

ALPINE PERSPECTIVES

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Changes For Muni Bond Investors.

If your time to you is worth savin' then you better start swimmin' or you'll sink like a stone for the times they are a-changin'. —*Bob Dylan*

The changes are coming about fast and furious to all sectors of the financial markets. It used to be relatively easy to invest in municipal bonds, all one had to do was find a coupon, maturity and yield and hit the buy button. Most issues were insured by one of the monoline insurance companies and carried a triple "A" rating, which at the time meant that credit risk was almost a non-factor. But with the monoline insurance company's own ratings downgraded, nearly all of the ratings of the municipal issues they insured were also down-

graded. With many issuers now foregoing credit insurance, it is necessary to perform some amount of credit analysis before buying.

Another dramatic change in muni-land is the Build America bond program that was legislated last fall as part of the current administration's economic stimulus program. The federal government is agreeing to pay 35% of the interest cost of the issuing entity with the issuer paying the remaining 65%. The catch is that the interest to the bond holders is subject to federal taxation, but may be exempt from state and local taxation. This development will essentially add to the narrow asset class of taxable municipal securities and will be-

come more of an alternative to other taxable assets, such as corporate bonds. I have always found taxable munis to be a legitimate alternative to other taxable bonds because of the historically low default rates.

The decision to invest in these new securities will be a function of the clients; marginal tax rate, portfolio strategy, and risk/return profile versus competing securities.



Does This Stock Market Rally Have Legs?

How much staying power does the latest equity market rally have? "Green Shoots", and "Glimmers of Hope" have been the latest phrases to be used by pundits and politicians to describe the approximate 26%+ gain in the S&P 500 since the lows of March 9. Since equities are simply a claim on the future cash flow stream of a company's profits, earnings releases and future guidance by executives will go a long way in determining the direction of the stock market. Part of the problem with reported earnings is the ability of a company to manipulate their numbers through accounting gimmicks and one time events.

Such is the case with the latest earnings reports by large U.S. banks. The numbers being released are purely operating earnings, without inclusion of balance sheet losses on toxic assets. With interest rates held artificially low by the Federal Reserve most banks could not help but realize fat operating profits.

Caution is advised when viewing the main stream media reports on the housing metrics. The month to month numbers are not as important as comparing year-over-year periods. Much of the data being recently reported should show an increase, as housing always realizes a seasonal increase, in the spring.

There is data supporting the thinking that many foreclosures are not being processed on a timely basis resulting in a "shadow inventory" of homes yet to come on the market.

The spread between lower risk corporate bonds and riskless treasuries have not compressed to the degree that would support the comfort of investors willing to accept increased future risk. These spreads have in the past been a signal for peaks and troughs in economic cycles.

Many banks are still reluctant to lend to *(cont. on next page)*

Does This Stock Market Rally Have Legs? (cont.)

A bank is a place that will lend you money if you can prove that you don't need it. ~Bob Hope

(cont. from prev. page) each other at rates more than four times what they are lending excess reserves to the Federal Reserve. This condition tells us that there is more difficulty yet to emerge from bank toxic asset holdings.

The fulcrum for the economic recovery will be jobs. The trend is for U.S. unemployment to peak somewhere above 10% from the current 8.5% sometime in the next 6 to 12 months. This number will dominate the other economic statistics as unemployment will have the greatest effect on the housing crisis and will be the focus of stimulus provided by the Federal Reserve and the Obama

administration. So far we are seeing a "V" shaped economic recovery forecasted by the stock market, however the actual shape could turn out to be more of a "W".



Are You Prepared?

**Common
Sense Corner:
General
Topics For
Your Every
Day Living**

In an emergency (power outage, earthquake, flood, terrorist attack, swine flu pandemic, etc.) would you be prepared? If you are like me, you have at least given this question several minutes of consideration, or you have taken this concept to heart and have your backyard bunker full of several months of necessary consumables. A good question to ask yourself "is the world a safer place than it was a week, a month, a year, or a decade ago?" Your candid self assessment of this question will provide you with the degree of motivation to make this topic a priority in your household. Instead of regurgitating from the various official sources, I will instead provide their respective websites for your convenience:

FEMA www.fema.gov

Colorado Emergency Management
www.colorado.gov/dem//index.htm

California Office of Emergency Management
www.oes.ca.gov

While most people have a general grasp of what to do in an emergency, I thought I would pass along an outline for a "Family Emergency Plan"

- Have each family member assigned key tasks.
- Designate one or two places where your family will meet after a disaster.
- Establish a long distance point person as a central communications command.
- Share the location of emergency supplies, currency, and fire arms.
- Know your local community's emergency response plan.
- Have a check list that you can use to monitor emergency supplies and tasks.
- Have an emergency kit that is portable in the event of evacuation.
- Identify a central location where important financial documents can be quickly accessed.
- Identify the safest location in your home.