



OPTIVEST

Turning Success into Peace of Mind.



Dear Clients and Friends of Optivest,

I want to send you this brief email about what we believe is a major structural shift in the financial markets. Phase I of the economic recovery started in March of 2009 when the stock and corporate bond markets bottomed after steep losses from 2008. At that time, investors held the highest amount in cash ever. Over the next 13 months, virtually all stock, bond & commodity assets rose while treasury bonds and the U.S. dollar fell from panic levels. April 2010 started a consolidation phase, trading within a 10% price band with bonds, stocks and commodities all moving in lock-step and trading together - usually driven in the opposite direction to changes in the U.S. dollar. Bond vs. stock correlation peaked in June 2010 at an all time high of .89 (1.00 would be identical price moves). In October 2010, U.S. investors held the largest percentage in bond positions in history.

Phase III started three weeks ago (early November) and is likely to last at least the next 1-2 years. The main shift is interest rate and inflation expectations. The second round of the Federal Reserve's quantitative easing (QE2) was met with unusually high resistance from the financial community, including Bill Gross of Pimco who said QE2 would cause the top of the bond market bubble. Since QE2, interest rates have climbed swiftly from 2.5% to 3%, a 20% move, dropping prices of all medium and long-term corporate and municipal bonds sharply. In some cases, we've seen those bonds lose 12 months of gains in two weeks. Current 3% 10-year interest rates are still very low and we believe the rate is headed for the 3.25 - 3.75% range over the next few quarters (forecasted in our last newsletter). Bonds and stocks are now moving in an opposite direction with a current correlation of - .42.

The reasons for this increase in interest rates and the implications for future investing are significant.

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Major reasons:

1. The economy is recovering faster than earlier expected;
2. Government tax and governance policies are becoming more business friendly and visible;
3. We are not headed for a Japan style deflation, rather a continued weak dollar and increasing inflation.

Investing Implications:

1. The value of long-term bonds will decrease in the years ahead – just when the general public is fully invested. If you have not sold your long term bonds (5 years +), it is not too late.
2. U.S. and global stocks are heading higher. They have been undervalued (see our 3rd Quarter Newsletter) and large multi-national companies have very healthy balance sheets. We foresee the Dow Jones going to 15,000 by 2013 and 25,000 by 2020. We will back up these forecasts in a future white paper report.
3. We believe the U.S. dollar will stabilize near its current low value, but commodities will continue to appreciate as world demand grows back to pre-recession levels.
4. Higher interest rates and continued foreclosure inventory will stall residential real estate's recovery for another 12+ months.
5. High grade commercial real estate, with large "credit" tenants, will be seen as competitive cash flow alternative to bond investing, with more likely chances for appreciation vs. likely depreciation in bond prices.

Optivest is altering our client's portfolios accordingly and our accounts are in position to take advantage of this Phase III of the economic recovery. If you have any questions regarding this major shift, please call or email us to discuss how they impact your personal account.

Respectfully,

Mark Van Mourick



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