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Reported by:

Mike LathigeeCHAIRMAN & CEO
of Alliance Investor Solutions
& the Freedom Investment Club**November 2009 Economy Report****Monday, November 9th, 2009**

For over six years I have been delivering my monthly Economic Outlook report. On every report I include a focus on the economic indicators. From time to time I am surprised when subscribers ask me why I focus so closely on indicators. The answer is simple. I focus on indicators because they give me information I need in order to make a decision as an investor.

Economic indicators provide investors with clues and guidance as to whether or not the economy is going to do better or worse than investors anticipate. Prudent investors watch these economic indicators closely and adjust their investing strategy accordingly. Investors who do not follow economic indicators are investing with blinders. They are taking an uninformed risk and investing without any empowerment. Unfortunately, a large percentage of investors, (and in many cases the financial experts who advise them), do not watch economic indicators with as much vigilance as I advise.

An economic indicator is simply an economic statistic that reflects changes in things like the Gross Domestic Product of a country, its unemployment rate, or its rate of inflation. These changes tell a story about how well

an economy is doing now and how well it could potentially do in the future.

Three Types Of Economic Indicators

There are three types of economic indicators and each type has its value. Indicators can be Leading Indicators, Coinciding Indicators or Lagging Indicators. Each one gives a slightly different view of the timing of its changes relative to how the economy is changing on an ongoing basis.

As the name implies, Leading Indicators change before the economy changes. The stock market is definitely a leading indicator and the stock market almost always begins to rise before the economy improves. Inversely, the stock market tends to decline months before a recession. Leading indicators are the investors' most important tools as they provide guidance and help predict what the economy will do in the future.

Trailing or Lagging Indicators do not change direction until a few quarters after the economy has moved. A great example of a lagging indicator is the unemployment indicator. We have all seen how the unemployment

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“Payrolls have declined for 22 consecutive months and the number of people unemployed since December of 2007 is approaching 8 million”

rates start to improve several months after the economy has started to do better.

The Coinciding Indicator moves at the same time as the economy. An example is the Gross Domestic Product, which is the total economic output of any nation at a given time. Now that you understand what you are looking at, let's look at one of the most important economic indicators and see what it is telling us.

Unemployment Hits Higher Highs

The US unemployment rate remains the most concerning economic indicator. The unemployment rate hit 10.2% in October due to the loss of 190,000 more jobs. Payrolls have declined for 22 consecutive months and the number of people unemployed since December of 2007 is approaching 8 million. This is the highest unemployment rate since April of 1983. This high jobless rate is the number one concern of the Obama administration, but handcuffed by an already record high budget deficit, they are unable to throw more major stimulus money at the problem.

A year ago many subscribers were shocked when I made several comments after Obama won the election that there was a high probability that he would be a one-term President. At the time he had the highest approval rate of any President

in history. Yet, we are already starting to see some evidence of my prediction. This past week the Republicans won control of two state governorships in states where the weak economy figured prominently. Evidently, those voters were not happy with the Democrats' performance.

Eighteen months ago I began referring to the current downturn as “The Great Recession.” I coined this term because of the many comparisons being made between the current situation and the Great Depression of the 1930s. A little less than a year ago, in January of 2009, we saw monthly job losses peak at 791,000 lost jobs. Compare this to the 2001 Recession when monthly job losses hit a high of 325,000. Before that, during the 1990 and 1991 Recession job losses peaked at 306,000.

The sheer numbers are staggering. We are definitely experiencing a much more extreme Recession than any of us have experienced in our lifetime. That is, unless you are over 90 years old and even then you might have been too young to remember much about it. Since World War II the unemployment rate has topped 10% only two times. The first time was from September of 1982 to June of 1983.

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“Many people may disagree with me, but I think there is a very simple reason for the surge in stock market prices and it is this: As the US dollar continues its downward spiral...”

The second time is now. Right now close to 16 million Americans are out of work. When we expand that number to include under-employed people and discouraged workers who have stopped looking for work we could be looking at an unemployment rate of close to 20%.

People think that unemployment is always bad, but in fact it is harder now than ever before. Compared to the average unemployed worker in 1982, Americans now have three times as much debt and less than half the savings. Unemployment is now lasting 10 weeks longer than it did in 1982. And most concerning, more unemployed people now have no health insurance, which leaves them one medical emergency away from bankruptcy.

