

## Evergreen Virtual Advisor

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*“Pessimism is so often wrong because people assume a world where there is no change or innovation. They simply extrapolate from what is going on today, failing to recognize the new developments and insights that might alter current trends.”*

-Bill Gates

### POINTS TO PONDER

1. Year-end supply pressures and credit fears continue to hit the tax-free bond market, driving yields on some gilt-edged issues with intermediate maturities up to 5%. Predictably, retail investors, who own roughly 70% of all municipal debt, are fleeing at a rate not seen since the outstanding buying opportunity seen in 2008.

#### Skittish Investors

*Recently, investors in mutual funds that hold municipal bonds have been pulling money out at a rapid clip, even faster than when the markets melted down in 2008.*

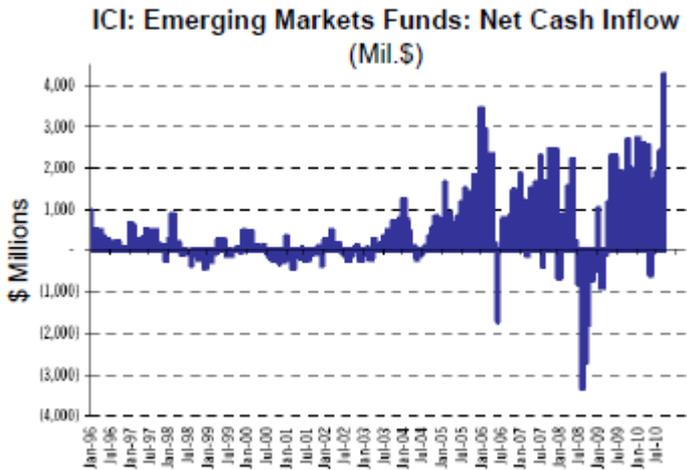
**Net Cash Outflows from Mutual Funds that invest in Municipal Bonds**



2. Canada’s residential real estate market has fully recovered partially due to an influx of wealthy Asian buyers. Its “Business Immigration Program,” requiring an upfront investment of \$400,000, is cited as one reason the average home price in Vancouver, BC, is nearly \$1 million.

3. As noted in prior EVAs, California voters failed to boot big spending politicians out of office, resisting the national anti-incumbent trend. One encouraging outcome, however, was the passage of a bill authorizing a non-political commission to redraw political districts, hopefully ending California’s

notorious gerrymandering.



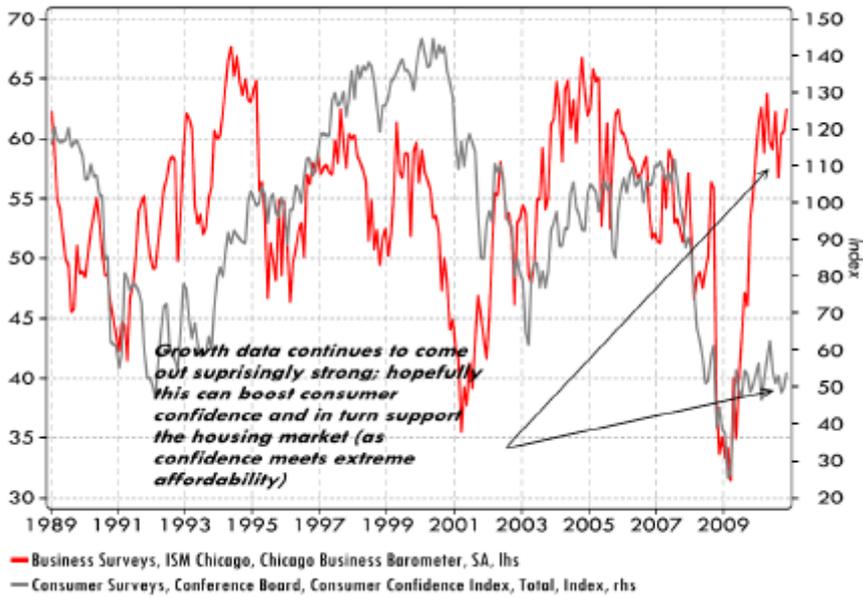
4. In vivid contrast to the pronounced outflows now impacting municipal bond funds, investors continue to pump money into emerging stock markets. It is interesting to note that past episodes of extreme in-flows were followed by sharp corrections, causing investors to redeem at depressed prices.

