



The Polar Letter

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Recession is somewhat like the common cold in that it can easily be made much worse, but not cured.

Author unknown

In past letters, we have expressed our opinions concerning the health of the insurance industry (no pun intended). We have been for some time, and are, concerned about the viability of the insurance industry in many segments, as well as commercial real estate, municipal debt defaults, and consumer credit debt.

Our last letter contained an example of a municipal bond sale, so it occurred to us that perhaps further rhetoric on our concerns for both the insurance industry and municipal debt default were in order.

Specifically, we believe that it is possible that several United States “municipalities” may default on some debt, or possibly even declare bankruptcy. If this were to occur, we do not believe that the municipal bond insurance system would remain solvent. Naturally, this would place insured municipal issues (with otherwise poor credit ratings) at risk. A bit less than a year ago, Forbes published some “advice” concerning municipal investments, we paraphrase some of their comments below together with our notes:

- Know the underlying rating (rating without insurance) of any insured issue.
- Assume (as we do) that municipal bond insurance may be worthless, unless the insurer is the Texas Permanent School Fund.
- It is prudent to “price” bonds with more than one firm when purchasing (or selling).
- Insure that the bonds being considered for purchase have sufficient liquidity and credit quality should it becomes necessary or desirable to sell some or part of the investment prior to maturity.
- Unless you have considerable municipal securities experience, we advise avoiding leveraged closed end municipal funds.

We consider the above only “basic guidelines”. In our view, this perilous economic and investment environment requires the guidance of an investment professional with the “seasoning” and experience necessary to evaluate the big picture.

We recently read an analysis by T2 Partners (New York) concerning the “housing crisis.” They are of the opinion that the crisis is perhaps only half over. We agree with their analysis which may be viewed at:

http://www.designs.valueinvestorinsight.com/bonus/pdf/T2_Housing_Analysis.pdf

Please call us for a consultation concerning your situation. Initial telephonic consultations are complimentary.



Michael C. Jordan
President

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