

David Hay



# EVERGREEN VIRTUAL ADVISOR (EVA)



EVERGREEN  
CAPITAL MANAGEMENT

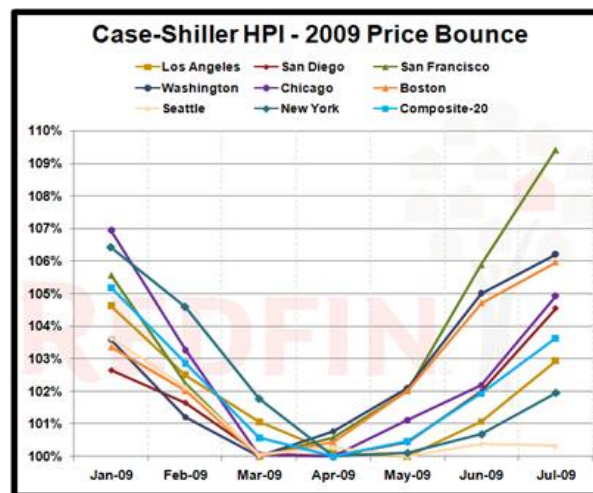
October 30, 2009

*“In today’s regulatory environment, it’s virtually impossible to violate rules. It’s impossible for a violation to go undetected, certainly not for a considerable period of time.”*

*-Bernard Madoff  
In a October 2007 speech,  
prior to the unveiling of his massive scandal*

## Points to Ponder

1. It’s doubtful that homeowners in Detroit are feeling upbeat, with the average home selling for roughly \$20,000. However, between April and July, the Case-Shiller Index reported US home prices rising 3.6% after falling 4.8% in the previous four months, its sharpest increase on record.



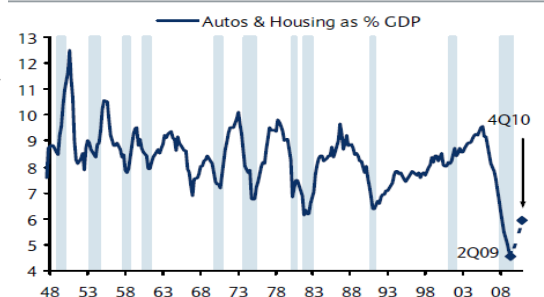
2. Most simply described as unprecedented, the disparity between the red-hot US stock market and unemployed Americans continues to grow. Since May, domestic equity markets have surged nearly 25%, while the US has shed two million jobs and is roughly 10 million short of full employment.

3. Business spending on new equipment has been so weak that the depreciation rate on US capital stock is set to decline in 2009 for the first time since WWII.

4. Past EVAs have consistently advocated buying gold and gold-mining stocks as a hedge against a weaker dollar. However, gold is now trading at more than four times the overall commodity index versus a 30-year range of 1.25 to 2.5 times. Also, speculative bulls on gold outnumber bears by 10 to 1 versus 4 to 1 a year ago.

5. In past recessions, a spike in consumer spending has been a harbinger that the *US Economy* was righting herself. While that may not be the case this time, there is clearly massive pent-up demand for both housing and autos.

## Durables: Well Below Normal Level

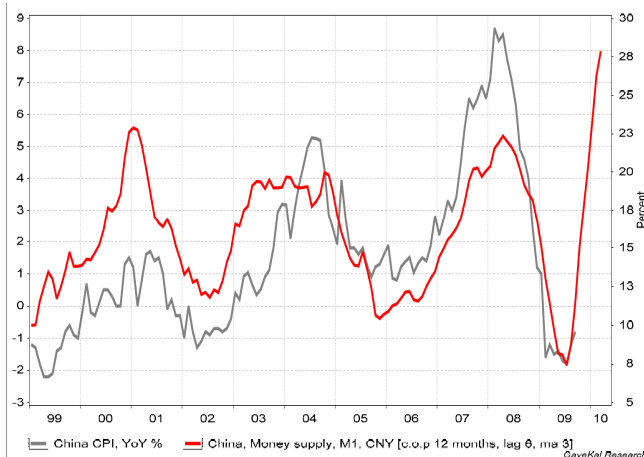


6. Renowned Wharton finance professor Jeremy Siegel recently pointed out that since 2000, stocks have performed worse than in the 1930s. Additionally, he noted that following the worst 10-year spans for stocks since 1871, the succeeding decades experienced real returns of 10% on average.

