

August 9, 2011

## **MARKET UPDATE**

The events of the past week - especially the last few days - on Wall Street are enough to make even the most seasoned financial veterans queasy. Let's take a moment to sort out fact from fiction.

This is not 2008 when the markets truly did experience what many believed was a market meltdown of sorts. The problem in 2008 was a lack of liquidity - companies and corporations had very small cash reserves, or none at all. That is not the case today. Liquidity is not the problem. In fact, corporations are hoarding over \$2 Trillion in cash reserves, not willing to invest in hiring employees because of the current economic and political atmosphere. The money is there, the motivation to invest is not.

While S&P lowered its credit rating for the U.S. currency, two other rating agencies, Moody's and Fitch, did not. But the problem of rising government debt coupled with a lack of economic growth is very real, as we have been detailing in our recent emails to you.

What we are experiencing is a dramatic reaction to the S&P downgrade and the concerns facing our economy. All of this is triggering uncertainty and volatility. In fact, the volatility index - sometimes called the "fear" index - has reached its highest level since 2009.

Most analysts believe the market has been overvalued for some time now, and most predicted a market correction. We believe this is exactly what's taking place. The wild swings in the markets are made worse by computer generated trading. Now, there's growing concern that this correction is paving the way for a "double dip" recession. Remember a recession is termed as "two quarters of negative Gross Domestic Product (GDP) growth, back to back." Although the GDP forecasts have been reduced, they are still in positive territory.

In our view, what's more likely to be occurring is "stagflation" – a condition of slow economic growth and relatively high unemployment.

In recent emails, we have discussed the economic challenges facing America - and the world. We are spending money we don't have. And the longer that occurs, the more volatility, the more uncertainty and the longer it will take for our economy to bounce back.

We're hearing from a lot of you right now and there are two key questions that come up:

1. Should we sell off and go to cash?
2. Is this the time to purchase stocks and mutual funds?

Right now, the answer to both questions is NO. The markets are still too volatile to predict with any certainty on where the "bottom" is and where they will go in the near future. The markets need to find their footing - they need to stabilize - before any significant changes should be made.

We understand your anxiety and concern. But, rest assured, we are carefully monitoring developments and will contact you immediately if we believe any investment moves in your portfolio are necessary.

As always, thanks for your confidence and trust in our work. And, please, don't hesitate to call if you have any questions or concerns.

Sincerely,

**George**

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