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# THE EVERGREEN VIRTUAL ADVISOR (EVA)

December 17, 2010

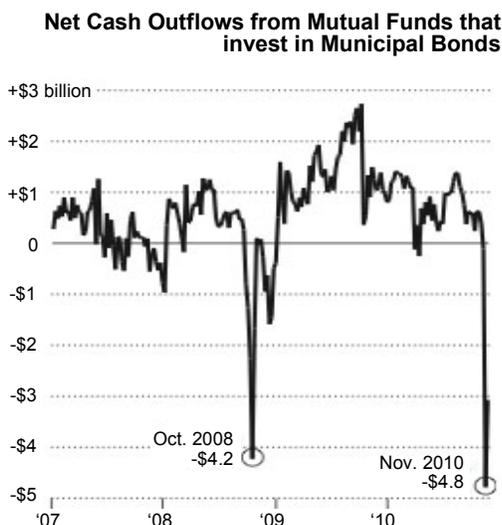
*“Pessimism is so often wrong because people assume a world where there is no change or innovation. They simply extrapolate from what is going on today, failing to recognize the new developments and insights that might alter current trends.”*

-Bill Gates

## Points to Ponder

### Skittish Investors

Recently, investors in mutual funds that hold municipal bonds have been pulling money out at a rapid clip, even faster than when the markets melted down in 2008.



1. Year-end supply pressures and credit fears continue to hit the tax-free bond market, driving yields on some gilt-edged issues with intermediate maturities up to 5%. Predictably, retail investors, who own roughly 70% of all municipal debt, are fleeing at a rate not seen since the outstanding buying opportunity seen in 2008.

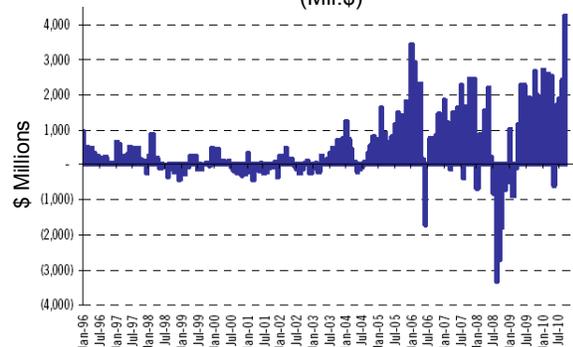
2. Canada’s residential real estate market has fully recovered partially due to an influx of wealthy Asian buyers. Its “Business Immigration Program,” requiring an upfront investment of \$400,000, is cited as one reason the average home price in Vancouver, BC, is nearly \$1 million.

3. As noted in prior EVAs, California voters failed to boot big spending politicians out of office, resisting the national anti-incumbent trend. One encouraging outcome, however, was the passage of a bill authorizing a non-political commission to redraw political districts, hopefully ending California’s notorious gerrymandering.

4. In vivid contrast to the pronounced outflows now impacting municipal bond funds, investors continue to pump money into emerging stock markets. It is interesting to note that past episodes of extreme in-flows were followed by sharp corrections, causing investors to redeem at depressed prices.

5. By 2025, Europe is projected to have 35 cities with populations in excess of 1 million. However, China is expected to have 221 cities of that size or greater.

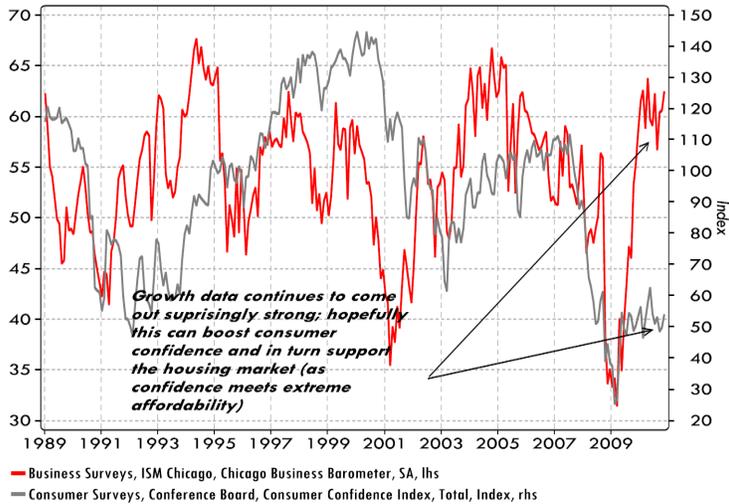
**ICI: Emerging Markets Funds: Net Cash Inflow (Mil. \$)**



6. Based on a recent study of air pollution in Northern California, it's estimated that 29% of the fine airborne particles in the Bay Area come from Chinese coal fired power plants.

