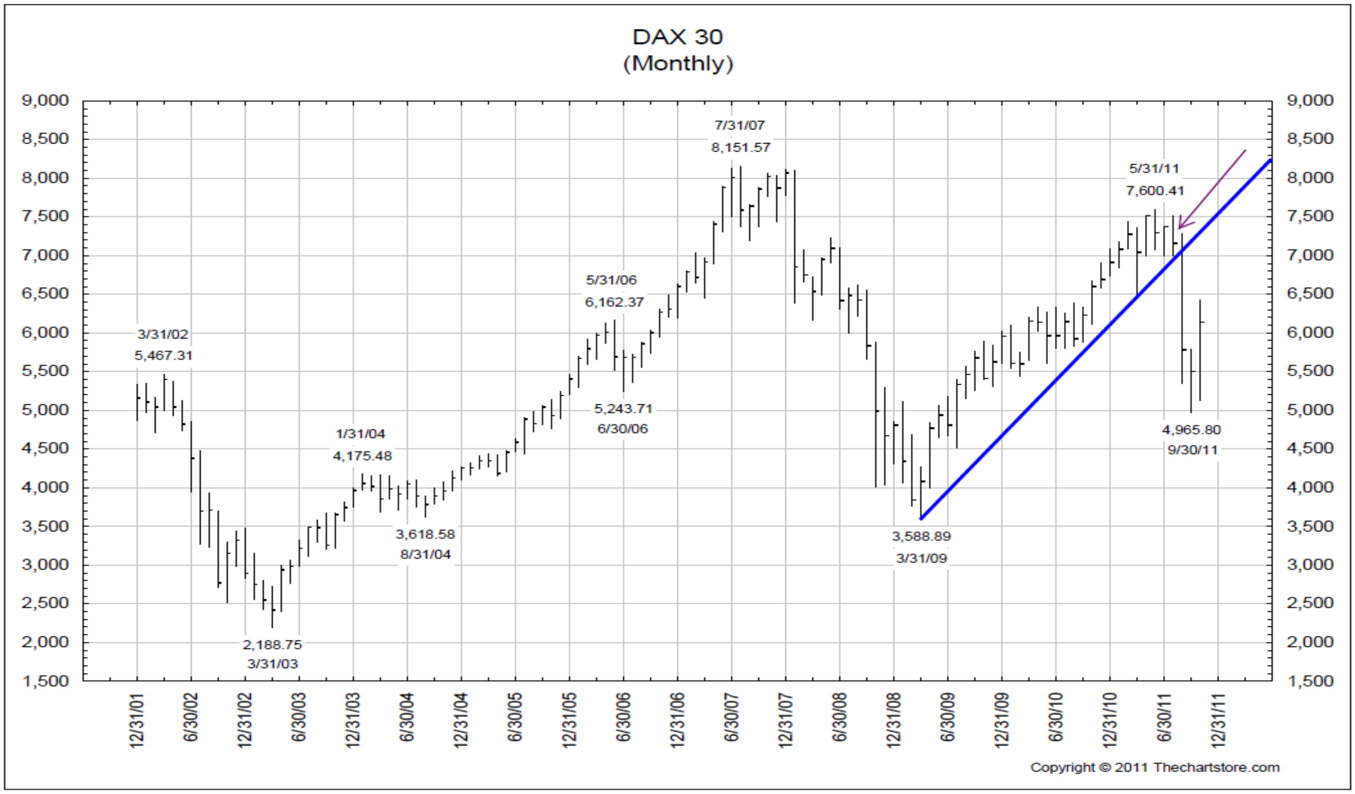