In 1982 the average American carried about \$14,000 in today's debt in mortgages, credit cards, auto loans and other consumer debt. Today the average American carries \$46,000 in debt. In addition, Americans saved slightly less than \$1,000 per person last year, while in 1982 that average American saved more than \$2,500. With no liquid cash on hand to pay debts, the foreclosure rate is seven times higher now than it was in 1982 and three times as many Americans are going bankrupt now as did in 1982.

However there are also some benefit to being unemployed now as opposed to 1982 and '83. One reason is that adjusted-for-inflation benefits are more generous now. And nowadays, technology allows job seekers to shop for jobs from home via the internet. It is very difficult for the economy to fully recover with these high unemployment numbers. Consumer spending drives 70% of the US economy and is severely impacted as consumers worry about their job and their cash flow. Also, foreclosures will continue to increase as consumers lose their jobs.

Correlations Between The US Dollar And US Stocks

I know that many subscribers are perplexed as to why the stock market is so strong if unemployment is so high and we have such huge concerns about consumer spending. Many people may disagree with me, but I think there is a very simple reason for the surge in stock market prices and it is this: As the US dollar continues its downward spiral American companies become much cheaper to buy and foreign money rolls into the stock market. If you, as an investor, looked at the US dollar rate on a daily basis over the last 500 trading

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“Under the program, an \$8,000 tax credit for first time homebuyers would be extended for several months and expanded with a \$6,500 credit”

sessions as I have done, you would see that there is a significant correlation between a declining US dollar and the stock markets moving one way or another. I have observed that when the dollar has a “material” decline on a daily basis the stock markets generally have a strong rally. When the dollar has a “material” increase against the basket of currencies then the US stock market tend to have a huge decline. It is rare that I see a decoupling day. Like I said, many people will disagree with me because they tend to explain the market rally by many other economic indicators. Still, I maintain that the strongest influence on the current market rally is a weaker US dollar. Those who say otherwise have not studied the historical correlation I have seen between the US dollar and the stock market.

Good News Indicators

It is important to include all sides of the current economic picture and I have observed some encouraging economic indicators and policy decisions. The most important and positive policy decision I’ve learned about is the Fed’s commitment to maintain their benchmark interest rate between 0.0% and 0.25% for the foreseeable future. More positive news deals with Warren Buffet’s recent purchase of the nation’s largest railway

company. While I would never invest in Warren Buffet – his fund is so large it’s unlikely it can ever outperform the market average – it is still true that he creates a lot of interest in whatever he does. His comment that the railway company “...is poised to benefit from the recovery” is very encouraging. Buffet would not buy a railway unless he believed GDP growth would become much stronger in the future, justifying his purchase.

Extending Tax Credits And Unemployment Benefits For a Softer Landing

Another helping hand comes in the form of a Senate bill. In order to assist the housing market President Obama will sign a bill that expands the popular homebuyer’s tax credit and also extends unemployment benefits. Under the program, an \$8,000 tax credit for first time homebuyers would be extended for several months and expanded with a \$6,500 credit for some prospective homebuyers who already own homes.

The program will be extended until June of next year as long as the buyer signs a contract by the end of April 2010. The bill also offers a \$6,500 tax credit to those who have lived in their current residence at least five years. In addition, people who earn up to \$125,000

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“While saving is admirable, consumers could quash any market recovery if they save too much money and stop spending it in the economy.”

in income are now eligible for the credit and homes must cost less than \$800,000 to qualify.

Under this bill, the nearly two million people whose unemployment benefits are scheduled to expire before the end of the year would receive 14 weeks of additional benefits. In states where the jobless rates top 8.5% unemployed workers would get six weeks on top of that. Even more help is given to the hardest hit states where a person is allowed up to 99 weeks of benefits, which is well above the previous record of 65 weeks in the 1970s. Now, while all this would be good for the economy, at least on a short term basis, it is not good for the federal deficit of the US.

The US government reported last week that the overall economy grew at an annual rate of 3.5% in the July to September quarter. This is the first growth after a record four straight declines and the strongest signal yet that the recession has ended.

