OPTIVEST

Turning Success into Peace of Mind.

Quarterly Newsletter

Contact Us

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

or visit our website:
www.optivestinc.com

Second Quarter 2012

US & World Economy - What a difference a few months can make! Last year's fears of double-dip recessions and Greek tragedies have given way to large job growths (636,000 job gains in the first quarter), improved investor confidence, and the best first quarter for the S&P 500 in 14 years (up 12.6%). The question is will this growth continue or peter out like it did after the spring gains in 2011 and 2010? With a large Band-Aid on Europe, a 7.5% soft landing in China and continued modest growth in the US (2 - 2.5% GDP), we expect the economy and financial markets to churn mostly sideways through the Fall, and not experience the 16-18% mid-year drops of the previous two years.

Not that we are without problems to worry about, for example: first quarter earning estimates continue to be revised downward; Spanish debt; weak BRIC growth; absence of QE3; lower than expected job growth in March; Iran, North Korea, etc. But this year we have oil at a 7 week low, no Japanese earthquake, a shale gas boom in the US, significant jobless claims decline and no recession fears. In fact, for the first time since the Great Recession, private business owners that I meet with regularly have reported significantly higher sales this year.

Stock Markets - Our 2012 year end S&P 500 forecast of 1500 (up 19%) doesn't seem as far fetched as it did in early January. However, after a 30% advance from October 2011 lows, we expect some dips and consolidation before further meaningful gains. Stock indexes and managers' performance were influenced significantly by their degree of long exposure to Apple, Inc., whose stock price increased from $405 to $600 (a 48% gain) in Q1 2012. Despite forecasts of $1,000, someday Apple will stumble and we are keeping a 10% (from recent high) stop loss in place while hoping the run continues.

After a strong early quarter rally in the financial sector, we captured gains and swapped our common stock ownership formerly under Pacifica Capital's management for a broad portfolio of up to 13 no will increase our returns in equity markets, yet decrease our volatility and unique stock risks. Long-term, we are still comfortable with our forecast of a 15,000 Dow Jones in 2013 (see www.optivestinc.com, Resources / A Rational Argument for a 15,000 Dow Jones in 2013).

Fixed Income - Correctly forecasting and timing the eventual end of our current "zero interest rate environment" and the start of the next phase of steady inflation and interest rate increases will be the "call of the decade." However, with the 10-year Treasury crossing back and forth over the 2% level 26 times over the last 6 months, we're not attempting to make this call. Instead, we continue to employ our "inflation balanced income" portfolios to balance portfolios with both traditional bonds and inflation-sensitive income vehicles to capture reasonable income without taking a big interest rate directional bias. Long-term, higher inflation seems inevitable, yet a future stronger dollar and energy/farming efficiencies should prevent us from 1970s/80s level of high inflation.

US Energy Independence Within 10-15 years? – I recently had the privilege of sitting with several of the nation's energy experts and was amazed to hear the progress that is being made in the US to become energy self-sufficient in the next 10-15 years (and a net exporter after that). Huge new oil/gas/shale fields are being expanded in North America, Brazil and the Arctic. Solar power, thanks in part to Nano Technology, is becoming more efficient at a compounded rate of 30% per year. Nuclear is not dead. There is plenty of coal to strip mine. Natural gas is at multi-year lows and in abundant supply. However, according to Shell Oil's CEO, World oil demand will double by 2050 and 90% of that new demand will come from non OPEC countries, with a full half coming from China. And these numbers assume gains in efficiency; without them, demand would triple by 2050.

So what does the future look like? From my reading and discussions, this new energy demand will be met from multiple sources, most of which only make economic sense with oil prices over $100 per barrel. The US imports about 12 million barrels of oil per day (MBPD) of the 18.9 MBPD that we use. Three quarters of our oil usage goes to transportation. Clearly, more efficient engines will help, as will incremental production increases in natural gas, biofuels and electricity (which are mostly produced from coal). Alternative energy and energy efficiency only attracts research and business investment when it's a profitable alternative to traditional oil-based energy use. The good news is that $4/gallon gasoline will help the US become more energy efficient, greener and self reliant. The bad news is that higher gas prices are probably here to stay. Fortunately, if Americans want to cut their gasoline cost in half, they can simply buy a car with twice the gas mileage – something beneficial we can learn from Europe.