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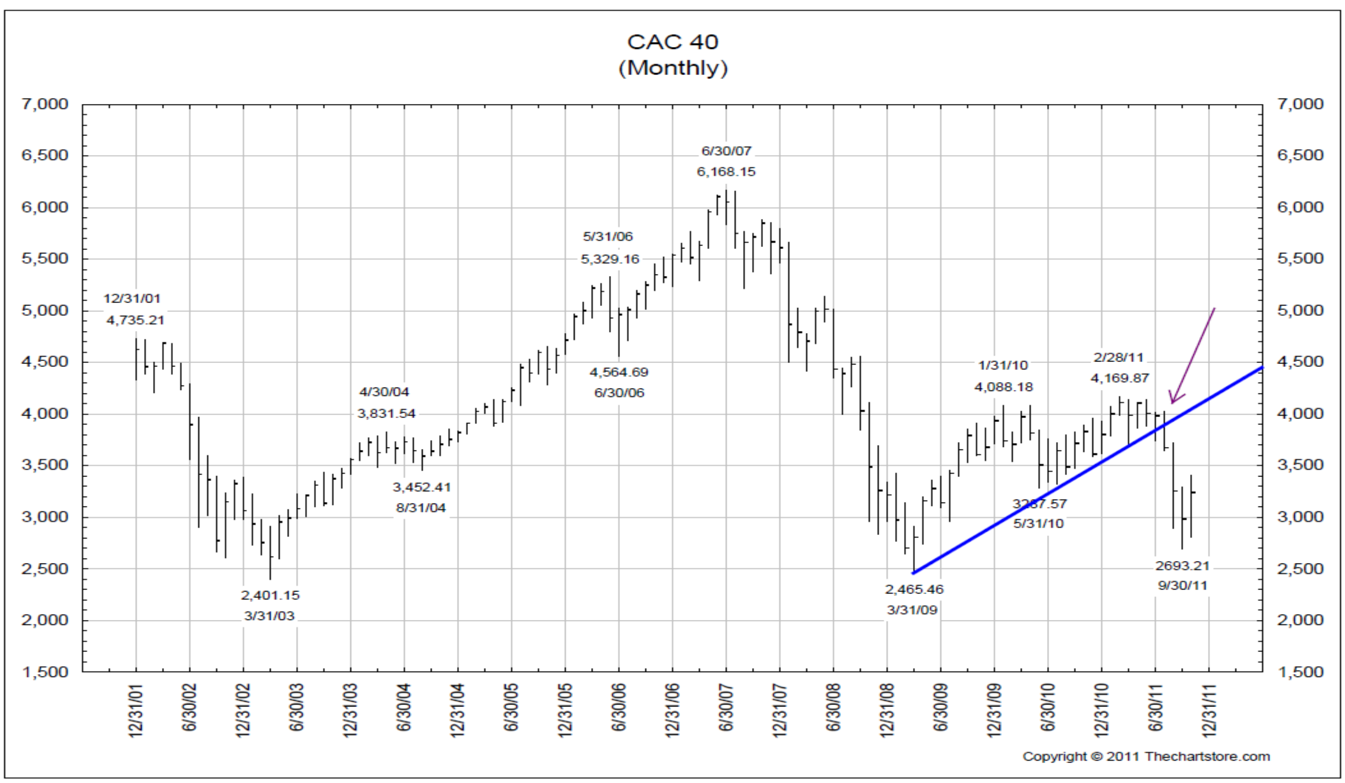