Factory orders are improving worldwide and the fourth largest shipping company in the world (Evergreen Line) is building 100 new container ships. This is the first ship building company in more than two years to start building; a

clear indication that this company believes international trade will be robust in the future.

The American Consumer; The American Borrower

While these positive indicators are exciting, there are still many negative economic indicators that cause concern. Of equal important to the high unemployment numbers is the state of the beaten-up consumer. Caught between rising unemployment and banks unwilling to lend money, consumers borrowed less again in September - for a record eight straight months. This decline in consumer borrowing dampens consumer spending, which will definitely delay the economic recovery.

So, what are reasons for this decline in borrowing? Americans are borrowing less because they are trying to build up resources in the dismal job market. While saving is admirable, consumers could quash any market recovery if they save too much money and stop spending it in the economy. Remember the US economy is driven 70% by the consumer. In Canada that number is 55%, a much lower number due to the huge export market.

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“An American citizen will notice the decline in their currency’s value mostly when they visit other countries and find their purchasing power much weaker.”

Also, borrowing is low is because many people are finding it hard to get credit. Many banks have been hit by the worst financial crisis since the Great Depression and have tightened their lending standards to a ridiculous extreme. The way I see it, the pendulum has swung too far. If before it was too easy to get credit, now it is too hard. This lack of lending is not realistic and very short-sighted. It is especially troubling since many of the same banks refusing to lend money are being funded by tax dollars so that they will lend money. Still, they do not lend. While I am certainly in favor of free market capitalism, I am not totally adverse to the idea of the government “strong arming” these banks to start lending to taxpayers the very money the taxpayers gave the government to lend to the banks! The money needs to circulate!

The US Dollar, The US Deficit And The Fed

For many years I have been advising Americans to not hold all their assets in US dollars. An American citizen will notice the decline in their currency’s value mostly when they visit other countries and find their purchasing power much weaker. It is unlikely

that this downward trend will reverse in the short term as there are many benefits to a weaker US dollar. These include a debt that is less expensive to pay back and US exports which become much cheaper to foreign buyers.

If, however, we were to see a quick collapse of the US dollar the Fed would be forced to raise interest rates quickly. This would stall and dramatically hurt any economic recovery and have a huge negative impact on the stock market and the housing market. The only other reason the Fed would increase interest rates would be to tame inflation. As I stated earlier, I don’t believe that inflation is a major factor in this environment now.

How Strong Is the Current Market Rally?

We’ve been watching the stock market rally for a while now, but I think it will run out of steam soon due to the fact that, according to several studies, the amount of money coming into the market has abated. This so-called M1 factor does not bode well for a market recovery and so I’ll repeat what I said last month.

I believe the downside risk in the market is higher at this point than the upside risk and

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“In 2005 the Chinese allowed the Yuan to appreciate 19% against the US dollar over a three-year period before halting the process.”

that now is a good time to go to cash or at least take profits. Since last month's report the Dow has hit 10,000 and then declined to 9,200 and now is back at 10,000 again. The TSX in Canada was 11,800 and decreased to 10,600 and now is back to 11,200.

In addition, I am not comfortable with the amount of pressure on the banking system due to their loan losses, nor am I happy that credit remains tight. It is hard for the consumer to spend and stimulate economic activity when housing prices continue to decline and lending is very tight.

Currency Power Plays

Little has changed regarding the US dollar since last month's report except that China now has the largest foreign exchange reserves of US dollars at \$2.27 trillion and that Chinese banks have become eager to sell extra dollars to the central bank of China due to their fear that the US currency could fall in value. Corporate clients are also borrowing dollars to buy Yuan as they are speculating that the Yuan will appreciate and they will profit on the arbitrage. The People's Bank of China has kept the Yuan at a virtual peg against the US dollar since July 2008, but it is artificially maintained too low. This artificially low Yuan has continued to make China's exports attractive to foreign

buyers and has been a big reason why China is recovering from the global financial crisis as quickly as it is. However, with China's economy recovering faster than its major trading partners, the United States has called on Beijing to allow the Yuan to appreciate in order to help address trading imbalances. In 2005 the Chinese allowed the Yuan to appreciate 19% against the US dollar over a three-year period before halting the process. The Chinese will continue to fight against appreciating their currency, but international pressure is once again building for them to do so. The investment community is betting on this happening and the reason why many investors are hoping to profit from the future arbitrage of the appreciating Yuan.

