OPTIVEST

Turning Success into Peace of Mind.

Quarterly Newsletter

First Quarter 2011

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US Economy- The economic expansion we had forecasted is finally in full swing. Market pundits and economists are continuing to raise GDP and profit expectations for 2011, while the stock market has followed with uninterrupted gains since the major structural shift in the financial markets in early November (see December 3, 2010 update). In fact, investor sentiment may soon get too far ahead of the economy, leaving the stock markets vulnerable to a pull back.

With many mid-2000's manufacturing jobs going overseas and construction jobs awaiting another housing boom that is not likely to happen any time soon, unemployment is going to take until 2017-18 to return to "full employment" of 5%. While this puts a headwind into consumer spending, it will limit wage based inflation and its upward effect on interest rates. Corporate profits are currently consumer driven worldwide and are being fueled by increasing the output of its existing labor forces.

Overall, 2011 GDP growth is now expected to be 3-3.5%, up from the 2-2.5% forecasts before the election and the extension of the "Bush Era Tax Cuts." Main street is also waking up as evidenced by many small businesses having good year-ends and predicting higher sales forecasts for 2011. We believe that California, while still far from healthy, is finally out of its own recession. However, exiting a recession and returning to pre-recession highs are two different events.

The world economic expansion is still being led by China, Germany, Brazil, India, Russia and the Pacific Rim. This long-term shift of economic growth from developed countries (except Germany) to resource based developing countries will effect US economics, policies, currency and investing decisions more and more. Most of the investment world outside of America has been investing in multiple countries for

Stocks- The S&P 500 finished 2010 at 1257, above our early forecast of 1250. For 2011, we expect a 1325-1350 summer target, with an interruption in the current rally of at least 5-7% along the way. Our year-end S&P 500 target is 1425 or 13,300 for the Dow Jones. This is also the target from many large banks like Goldman Sachs. <u>Longer term, we see a 15,000 Dow Jones by 2013</u> and have written a special report on this forecast available on our website, www.optivestinc.com, under the Resources tab for Stock Market Commentary. At the same time, we believe some foreign markets are also attractive and are investing into the Pacific Basin (minus Japan), Brazil, Australia and China through numerous investment vehicles.

The bottom line is that stocks are headed higher over the next few years. Prices will rise too quickly and produce the inevitable 5-10% pullbacks along the way. These pullbacks should be short lived and best to be ridden through. Any significant dips of over 10%, despite the “headlines” at the times, should be considered opportunities to add equity exposure.

What would change this bullish stance? While factors like oil above $100, the 10-year Treasury Bond at 4% and a continued housing/foreclosure slump would all produce a slowing of our consumer spending and a quarter or two of slower growth, these are to be expected. But a 20%+ further drop in the US Dollar, producing wide spread cost increases without simultaneous wage increases, would be problematic, as would a QE3 or further government stimulus spending. The passage of new state bankruptcy laws could spook the markets, yet provide a realistic quick fix longer term. The magnitude of near-term problems has significantly decreased and we are heading back to normal non-recession market fears, which should lead to non-recession stock market valuations.

Real Estate- Just when we hoped the worst was over, a new round of credible forecasts suggests that bank home ownership has yet to peak and 12-18 months of inventory is set to hit the resale market. This will produce either one last downward push or two plus years of flat prices – depending on how aggressively banks act. Apartments, however, are filling up. New construction has not kept up with demolitions, let alone the population growth of 18-30 year olds or retiring baby boomers, so rents will inevitably move up this year. Deeply discount purchases of all types of commercial properties are harder and harder to come by. We have been outbid frequently as investor appetite for properties and more reasonable bank lending are closing the large gap between “willing buyers and sellers”, increasing transaction volume. The lack of new construction over the last few years, plus an expanding economy, will produce continued upward price valuations. A weak Dollar/higher commodity prices scenario will extend this increase in valuations as constructions costs rise and buildings become more expensive to replace.

Interest Rates and Bonds- We warned all through 2010 that the bond market was peaking and investors should sell all but low quality (junk) bonds which act more like stocks. The rise we warned about in our last newsletter on the 10-year Treasury, from 2.5% up to 3.5%, was swift and only took about 2 months. From here, we expect 10-year Treasury rates to settle into a trading range of 3.25-3.75% for most of 2011. The damage is done. Most bond funds gave back all of their 2010 gains at the end of last year. We suggest staying with floating rate funds, high-yield and emerging market bonds.