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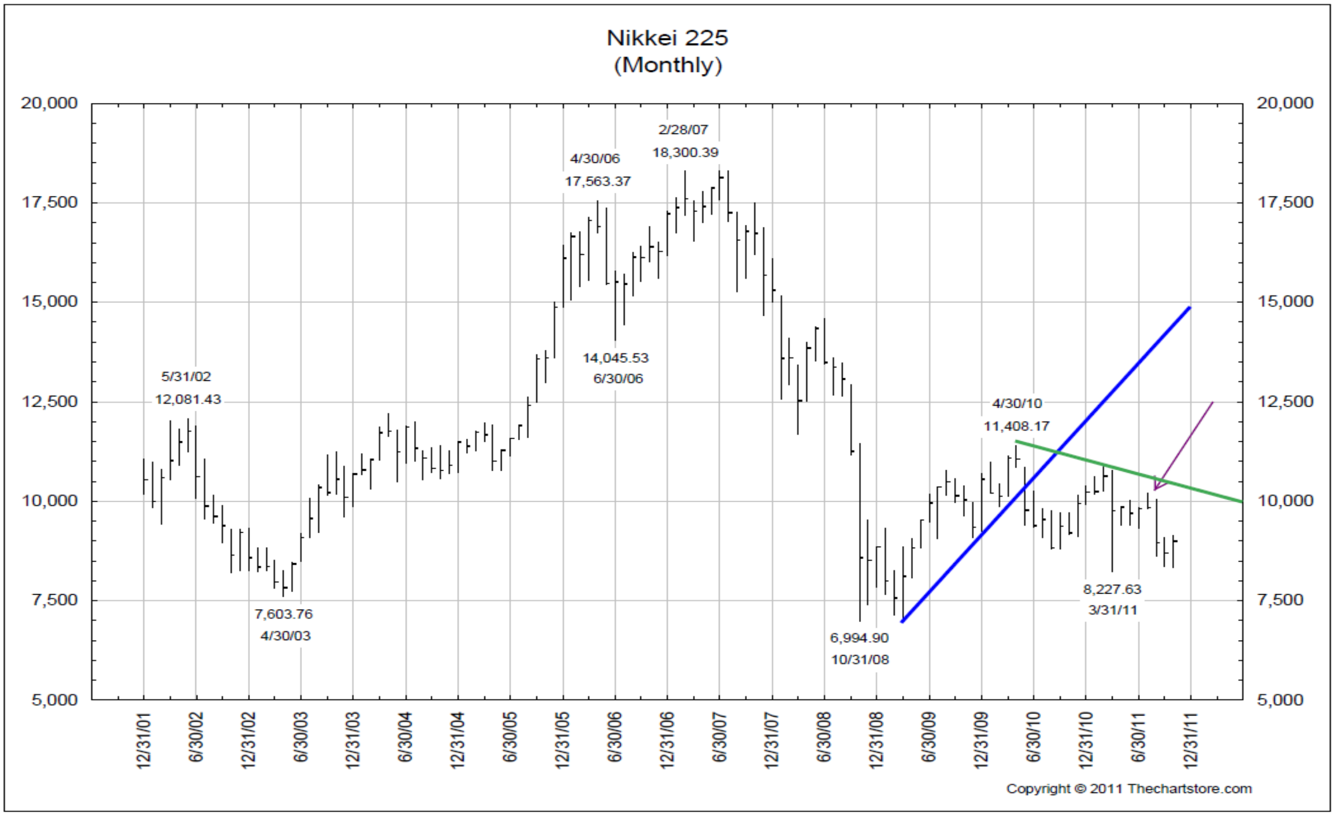

