CLEARVIEW WEALTH MANAGEMENT

Investing with Clarity and Vision

Clarion Newsletter August 2012

President's Message

Are you Prepared?

The inevitable is coming – again.

By Bob Cannon

Veteran observers of the economy are already anticipating the next recession. The next recession? Yes, and you are still waiting for the economy to recover from the last (this) recession. Over the last 82 years there have been 13 recessions, or on average, one about every 6 years. The difference with this last "slowdown" is the length, depth and breadth of the downturn, causing this one to be dubbed "The Great Recession". This has been the worst recession since The Great Depression, seriously impacting investments in all asset classes throughout our economy.

Warren Buffet is an extraordinarily wise and successful investor. His research, decision making and ability to influence the direction of the companies he buys is legendary. He is not the average investor, to say the least, but we can all learn from his investment analytics. As the great Oracle of Omaha once said about investing, "be fearful when others are greedy and greedy when others are fearful."[1] This statement is the basis for the concept of "buy low and sell high"; sell into greed when the market is hot, and buy into fear when prices are low and many investors are selling.

Over the years, I have always encouraged our clients to invest for the long term. All recessions are not created equal, many of them last six to eighteen months. Between each recessionary period we usually have both short term bear and bull markets. Many short term recessions only impact value based investments; mainly the stock market and real estate. Since most Americans seem to have

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Bob Cannon has been selected as a recipient of the **2012 FIVE STAR** Award for Wealth Managers in the Seattle area for the second consecutive year.

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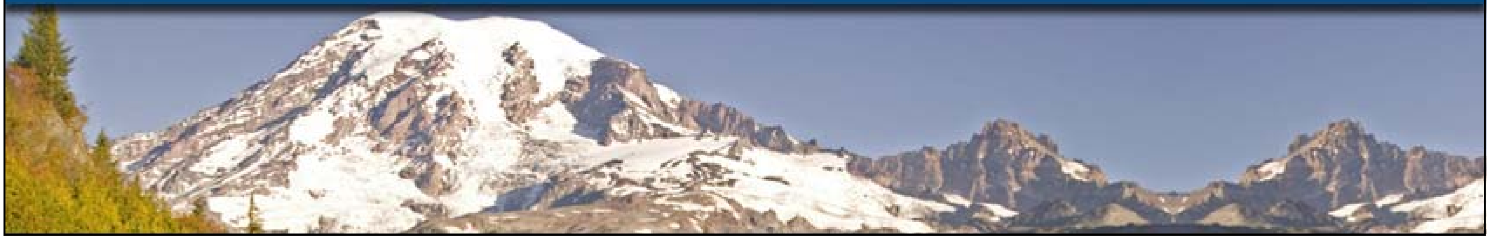
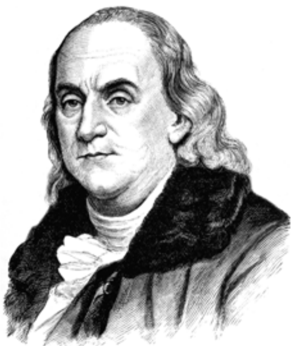


Why Sell Investment Property Now?

Doing the Ben Franklin



A few weeks ago while meeting with a long-time client, he said he could not wait for the economy to improve so he could sell his rental properties for a better price and finally retire. We reviewed the status of each property (debt, equity, net annual income, market value, etc.) and evaluated the likely result of a potential sale in this market place. He was reluctant to sell for all the obvious reasons, but he really wanted to sell for all the obvious reasons. Quite the dilemma!

After some discussion and a little soul searching, the client decided this was indeed a good time to sell and listed his retail and residential properties for sale. His goal is to complete a 1031 Exchange into Delaware Statutory Trusts (DSTs) so he can stop working (dealing with the toilets, tenants and trash), travel with his wife, spend more time with his grandchildren and finally get to enjoy the wealth he had created during his lifetime. But is this a good time to sell given the economy? As you may imagine, it was not an easy decision.

There was much to consider. Could he get a fair price for his property? What would he do with all that time on his hands? Could his buyers get a loan in this difficult lending environment? How many years would it take for market values to return to pre-recession highs? Does it make any sense to sell at this time when we are still not recovered from the recession? It seemed every time he came up with a good reason to sell, he immediately identified a good reason not to sell. What to do?

So I suggested we complete a Ben Franklin decision matrix to compare the pros and cons of selling and not selling at this time. The Ben Franklin decision-making tree or matrix is a simple way of looking objectively at the reasons to do and/or not do something. A copy of his analysis appears on the next page.

Every investment property owner will have their own personal reasons for selling or holding their properties and this matrix is unique to this particular client. The most important reason for selling may be economic, but for many of those who choose to sell, it is just the right time for them to sell and give up the day to day responsibility for property management.