7. Justifying calls for greater transparency in the hedge fund industry, a recent NYU report states that roughly one in five managers misrepresent their fund and/or its results. The study concludes that despite the fundamental importance of integrity in the asset management business, incomplete and inaccurate disclosure of important information is not uncommon among funds selected for research. In the wake of the Bernie Madoff scandal, this is very unwelcome news for this industry.

8. While inflation in China remains low, the country's astounding 25% money supply growth versus a year ago has many economists fearing the dreaded *I word*. Additionally, bank loan growth is running at an astounding 140% over 2008 levels.

China M1 and Inflation



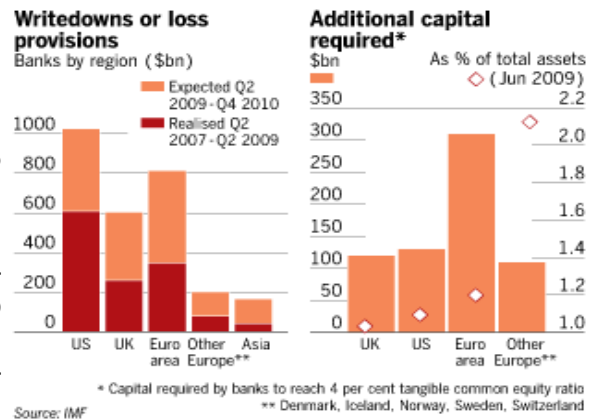
9. Qin Xiao, chairman of China's Merchants Bank, recently warned that by maintaining its current lax fiscal policy, China runs the risk of creating bubbles in its stock and real estate markets.

10. There is no doubt that China has been at the forefront of the global recovery. Yet, the country's health care remains sparse and its pension assets relative to GDP are just 3%, far below impoverished countries like Peru and Bolivia.

11. In its drive for clean energy, China will generate 401 gigawatts by 2020 via renewable energy sources—more than four times the capacity of all US nuclear power plants. China is currently responsible for about 22% of the world's carbon emissions.

12. Bleak results of a stress test on European banks were released in September. The IMF has estimated that US banks have incurred 60% of their eventual losses, versus just 40% for European institutions.

13. In stark contrast to the US, Brazil's employment has fully recovered to levels prior to the global downturn. Surprisingly, though, 41 million Chinese workers were laid off, representing 40% of total global job losses.



*David M. Hay*

David Hay | Chief Investment Officer | Evergreen Capital Management, LLC

**Our Current Likes & Dislikes**

<i>We Like</i>	<i>We're Neutral On</i>	<i>We Don't Like</i>
High quality preferred stocks yielding 7%-9%	Intermediate Treasury notes	Most cyclical resource-based stocks
Publicly-traded pipeline partnerships yielding 7%-9%	Long-term municipal bonds (with strong credit ratings)	Longer-term Treasury bonds
Investment grade corporate bonds	3-year to 5-year FDIC CDs	Emerging stock markets
International developed markets	High yield (junk) bonds	Small Cap Value
Intermediate municipal bonds (with strong credit ratings)	Large Cap Value	
Gold & gold-mining stocks	Mid Cap Value	
Emerging bond markets	REITs	
Large Cap Growth	Cash	
Mid Cap Growth		
Small Cap Growth		

No revisions were made since last week's likes and dislikes

For information regarding sources referred to and used in this article, please contact Kim Harlan at: [kharlan@evergreencapital.net](mailto:kharlan@evergreencapital.net)

*Important Disclosures*

*This report is for informational purposes only and does not constitute a solicitation or an offer to buy or sell any securities mentioned herein. This material has been prepared or is distributed solely for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. All of the recommendations and assumptions included in this presentation are based upon current market conditions as of the date of this presentation and are subject to change. Past performance is no guarantee of future results. All investments involve risk including the loss of principal. All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. Information contained in this report has been obtained from sources believed to be reliable, Evergreen Capital Management LLC makes no representation as to its accuracy or completeness, except with respect to the Disclosure Section of the report. Any opinions expressed herein reflect our judgment as of the date of the materials and are subject to change without notice. The securities discussed in this report may not be suitable for all investors and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. Investors must make their own investment decisions based on their financial situations and investment objectives.*



**EVERGREEN**  
CAPITAL MANAGEMENT

10500 NE 8th Street, Suite 950  
Bellevue, WA 98004  
425.467.4600 | 800-755-1359  
[www.evergreencapital.net](http://www.evergreencapital.net)