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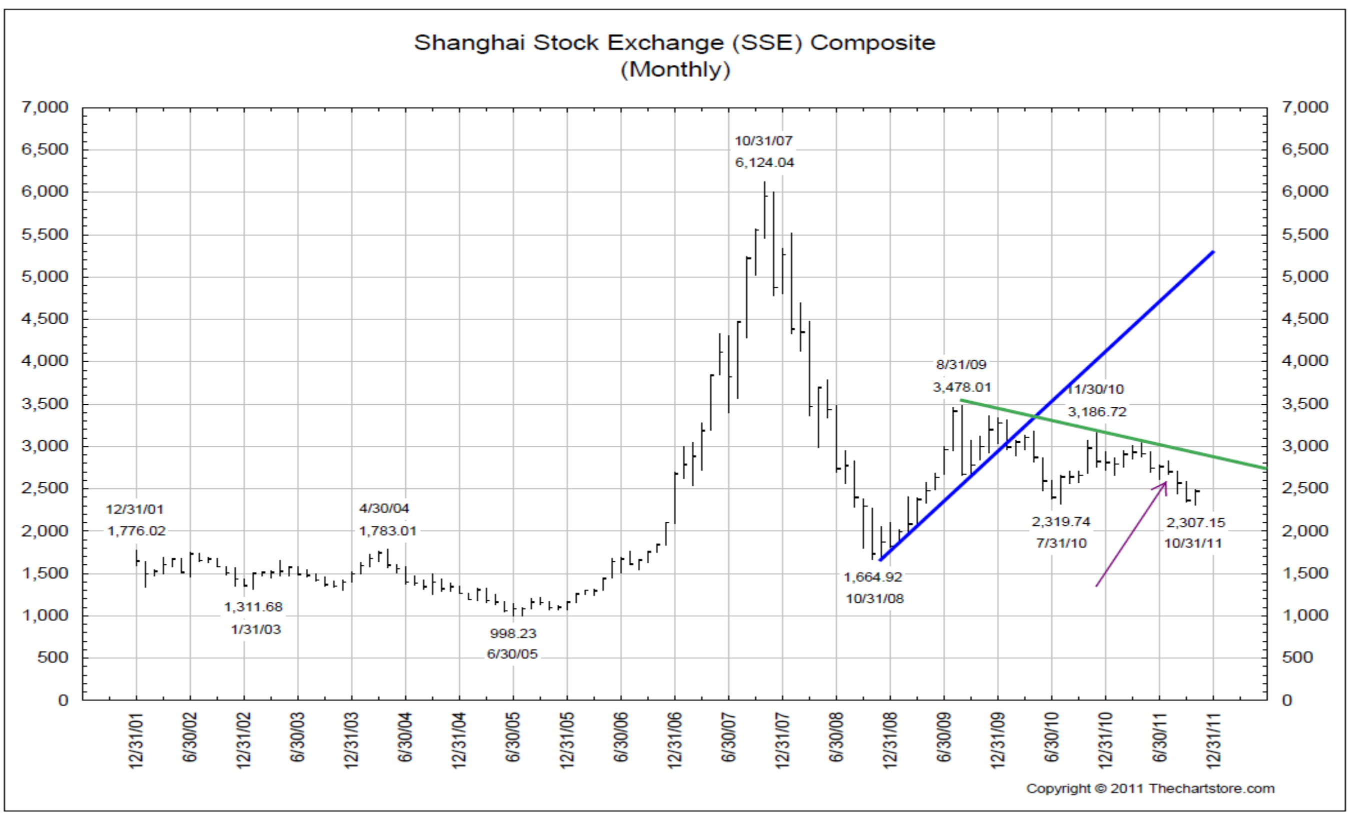
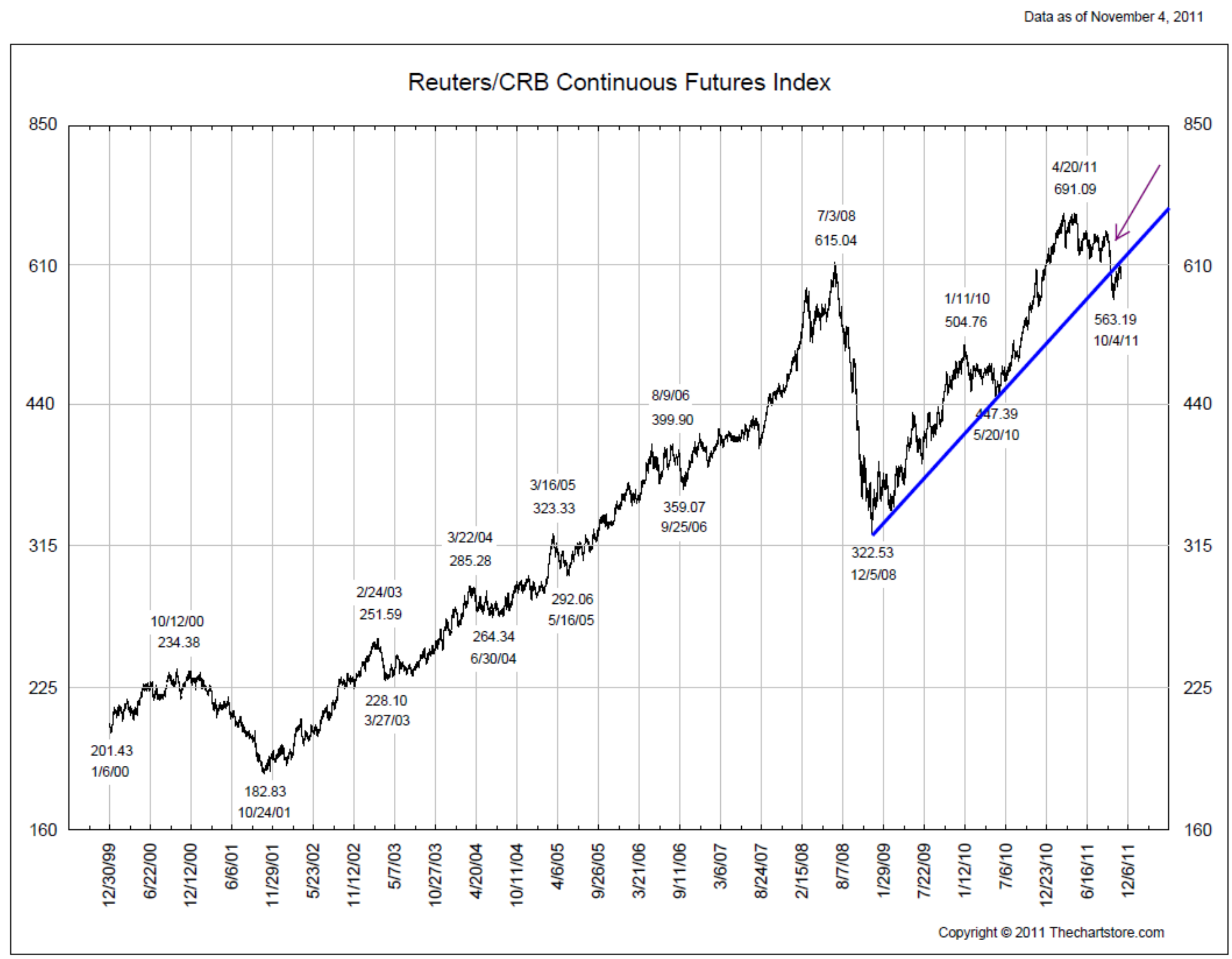