5. By 2025, Europe is projected to have 35 cities with populations in excess of 1 million. However, China is expected to have 221 cities of that size or greater.

6. Based on a recent study of air pollution in Northern California, it's estimated that 29% of the fine airborne particles in the Bay Area come from Chinese coal fired power plants.

7. Historically, the Chicago Purchasing Manager Index (PMI) has been a reliable leading indicator of consumer confidence. Yet, for nearly a year, the gap between these two measures has remained cavernously wide.

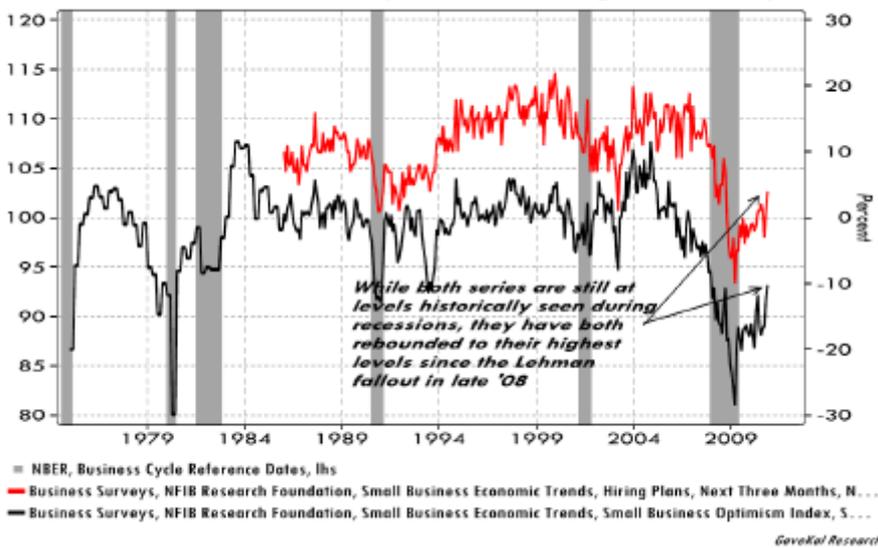
**US Chicago PMI and Consumer Confidence**



Gavekal Research

11. Further illustrating the importance of small enterprises to employment, since 1977 net job creation would have been negative in most years without their hiring efforts. Additionally, young firms (those less than 5 years old) generated nearly two thirds of all jobs.
  
12. One of the many reasons the US is unlikely to retrace the staggering economic footsteps of Japan over the last twenty years is that our real estate bubble was much smaller. At the peak of the Japanese property mania, the 7.4 square kilometers underneath the Imperial Palace was valued in excess of the entire state of California.
  
13. A somewhat offbeat, but fascinating, factoid is the discovery of a correlation between improved life expectancies from 1990 to 2007 in countries with higher concentrations of US troops.

**US NFIB Small Business Optimism & Hiring Plans Component**



**Increase in Life Expectancy, in years, 1990-2007**

Annual U.S. Troop Presence	High income countries	Middle income countries	Low income countries
Heavy (250+)	4.1	4.4	4.5
Light (5-250)	3.9	2.5	3.0
Nil (0-5)	2.7	0.5	2.6

*David M. Hay*

David Hay | Chief Investment Officer | Evergreen Capital Management, LLC

**OUR CURRENT LIKES & DISLIKES**

<u>We Like</u>	<u>We're Neutral On</u>	<u>We Don't Like</u>
Intermediate municipal bonds <i>with strong credit ratings</i>	Publicly-traded pipeline partnerships yielding 6-7%	Long-term investment grade corporate bonds
Long-term municipal bonds <i>with strong credit ratings</i>	Short-to-intermediate term investment grade corporate bonds	Real Estate Investment Trusts (REITs)
BB-rated corporate bonds <i>(i.e., high quality, high yield)</i>	High quality preferred stocks yielding 7%	Most cyclical resource based stocks
Blue chip oil stocks	International developed markets	Emerging stock markets
Large Cap Growth	3-year to 5-year FDIC CDs	Small Cap Value
Large Cap Value	Intermediate Treasury notes	
Mid Cap Growth	Longer-term Treasury notes	
	Emerging bond markets	
	High yield (junk) bonds	
	Gold-mining stocks	
	Small Cap Growth	
	Mid Cap Value	
	Cash	
	Gold	

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