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ALLIANCE INVESTMENT SOLUTIONS

HELPING YOU BECOME AN INFORMED INVESTOR

Economy Report

Reported by:
Mike Lathigee
CHAIRMAN & CEO
of Alliance Investment Solutions

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April 2010 Economy Report

Tuesday, April 13th, 2010

One of the most frequent questions I'm asked is where I get my information for my monthly Economic Outlook. People ask me what I focus on when I form my opinions about what we might expect in the future.

The answer to the first part of that question is quite simple. Each day I study the main economic indicators that gauge the health of the economy. However, the second part of that question is harder to answer.

I don't predict what is going to happen economically. No one can predict the future with certainty. Rather, I draw educated conclusions based on careful observation and interpretation of indicators. Those conclusions form the basis of my guidance to investors about the direction they may want to take regarding their portfolio at that time.

As you can see, this is both an objective and a subjective process. Since the subjective process is my own, I can't really explain how I do that. A big part of it has to be my years of practice and accumulated knowledge. But there are basic things I study regularly that direct my thinking. So… in response to all the questions I've gotten for the past 10 years from members and attendees at public and private conferences and events…

… In response to all the people who have asked me: "Michael, what do you read each month? Where do you find your research information?"

… In response to those honest questions, I am dedicating this month's report to explaining what I watch, when I watch it and how I use the information.

How Economic Indicators Tell a Story You Can Use

I want to give you a firsthand look at what I study each month when preparing my report for you. So, here it is all rolled up in one discussion.

Before I get started I want to just tell you that some of these reports are difficult and technical and provide little entertainment value to most people. However, to someone like me they are fascinating. If you also find yourself fascinated, you can use this month's discussion to launch your own research. Or, you can simply continue to follow my monthly discussions and newsletters

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"It is imperative that you understand these indicators and how they relate to the economy, because it is impossible to understand what is happening in global economics unless you have a basic understanding..."

and get my Readers Digest version. Or perhaps I should call them Cliff Notes. Either way, you may perceive that this month's newsletter is a little dryer than normal. I just ask that you give this information your best attention. It is imperative that you understand these indicators and how they relate to the economy, because it is impossible to understand what is happening in global economics unless you have a basic understanding of how these indicators are generated and what they can tell us.

Since I've already done this research and come to my conclusions, let me just start out with some good news about the economy. The good news I want to share is that this month's report contains the most optimistic outlook for the economy that I have discussed in the last two years. Even so, you will see that at the end of this report I point out a few situations that still cause me concern. While the focus of this report is more technical than usual, it is important to catch the overall importance of what I discuss here.

It is important that you pay close attention to the clues we are seeing that the economy is finally moving in the right direction and showing signs of a broad-based recovery.

Where the Information Comes From and How I Use It

Whenever investors see a huge gain or a huge drop in the stock market indexes, that move is mostly a result of some announcement by an economic indicator that catches the market by surprise. It surprises to the upside or it surprises to the downside. I watch for these announcements every month, plus there are one or two indicators that come out each week. These announcements are scheduled in advance and occur at regular times. This makes it easy for me to keep track of all the important announcements and ensures that I always receive the information in a timely manner. I've included a list of those indicators and when they are scheduled near the end of this discussion. There are various types of economic indicators.

- Leading indicators are indicators that change in advance of the economy. Leading indicators can give investors advance guidance about changes that are going to happen in the economy. Monthly employment numbers are the best example of a leading indicator.
- Coincident indicators change about the same time as the overall economy.

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"The latest GDP numbers were released in March 2010 and show the economy is growing at its fastest pace in years"

- Lagging indicators change after the overall economy. Lagging indicators are of little use to investors, as they cannot be used to guide investors today.

Most of the Feds decisions, especially interest rate adjustments, are made based on the following economic indicators.

Starting out with the GROSS NATIONAL PRODUCT REPORT

The most important economic indicator is the GROSS DOMESTIC PRODUCT REPORT. This is the widest measure of the state of the economy. The GDP measures the total value of all goods and services produced by one economy during any particular quarter. The key number to watch for is the growth of GDP, which can be a negative or positive number. If growth is in the 2-3% range per year the Fed is generally satisfied and makes policy to keep it in this range.