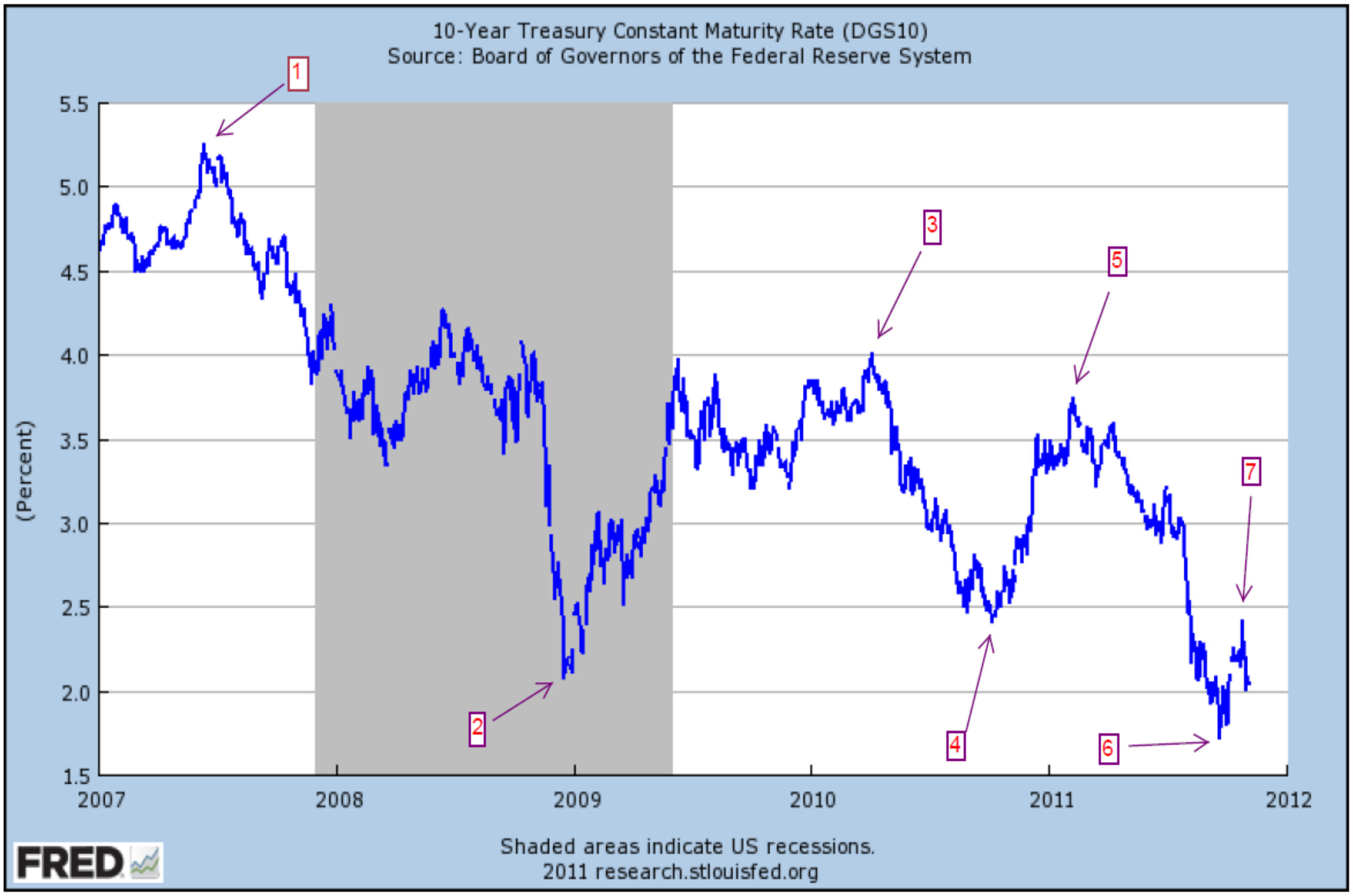


