

By Mary Burr
Communications Committee

At the January 11 Third Mutual Board Meeting President Donald Liddle introduced Brian Pretti, Investment Advisor from Mechanics Bank and asked Mr. Pretti to speak to the Board about investment strategies.

Pretti began by saying he thinks we're living through one of the greatest financial accidents of our generation. Rates are the lowest of a lifetime and the Federal Reserve has made it unpalatable for anyone to be in safe short term securities. He said the Fed is basically trying to force people to buy risky assets. When the economy goes down they lower interest rates and force people out of safe securities and into riskier assets and then the assets go up in price - but not this time. Pretti says that we are looking at the greatest credit bust in the United States since the depression and it will be with us for many more years. He says that short term interest rates will continue to be low on into the future because they are trying to re-liquify the banking system in the United States. The banks are being allowed to earn a profit without making loans.

Pretti says a very telling sign was for three quarters in a row in the US, the greatest profit center for JP Morgan, BOA, City Corp, Goldman Sachs and Morgan Stanley were doing their own proprietary trading in their own accounts, not making loans or IPO's. That's how they re-liquify themselves and make money. He said the spread between the ten year Treasury today and the two year Treasury is the greatest spread ever seen in the history of the United States. Pretti said the importance of that spread is the "piggy-banker" spread. Banks get rich when the spreads on Treasuries are wide. They pay nothing at the short end and they invest at the long end. He said that this will continue for a while because what drove us to our initial downfall in the last few years was reckless mortgage lending in the US.

Pretti said the second shoe that's dropped is dropping in silence and is in commercial real estate. Earlier last year in February - the second don't ask, don't tell policy in the US - the Banks no longer have to market their assets. There are high losses in commercial real estate at this time. He said the way to re-liquify the banks is to keep the short term interest rates incredibly low and allow them to invest in longer dated securities and earn the interest rate spread.

Pretti said what all this means for Third Mutual is that the short maturities involved in bonds, CD's, etc. have rates that are incredibly low. On Christmas Eve the Government erased all the caps on Freddie Mac and Fannie Mae - they were originally given 400 billion dollars which they have lost over the last twelve months, and now they need another 400 billion dollars. The Administration said you can not only have 400 billion - you can have an unlimited amount of money for the next three years.

Pretti said that In February and March of 2009 the Federal Reserve announced they were going to print up 1.5 Trillion dollars. They used 1.2 Trillion to buy back mortgage backed securities - they have already bought 900 billion back, then they bought 300 billion dollars of newly issued US Treasury Bonds. They have kept rates low by printing money. He says the issue with short term Treasuries is that the value of the dollar is sinking like a rock and the foreign communities are becoming very upset with what the US is doing. In the year 2010 the US will be 3.5 Trillion dollars in debt. Two trillion is rolled over; 1.5 trillion will be new debt. That is 20 to 25% of the total US Gross Domestic Product. He said that over the next seven

years there will be 7 trillion dollars of new debt according to the current budget, so the issue becomes - at some point in time interest rates in the US will go up significantly - it's just not yet.

Pretti said that fifty-five percent of all the Treasuries are owned right now by the foreign community, the largest owner is China. China hasn't bought one additional US Treasury since March of 2009. He said this is why the Fed printed up all the money and purchased the Treasuries. In this way they take the place of China, the buyer to keep rates low and prices up. They won't be able to do this forever without consequences.

Pretti pointed out that by dictate Third Mutual monies have to be backed by the US Treasury or the FDIC. That leaves choices of Treasury Securities and CD's which are backed-up by the government. Today's CD interest rates are very low. Pretti does not recommend Treasury Securities because the rates of return are very low and there is a risk.

Pretti said when looking at rates of return, the most tolerable asset for Third Mutual right now are bank CD's. CD's are going to pay more than US Treasuries are going to pay and they are backed by the Federal Government. He suggested Third Mutual buy a series of CD's across a number of different banks and ladder the CD's. He said CD's can be bought in the financial markets every day because banks issue Brokered CD's. They trade like bonds, however the rate of return is not going to be good - probably 1/2% in six months.

Pretti said that because brokered CD's act like bonds their prices change everyday with the movement of interest rates. If interest rates go up on an interim basis the price of a brokered CD could go down. If rates go down the price of a brokered CD can go up. If bought and held until maturity the principle risk is zero.

President Liddle thanked Mr. Pretti for taking the time to speak to the Board.

On other matters, sales for 2009 in Third Mutual started out slow in January with 5 ranging in price from \$215,000 to \$390,000. In December 16 units sold ranging in price from \$200,000 to \$525,000. Overall 129 units sold in Third Mutual in 2009.

Charles Sanderson presented Clayton Clark's white paper on electrical connectors. Clark will have MOD Electrician Sang Pathoumthong sample the 220 electrical connections in each Project upon the Directors request. The cost is approximately \$500 to inspect and replace. Sanderson said it could be a safety problem and the Directors should be aware of this and budget for the inspections.

The Board also approved the Directors and Officers Insurance policy with Arthur J. Gallagher for 2010

Don Barnett called the Boards attention to the John F. Kennedy University Elder Law Clinic which provides free legal assistance to elders (age 60 and above) who have been financially abused or exploited and who are of low- to moderate-income and live in Alameda, Contra Costa, and Solano counties. The Clinic is staffed by students from the JFKU School of Law who are under the supervision of the Clinic's director.

Barnett said one of the residents in his District had trouble with a faulty installation of a heat pump and the contractor would not fix the problem. The resident went to the Elder Law Clinic, was assigned helpers and appeared before a judge who ordered the contractor to fix the problem.

The next regular board meeting is Monday, March 8, 2010, at 9 a.m. The Communications Committee will meet Tuesday, March 2. The Budget and Finance Committee meeting is Wednesday March 3, at 9:30 a.m. The Building Maintenance Committee meeting is Thursday, March 4, at 10 a.m. The Governing Documents Committee will meet Thursday, March 11, at 10 a.m. The Executive Committee will meet Thursday, March 18, at 9 a.m. All meetings are in the Board Room at Gateway.

Third Mutual's Web site is thirdwalnutcreekmutual.com.

For building and landscape maintenance call 988-7640. To have a work order cut for non-emergency work, e-mail the Service Desk at workorder@rossmoor.com. To leave a message for any Third Walnut Creek Mutual director, call 988-7718 or send an e-mail to TWCM@rossmoor.com. The Board Office is located at Gateway. All meeting agendas are posted in the reception area of Gateway.