GDP growth above this 2-3% range is thought to cause inflation and the Fed reacts by trying to slow down this "over stimulated" situation by sometimes raising interest rates. Growth below this range - and especially negative growth - means that the economy is running too slowly. Slower growth is reflected in high unemployment and lower spending. The latest GDP numbers were released in March 2010 and show the economy is growing at its fastest pace in years. Given the severe recession we are recovering from, this is not really a surprise.
The US 2009 fourth quarter GDP grew at a rate of 5.6%, which is the fastest pace since 2003.
The main reasons for this growth are government stimulus packages and more export activity.

However, the outlook is not all good. Small businesses with revenue of less than $10 million report their sales were down 6.4%. Thousands of businesses are measured to get this number. This negative 6.4% is an important indicator of just how damaging this recession has been to small businesses. As long as consumer confidence remains low and consumers are not spending small businesses will be forced to reduce overhead and that particularly means payroll.

The GDP numbers also showed a nominal increase in consumer spending of 1.6%, which was down from 2.8% in the 3rd quarter on a year-over-year basis. In most circumstances it is consumer spending that takes us out of a recession. However, with

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" The CPI is a measure of the average change in prices over time of basic goods and services purchased by households"

high unemployment it is unlikely consumer spending will get us out of this recession. Still, there are other consumer actions that are having an impact, and later I will update you on the strategic default situation that is assisting consumer spending.

But, back to the GDP. The point that concerns me about the huge GDP growth is the fact that it is mainly the result of government stimulus programs, most of which may not have a sustained economic impact. During the Great Depression government stimulus programs also assisted the economy. However, the jobs created by those programs were mostly short term and the economy reverted back to negative growth for several years.

Another indicator I watch is the CONSUMER PRICE INDEX

The CONSUMER PRICE INDEX – or CPI - is mainly used to measure inflation. It measures the cost changes in a bundle of consumer goods and services. It includes about 200 types of goods and thousands of actual products including household items, food and energy. The research is done by the Bureau of Labor Statistics, which subcontracts research companies to compile the prices of these specific products at many different stores.

The CPI is a measure of the average change in prices over time of basic goods and services purchased by households. The CPI measurements are based on prices of food, clothing, shelter, fuels, transportation fares, medical costs including dentist, drugs and other goods and services that people buy day to day. The prices are collected in 87 urban areas across the country and from approximately 4,000 housing units and more than 25,000 retail department stores, supermarkets, hospitals, gas stations and other establishments.

The March 2010 CPI will be released on April 14th, so the most recent measurement that I have is for February of this year. The CPI was unchanged for February and maintained its previous status. Over the last 12 months the index increased 2.1% before seasonal adjustment.

I also study the PRODUCER PRICE INDEX

The PRODUCER PRICE INDEX- or PPI - is the other main economic indicator that measures inflation along with the CPI. The PPI measures the price of goods at the wholesale level. So, while the Consumer Price Index tracks how much the consumer paid

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"The unemployment picture is a gauge of the health of the economy."

for goods, the PPI tracks how much the producers are receiving for the goods.
There are three types of goods measured by the PPI: Crude, intermediate and finished goods. Crude goods are raw materials used in the production of something else. Intermediate goods are components of a larger product, and finished goods are the final items that are actually sold to a reseller. The finished goods data is the most closely watched because it provides the best measurement of what consumers actually will to pay when they take their purchase home from the reseller.

The PPI declined 0.6% in February, which is the last period for which PPI data is available.

EMPLOYMENT INDICATORS are important

The indicators that I spend a great deal of time discussing each month are the employment indicators. These indicators include the unemployment rate, which is the percentage of the work force that is unemployed, and the number of new jobs created.
In addition, employment indicators include the average number of hours worked per week per employee and the average hourly earnings.
It is very important to realize that the work force is not the entire population and that the unemployment rate is currently much higher that reported officially. This is due to the fact that the official numbers do not reflect the number of people who have stopped looking for work or who are underemployed.
The unemployment picture is a gauge of the health of the economy. In addition to this monthly employment report, I watch the weekly reports on initial jobless claims and the number of people filing for unemployment benefits for the first time. This is not as important as the monthly report, but it allows investors on a weekly basis to stay close to what is happening in the job market.

