

Thank God It's Friday!

May 25, 2007

Besides the fantastic weather we're enjoying this weekend, we love the Bay Area for the top-notch economic gurus in the vicinity who share their wisdom with us. This week, we had the opportunity to hear from one such savant from UC Berkeley's top-ranked school of Real Estate and Economics: Professor Ken Rosen.

His remarks were sobering, but very much in sync with our thinking here at BIC: both opportunity and the need for caution are standing side-by-side in the capital markets.

The residential real estate market is in trouble with overbuilt regions like Miami and Phoenix leading the drop in values. Sub-prime borrowing is coming to a screeching halt after taking down 20% of the mortgage market last year (compared to 3-4% historical average) The big question is the extent to which the drop in home prices and stricter lending standards will force the American consumer to leave her credit cards at home.

The good news for Bay Area residents is that home values here, especially near the higher end, are retaining their value. San Francisco and vicinity is enjoying another economic spurt, fueled once again by technology. Office and industrial properties continue to appreciate in value due to *employment growth* and limited space for new construction.

Coincidentally, our Berkeley guru was pronouncing categorically that the Chinese stock market is in a bubble at almost the exact hour that Alan Greenspan was publishing the same prognostication. We don't know when or how much, but the Chinese market will correct at some point, and may bring down other frothy emerging markets along with it, as we saw on February 27.

Our national debt is also creating a strain on capital markets. Recently, our strong economy has relieved our federal deficit (now 2.1% of GDP) somewhat, but as our Baby Boomers retire, the burden will undoubtedly cause some real pain.

All is not gloom and doom, however and we have many positive trends propping up stock prices. Liquidity still reigns, created by solid corporate earnings and low interest rates worldwide. Yet another huge source of the liquidity fueling markets is the recycling of American dollars: we pay China and OPEC countries for toys and oil..then the Chinese use these dollars to buy US Treasury bonds...and the OPEC countries have their New York and London bankers buy up Western securities.

Yes, we love the Bay Area with its glorious holiday weekends, extraordinarily educated workforce, and lack of urban sprawl relative to other metropolitan areas. We love being near the financial center of the West where the world's leading economic and finance experts are in close proximity to help us tweak your portfolios to stay ahead of the maddening crowds.

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INDEX	05.25.2007	12.31.2006	%Change
DOW JONES	13,502	12,463	+8.3%
S&P 500	1,515	1,418	+9.9%
NASDAQ	2,557	2,415	+6.8%
Bond YIELD	4.86%	4.71%	+3.2%*

Bond Prices 

Bond Yield % 