OPTIVEST

Turning Success into Peace of Mind.

Quarterly Newsletter

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Contact Us

24901 Dana Point Harbor Drive
Suite 230
Dana Point, California 92629
949-363-8686

or visit our website:
www.optivestinc.com

US & World Economy - The world breathed a sigh of relief after the recent Fiscal Cliff vote and all of us are happy to remove that phrase from our vocabulary. The US economy is in good shape to absorb the changes to the taxes and likely debt ceiling outcome (more on that below) and according to most economists, should grow at 1.5 - 2.2% in 2013. In other words, more of the same slow growth we have experienced for the past couple of years. Regardless, a serious cloud has been lifted and businesses can now plan with greater confidence. In addition, China's economy and US housing starts are building strength and will help the economy this year. While there is always something to worry about, the scope of our problems have become smaller over the last few years.

Forecasts for 2013 - A year ago we forecasted that the S&P 500 would go up 19% and end at 1500 after dipping in the Spring. We came close at 1474 after a drop in June and closed the year at 1426 (up 16%). However, we were overly optimistic about unemployment, forecasting a drop down to 7.5% yet we only fell to 7.8%. We further predicted that interest rates would stay low, which they did.

We are again positive on the US stock market for 2013, yet recognize that we are probably in the last 1/3 of the bull market run and recommend large cap stocks which historically have done better during the final leg of recoveries. We have set a target for the S&P 500 of 1550-1600 during 2013, potentially reaching a new all time high. However, we believe it will take better corporate earnings than are expected to push beyond these levels. China's and Japan's stock markets should outperform the US, while Europe will lag over the intermediate to longer-term. Further, we think that the large central banks will continue to debase their currencies. This will give gold a boost to over $1800 per ounce, and compounded with supply/demand factors, cause agricultural commodities to rise. Alternately, oil prices should be held in check as US energy independence goals will ease the speed and cost of recovery. We view this as a positive development for the country.

We believe that the 10-year Treasury will likely rise to 2.25 – 2.50% and high-grade yields will rise modestly as the year progresses. Furthermore, we believe there is still considerable risk to long-term bonds when the Fed's artificial "zero interest rate" environment starts to unwind (recent Fed minutes indicate a concern about keeping the current bond repurchasing going too long). We recommend that all bond maturities be shortened to 1-6 years, limiting potential losses on this important component of most retirement portfolios.

SageView Portfolios - Unfortunately, neither we nor anyone else can accurately predict the future enough to concentrate your hard earned money into only a few sectors of the financial markets. Risk, balance and diversification will still be important in 2013 and the combination of the inflation balanced income, non-correlated tactical funds and diverse equity exposure used in our SageView portfolios will be once again very helpful. We expect to see more shifts to inflation-sensitive assets over the coming year as the above forecast unfolds.

Congress vs. Obama - With no fiscal cliff on taxes remaining, we have passed our chance to make any significant tax reform in 2013. President Obama has said "top earners and corporations should pay even more." This is a sign of things to come as the President wants to raise taxes and spending. Politically, Congress can only partially mitigate this over the next couple of months and we expect only small gains in the closure of the deficit spending, if at all. Longer term, this will leave us with a weaker dollar, possible US debt rating downgrades and no fiscal reserves for the next recession or financial crisis. Further, new limitations on the deductibility of large charitable donations will hurt all; a real shame. We expect talk of value added tax (VAT) and asset tax will be heard as we look for ways to pay for even larger government spending.

Real Estate - We believe that residential housing will continue to rebound this year, but is not likely to run away. The last of the foreclosures, difficulties to qualify, higher interest rates, lack of investor speculation and new construction will keep appreciation in check at about inflation - less the cost of upkeep and taxes, as it has for most of the last century. Income producing commercial real estate, paying 6-8% cash flow, will do much better in the coming years. We prefer non-US public REITs and direct domestic ownership.

Summary - The urgent government business will pass and we will be left with only the important, which we never get around to until it becomes urgent. Indeed a vicious cycle, but it is a predictable cycle. In the meantime, businesses and investors can once again focus on their endeavors now that the "paying" field has become clearer. For the next year or two, this is as good as it gets, so let's enjoy our modest prosperity. Optivest remains vigilant in our attention to your portfolios and risk mitigation, and wishes you peace of mind in the coming year.

Optivest News – In keeping with our efforts to help business owners successfully sell their companies and retire, we have written the *Cash Out, Cash In* book and founded the *Orange County Exit Planning Roundtable*. We are now pleased to announce the launch of a new entity – **Optivest Investment Banking, LLC (OIB).** This will be headed by Paul Donnelly, a 17 year veteran with many M&A transactions in Southern California. OIB will work directly with local middle-market business owners on their growth capital or liquidity opportunities. Paul can be reached at (949) 596-7172 or pdonnelly@optivestib.com. Check out the website at: www.optivestib.com

Mark Van Mourick
CEO
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