So, here is what the most recent reports tell us:

- March 2010 showed that the unemployment rate held steady at 9.7% for the third month in a row. This is one indicator showing a positive sign that the economy is entering a recovery.
- According to the March report, 162,000 jobs were added in March. This is the largest monthly job increase in three years.
- Jobs were mainly added in health care, temporary services, mining and manufacturing sectors. It also includes employment by the federal government due to the hiring of census workers.

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"I take all this data and filter it through global trends and geopolitical events to come to conclusions."

- Jobs in the construction sector held steady, after facing months of losses. Only the financial and information sectors saw job losses in March. The bottom line is this is the first indication in a few years that the US economy is on its way to steady job growth.

I don't want to overwhelm you with all these research statistics. I just want to give you an appreciation of the kind of in-depth research I do each month to prepare my reports and give you informed and thoughtful guidance.

I also want you to appreciate that it is the constant flow and fluctuation of this information that tells the story. Taken alone, these numbers have little value. It is how they fit into the overall picture that tells the real story. That is why I encourage you to stay current on my monthly reports.

So I take all this fascinating data and do my best to put it into context. I take all these economic indicators I've talked about – and several I will talk about next – I take all this data and filter it through global trends and geopolitical events to come to conclusions. Hopefully, my conclusions create a coherent body of information that helps investors like you by giving you some direction about your investments. That's enough about my methods.

Next up is the RETAIL SALES INDEX

The RETAIL SALES INDEX – or RSI - measures goods sold within the retail industry from huge store chains to small local stores. The numbers are based on a sampling of a set of specific retail stores across the country. Keep in mind that the RSI report does not include money spent on services like phones and internet service. Thus it represents less than half of total consumption during the month. According to the RSI, between January and February 2010 total sales volume increased by 2.1%. This is the largest rise since May 2008 when it was 2.9%.

According to this report, food stores decreased sales by 1.2% and the largest sales increase was for household goods at 11.2%. This number was driven in large part by sales at electrical stores. This was the largest increase in household goods stores since the series began in 1988. Okay. I've been throwing a lot of information at you. I told you this would get dry.

Hopefully you haven't fallen asleep in your coffee. But can you understand why I find it fascinating? Can you see how it tells a story? Anyway, there's more. Stay with me here.

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"The biggest increase in payrolls in three years may be an indication of confidence by employers..."

From the GDP, CPI, PPI and RSI to the NAPM

While many of you have heard about the GDP, the CPI, the PPI, even the RSI before most people have never heard of NAPM. That stands for NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT INDEX. The NAPM measures conditions in the manufacturing sector. In addition to providing a picture of the state of manufacturing, the NAPM also provides an early indicator of inflationary pressures. This is important because inflation ultimately affects your buying power.

The NAPM is doubly important because it tells us that manufacturing, which comprises about 12% of the economy, continues to expand. The next NAPM report is due April 15th. It is predicted that this report will show that production at factories, mines and utilities climbed 0.7% in March. This will be the 9th straight gain in manufacturing activity.

Back to CONSUMER CONFIDENCE

CONSUMER CONFIDENCE measures how consumers feel about the stability of their incomes and their confidence level to make purchases. The Consumer Confidence Report uses about 5,000 households as a sample population. We are seeing consumer spending improving in the first quarter of 2010, because income growth is improving. The biggest increase in payrolls in three years may be an indication of confidence by employers that they believe sales will continue to grow. Also, we are seeing no signs of inflation, which means we will continue to see low interest rates for the foreseeable future.

That is, unless the US TREASURY AUCTIONS don't do well, in which case interest rates will have to be raised. I am in fact very concerned about the treasury auctions even though the recent 7-year and 10-year Treasury note auctions sold out. The question I have to ask is, "Why?" I don't believe foreigners are buying the notes. I think it is simply the Feds printing their own money to buy their own long-term debt in order to maintain market stability. It is this kind of activity which will ultimately cause the dollar to become worthless.