Solar, wind and water movement energy solutions are making great strides in efficiencies and are coming closer to becoming a viable economic alternative. The main benefit is that once a plant is set up (at considerable cost), there is no further "fuel" cost to produce electricity - the plant is thus not susceptible to higher costs of coal, natural gas, etc., making energy production costs easier to forecast.

SageView Advisory Group - Optivest has engaged SageView Advisory Group, a $14 billion pension fund advisor, to provide us their proprietary research and access to their team of research analysts. This brings a highly regarded institutional risk analysis and research processes to our high-net worth family office accounts - a unique combination for Orange County. This process deploys capital over six different risk portfolios for growth and income, across 26 separate asset classes. These custom portfolio allocations have been stress tested and mean variance aligned to offer lower volatility and less correlated returns than traditional stock/bond/cash models. SageView's research team includes: six CFAs, five CPAs, two CIMAs and seventeen AIFs[1]. This team will assist us in providing our clients improved services including:

- Formalized investment process
- Integrated portfolio modeling relating to client risk-return requirements
- Portfolio risk management (risk-return assessments, risk factor analyses)

targeting and structured products)

- SageView Select Fund list (SageView approved managers for specific asset strategies)
- Access to some restricted funds and Institutional share class pricing
- Interaction with industry thought leaders, such as PIMCO, regarding current developments in portfolio management techniques
- Wealth management planning, including financial goals, tax planning and estate management

We are excited to bring this very deep and well disciplined team of research analysts to our Optivest clients.

Orange County Exit Planning Roundtable (OCEPR) – I founded the OCEPR last year to bring together the best team of professional specialists to surround an entrepreneur selling a private business. The focus is on helping business owners formulate and optimize their exit plan goals including: succession, maximum sale value, minimum taxation, risk management and retirement investing. We adopt a holistic approach, surrounding individual business owners with the right combination of advisors in order to create an exit that means optimum "success" for them.

The eight Roundtable members include: Mark Van Mourick of Optivest, Inc. – CEO and Registered Investment Advisor, founder of the OCEPR; Matt Brown of Brown & Streza, LLP. - Partner and Estate Planning attorney; Geoff Coar of US Bank - Senior Vice President, Commercial Banking; Paul Donnelly of B. Riley & Co. - Managing Director, Investment Banking; Darrell Passwater of Biola University, Professor and Business Management Coach; Dick Streza of Brown & Streza, LLP - Managing Partner and Business Planning Attorney; Bob Wright of Wright Ford Young & Co. - CPA and Managing Director, Mergers & Acquisitions and Tax Planning; Eric Gerwig of Signature Insurance Group - Vice President Financial Services, Life Insurance Estate and Legacy Planning.

These specialists all have 15-40 years of experience and have been involved with many of Orange County's middle market $20-$500 million business sales. We offer to work together on cases or individually, brought in to supplement an existing advisory team. Optivest's role is to help business owners understand what an ideal future retirement portfolio would look like and address post-closing issues. This is a continuation of the work we have done with our primary source of new clients (sellers of private businesses) and my now 10 year-old book, *Cash Out, Cash In.*

Summary - We remain confident in our belief that the US economy will continue to grow at 2 - 2.5% this year, and unemployment will fall to 7.5% (currently 8.2%). As seemingly unexciting as this is, it should provide the calm that the world markets need to stabilize and set the platform for future growth. We are excited to bring the large SageView Advisory Group research team and the Orange County Exit Planning Roundtable to help our Optivest family office clients optimize their investment future.

Mark Van Mourick
CEO, 4-18-2012

[1]Chartered Financial Analyst (CFA), Certified Public Accountant (CPA), Certified Investment Management Analyst (CIMA), Accredited Investment Fiduciary (AIF).