

Perspectives on Recent Volatility

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The last few weeks have been confusing and interesting ones for investors. The stock market fluctuations and current economic picture have been uncertain at best. In the last few weeks, several important issues have dominated the financial news.

Like you, we are concerned about the overall health of the stock market and economy. Given these circumstances, we thought it would be helpful to address some of your concerns and share some of our thoughts about investing in general.

A Closer Look at the Downgrade

One issue that has captured a lot of attention is the recent downgrading by Standard and Poor's of the United States from AAA to AA+. Broadly, we feel the downgrade is in line with fiscal policy in the United States. