To Buy or Not to Buy

With unemployment still above 9% and consumer confidence deteriorating, the Fed has stepped in once again in an attempt to spur the economy with lower borrowing costs by announcing in August that they would hold interest rates near zero through at least mid-2013, which is the first time they have specified a date. In September the Fed announced Operation Twist, replacing $400 billion of short-term Treasuries in the Fed's portfolio with longer-term bonds. This third round of asset purchases started in October and will end in June 2012. Operation Twist differs from the last two quantitative easing programs as it does not increase the Fed balance sheet by placing additional dollars in the system. Its intent is to shift demand to longer-term securities thus decreasing interest rates on mortgages and loans and potentially countering the rising risks of a recession. "This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative," the Fed said in its official statement. The Fed intends to buy longer-term bonds thirteen times each month, nominal Treasuries twelve times a month and Treasury Inflation-Protected Securities (TIPS) once a month. Simultaneously, they intend to sell short-term notes six times a month: nominal Treasuries five times a month and TIPS once a month.

The next release of the approximate purchase and sale amounts and tentative outright Treasury operation schedule will be at 2pm on November 31, 2011. At that time, the Desk will also publish information on transaction prices for securities included in the operations listed below.

Chart 1

PURCHASE OPERATIONS

Operation Date[1]	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size
11/3/2011	11/4/2011	Outright TIPS Purchases	01/15/2018 – 02/15/2041	$1.00 - $1.50 billion
11/4/2011	11/7/2011	Outright Treasury Coupon Purchases	11/15/2017 – 08/15/2019	$4.25 - $5.00 billion
11/7/2011	11/8/2011	Outright Treasury Coupon Purchases	02/15/2036 – 08/15/2041	$2.25 - $2.75 billion
11/8/2011	11/9/2011	Outright Treasury Coupon Purchases	11/15/2019 – 08/15/2021	$4.25 - $5.00 billion
11/10/2011	11/11/2011	Outright Treasury Coupon Purchases	11/15/2021 – 02/15/2031	$1.50 - $2.00 billion
11/14/2011	11/15/2011	Outright Treasury Coupon Purchases	02/15/2036 – 08/15/2041	$2.25 - $2.75 billion
11/15/2011	11/16/2011	Outright Treasury Coupon Purchases	11/30/2017 – 11/15/2019	$4.25 - $5.00 billion
11/17/2011	11/18/2011	Outright Treasury Coupon Purchases	02/15/2020 – 11/15/2021	$4.25 - $5.00 billion
11/18/2011	11/21/2011	Outright Treasury Coupon Purchases	02/15/2036 – 11/15/2041	$2.25 - $2.75 billion
11/22/2011	11/23/2011	Outright Treasury Coupon Purchases	11/30/2017 – 11/15/2019	$4.25 - $5.00 billion
11/22/2011	11/23/2011	Outright Treasury Coupon Purchases	02/15/2036 – 11/15/2041	$2.25 - $2.75 billion
11/28/2011	11/29/2011	Outright Treasury Coupon Purchases	02/15/2020 – 11/15/2021	$4.25 - $5.00 billion
11/29/2011	11/30/2011	Outright Treasury Coupon Purchases	02/15/2036 – 11/15/2041	$2.25 - $2.75 billion

[1] *Operations are tentatively scheduled to begin around 10:15 AM and close at 11:00 AM unless noted otherwise.*

SALE OPERATIONS

Operation Date[1]	Settlement Date	Operation Type	Maturity Range	Expected Sale Size
11/1/2011	11/2/2011	Outright Treasury Coupon Sales	08/15/2012 – 03/31/2013	$8.00 - $8.75 billion
11/9/2011	11/10/2011	Outright TIPS Sales	04/15/2012 – 04/15/2014	$1.00 - $1.50 billion
11/16/2011	11/17/2011	Outright Treasury Coupon Sales	11/15/2013 – 02/28/2014	$8.00 - $8.75 billion
11/21/2011	11/22/2011	Outright Treasury Coupon Sales	02/29/2012 – 07/31/2012	$8.00 - $8.75 billion
11/21/2011	11/22/2011	Outright Treasury Coupon Sales	03/15/2014 – 11/15/2014	$8.00 - $8.75 billion
11/30/2011	12/1/2011	Outright Treasury Coupon Sales	04/15/2013 – 10/31/2013	$8.00 - $8.75 billion

Source: Federal Reserve Bank of New York

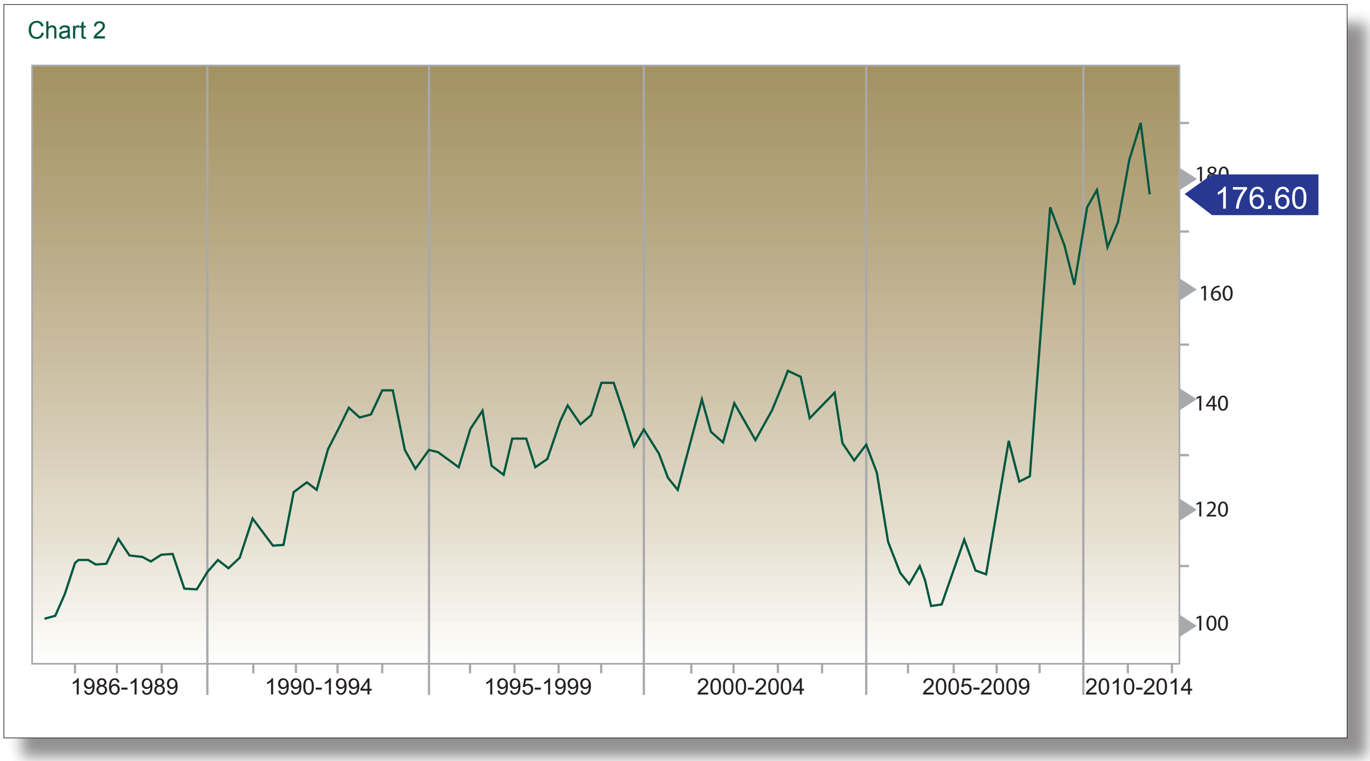
The Fed will also reinvest proceeds from maturing housing debt in mortgage-backed securities (MBS). Federal Reserve Bank of New York President William C. Dudley said the central bank wants to keep mortgage interest rates from rising too much. Dudley said that the decision to reinvest proceeds from maturing housing debt into MBS was a "signal that we do have concern about the level of mortgage spreads. Clearly we've indicated our interest in supporting the housing market" and keeping yields from "getting too elevated." He pointed out that monetary policy is not the final solution and that in order "to get the strongest possible recovery we need reinforcing action in areas such as housing and fiscal policy."

In an attempt to boost the housing market, the Federal Housing Finance Agency announced a series of changes to the Home Affordable Refinance Program (HARP) to allow homeowners to refinance regardless of the amount of decline in their house's value. The HARP was created in 2009 with a goal of reaching 5 million borrowers. As of August 31, 2011, nearly 894,000 loans had been refinanced. However, given the uncertainty of where interest rates are moving it is difficult to estimate how many mortgages will be refinanced under this program. (Source: Federal Housing Finance Agency)

Published monthly by the National Association of Realtors, the housing affordability composite index can gauge how likely a typical U.S. household is to be able to afford a home (Chart 2). When the index measures 100, a family earning the median income has exactly the amount needed to purchase a median-price resale home using conventional refinancing. Hence, an increase in the home affordability index indicates a family is more likely to be able to afford the median priced house, assuming a 20 percent down payment and a 25 percent qualifying ratio. The index is reported with a lag of one calendar quarter. It had fallen during the housing bubble in early 2006. The rise in recent years may suggest that homes across the nation have become increasingly more affordable. For example, a composite of 176, based on the most recent reading, signifies that a family earning the median family income has 176% of the income necessary to qualify for a loan. At the end of August, the preliminary median family income was $61,553 and the index closed at 183.7. Keep in mind, though, that the index is a nationwide composite; housing prices and affordability will vary in different metropolitan areas.

