

August 11, 2011

Stay the Course in this Turbulent Market

This is a week that will go down in the history books. The volatility on Wall Street not only made headlines, it is also likely to remain with us for some time.

Let's take a brief look at what happened this week - with some context and perspective.

As we told you in our email earlier this week, the economic roller coaster began when one company, S&P, downgraded the U.S. credit rating. Big swings in the markets ensued, aided by computer-generated trading. The ups-and-downs in the Dow Jones Industrial Average, for instance, were telling - huge gains and huge losses - massive swings of 400 to 500 points - virtually within minutes of each other. These wild fluctuations are pushing the price of gold higher, now closing in on a record price of \$1,800 an ounce.

What began as a rocky week only got worse as additional economic and financial data was released.

On Tuesday, the Federal Reserve - in an unprecedented move - announced it was keeping short-term interest rates near zero for the next two years. While this triggered a brief rally on Wall Street, that quickly faded as most experts agreed this move revealed that the Federal Reserve does not see our economy strengthening and bouncing back any time soon.

All of this is happening as concern grows about a global banking crisis. France is on the verge of its credit rating being downgraded. Other European countries are facing similar prospects. This is just another graphic reminder that all economies around the world are tied together. And, that makes the situation on Wall Street even more unpredictable.

There is a silver lining of sorts, however, concerning U.S. debt. Despite record low yields, U.S. Treasury bonds are in demand. In a two-day period this week, the U.S. Treasury sold nearly \$60 Billion in debt. Despite our downgrade, U.S. Treasury bonds are still viewed as a "safe haven."

What happens now? More volatility to be sure. And likely more involvement from the federal government.

There's growing speculation that the Federal Reserve, with its move to freeze interest rates this week, is setting the stage for what's known in the financial community as QE3. That translates to "Quantitative Easing" - a tactic that's often described as "printing more money" since the intent of this strategy is to increase liquidity - to put more cash into the economy. (That, of course, does not help our burgeoning debt.) This strategy was used twice in recent years - going back to the financial crisis of 2008. Most experts agree that this strategy has done little in the past to spur economic growth, but it has resulted in moving the markets higher. So, don't be surprised if we see another attempt (the 3rd in recent years) to jump-start an economic rally on Wall Street - with another round of "Quantitative Easing" either at the end of this year or early 2012.

That leads us to another important point. This economic volatility and uncertainty is not taking place in a vacuum. All of this is intertwined with our political system. With the 2012 elections 15-months away, you can expect intense political posturing in the months ahead - from all parties - from all politicians. And our economy - and the markets - will be right in the middle of it all.

Keep in mind what we have discussed in earlier emails. The problems with our economy are solvable. The solution, however, is not necessarily attractive to politicians. We need to spend less. Stop spending money we don't have. It's that simple.

The advice we offered earlier this week remains true today. The prudent course, in our view, is to keep current investments in place - on hold. This is not the time to make significant changes to your portfolio. We're keeping a watchful eye on your investments and will contact you immediately if any changes are warranted.

These are turbulent times, to be sure. That is exactly why you can count on us - to provide you with sound investment advice - not just when economic conditions are stable - but especially during the most challenging of times as well.

Thanks for your confidence and trust in our work. Please don't hesitate to contact us with any questions or concerns.

Sincerely,

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