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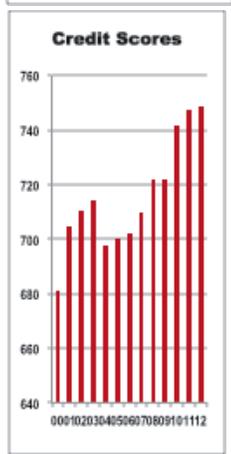
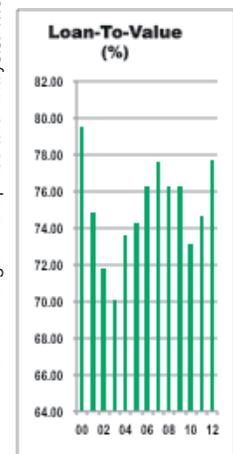
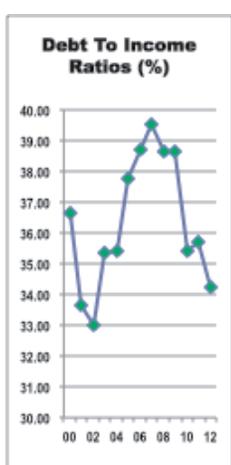
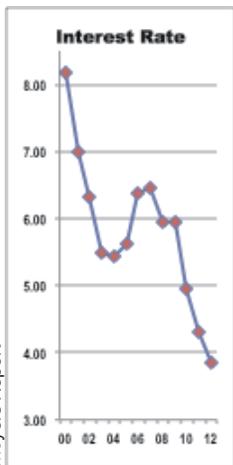
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THE MEYERS REPORT Economic Notes

Housing Market Environment Mixed for 2013 As we end 2012, the environment for the borrowing on primary residences is mixed.

Good news for borrowers: Interest rates have never been lower and averaged 3.85% thus far in 2012. Lenders are allowing more debt on primary homes with loan-to-value ratios (LTVs) going up to 77.75%, the highest since the year 2000, when it hit 79.46%.

Bad news for borrowers: Qualifying for a mortgage is tougher now than at any time since 2000. The average credit score for a borrower has risen to 748; in 2000 the score was 681. Incomes also have to be stronger, as debt-to-income (DTI) ratios have been reduced. When lenders qualify borrowers, they are allowing a smaller portion of their gross incomes to go to housing costs. In 2012, lenders allowed DTIs of 34.12%, down from a 2007 high of 39.51%.



"Men make history and not the other way around. In periods where there is no leadership, society stands still. Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better." — President Harry S. Truman

Case in point ...

"When I first went to CCF, it seemed that the world was collapsing. We had law suits coming and going, producing nothing but a cash-drain. We were running out of money and winning nothing. Everything seemed hopeless. Five hours after meeting these people, I knew there was a G-d."

K. B., widow who inherited defunct auto dealership

Bottom Line:
 Call CCF 224-715-5555.
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THE MEYERS REPORT

by Gary S. Meyers and Robert Genetski, Ph. D.

Could China Become World Ally For US?

With the presidential election being held in the next 24 hours, we are taking a look at which countries and world leaders have been endorsing our candidates and what it might mean in terms of geo politics.



8. **Historic ally.** China and the US traditionally are friends, not enemies. The US did not participate in the Opium Wars of the 1800s and was the only major Western power that did not set up a "Sphere of

Influence" (colonies) as the Europeans did. In fact, we rejected and opposed their establishment.

9. **Historic ally.** During the Cold War, China never really got along with Russia. The 1,000+ mile border, along the Amur River Valley, has been a constant place of armed conflict for over 400 years. Even during the Cold War in the 1960s, China several times invaded and took over Russian towns.

10. **Historic ally.** After the Boxer Rebellions in the late 1800s and early 1900s, it was the US which supplied China with money, weapons and volunteers to help Sun Yat-sen overthrow the Qing dynasty, so China could gain its independence from foreign powers. In forming the Republic of China in 1912, Sun established the roots of democracy in his country, an idea that never died, even when the Communists took over in 1948.