You could say this is fraud, but The Feds refer to it as "quantitative easing" and yes, it is legal. (Whether or not it is good is another topic.) The recent Consumer Confidence report stated that consumers continue to express concern about current business and labor

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market conditions. We have to wait for more consumer confidence reports to see a decisive improvement, but for now things seem to be moving in the right direction. Even so, the numbers are not that great. Here are the specifics:

- Those claiming conditions are “bad” in the economy decreased from 45.1% down to 42.6%, while those claiming business conditions are good increased from 6.8% to 8.6%.
- Those saying jobs are “hard to get” declined from 47.3% to 45.8%, while those saying jobs are plentiful increased to from 4.0% to 4.4%.
- Those anticipating that conditions will worsen over the next six months declined from 15.9% to 13.9%, while those anticipating conditions will improve increased from 16.1% to 18.3%.
- The proportion of consumers anticipating an increase in their incomes improved from 10.1% to 10.5%

Although these numbers show improvement they are still a long way from what we should define as a healthy and strong consumer.

Another obscure data source called the BEIGE BOOK

The BEIGE BOOK is part of the Federal Open Market Committee’s preparation for its meetings and is published eight times each year. The Beige Book is a summary of economic conditions in each of the Fed’s regions. The report is mostly seen as an indicator of how the Fed might act at its upcoming meeting. This report is published on the Federal Reserve Website. The Fed April 14th will issue its report on regional economic activity, known as the Beige Book, which policy makers use to help formulate monetary policy. Their next interest-rate announcement will be on April 28th.

“The Fed April 14th will issue its report on regional economic activity, known as the Beige Book”

Never ignore the DURABLE GOODS ORDERS REPORT

The DURABLE GOODS ORDERS REPORT measures how much people are spending on long term purchases. A long term purchase is described as a product that is expected to last more than three years. Automobiles, appliances and machines are considered durable goods. This report gives insight into the future of the manufacturing industry. The report is broken down by industry, which helps to eliminate the effects of single volatile industries. This report also gives insight into the general trends of

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"If productivity is growing, employment costs can increase without heightened inflation resulting."

specific industries, which helps investors make decisions about which industries to invest in. New orders for manufactured goods continued to rise in February due to a boost in machinery and commercial aircraft purchases, strengthening the stability of the manufacturing recovery.

Continuing a positive trend, orders for durable goods – all those automobiles, appliances and machines - rose again last month, indicating gradual improvements in product demand and strengthening prospects for both the manufacturing industry and the general United States economy. Specifically, orders for durable goods rose by $0.9 billion to $178.1 billion in February 2010. This was the third consecutive month of growth in new orders. American manufacturers are benefiting not only from increased domestic demand, but from rising orders from overseas. However, my biggest concern about this increase in demand for durable goods is that it will likely weaken as the government stimulus programs end.

Keep An Eye On THE EMPLOYMENT COST INDEX.

The EMPLOYMENT COST INDEX or ECI is another measure of inflation. The ECI measures the cost of labor including wages, benefits and bonuses. The reason the ECI is thought to be an indicator of inflation is that as wages increase, the added cost is often passed to consumers shortly thereafter in the form of higher prices. The current ECI is a few months old and the next one is slated to be released April 30th, 2010.

Finally, THE PRODUCTIVITY REPORT

THE PRODUCTIVITY REPORT tells us how much output is created by a unit of labor. Productivity growth allows the economy to grow at unusually high rates without causing inflation. If productivity is growing, employment costs can increase without heightened inflation resulting. Okay, let me summarize what I've learned from the indicators I've been talking about.

- So far, we are seeing manufacturing accelerated and some life come back into home construction, which combined make a recovery much more likely. What the indicators are showing us is a broadening of the recovery.
- Auto dealers were among retailers seeing the biggest jump in demand last month as industry data showed car sales rose to an $11.8 million annual pace, the highest rate since August when the government cash for clunkers plan was in effect.