According to Bankrate.com data, the average interest rate on a typical 30-year fixed rate home loan declined to 4.17% on October 21 from 5.06% in February and reached a low of 4% earlier this month. Despite these low rates, there hasn't been much improvement in the housing market. According to figures from S&P/Case-Shiller, home prices in

HOUSING AFFORDABILITY COMPOSITE INDEX



Source: Bloomberg

the U.S. were down 31% as of June from the peak reached in June 2006. A combined 5.23 million new and existing homes were sold in 2010, lowest in 13 years, and 37% fewer than the record 8.36 million bought in 2005.

Why aren't more families buying homes? Are these households holding high levels of debt elsewhere? In theory, spending depends on current and expected future income and wealth. In the most recent reporting quarter, the U.S. household debt service ratio as a percentage of disposable income had fallen to 11.09% from its 2007 peak of almost 14%. So while household debt remained high, household wealth increased at a higher rate than household debt. Associated with this improvement in household wealth is a 150% increase in personal savings rate from 2007 levels. Even with the rise in household income and wealth, the large foreclosure pipelines may encourage potential homebuyers to delay further, in hopes of getting greater benefit from the distress, or from fears that their investment properties may remain depressed for quarters to come. In any event, statistics seem to present evidence of positive influences for continued personal deleveraging.

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POWERS OF ATTORNEY & TRUSTS

By Stephen Ink

Introduction

A "power of attorney" is a commonly used tool in estate planning to effectively manage one's assets. The Probate Code provides specific rules for how this document may be used.

Powers of Attorney

A "power of attorney" (abbreviated "POA") is a written document that is signed by someone who has capacity (the "principal") and which grants authority to an "attorney-in-fact" or "agent" to carry out certain actions on behalf of the person who signed the document. The power granted may be broad, or it may be limited, depending on the wording of the POA.

The most common type of POA for estate planning is the "springing durable power of attorney for financial management." It is typically abbreviated simply "DPOA." A DPOA is a power of attorney that can be exercised even if the principal is incapacitated. The DPOA terminates upon the death of the principal. A "springing power of attorney" refers to a power that springs up at a specific time, usually when the principal becomes incapacitated. A DPOA can be used as a type of inexpensive substitute for conservatorship in some cases where only minimal intervention is required.

Warning

It is important to note that a POA grants authority but no direction for how the power is to be used. Although there are laws that limit what can legally be done with a POA, a great deal of damage can be done before the laws stop a selfish agent. Thus it is imperative that the principal choose an agent who is trustworthy.

Duties & Authorities Granted by a POA or DPOA

When the principal is incapacitated, there are certain duties that are only authorized if they are expressly identified in the DPOA. The duties that must be expressly identified in the instrument are: (1) to create, modify, or revoke a trust; (2) to fund with the principal's property a trust not created by the principal or a person authorized to create a trust on behalf of the principal; (3) to make or revoke a gift of the principal's property; (4) to exercise the right to make a disclaimer on behalf of the principal; (5) to create or change survivorship interests in the principal's property or in property in which the principal may have an interest; (6) to designate or change the designation of beneficiaries to receive any property, benefit, or contract right on the principal's death; or (7) to make a loan to the agent.

Limitations on the Granting of Powers by a POA

Fiduciaries, such as trustees, may not delegate their power to serve in a fiduciary or trustee role under a POA. In other words, a trustee may not delegate, by a power of attorney, his or her role as trustee to someone else. However, a trustee may delegate the function of investment and management of the trust assets and the trustee may hire professionals to assist with the trust administration.

There are limitations to a DPOA. One cannot modify a trust by a DPOA, unless the power to do so is also listed in the trust itself. One cannot transfer assets to or from a trust unless the power to do so is also listed in the trust itself. A power of attorney may never be used to execute, amend or revoke a Will.

Conclusion

A Power of Attorney is an important tool one may use to effectively manage one's assets. A power of attorney has strict rules regarding its drafting and set up. Thus it is important to enlist a professional estate planning attorney to prepare the document.