Trading Oil On Fundamentals

Since the beginning of the financial crisis there has been a glut of oil supply in world wide inventory. In my previous discussions on oil prices, I have stated that higher oil prices have been driven mainly due to a decreasing US dollar. Here is an update on that stance and why I think that soon oil prices will also be driven by fundamentals. Oil prices have escalated 150% since their December 2008 lows, but inventory remains at historically high levels. My subscribers are

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*“I now recommend
you hold 5%
and 10% of your
portfolio in gold...”*

all aware of this as it is not new information. However, the fundamentals for oil over the next few years look excellent and high prices will not be driven only by a weak US dollar, but also by market fundamentals of less supply. Here is what is happening:

In a report prepared by Goldman Sachs, oil production from 230 of the world's largest oil projects will decline in the next two years. Overall, after reaching a peak this year oil production will decline for the next several years. The decline rates quadruple collectively until 2012. Non-OPEC production is expected to fall by 2.5 million barrels per day. Only Canada, Russia and Brazil will see production growth.

Peak oil is already happening and the main reason why oil prices will remain very high over the long term. Meanwhile, we will continue to see declining production rates from some of the world's top mature fields. Mexico's Cantarell field, (which is responsible for 40% of the Mexican government's budget), produced 30% less in 2008 than it did in 2007 and will eventually go dry within a decade. Norway, the world's 11th largest producer of oil in 2008, saw its production peak in 2001 and is down 27% since that time. Of course Venezuela, through mismanagement

by its ruthless leader, has seen annual decline rates of more than 25% in certain fields.

For the last six years I have been bullish on oil and I remain so. The portfolios of serious investors should hold for the long term stocks in some large oil production companies that do not have depleting fields and are sourcing new inventory and discoveries.

Gold Is Always Good

Gold is first and foremost driven by uncertainty. When I originally discussed gold at \$300-plus per ounce all my writings document my recommendation to hold 20% of your portfolio in gold. Those who followed those teaching hit a homerun. Last year, after a huge run up in the price of gold, I revised that guidance and discussed holding only 10% to 15% of your portfolio in gold. I am revising my position again. I now recommend you hold 5% and 10% of your portfolio in gold. Gold has an inverse relationship with the US dollar and as the dollar collapses gold rises. But, gold price is also driven by uncertainty in the marketplace. For many reasons that I've cited before I have explained that gold is not driven by inflation, but rather by uncertainty in the market as gold has seen huge price

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“Things remain relatively quiet worldwide as most nations deal with the economic slowdown.”

increases in times of both deflation (Great Depression) and inflation (the 1970s).

If you own gold don't wish that it goes to \$4,000 an ounce. If it does that means the US banking system has collapsed and all your other asset classes are worthless. The strategy of holding gold is simply as a hedge against fiat currency and uncertainty. While these are the main reasons gold prices rise and fall, in a smaller way other fundamentals are driving the price of gold upward.

Demand for gold continues to increase in most nations, with India and China in the forefront. India this month bought 200 tons of gold for \$6.7 billion as a hedge against the declining US dollar. At the same time, ETFs have opened up a new avenue for consumers to own gold. These ETFs buy and store gold bullion, which has made it easier for investors to own gold.

Geopolitical uncertainty can also cause gold prices to escalate. The most likely scenario for this to occur at this time would be if Israel was to bomb Iranian nuclear installations triggering a Middle East War. Gold would likely increase on a short term basis by 10% to 20% until the international community allowed the crisis to abate, then gold would settle down. However, if the conflict were allowed to escalate gold prices would likely continue upward.

Gold And The Fiat Currency

As the US dollar loses value and US government debt rises the American dollar will lose its position as the favored trading currency of our world. This would also cause huge interest among investors to buy more gold. In addition, gold is non-renewable. Most times these sources are found only in remote areas of the globe and those sources are declining. Worldwide demand is increasing, but mining and production challenges are causing supply to decrease.