Municipal bonds are back in the news again and like their high-credit corporate cousins, took a shellacking over the past few months. We believe the credit portion of this drop is overdone and 5-7 year municipal bonds from solid issuers yielding over 5% tax-free are worth buying on dips. While not the expected return of stocks, they will trade higher as 2012 approaches and tax fears resurface.

Commodities- We believe that as the Dollar remains weak or weakens further and the world economy continues to grow, basic needs commodities will appreciate in US Dollar terms. However, <u>we are going out on a limb here and suggesting that gold has peaked</u>, hitting a triple top in November and December of 2010. Many gold buyers have been fear mongers and/or naysayers of the economic recovery and stock market. Inflation will probably build slowly, but barring a further steep drop in the Dollar, it will

Summary- 2011 looks to be a very solid recovery year – just ask everyone – which may be the bit to worry about as enthusiasm gets ahead of valuations. Buying the dips, like 2010, should be rewarded. Enjoy the lack of drama as the "new" normal starts returning to the start of the next "old" normal. Lessons learned will keep the froth down, risk premiums appropriate and move more money out of cash over time. Let us hope the politicians and unions can focus on the important long-term deficit problems now that the short-term problems are mending.

Mark Van Mourick
CEO

2011 Educational Series

Save-the-Date

Optivest is pleased to announce we are teaming up with a limited number of key industry leaders to bring you another year of educational, small informal meetings. We have chosen subjects we believe will be of most interest to our clients and friends. Listed below are our first four.

January 19, 2011 – Boyer Allen, Pacific Opportunities Fund
Come learn about this very profitable (30% IRR since inception) emerging market fund and the Asian markets.

February 16, 2011 - Reception for Susan Chubbuck, CPA
Meet our new V.P. of Tax and learn how she can help you optimize your tax situation and reduce your filing costs.

March 16, 2011 - Hubb/Chubb Insurance
Learn how to reduce your liability and hazard risks and save on your premiums. Topics will also include coverage for multi-state properties, Third World travel and KNR (Kidnap and Ransom Insurance).

April 20, 2011 - Private Health Management
Learn about a premium personal healthcare service utilizing the best medical professionals and facilities in the world, coordinated by a physician led personal care team. Both wellness programs and immediate need.

These informational gatherings will be held between 4 and 6 PM in our conference room. You are welcome to come to any or all of these meetings and we encourage you to bring others that might also benefit from hearing these topics. Space is limited to the first 15 people to sign up. Kindly RSVP to Traci Crays at 949-363-8686 or email traci@optivestinc.com.

Your feedback is appreciated on these meetings as we strive to bring you value added education in the areas that are most meaningful to you. If you have other topics or speakers you would like to hear, please let us know.

OPTIVEST
FOUNDATION

2010 Summary

Distributions totaling over $195,000 were made from the Optivest's Christian based foundation in the following five areas:

Build (building relationships and projects to demonstrate God's love)

Funds provided...

- Continued staffing and support to the medical clinic we built in 2007 in Sumba, Indonesia. *(Sumba Foundation)*
- Support to the Camino Health Center in San Juan Capistrano (free clinic). *(Saddleback Memorial Foundation)*
- Funding of pilot program to assess and assist spiritual development of wheelchair recipients in India, along with 550 wheelchairs. *(Free Wheelchair Mission)*

Develop (developing people, church leaders, ministries, and the Church)

Funds provided...

- Supporting leadership development initiative for Mothers of Preschool. *(MOPS, Inc.)*
- Providing operating resources to a local Christian conference center. *(Forest Home)*

Tell (telling the story and hope of Christ)

Funds provided...

- Production of literature for public school parents explaining permissible teaching standards for sharing Christ and Christian principles. *(Gateways to Better Education)*
- Production and distribution of the Gospel of John in a pocket sized booklet. *(Pocket Testament League)*
- Production of audio units that share the Bible with oral learners in China, Thailand and Burma. *(Audio Bible Discipleship Project)*

Scholarships

Funds provided...

- Attendance for several local military families to a Christian camp conference. *(Forest Home)*
- Support to several local college students traveling on mission trips around the world. *(Azusa Pacific, Biola, Point Loma)*
- Tuition for several local businessmen to participate in monthly gatherings of encouragement, accountability and spiritual counsel. *(Convene)*

Benevolence

Funds provided...

- Attendance to local families hit by economic loss and personal challenges.