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TOTAL RETURN SUMMARY

Index Name	Current Yield	P/E Ratio	2011 YTD	2010	1-Year	3-Year (1)	10-Year (1)	From Low 3/9/2009	From High 10/9/2007
				Total Return Through 10/31/2011					
Equities & Alternatives									
S&P 500 (U.S. Large Companies)	2.1%	12.8	1.3%	15.1%	8.1%	11.4%	3.7%	95.6%	-12.5%
S&P 400 (U.S. Medium Size Companies)	1.5%	17.4	-1.1%	26.6%	8.5%	17.9%	8.4%	128.1%	3.0%
S&P 600 (U.S. Small Companies)	1.4%	19.8	-0.9%	26.3%	10.5%	13.8%	8.4%	131.7%	-2.9%
MSCI EAFE (International Developed Markets)	3.6%	12.0	-6.3%	8.4%	-3.6%	10.5%	6.4%	81.6%	-25.8%
MSCI Emerging (International Emerging Markets)	2.9%	11.0	-11.5%	19.0%	-7.7%	23.4%	16.8%	119.4%	-12.6%
FTSE NAREIT Equity REITS (Com'l Real Estate)	3.7%	N/A	7.4%	27.9%	10.1%	16.6%	8.2%	198.2%	-8.3%
Dow Jones UBS Commodities Index	N/A	N/A	-8.0%	16.7%	1.5%	4.2%	5.2%	42.6%	-13.8%
Gold (Spot price $/OZ)	N/A	N/A	20.7%	29.5%	26.1%	33.3%	19.9%	86.0%	132.4%
West Texas Intermediate Crude Oil ($/Barrel)	N/A	N/A	2.0%	15.1%	14.4%	11.2%	16.0%	98.0%	16.1%
Fixed Income (Barclays Capital Indices)		Avg. Maturity							
U.S. Aggregate	2.4%	7.3	6.8%	6.5%	5.0%	8.9%	5.5%	21.9%	30.7%
U.S. Treasury Aggregate	1.2%	7.4	8.0%	5.9%	5.3%	6.3%	5.2%	13.3%	30.8%
U.S. Aggregate Credit Index (Corporate Bonds)	3.4%	10.4	8.1%	8.5%	5.9%	14.5%	6.2%	39.9%	34.6%
U.S. Corporate High Yield (Below BBB-rated)	8.2%	6.7	4.5%	15.1%	5.2%	23.0%	9.1%	93.0%	37.7%
Global Majors ex-U.S.	1.9%	9.1	7.0%	7.0%	3.6%	9.8%	8.1%	29.6%	39.3%
Global Emerging Markets	5.9%	10.5	6.7%	10.9%	3.4%	22.1%	N/A	63.2%	37.1%
Municipal Bond (5 Year National Average)	1.9%	N/A	4.7%	3.4%	3.0%	6.5%	4.5%	14.8%	25.4%

(1) Annualized

YIELD AND INTEREST RATES REVIEW

	Rates as of: 10/31/2011	4/30/2011	10/31/2010	12/31/2009	8/31/2007	10/31/2001
S&P 500 Yields						
Earnings Yield	7.57%	6.45%	6.78%	5.52%	6.10%	4.47%
Dividend Yield	2.07%	1.80%	1.94%	2.11%	1.85%	1.47%
Treasuries						
3-Month	0.07%	0.06%	0.10%	0.05%	4.11%	1.99%
6-Month	0.04%	0.13%	0.19%	0.16%	4.33%	1.91%
1-Year	0.16%	0.21%	0.22%	0.49%	4.36%	1.96%
2-Year	0.26%	0.61%	0.37%	1.15%	4.17%	2.47%
3-Year	0.43%	1.00%	0.55%	1.66%	4.15%	2.95%
5-Year	0.99%	1.98%	1.17%	2.71%	4.15%	3.67%
7-Year	1.58%	2.68%	1.91%	3.42%	4.37%	4.07%
10-Year	2.18%	3.40%	2.65%	3.92%	4.60%	4.24%
30-Year	3.13%	4.44%	4.00%	4.63%	4.82%	4.88%
Corporate Rates (Financials - AA)						
2-Year	1.47%	1.51%	1.45%	2.16%	5.14%	3.33%
3-Year	1.81%	1.95%	1.70%	2.79%	5.19%	3.94%
5-Year	2.51%	3.00%	2.45%	3.79%	5.43%	4.91%
7-Year	3.29%	3.88%	3.29%	4.65%	5.63%	5.41%
10-Year	3.98%	4.45%	3.97%	5.15%	6.00%	5.72%
Corporate Rates (Industrials - AA)						
2-Year	0.68%	0.92%	0.79%	1.63%	4.82%	3.23%
3-Year	0.93%	1.46%	1.16%	2.39%	4.90%	3.65%
5-Year	1.50%	2.46%	1.88%	3.47%	5.05%	4.51%
7-Year	2.14%	3.32%	2.74%	4.26%	5.25%	5.08%
10-Year	2.98%	4.12%	3.61%	4.83%	5.46%	5.41%
California General Obligation Issues (A1 / A-)						
2-Year	1.01%	1.42%	1.02%	1.56%	3.67%	2.53%
3-Year	1.48%	1.79%	1.34%	2.00%	3.73%	2.77%
5-Year	2.33%	2.53%	2.00%	2.84%	3.86%	3.25%
7-Year	3.05%	3.33%	2.80%	3.81%	4.00%	3.65%
10-Year	3.85%	4.31%	3.93%	4.63%	4.35%	4.12%