Geopolitics and Commodities

Things remain relatively quiet worldwide as most nations deal with the economic slowdown. Worldwide consumer spending remains weak. Europe is stating slow economic improvement. Along with Brazil, Australia's economy is doing well as it is primarily a commodity export based economy. Recently much higher commodity prices forced Australia to raise interest rates in order to curb inflation due to the success of its economy. Canada is also a commodity based economy that is doing well, but the success is offset by a strong Canadian dollar, which is hurting its manufacturing export market to the US. The

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“Brokers I talk to everywhere are telling me that as soon as properties hit the market they are getting multiple offers in the first two or three days...”

US is responsible for 80% of Canada's sales of exports, so it is a mixed story for Canada. If there was an election in Canada the Tories would win again. However, the Liberals are demanding the Tories spend more money on programs such as unemployment benefits while at the same time they criticize the Tories for a large deficit. It is good to see that Canadians see through the political rhetoric and posturing of the Liberal Party of Canada.

The Shadow Inventory Inside the Housing Market

Along with unemployment, the US Housing Market remains a huge economic story. At this time banks are sitting on huge shadow inventory; houses they are not listing for sale. In addition, there is an immense volume of interest-only loans that are going to be reset over the next year at much higher monthly payments. Astute investors are aware that a lot of volume hit the market over the last 24 months, driving down housing prices. However, I am also noticing a scarcity problem as banks hold back inventory from the market. Let me give you an example. My broker friend Kevin Kelly purchased, listed and sold 61 properties profitably in Las Vegas. His success rate is 100%. Every house he buys at the trustee sale he renovates and lists and

sells profitably. Although Vegas has a glut of foreclosures there are very few homes sold that are not foreclosures needing work or short sales from the bank that take months to close. So when Kevin buys a home, renovates it and offers it for sale he often has many offers on the same property. This is because the purchaser will not have the headache of dealing with a damaged foreclosure or the delays of a short sale.

I've also talked to my friend Jeff Bettger, who is a broker in Chula Vista, California. He said that even with the glut of foreclosures banks are keeping much of the inventory off the market. As a result on one house he listed he got 65 offers. This artificial market is not reflective of the reality.

With the 2009 focus on loan modifications and workouts, buyers have seen a lack of readily available inventory that can be bought easily. Brokers I talk to everywhere are telling me that as soon as properties hit the market they are getting multiple offers in the first two or three days and contracts within the first week the property is on the market.

I won't speculate what the banks plan to do with their shadow inventory. I can only look at the facts. We have seen the most severe decline in house prices in over 70 years going

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“We are also seeing a defaulting crisis in luxury homes, which are defined as houses that sold at \$2 million or more.”

back to the 1930s. For many homeowners, this decline quickly wiped out any equity they had in their home. With no equity the homeowner can neither refinance nor sell to satisfy their debt. Even in the face of these facts, I was shocked to read in a few real estate reports that foreclosures are projected to hit the 10 million mark. With the current recession and high unemployment rates, it is very likely the housing crisis will last another five years.

I am living at what I define as ground zero in Las Vegas. I have two houses on either side of me that have absentee owners that are never around and I have found out are in bank negotiation for loan modifications. The three houses across the street are also empty. One is up for rent and two have been foreclosed upon. I live in a beautiful gated community. It amazes me how this housing crisis has affected everyone; the poor, the Middle Class and the wealthy alike. In Vegas a stunning 94% of all homes were bought by investors in September. This is the highest percentage of purchases by far in the USA, (Miami is second at 75%), and further proof why Las Vegas is the best market for returns now and in the future.

So what is happening with the Middle Class? The first wave of foreclosures was caused by

sub prime loans and ridiculous financing. The second wave of foreclosures is currently being driven by unemployment. The demographics have changed from blue collar workers to midlevel white collar workers. We are now seeing a nationwide trend on foreclosures of properties with loans at higher values. The geographic areas that will be hardest hit are the areas with higher unemployment rates. Finally, the third wave (let's hope there is no fourth wave) will involve borrowers of adjustable rate mortgages that are due for resetting at much higher monthly payments. This wave should be at its height from the middle of next year until 2011 when many of these loans will go into default. Most of these foreclosures will occur in California, Nevada, Florida and Arizona where areas were overbuilt and brokers sold questionable mortgages.

