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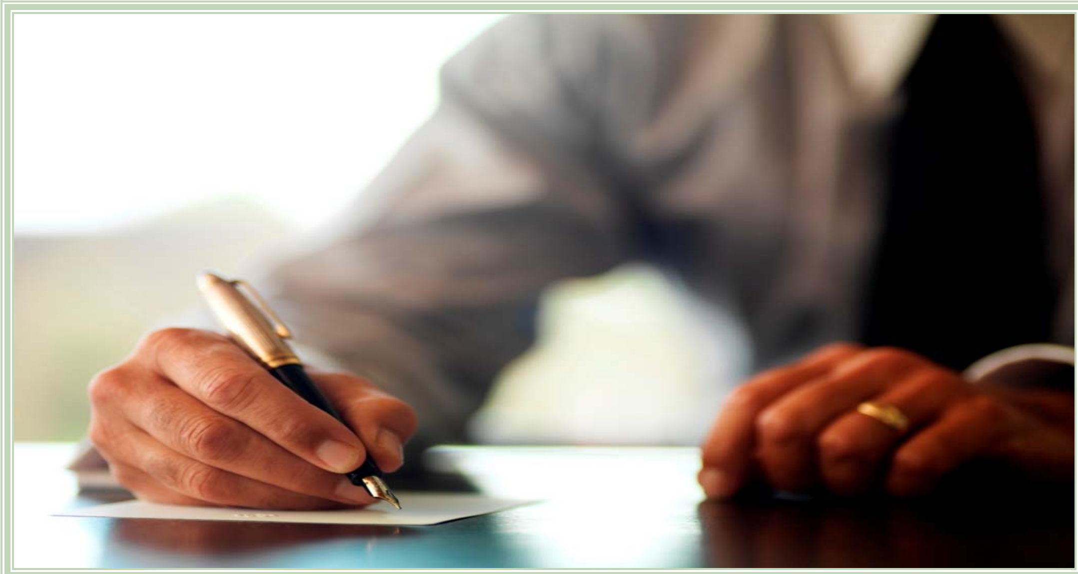

Quarterly Newsletter

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Post-Presidential Election Investment Themes

US & World Economy - While the US economy continues to slowly grow, all eyes are on the election and the 2013 "fiscal cliff". Job growth has stalled and productivity per employee has little room to grow. We seem to be treading water with Europe's recession pulling us down and a slightly faster growing Asia pulling us up. Corporate cash holdings are at high levels as businesses continue to be cautious. The wait is almost over.

US Stock Market - The S&P 500 advanced strongly in the third quarter gaining 6.35% and bringing the year-to-date advance up to 16.45%, closing at 1440. We are now about 4% from our projected 1500 level target by year-end. However, 2013 will be greatly affected by the election results and addressing of our fiscal cliff (see below). Most of the recent gains came from anticipation then reaction to the Fed's QE3 promise of unlimited spending over an unlimited time frame. This may work in the near-term, but structural changes to our fiscal policies are needed to help in the intermediate and long-term economic health as our GDP continues to grow by less and less each quarter.

November Elections - We believe that the economic and investment environment will be dramatically different depending on whether Mr. Obama or Mr. Romney wins the Presidential race (and likely takes the Senate majority with the win). With the election too close to call, we have outlined below our investment analysis, positions and themes for both potential outcomes.

Obama Victory - In general, we would expect continued large Government spending and even larger National debt; this would include more stimulus spending and higher taxes for all, heading towards 25% of National GDP. We would expect little in tax reform other than a nasty battle over debt limits and the Bush tax extensions, being the only card that House Republicans will hold. The result would be a weaker Dollar, and once the Fed starts unwinding their artificially low "zero interest policy," higher inflation.

Further, our Government debt could be downgraded again as countries lessen their trust in our fiscal responsibilities. Continued lack of "American Exceptionalism" will further weaken our foreign policies, leading to global insecurity and other countries' expansionary boldness (China and Russia mainly). Chances of a US recession in 2013 are increased unless the "fiscal cliff" and weak job growth are quickly addressed. A comparable economic time period would be the late 1970's stagflation combined with a "redistribution of wealth" overlay.

Investment Themes - Classical inflation hedges like gold and energy (except coal) should appreciate with a weakened Dollar and larger debts/deficits. Long-term interest rates would rise (even if short-term are kept low by the Fed), hurting traditional bond funds and helping floating rate bond funds. However, with increasing tax rates and an unlikely tax reform, municipal bonds could gain in value. US stocks would likely struggle and continue trading at lower-than-average P/E ratios. Foreign stock markets (China, Russia, and the Asian markets) should have better relative returns than the US. A retreat from the Middle East would likely lead to more instability/wars and occasional disruptions in oil supplies, leading to energy and basic materials volatility.

Romney Victory - In general, we would expect a more business friendly environment (less regulation) with a focus on long-term fiscal responsibility and significant tax reform (like 1986). We would see a firmer foreign policy, greater domestic energy exploration, stronger Dollar and freer trade agreements with other countries. Tax & spending would be held under 20% of GDP as our unsustainable social programs are discussed and addressed for long-term sustainability.

Tax reform heading toward lower tax brackets would look to eliminate traditional tax "loopholes" that we have taken for granted. Everything will be on the table including: charitable and mortgage deductions, IRA/401k tax deferral, tax-free municipal bonds, farm and solar subsidies, etc. A Romney victory that included a majority in the Senate would "defund" Obama Care's "tax" and lead to a scaled-down version in a deal with Senate Democrats. Our local Congressman John Campbell would likely be named as Chairman of The Budget Committee, filling Paul Ryan's vacancy. Significant changes in tax "loopholes" would need to be phased in over multiple years, giving markets a chance to adjust. We would expect an extension of the Bush tax cuts for one year for all taxpayers during the Lame Duck session, to be more fully addressed with a major tax reform bill in 2013.

Investment Themes - The hope of stronger fiscal policies would strengthen the Dollar and lessen long-term inflation fears. Short-term interest rates may rise sooner, but end up at a lower level than under an Obama second term, resulting in less damage to the bond market. US stocks should perform better with higher expectations for National GDP growth and lower unemployment. Muni bonds' tax status uncertainty could put pressure on current prices until resolved, and there would be other tax reform winners and losers. However, a 5-10 year phase out of mortgage deductibility – given today's low rates – might actually help the residential real estate market with a near term incentive to buy now. Precious metals would likely lose value and chances of 2013 potential recession would be lessened.

Additional Investment Themes - Regardless of the November election results, it appears that residential housing has bottomed and its advance will finally play its traditional role in helping the economy recover. As values increase, more homeowners can refinance or sell, helping personal balance sheets and freedom to relocate for jobs. As prices rise, more new construction will be justified, helping employment further. China looks to be finally launching from a healthier level of monetary policies and could pull the Asian region up with them. They will grow slower than historically, but they will be more stable with less dependency on exports as their domestic demand increases.

Summary - We see significantly different investment themes for the next few years depending on the Presidential election. Either way we are prepared to act accordingly (and quickly) to align our portfolios for the future. We are also available to discuss what changes you might consider on your other financial matters. We wish you a wonderful Fall and encourage you to get out and vote.

Optivest News - We are launching the Optivest Foundation's website this month. Kindly click on the site link www.optivestfoundation.org to see the worthwhile projects your management fees allow us to fund.

Mark Van Mourick
CEO
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