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Subject Line: Mid-Year Analysis: Summer Slowdown

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With half of 2010 now behind us, I want to bring you our analysis of the market and economic conditions facing us in the second half of the year.

There is still a great deal of economic uncertainty - and when there's uncertainty in the markets - that spells volatility. And, while we were hopeful last quarter that this condition would diminish, it has not. The volatility remains - and may be here to stay.

As we struggle to recover from the recession, there's growing evidence to suggest the economy is currently stuck in low gear:

- There's a lack of full confidence in the government policy makers to "get it right". U.S. banks are uncertain how much extra capital regulators will require them to set aside due to the financial regulatory bill that was just signed into law. They remain hesitant to lend money to businesses & consumers. Companies, large & small, are still calculating the costs of the 10-year healthcare overhaul that Congress passed in March. Also, a big unknown is the fate of former President Bush's tax cuts on personal income, capital gains & dividends which will expire in January unless Congress votes to extend them.
- A new report by the Federal Reserve indicates that economic growth and job prospects will increase at a slower than expected rate this year. The Fed said the lower economic projections reflect "economic developments abroad" - a clear reference to the European debt crisis that began in Greece and continues to threaten to spread to other European countries. The unemployment rate remains "stuck" at a very high rate of 9.5%.
- Retail sales continue to drop - a sign that a strengthening economic recovery may still be months away. For the second consecutive month, Americans are spending less - this time the data pointing to a drop in auto sales.

- And, even though home mortgage rates remain at the lowest level in decades, the housing market continues to sputter with more troubling news. According to a national report, more than 1 million American households are likely to lose their homes to foreclosure this year - a number that one industry expert calls "unprecedented."

All of this is generating additional concern that's being reflected in new public opinion polls like the one from CBS News which indicates 51% of Americans now believe that the recession will continue to be felt beyond the next two years. And, 56% said the \$787 billion stimulus program passed last year by Congress has had "no impact."

There is something that is becoming increasingly clear as a result of the current financial and economic environment. It's forcing us to re-define terms. What does "normal" mean? When it comes to the economic picture, the new "normal" is likely to be the new "volatility" that exists. Uncertainty breeds volatility. And that's the dominant cycle right now - a cycle that we believe will continue for months to come.

Yes, this environment presents serious challenges in managing your investments. Low interest rates mean lower returns on savings, financial returns and retirement funds. But challenge does not mean panic. Now, more than ever, this is the time to exercise patience. This market requires patience.

We will make it through this challenging time. We will weather this volatile market - together.

As part of our commitment to keeping our clients aware of current events that affect their money, we've revamped our website which you can access here (<http://kapustafinancial.com/>) to provide you with additional information that we hope you will find helpful. We've included a new section to the website (<http://kapustafinancial.com/resources/articles.html>) where we post current news articles about the U.S. economy, world markets, money & investing & the national debt.

We appreciate the confidence and trust you have placed in us and we are working diligently to manage risk and present investment opportunities as they arise.

As always, if you have any questions or concerns please don't hesitate to give us a call.

Sincerely,

George

George Kapusta, CFP

President