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- Chain stores last month turned in their best year-over-year performance since 1999.
- Payrolls increased by 162,000 in March, which is the third gain in five months.
- The jobless rate hit a 26-year high of 10.1% in October 2009. March is the third straight month that it has remained at 9.7%.
- There is less pessimism as well in the markets and with consumers, according to REUTERS/UNIVERSITY PRELIMINARY INDEX OF CONSUMER SENTIMENT for April, which rose to the highest level since January 2008. I just tossed that one in, but it is another indicator I watch in addition to the Consumer Confidence Index.
- Stocks have recovered from a January slump as evidence mounts for a broad-based recovery.
- The Standard and Poor’s 500 Index has increased 11% since the end of January and is climbing to its highest level since September of 2008.
- Imports are on the rise as demand recovers. The trade deficit widened to $38.5 billion in February from $37.3 billion in January.
- The housing industry is still not showing improvement, nor any indication of a fast recovery as foreclosures continue to climb. President Obama extended a tax credit up to $8,000 for first time homebuyers and expanded it to some current owners. The extension covers closings through June as long as contracts are signed by the end of April. As a result, we are seeing related activity in home sales.

Now, I know some of you would have preferred that I deliver my normal non-technical interpretation of economic indicators instead of going into all the sources I use to reach my conclusions.
But in response to so many of your requests over the past 10 years I thought it would be valuable to you if I explained my methodology.
And for the more serious students of the economy, this report will serve as a great starting point for your own research.

A Collection of My Critical Economic Indicators

To conclude this portion of my report, I want to make things very easy for you. So here is a list of the reports I’ve discussed, along with when and where they are published throughout the year so you to follow up on your own:

- GROSS DOMESTIC PRODUCT (GDP): The figure is released at 8:30 a.m. EST on the last day of each quarter and reflects the

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"Some of you must be thinking "get a life, Mike" or "I would rather watch paint dry." "

previous quarter. For the latest report visit the Bureau of Economic Analysis website.

- CONSUMER PRICE INDEX (CPI): The report is released at 8:30 a.m. EST around the 15th of each month and reflects the previous month's data. To see the latest report visit the Bureau of Labor Statistics website.
- THE PRODUCER PRICE INDEX (PPI): Released at 8:30 a.m. EST during the second full week of the month and reflects the previous month's data. The report can be found at the Bureau of Labor Statistics.
- EMPLOYMENT INDICATORS: The major employment announcement occurs on the first Friday of each month at 8:30 a.m. EST. The report can be found at the Bureau of Labor Statistics.
- RETAIL SALES INDEX: Released at 8:30 a.m. EST around the 12th of the month and reflects the previous month's data. For the latest report visit the US Census Bureau.
- THE NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT INDEX (NAPM): Released on the first business day of the month at 10 a.m. EST and reflects the previous month of data. You can find the latest report by visiting NAPM.
- CONSUMER CONFIDENCE INDEX: Released on the last Tuesday of the month at 10 a.m. EST. The report can be found at the Conference Board Company website.
- BEIGE BOOK: Released two Wednesdays before each Federal Open market Committee meeting at 2:15 p.m. EST. To find the latest reports go to the Federal Reserve Website.
- DURABLE GOODS ORDERS: Released at 8:30 a.m. EST around the 26th of each month. Visit the US Census Bureau for the latest report.
- EMPLOYMENT COST INDEX: Released at 8:30 a.m. EST on the last Thursday of January, April, July and November. Visit the Bureau of Labor Statistics website.
- THE PRODUCTIVITY REPORT: Released at 8:30 a.m. EST around the 7th of the second month of each quarter. Visit the Bureau of Labor Statistics website.

Some of you must be thinking "get a life, Mike" or "I would rather watch paint dry."

I can understand. However, in response I would like to say that, "Yes. This is my life and encompasses a great deal of my time each month. So, in addition to investing I spend my time doing research. But I do it because it fascinates me."
I would, however, like to point out that you don't have to do all this work! For you it is much easier.

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"In the US, home appliances are still 15% to 35% per cent cheaper"

Just tune into my discussions each month and I will always summarize this information for you.

Some of you will explore further, of course, but most of you don't have time. So I encourage you to take advantage of what I do best, and live your life doing what you do best.

Good Broad-Based Recovery News, But With Continuing Areas of Concern

As I mentioned earlier, I want to comment on a few other situations I've been following since our last discussion that deserve mention.
In what may be the biggest financial rescue yet in Europe, the Euro Zone and the IMF pledged at least $40 billion Euros ($54 billion) in aid to Greece. On this news the Euro jumped 1.3% as investors reversed their short positions in the currency.
The rescue plan eased worries about Greece defaulting on its debt in the near term and thus triggering a domino effect throughout other countries with their own deep fiscal problems.