An interesting note about the above eight charts specifically involves the last two charts for the Japanese Nikkei and the Chinese Shanghai Stock Exchange Indices. Please note that both of these indices broke their March 2009 blue uptrend lines during the first half of 2010, clearly more than a year before the U.S. indices and the European indices broke their uptrend lines. Please also note that neither of these Asian indices went on to new highs in late 2010 or 2011 as did the U.S. and European stock exchanges. They are clearly underperforming and, while they are not in the news to the extent that Europe is right now, it would not be surprising to see them enter the news flow in a negative way in the future.

Next we have a chart of the Reuters/CRB Commodities Index. It shows the same pattern as the above eight stock market indices. This summer's market corrections also applied to commodities in general with a break of their 3+ year uptrend line from their December 2008 lows.



Now for a look at the U.S. Treasury market with a chart of the yield on the 10-Year U.S. T-Bond:

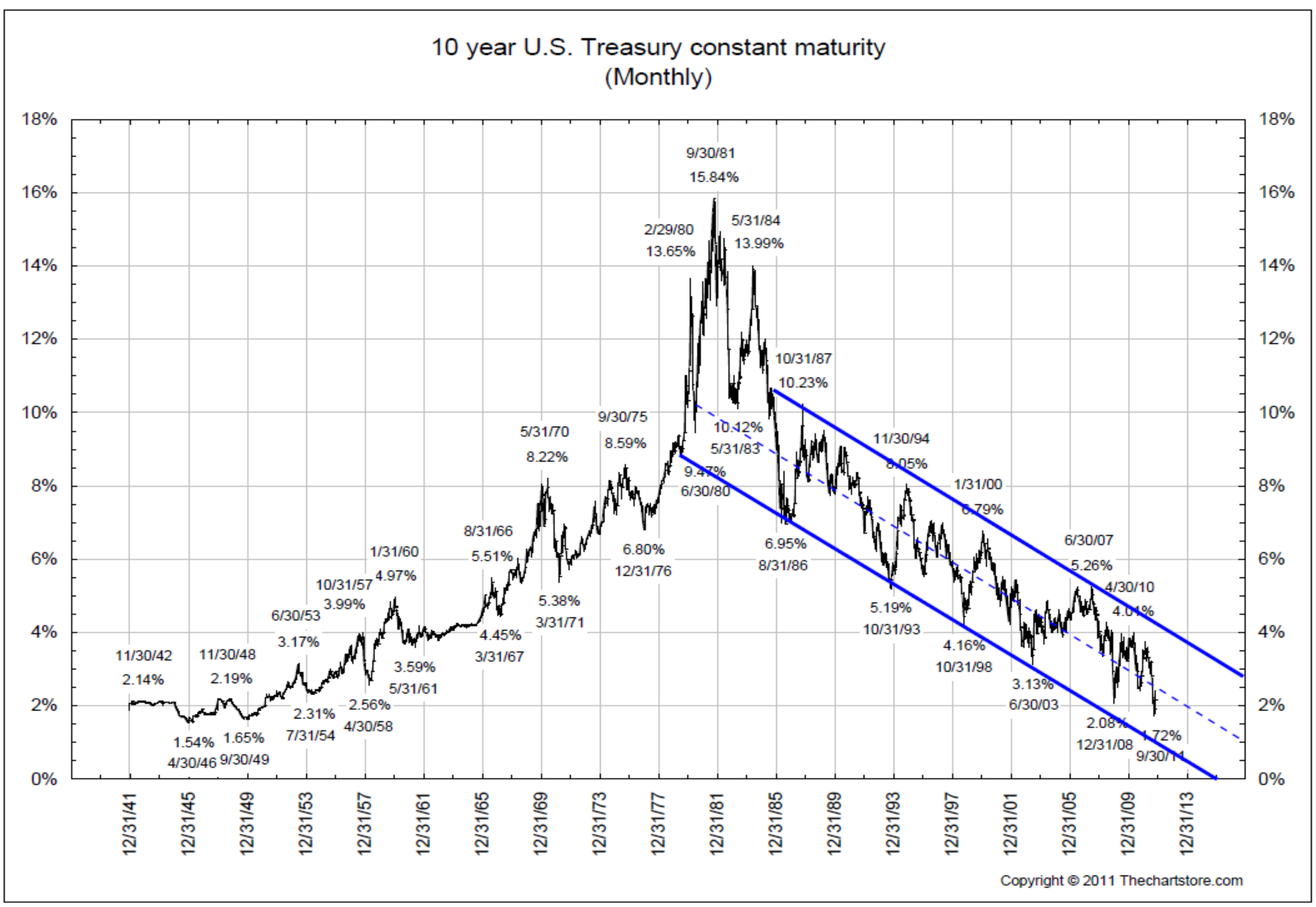


The first thing to notice is the extreme volatility in the price and yield for the U.S. 10-Year Treasury Bond over the past 5 years. We are seeing extremely large swings in terms of percentage changes in the yield of this bond. The movement from Box 1 to Box 2 represents a change in the yield of the bond from 5.25% down to 2.1%. This flow of monies into treasury securities coincided with the stock market correction from its peak in 2007 to its bottom in early 2009. Then, with the stock market rally from March 2009 till the end of QE I in April of 2010 (Box 2 to Box 3 in the above chart) money flowed out of treasuries and the yield on the 10-Year rose from 2.1% all the way up to 4.0%. But then came the May – August 2010 market sell-off and monies flowed back into treasuries (Boxes 3 -4) and the 10-Year yield fell from 4.0% down to just under 2.5%. Then came the FOMC to the rescue with QE II, the stock market rallied, money flowed out of treasuries and the yield on the 10-Year rose from 2.5% up to 3.75%, Boxes 4-5 above (gee, wasn't the FOMC trying to keep rates down with the implementation of QE II?). It was at this time that Greece came out of its fiscal closet (as mentioned back at the beginning of this issue), Japan experienced their earthquake and resultant tsunami and stock markets around the world again corrected down and monies flowed back into U.S. treasuries (Boxes 5-6 above) and the yield on the 10-Year fell over 200 basis points from 3.75% down to 1.7%. These are not insignificant moves in yields and bond prices.

This summer's downgrade by Standard and Poors of the rating on U.S. debt and the U.S. Congress' wrangling over the raising of the U.S. debt ceiling then resulted in money moving out of U.S. treasuries (Boxes 6-7). Finally, the financial strains in Greece and the rest of Europe began to dominate headlines and, once again, there is a flight to perceived safety in U.S. Treasury securities and we are seeing the yield on the 10-Year T-Bond back down below 2% (the market action on the above chart after Box 7).