7. Historically, the Chicago Purchasing Manager Index (PMI) has been a reliable leading indicator of consumer confidence. Yet, for nearly a year, the gap between these two measures has remained cavernously wide.

US Chicago PMI and Consumer Confidence



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8. Though news about Europe's banking crisis has died down as the Holiday Season approaches, it's unlikely to stay quiet after the first of the year. Spanish banks are already being forced to pay rates as high as 6% to attract deposits.

9. Most Americans know the service sector of the economy is essential when it comes to the labor picture though they might not fully appreciate the magnitude. Out of 130 million US workers, 112 million are employed in service industries.

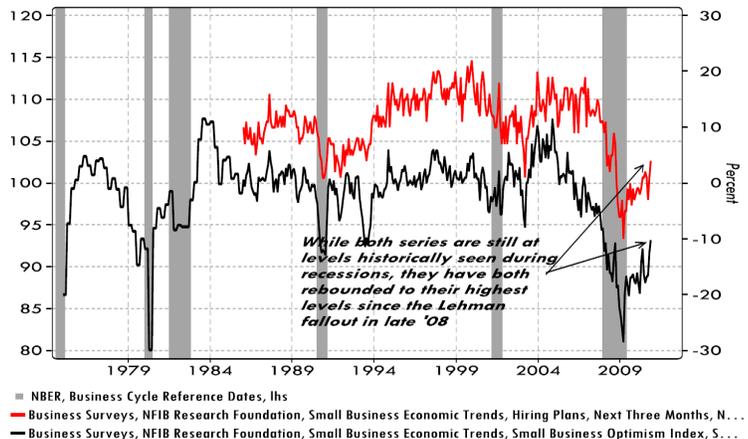
10. Small businesses produce roughly 70% of US job growth; therefore, the intense lack of confidence among entrepreneurs and their related muted hiring intentions has definitely been a factor in keeping unemployment elevated. Lately, however, there has been noticeable improvement in both regards.

11. Further illustrating the importance of small enterprises to employment, since 1977 net job creation would have been negative in most years without their hiring efforts. Additionally, young firms (those less than 5 years old) generated nearly two-thirds of all jobs.

12. One of the many reasons the US is unlikely to retrace the staggering economic footsteps of Japan over the last twenty years is that our real estate bubble was much smaller. At the peak of the Japanese property mania, the 7.4 square kilometers underneath the Imperial Palace was valued in excess of the entire state of California.

13. A somewhat offbeat, but fascinating, factoid is the discovery of a correlation between improved life expectancies from 1990 to 2007 in countries with higher concentrations of US troops.

US NFIB Small Business Optimism & Hiring Plans Component



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Increase in Life Expectancy, in years, 1990-2007

Annual U.S. Troop Presence	High income countries	Middle income countries	Low income countries
Heavy (250+)	4.1	4.4	4.5
Light (5-250)	3.9	2.5	3.0
Nil (0-5)	2.7	0.5	2.6

*David M. Hay*

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## Our Current Likes &amp; Dislikes

We Like

Intermediate municipal bonds  
with strong credit ratings

Long-term municipal bonds  
with strong credit ratings

BB-rated corporate bonds  
(i.e., high quality, high yield)

Blue chip oil stocks

Large Cap Growth

Large Cap Value

Mid Cap Growth

We're Neutral On

Publicly-traded pipeline partnerships yielding 6-7%

Short-to-intermediate term investment grade  
corporate bonds

High quality preferred stocks yielding 7%

International developed markets

3-year to 5-year FDIC CDs

Intermediate Treasury notes

Longer-term Treasury notes

Emerging bond markets

High yield (junk) bonds

Gold-mining stocks

Small Cap Growth

Mid Cap Value

Cash

Gold

We Don't Like

Long-term investment grade corporate bonds

Real Estate Investment Trusts (REITs)

Most cyclical resource based stocks

Emerging stock markets

Small Cap Value

No changes were made to this week's Our Current Likes & Dislikes.

For information regarding sources referred to and used in this article, please contact Kim Harlan at:  
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