Investors have feared that Greece's debt crisis and the fiscal weaknesses elsewhere in Europe could jeopardize the steady healing we are seeing in the global economy. Greece's debt is 12.7% of their GDP. It joined the Euro in 1981.

China is also showing that their global rebound is underway with 11.5% GDP growth from a year ago. This is very strong, yet I always challenge China's official reporting as the real number is quite different.

Canadian Purchasing Power – The Bad

The Canadian dollar reached its highest level since July 2008. The value of the Canadian dollar has been enhanced with the rise in the commodity prices and the predictions on the rise in domestic interest rates. I guess the frustration will continue for Canadian consumers who buy books, magazines and greeting cards that can easily be bought in both the US and Canada. Historically, there has always been a 30% differential in the pricing between Canada and the USA on these items.

In the US, home appliances are still 15% to 35% per cent cheaper. Amongst cars and trucks including some made in Canada the difference is between $5,000 and $35,000, which works out to a difference of around 20%.
The retailers in Canada have been reluctant to pass any of the gains from the stronger dollar on to consumers. They feel those gains should be added to their profit margin, which is exactly what is happening.

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" If Canadian retailers are not going to help you then buy American. Travel from Vancouver to Bellingham or from Windsor to Detroit and do your shopping south of the border."

It is not that 40,000 plus retailers have deliberately conspired to keep prices up, but rather that the adjustment process will likely take longer than it needs to. That is why I say to Canadian consumers: "If Canadian retailers are not going to help you then buy American. Travel from Vancouver to Bellingham or from Windsor to Detroit and do your shopping south of the border. Vote with your dollar! Things will change! The threat from cross border shopping, especially in cities like Vancouver, which is near the border, may be exactly what local retailers need to drop their prices. The saving grace will be competition.

Still, we are already seeing some changes. For fruits and vegetables the drop in price will happen quickly, because those are priced weekly. Prices for goods with longer shelf lives will likely take many months to adjust. I'd like to acknowledge one company Porsche Canada for responding quickly. They have just introduced a currency credit worth between $4,000 and $10,000 depending on the model purchased. This is a step in the right direction and a fair one for Canadian consumers.

Canadian Purchasing Power – The Good

This economic climate makes this a perfect time to discuss Canadians investing in US Real Estate. Over the last year Canadian purchasing power has increased by 15%. The best real estate market I've found with the strongest cashflows remains Las Vegas. We just issued out a cashflow check to those who invested in the Desert Shores Condo project that I have been discussing for the past year. The occupancy rate is now 94% and by Investfest in June we believe it will be 100% with a waiting list of tenants. The project is in Summerlin which is arguably the best area to live in Las Vegas and the project is surrounded by mansions. One, two and three bedrooms condo units that previously sold for $150,000 to $225,000 we have bought in the $25,000 to $50,000 range. These units generate rental income between $600 and $950 a month per unit. That is approximately 2% rent in relation to the purchase price monthly. You simply cannot attain these kinds of rents in Canada.

Let me just comment on capital appreciation as an investment strategy. Because capital appreciation is not guaranteed anywhere it is important that investors first and foremost focus on cashflow. If a promoter encourages you to invest for capital appreciation purposes, please run for the hills! For many areas, capital

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"Make sure you attend the next Las Vegas Fieldtrip, which will happen on June 7th immediately following InvestFest 2010"

appreciation may not happen for many years. I restate, this is a time to invest in cashflow only.

We intend to keep sending out cashflow distributions every three months on Desert Shores Villas.

Las Vegas Field Trip following InvestFest 2010

Make sure you attend the next Las Vegas Fieldtrip, which will happen on June 7th immediately following InvestFest 2010. In the meantime if you are accredited or sophisticated as defined by securities regulations and would like to invest, contact the project manager Richard Durepos at richdurepos@gmail.com.

I have not spoken about this project in many months as I wanted to get occupancy above 90% and be confident of cashflows. That has occurred and the fact is that now is the time to get involved. Investfest 2010! You Want To Be There!