If you have been wondering if this is a good time to sell your investment properties, please take a few minutes to create your own Ben Franklin to see if it makes more sense for you to hold or to sell your properties at this time. The current market place does provide good buying opportunities at historically low interest rates for institutional and cash buyers. And remember: you can't buy low

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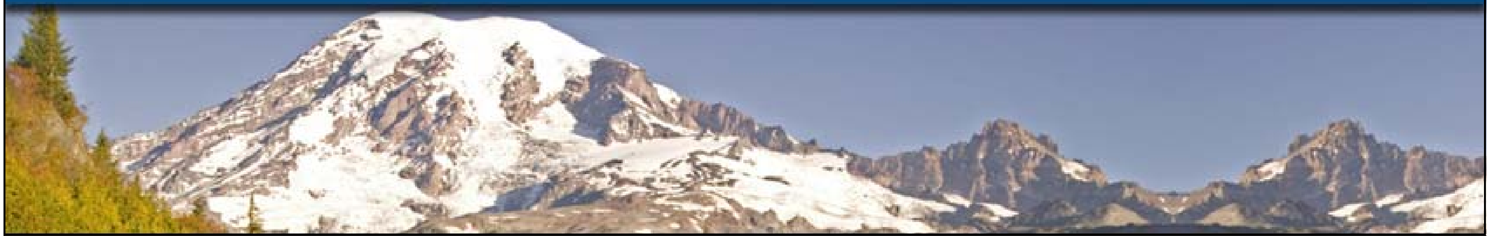

Ben Franklin Decision Matrix
“Should I sell my property now and complete and 1031/DST Exchange?”

Pros	**Cons**
• Ready to stop being a landlord – no more tenants, trash, and toilets • A 1031/DST Exchange defers all taxes due at sale • DSTs are readily available to complete my exchange • If I sell at a loss, I can use the tax credit to offset current/past taxes • Possibly many years before inflation reaches 2007 property values • Capital gains and depreciation recapture taxes may increase soon • DST properties are generally large, commercial investment properties that come with professional asset and property management • Historic low interest rates are available on DST properties • Buy low in current market and position property for sale in next bull market • Higher potential monthly income from the DST than provided by my current property • Leverage up into Class A triple net properties • Stop working and be free to travel or go fishing	• Not ready, still building my business, enjoy working and being a landlord • Don’t want to sell and pay capital gains and depreciation recapture taxes • Don’t have/can’t find a suitable replacement property • Market value is now less than what I paid for it • Market value is more than I paid for it, but less than it was in 2007 • My investment strategy is long-term buy and hold • I do not want to give up control of the property or investment to a third party • I think I can better manage my investment properties myself than others could

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and sell high in the same market at the same time.

This material does not constitute an offer to sell or a solicitation of an offer to buy any securities described herein. Only the prospectus makes such an offer. The offering’s objectives, risks, charges and expenses should be considered carefully before investing. The prospectus contains this and other important information about the offering

As with any real estate investment, there are various risks including, but not limited to: loss of principal, variations in occupancy which may negatively impact cash flow; illiquidity, and limits on management control of the property.

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about 90% of their assets committed to real estate and stocks, bonds and mutual funds in some form, every recession can seriously impact the average investor's portfolio and net worth.

How did your net worth fare during this last recession? What are you doing to prepare for the next one, and the one after that?

There is no fool proof, single strategy to completely protect your wealth from the vagaries of the ever changing economy, but there are several steps you can take to prepare for the inevitable. They include the following:

1. Broad asset allocation across different asset classes including the stock market and real estate, plus equipment leasing, BDCs, commodities, debt, energy, fixed income and insurance products.
2. Diversify into **non-correlated** investments such as the ones listed above.
3. Invest in income-based products and reinvest the monthly and quarterly income to grow and broaden your asset allocation and diversification.
4. Utilize tactically managed portfolios run by best of class third-party money managers whose style is to capture as much upside as possible in bull markets and avoid as much of the downside as possible in bear markets while still maintaining liquidity and flexibility.
5. Invest smaller, equal amounts of money in a lot of different individual investments. Avoid over concentration in any one asset class or individual investment.

At ClearView we believe the best way to hold on to the money you have worked so hard all your life to save and invest is to position your portfolio to not lose money. If your portfolio suffers a 50% loss, it will take about a 100% gain just to get back to even! Investing is an uncertain science. No one has a crystal ball illuminating a clear path to successful investing. All we can do is learn from the past, be prepared for the future and ensure we take advantage of periods of growth while remaining defensive during recessionary times.

What are you doing to prepare for the inevitable?

[1] *2004 letter to shareholders of Berkshire Hathaway*

Thought for the day

Plan for the future even though the future may not be what you planned.