Long term, we are continue to see a downtrend in the yield for the 10-year T-Bond. We have been talking about this in our newsletters for the past year and a half. Please take note of the longer term of the 10-Year T-Bond yield below:

Data as of October 2011



As we have repeatedly said before, we will not be surprised to see the yield on the 10-Year T-Bond continue to fall toward 1% over the next few years. Despite our country's debt problems, they are not yet as significant as Europe's are, who, in turn, are not as bad as Japan's are. So, while there has been and continues to be quite a bit of volatility in the yield for U.S. treasury securities, we are seeing a net in-flow of monies to U.S Treasury securities and a continuing downtrend in yield, as evidenced in the above chart.

One can easily argue that one of the major factors suppressing true, fundamental, organic economic growth in the U.S., Europe and Japan is the enormous weight of debt throughout these economies. Debt service is a drag on economic growth today because much of this debt incurred over the past ten years was not incurred with respect to productive activities. Instead, much of this debt is related to either housing (which is an unproductive asset) or financial bailouts or speculation in the markets. So now we find ourselves in the position of having to service growing debt loads that do not add to economic growth. The markets sense this. It creates uncertainty and markets hate uncertainty. It is very evident in the above charts.

The charts are currently painting a picture of uncertainty at best, very deep corrections at worst.

Kenneth G. Hobbs III
Managing Partner

TECHNICAL ANALYSIS

Seeks to define the trend of various markets, be it short-term, intermediate-term or long-term.

Remember, markets never move straight up or straight down, they move more like the ocean tides, surging (trending) up or surging (trending) down until the tide changes direction. We use various chart time horizons to give us an idea of how far a wave will move within a tide. Our intent is to keep clients apprised of changes in the various markets' movements in the months and years ahead.

Technical Analysis operates under three Basic Premises:

1. Market Action discounts everything. Or …

   Supply Versus Demand governs market action.

2. Prices move in trends. And …

   Trends stay intact until broken.

3. History often (but not always) repeats itself. Or …

   At the very least, it sure seems to rhyme.

The study of charts is based on the evaluation of past events to determine future probability. We seek a stock, or other asset or financial instrument, forming a particular pattern. We note that this pattern resembles that which typically precedes an asset's upward or downward move. In this way we are able to use our knowledge of the way a particular asset has acted in the past to estimate this particular asset's most probable future move. There will be a rational, logical and fundamental explanation for a particular chart formation usually following a given move in price.