Now an update on Investfest. This Thursday I will find out if I am able to confirm the former COO of McDonalds Restaurants to speak at InfestFest. This individual will join an already impressive roster of great presenters including massive money managers Richard Ferri and Marshall Auerbach. Other financial experts joining us in June include Thom Calandra, who writes extensively daily about the stock market and our own Dom Tersigni, who joins me on each monthly Economic Outlook call. Brad Andrus will be there. Brad runs a large Real Estate Investment fund with hundreds of millions to invest. He will give us an outlook on the Real Estate market. We will also be joined by Richard Lee, a highly sought after speaker who will share his economic insight and, of course, back by popular demand is legendary business Guru Brian Tracy.

- To buy your tickets go to www.investfest2010.com and tickets are just $697.
- Plus, you can save $300 on each ticket if you take action right now!
- Just enter the promo code **IF201003** your tickets for the event are just $397.

Plenty of Gifts Just For Showing Up!

Plus you'll get gifts. I mean a whole lot of gifts. Thousands of dollars worth of gifts along with your ticket. Just for showing up! I can't even begin to list all the gifts here, so I'll settle for just listing a handful of the books you'll receive with your ticket. Many of these books have been on best-selling book lists like the NY Times and all of them have incredibly useful information.

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2010
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ALLIANCE INVESTMENT SOLUTIONS

HELPING YOU BECOME AN INFORMED INVESTOR

Economy Report

Reported by:
Mike Lathigee
CHAIRMAN & CEO
of Alliance Investment Solutions

"InvestFest 2010 is going to be an amazing event. We are seeing many changes in the economy and it is critical to get on the right side of the recovery. That's why I want all of you to join me in June in Las Vegas for our annual InvestFest."

Here is a sample of some titles you will receive:

- Brian Tracy book "**The Way to Wealth: Success Strategies of Wealthy Entrepreneurs**"
- Garrett Gunderson book "**Killing Sacred Cows**"
- Marshall Sylver DVD Program "**Take Action Now**"
- Garrett Gunderson DVD Series "**True Wealth Series**"
- DR Barton and Christopher Castroviejo DVD Series "**Trade with the Pros**"
- Daven Michaels E-book and Audio "**The Outsourcing Tips and Strategies Program**"
- Bill Walsh CD Program "**The Ultimate Success Secret**"
- Mark Victor Hansen's book "**Cash in a Flash**"
- Alan Haft's book "**You Can Never Be Too Rich**"
- plus other gifts and a few Grand Prizes.

InvestFest 2010 is going to be an amazing event. We are seeing many changes in the economy and it is critical to get on the right side of the recovery. That's why I want all of you to join me in June in Las Vegas for our annual InvestFest.

There is just too much going on to stay in the dark. You must learn all you can and you must act on what you learn. Come learn. And learn how to use what you learn.

I'm just about done here, just a few more things to consider going forward.

Recovery Still Fragile

It is not impossible for the US economy to re-enter a Recession, especially when the US Government Stimulus Program ends. I say this because there are a few things that are causing me particular concerns.

<u>Office Vacancy Rates:</u> The US office vacancy rate rose to 17.2%, which is a level unseen since 1994. This increase in office vacancy is because the market lost about 11.6 million net square feet of occupied space during the first quarter. Factoring in months of free rent and landlord contributions to space improvements for each tenant, effective rent was down 7.4% from a year earlier.

<u>Home Equity Exposure At Banks:</u> Another major concern I have for the economy is the total home equity exposure at banks. Commercial banks hold approximately $767 billion of the total $1.05 trillion of second mortgages outstanding. The key issue revolves around the number of these mortgages are at risk of becoming write downs. Most vulnerable are the loans that are no longer backed by property; when the price of the underlying home has fallen

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below the balance of the loan. In other words the loan to value exceeds 100%.

Unless housing miraculously recovers there will be a lot of strategic defaults, which I talked about in detail in the February Economic Outlook. The major concern is the amount of the dollar reserves banks have set aside to absorb losses against these loans.

Bank Self Interest Continues Unchecked

I want to close with a topic that economists have not been discussing, but which is causing the Consumer Pricing Index for spending to increase.

In February I discussed my disgust with the banking industry and its policies and with its practice of awarding large bonus packages to its management. I also shared that I had no morale problem with encouraging people to purposely default on their mortgage when the value of the property was less than the mortgage. This is called a strategic default.