11. **Historic ally.** It was the US that continued to help Sun's successor, Chiang Kai-shek, resist the Japanese in the 1930s and in WWII.

Endorsing the reelection of President Obama are Hugo Chávez (Venezuela), Vladimir Putin (Russia), Mahmoud Ahmadinejad (Iran) and Mohamed Morsi (Egypt). Besides being dictators, these countries are all oil producers (except Egypt, which is tied to oil producers). These countries all have a stake in the US not becoming energy self-sufficient and in becoming weaker. These countries also are moving away from democracy, freedom and away from the rule of law.

Then there is China, whose television stations are clearly endorsing Romney, even though he threatens trade sanctions against China. We believe that China doesn't care for the following reasons.

1. **Debt repayment.** China believes that under a more frugal US fiscal policy, they have a better chance of getting their debt repaid.
2. **Arbitrator.** China also needs a strong America to help peacefully arbitrate their territorial conflicts with Russia, India, Japan and Taiwan, any one of which could go hot.
3. **Customer/vendor.** China also needs a strong US economy to keep us as a great customer and a vital supplier, particularly for technology.
4. **Energy security.** China, like the US, is hell bent on becoming energy self-sufficient, or at least less dependent on the Middle East and Russia, their historic neighbor-enemy.
5. **Standard of living.** China needs to feed its poor and the only way they can do that is through growing their economy Western style, like the USA.
6. **Rule of law.** Because China is determined to improve their economy, they are moving toward becoming a country where the rule of law prevails, because that is the only way they can get foreign investment and businesses to come into their country. Without a rule of law, which includes strong property and personal rights, contracts with foreigners would have no value, and foreigner investment will not occur.
7. **Growing democracy.** With the rule of law comes democracy and personal freedom. After decades of failed "Five Year Plans," they know that moving toward free(r) trade is the path for growth and the personal freedoms come with it.

There are many commonalities of interests, which is why we forecast a greater era of cooperation and even an alliance with the Chinese and not a conflict. Yes, there are trade and copyright issues and currency manipulations. We expect that the Chinese will control themselves as they move more toward a market economy—because they have to.

The Chinese no more want to be held hostage to OPEC and the Middle East for oil than we do. They certainly do not want to rely on Russia for fuel, their traditional enemy. They also worry about North Korea, whom they view as being barely controllable. China will always fear a nuclear-armed Japan, which is inevitable, unless North Korea and Iran are controlled. Then there is nuclear-armed India, with whom they have had a war. Now throw in civil unrest found in nuclear Pakistan and the other 'stans' and you have true reason for concern and a need for China to have strong stable allies, such as the US.

The bottom line: The Chinese see the US as a source of vital energy and other technologies as they move toward energy independence. In the end, China has far more to gain and far more interests in common with the US than much of the rest of the world.

Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	1.71	relatively stable
Equities: S&P 500	2000	1424	negative
Equities: Dow Jones	16,000	13,163	negative

From a political perspective, Friday's unemployment rate report was a non-event. The unemployment rate was reported to be 7.9% for the second consecutive month. While job growth improved, the improvement was less than which occurred earlier in the year.

Market Outlook Stocks moved higher this past week with most of the major indexes gaining roughly 1%. A slightly stronger gain of 1½% occurred in the broadest index.

From a technical standpoint there was a slight improvement. Trading volume on Thursday's market gains was slightly above average. In another mildly positive turn, the S&P 500 found support slightly above the key 1396 area. In addition, the broadest stock index moved above its 50-day moving average.

While these developments point to a slight improvement in investor psychology, they are not enough to produce a neutral or positive reading. For all indexes, the 10-day averages remain below the 50-day averages. This is not a positive sign. Hence, I continue to recommend placing equity portfolio positions halfway between defensive and neutral.

As for longer-term interest rates, rates on Treasury Notes continue drifting higher. However, rates on AAA corporate bonds remain flat and rates on lower grade corporate bonds have drifted lower. On balance, longer-term interest rates have been and are likely to remain relatively stable.