However, the housing crisis we are seeing in Michigan and Ohio is based mainly upon high unemployment. This situation is more difficult to solve as there is no option for loan modifications if a person does not have a job. We are also seeing a defaulting crisis in luxury homes, which are defined as houses that sold at \$2 million or more. These homes are currently down 14% on average from their initial listing prices. The national average is



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“Many lenders would rather have a delinquent borrower living in the home than to have a vacated home with tall grass and possible vandalism.”

10%. Luxury homes represent just 2% of all current listing, but are responsible for 25% of the \$28.4 billion in home price reduction. While lower priced houses have bottomed on the wave of sub prime foreclosures, expensive homes absolutely have not bottomed and they will continue to decline. According to the most current stats as of September, 2009 about 25% of mortgages underlying the \$1.7 trillion of US home loan securities without government backing were at least 60 days late, in foreclosure or already turned into seized property. About 7 million properties likely to be seized by lenders have not yet hit the market nationwide.

The Strategic Default

A trend I first noticed in Nevada as I studied the market very closely now seems to be nationwide phenomena. I refer to what I call “a strategic default.” When I arrived in Nevada I found it to be prevalent in Las Vegas, but as I talk to people across the country it appears to be more prevalent everywhere and a growing trend.

The strategic default is becoming a major challenge to the government’s effort to keep distressed borrowers in their homes. It is a very simple strategy of walking away from your home

and mortgage, because the home has negative equity although you could afford to pay the mortgage. Citigroup estimates that one in five borrowers who default does so willingly even though they are able to pay the mortgage. Banks are so overwhelmed with foreclosures that they are leaving delinquent borrowers still sitting in their houses for months without one word from their lenders. Many lenders would rather have a delinquent borrower living in the home than to have a vacated home with tall grass and possible vandalism. As proof of this sad state of affairs, I met a gentleman last week in Vegas, who has been living in his home for seven months without a single communication from his bank and has made no mortgage payments. So, what is actually happening to improve the housing situation?

Well, the government is backing many loans to try and get the banks lending again. However, this strategy previously has been a disaster. Right now 24% of all loans insured in 2007 and 20% of those from 2008 are in default. The Federal Housing Authority reserves have fallen below a federally mandated level. This is raising concerns that the FHA may need taxpayer money for the first time in its 75 year history. The FHA doesn’t make loans, but it insures lenders against losses if a borrower defaults. The FHA is guaranteeing almost all home purchase loans in some of the nation’s hardest



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“Canada’s real estate market will see values drop by just 20% from their peaks, but Mexico will have declines more in line with the USA.”

hit housing markets. That is helping the housing crisis, but once again it is putting the taxpayer at risk if home price depreciation continues. It is a risky strategy by the government and a very concerning situation for all tax payers, whether they agree with the strategy or not. Another area to watch as this real estate crisis unfolds is the commercial real estate market. According to Pricewaterhouse Coopers, commercial real estate values will fall 40% from their peaks in 2007. Hardest hit already are retail and office properties resulting in the worst commercial real estate decline since the Great Depression. Canada’s real estate market will see values drop by just 20% from their peaks, but Mexico will have declines more in line with the USA. In the midst of this entire decline, it is very interesting to notice that the commercial real estate market in Washington DC is doing fantastic. It seems that all the government spending has created a massive demand for commercial space for government offices in Washington DC. It is a sad fact that the commercial real estate market that is doing best is based in a city where the main revenue centers are government spending.

Upcoming Market Events

This week sees the end of quarterly Earnings news and investors are searching for signs that the recovery is happening. The top economic indicator people will be watching is consumer spending. We want to closely watch companies that are heavily driven by consumer spending, companies like Disney and Walmart, both of which report this week.

In addition to those two companies, we want to also watch the consumer earnings reports from the retail companies Macys, Nordstrom, JC Penney and Kohls. Also this week, we have \$81 billion dollars in Treasury auctions. All these bond sales are used to finance the US debt, which explains their importance and why they must do well.

- Monday’s treasury auction will offer \$40 billion in 3-year notes.
- Tuesday will see \$25 billion in 10-year notes auctioned off.
- On Thursday \$16 billion in 30-year notes will be auctioned off.

How these turn out will determine which way the US dollar will move. Also, on Thursday we get the reports on weekly jobless claims.