ECONOMIC SURVEY

	Periods: Freq.	Recent	Data: Earliest			Recent
Economic Aggregates						
GDP QoQ (Annualized)	Qtrly	9/30/11	2.3%	0.4%	1.3%	2.5%
Leading Indicators	Monthly	9/30/11	0.3%	0.6%	0.3%	0.2%
Personal Consumption	Qtrly	9/30/11	3.6%	2.1%	0.7%	2.4%
Personal Income	Monthly	9/30/11	0.2%	0.1%	-0.1%	0.1%
Personal Spending	Monthly	9/30/11	-0.2%	0.9%	0.2%	0.6%
Employment						
Unemployment Rate	Monthly	9/30/11	9.2%	9.1%	9.1%	9.1%
Change in Nonfarm Payrolls	Monthly	9/30/11	20K	127K	57K	103K
Change in Private Payrolls	Monthly	9/30/11	75K	173K	42K	137K
Nonfarm Productivity	Qtrly	6/30/11	2.1%	2.2%	-0.6%	-0.7%
Prices						
Consumer Price Index (MoM)	Monthly	9/30/11	-0.2%	0.5%	0.4%	0.3%
Consumer Price Index (YoY)	Monthly	9/30/11	3.6%	3.6%	3.8%	3.9%
CPI Ex Food & Energy (MoM)	Monthly	9/30/11	0.3%	0.2%	0.2%	0.1%
CPI Ex Food & Energy (YoY)	Monthly	9/30/11	1.6%	1.8%	2.0%	2.0%
Retail Sales						
Advance Retail Sales	Monthly	9/30/11	0.2%	0.4%	0.3%	1.1%
Retail Sales Ex Auto & Gas	Monthly	9/30/11	0.5%	0.3%	0.5%	0.5%
Manufacturing						
ISM Manufacturing	Monthly	10/31/11	50.9	50.6	51.6	50.8
ISM Non-Manf. Composite	Monthly	9/30/11	53.3	52.7	53.3	53.0
Industrial Production	Monthly	9/30/11	0.0%	1.1%	0.1%	0.2%
Capacity Utilization	Monthly	9/30/11	76.6%	77.4%	77.3%	77.4%
Confidence						
U. of Michigan Confidence	Monthly	10/31/11	63.7	55.7	59.4	60.9
Consumer Confidence	Monthly	10/31/11	59.2	45.2	46.4	39.8
Housing & Real Estate						
Existing Home Sales MoM	Monthly	9/30/11	0.6%	-3.5%	8.4%	-3.0%
New Home Sales MoM	Monthly	9/30/11	-1.6%	-2.0%	-0.3%	5.7%
S&P/CS 20 City MoM% SA	Monthly	8/31/11	-0.1%	-0.1%	-0.2%	-0.1%
S&P/CS Composite-20 YoY	Monthly	8/31/11	-4.5%	-4.5%	-4.2%	-3.8%

Source: Bloomberg

BOREL INVESTMENT MANAGEMENT & TRUST TEAM

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Stephen Ink joined Borel Private Bank & Trust Company in 2006 with a variety of fascinating experiences including 15 years of law practice and 8 years of service as a minister for two different churches. As an estate planning attorney and minister, he developed strong long-term relationships with those he served.

Mr. Ink is a member of the California State Bar, the Santa Clara and San Mateo County Bar Associations and is a former member of the National Network of Estate Planning Attorneys. He has a B.S. in Film and Television Production from Montana State University, an M.A. in Religion from Pepperdine University, an M.Div. from Abilene Christian University and a J.D. from Santa Clara University School of Law.

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