It is my position that homeowners have no moral obligation to try and assist banks if that assistance is against their own interest. My argument is to do what is best for your self. I still believe that position is justified, especially in the face of continued self-interest by the banking industry. In the year following the massive bank bailout by taxpayers, bank executives awarded themselves massive bonuses, which had more to do with the government's stimulus package than with any great management skills they demonstrated. But they took their undeserved bonus money and wasted no time adding extensions to their homes in the Hamptons. I find that unsupportable.

Here is another example of how the self-interest of banks continues to deteriorate consumer confidence and damage the economic recovery I was working with a major funding bank on a sizable real estate project. When property values first started to get shaky, the bank foreclosed on our project even though our payments were all up to date. Let me make this clear. The bank's $12 million dollar loan was secured with more than $30 million in equity. Yet they foreclosed. Why? I guess because they could. They were getting their payments, but they wanted full repayment. This was a complete change of policy and totally unwarranted. It was also a huge blow to the investors who were part of this potentially very profitable project. Unlike me, the bank didn't have to see their faces, but they probably wouldn't have cared anyway.

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"Some homeowners have no intention of repaying the bank and are simply enjoying the extra spending money..."

The result of this foreclosure is a receivership, which is costing us hundreds of thousands of dollars in fees as we attempt to extract ourselves from this situation and still rescue the property. We now have potential financing to buy the property back, but this funding is subject to the receiver's approval; this receiver does not have a reputation for making speedy decisions and as a result we may lose yet another selling season. You can see why I don't have much sympathy for banks. I believe that these types of actions, these types of policy changes put a damper on our precarious economic recovery.

Government Policies Indirectly Encourage Strategic Defaults

It turns out that many homeowners are spending their mortgage payments, which is one of the reasons that consumer spending is increasing and assisting the economy. You can see why this is not a topic many are willing to discuss. As adjustable mortgages reset to higher rates and payments become more and more difficult to manage, we are likely to see even more homeowners give up and elect to execute the strategic default strategy. I happen to agree that at a certain point it makes sense. Why sacrifice your own well being to pay the bank when the mortgage is much higher than the value of the property?

The government is actually helping this process and strategy as they prevent banks from foreclosing quickly. This allows the homeowner to live in the home without making a mortgage payment for many months and sometimes more than a year. Some homeowners have no intention of repaying the bank and are simply enjoying the extra spending money, which is one of the things currently driving consumer spending. This government process is aimed at keeping homeowners in their homes and will continue to add to consumer spending. I believe we are going to see strong consumer spending for more months, because this strategy gives homeowners more spending money.

Foreclosing on mortgages and auctioning off these properties is an expensive process and banks are likely to take significant losses at some point this summer or fall.

Restrictive Lending Hurts Small Businesses and Investors

Remember, it was only 18 months ago that I fully supported the taxpayer bailout of banks and believed the bailout was mandatory for a recovery. I did not anticipate the arrogance of many banks –

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"...I've given you a good lesson on what the economic indicators are telling us about our tentative recovery."

some, not all - that led them to award themselves massive bonuses for work poorly done. Nor did I anticipate that they would kick consumers when they were down - the same taxpayers who bailed them out - by increasing credit card rates and making it nearly impossible for people to get loans.

Wasn't that the whole reason behind the bail out in the first place? To get money moving again! And their arrogance continues. I consider this a time when consumers and taxpayers have a right to put their needs ahead of the bank's needs. I don't you think you ever have a moral obligation to any bank; to a person? – Yes, to an institution that abuses its power, No.

Now, the strategic default really does not exist in Canada as a strategy, because of more conservative lending practices. However, as I mentioned earlier, you can see how when a big bank makes arbitrary changes in their policies it can destroy small businesses and investors. Well, I've given you a good lesson on what the economic indicators are telling us about our tentative recovery. And I've shared some of my concerns about obstacles still challenging that recovery. Hopefully, you will find the information useful as you built your investment strategy to take advantage of the coming changes.

I look forward to seeing you at InvestFest. Until next time, be well.

Michael Lathigee
Chairman and CEO
Alliance Investment Solutions Ltd.

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