Currency traders will be focused on the G20 gathering of finance ministers in Scotland this weekend. If the dollar strengthens we will see a stock sell-off this week.



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So with all this economic data coming out this week what should investors do?

- Gold and silver continue to be good holdings for 10% to 15% of your portfolio.
- The markets have much higher chance of a correction than of a continued upside trend. Therefore prudent investors should take profits and wait on the sidelines and wait for a market correction.
- The market is driven by a weak US dollar, which I believe is due for a rally and which will drive down prices in the markets and commodities. So again, take your profits.
- The Financial Sector has underperformed in the Earning Season and still has lots of bad debt, which makes it continue to be an area to avoid.
- Airlines remain an ugly area as well with cutbacks in service, labor issues and rising energy costs. Small profit margins and excessive competition reduces prices even more.

**Canadian Real Estate Rules
Change For The Better**

For our huge contingent of Canadian subscribers I have some great news! Canadians are soon going to pay less in realty commissions and fees due to a challenge from the federal Competition Bureau to the Canadian Real Estate Association (C.R.E.A.). The recommendations of the Competition Bureau will permit discount brokers into the market while allowing sellers to list their properties less expensively on the Multiple Listing Service. I totally agree with the general concern that the Real Estate Association has restricted consumer choice. For example, the seller of a \$400,000 home will pay on average a commission of \$20,000 in Canada. Many believe this is far too high for the actual services provided and many sellers wish to do the work themselves, but are prevented by monopolistic practices of the CREA.

The problem has always been that the CREA owns the rights to the MLS. In December CREA will hold an emergency meeting for all its board members to discuss the rule changes demanded by the Bureau. If CREA does not remove these restrictions the Commissioner of Competition will initiate an application before the Competition Tribunal. The CREA has publicly stated they do not wish this to happen and is pursuing a settlement. I am delighted with this news. I have worked with several fantastic realtors over the years,

“The problem has always been that the CREA owns the rights to the MLS.”

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Economy Report



Reported by:

Mike Lathigee

CHAIRMAN & CEO
of Alliance Investor Solutions
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“The strong Canadian dollar has hurt tourism, which is also impacted by the fact that US citizens now must have a passport in order to re-enter the United States”

yet when I list a unit for sale and it sells quickly in a hot market I find it difficult to justify the high commissions. I have often wished that I could simply put the unit on the MLS myself, but have prevented from doing so by the current rules. Soon we are likely to see consumers posting their listings on the MLS for a small fee.

The Economy North Of The Border

As for Canada's overall economy, Ontario, Alberta and British Columbia have experienced the sharpest percentage drops in employment. In Ontario, job losses have in large part been occurring in the manufacturing sector - particularly the vehicle parts and assembly industry, but also including forestry and mining.

In Alberta, lower oil and gas prices earlier in the year caused many projects to be shelved. Although oil and gas prices have improved - it will take some time before these projects start up again. In British Columbia jobs have been lost in mining, forestry and residential construction. Housing starts in BC are down 63% - the worst case in Canada. Canada's unemployment rate is much lower than the United States. However, there are three areas - all in Ontario - where unemployment rates exceed 10%. The areas are Sudbury, London

and Windsor, Ontario. London is a university, insurance and manufacturing town. Windsor is full of auto plants and Sudbury is a mining town. The strongest labor markets in the country are Saskatoon and Regina. The province of Saskatchewan continues to be the powerhouse of growth in Canada with commodity strength in uranium, oil, gas, potash and huge abundance of farmland. The strong Canadian dollar has hurt tourism, which is also impacted by the fact that US citizens now must have a passport in order to re-enter the United States.

Ontario remains the powerhouse of economic activity in Canada. Things are getting slightly better in Ontario as it has regained 15% of the 200,000 jobs that have been lost. Also low housing prices have generated much activity and - on a year-over-year basis - home sales are up 14%. In addition, home prices in the province are up 10.7%. Ontario should continue to benefit from low interest rates and increased government spending in the province. Also Ontario is the biggest beneficiary of an improved US economy. GDP growth declined by 3% in 2009, but is expected to increase by 3.3% in 2010. However, there is concern about Ontario's massive deficit. Costs are out of control in Ontario under a Liberal government. The 2009 deficit is \$24.9 billion from March 09 to March 10 - which is a whopping 76% above the forecast.

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“In December 2008 the interest rate shot up from 7.5% to 10.1% and the monthly payments on the \$280,000 loan rose from \$1,800 to over \$2,300 a month and the couple could no longer afford the loan...”

The weak US dollar is a mixed bag for Canada. The industrial exporting market in Canada is hurting. However, the commodity export market is robust with much larger margins on the foreign exchange. Canada's main commodity exports to the US include gas, oil, nickel, copper, silver potash and gold.

On a comparative basis the Canadian government debt is much better off than its US counterpart. Still, the Canadian government is showing a large fiscal deficit due to lower tax revenues and high expenditures.

The Liberals and NDP have had pressure on the Tories to spend more money on social programs or they threaten to take down the minority govt. Yet at the same time they criticize the Tories for the large deficit, which is partly due to the lobby efforts of these two parties. The (projected) 2009 deficit for Canada is \$55 billion and \$45 billion for 2010.

Putting A Face On the Victims Of Mortgage Fraud

I am going to end this month's narrative with a story from one of my subscribers. In many ways this story sums up what happened in the US housing market. Of course, I have changed their names at their request.

In 2006 Bob and Mary unwittingly got themselves into an adjustable rate mortgage with a two year teaser rate. In December 2008 the interest rate shot up from 7.5% to 10.1% and the monthly payments on the \$280,000 loan rose from \$1,800 to over \$2,300 a month and the couple could no longer afford the loan. Now, for this couple, English is not their first language and they thought they had refinanced into a fixed rate mortgage. Now I know you might say, “Sure Mike everyone says that.” But I saw the email instructions to the broker that they sent on two occasions. In this case, the broker even made a note on a document that was seized that said “client wants a fixed rate.”

This broker presented a large number of documents to Bob and Mary, but the terms were not what they had wanted. They asked the broker to read the documents to them and the broker did, but skipped the important details. On the actual loan application the broker added additional income to Mary that was a complete fabrication. The application was a stated income loan application or later referred to as a Liar Loan and the application was sent to the lender without pay stubs, or tax returns or proof of the borrower's income. The broker said she explained what she was doing, but Mary and Bob have denied this. Now, in a September disposition for a lawsuit that has been filed, the broker has admitted

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“don’t forget that Investfest 2010 is happening in Las Vegas June 3rd to the 6th, 2010 at the Green Valley Ranch which is a 5-Diamond resort ...”

they knew the loan application contained bogus information, an inflated income statement and the broker knew full well that the loan would likely go delinquent when the teaser rate ended. This broker is now up on mortgage fraud charges, but the sad thing is this is much more common than anyone can imagine and I am sure many mortgage brokers are having sleepless nights. The bigger picture reveals that the lenders would simply package these loans, sell them to investors and feel they could walk from the deal. Their main interest was to quickly get more mortgages they could package up and sell. It is absolutely amazing this happened, but it happened right here in Las Vegas on a regular basis and now everyone is claiming innocence and playing the blame game. For me, I’m simply trying to cash in on properties selling for 30% of replacement cost and to take as many people as possible along with me on this profitable ride.

I would like to extend my invitation to you to join me on my final Las Vegas fieldtrip on December 11 and December 12. To reserve your place go to www.allianceinvestor.com/vegas and register.

Finally, don’t forget that Investfest 2010 is happening in Las Vegas June 3rd to the 6th, 2010 at the Green Valley Ranch which is a 5-Diamond resort where we have negotiated \$400 a night rooms for an average of \$100 a night. Not only

will Investfest be a world class experience, but you can enjoy a 5-Star vacation at budget rates while attending this important event. You can buy your Investfest tickets online now at www.investfest2010.com.

For those interested in the trustee sale (see a true example sheet of the sales here: www.allianceinvestor.com/pdf/trustee.pdf) to buy houses contact Kevin Kelly at kevin@landkings.com and mention the “Economy Report”

It’s time to wrap up this month’s report. I’ve talked a lot about economic indicators and I hope you’ve found it helpful as you make your investment decisions. Until next month, build your strategy and trade safe.

Michael Lathigee

Chairman and CEO

Alliance Investment Solutions Ltd.



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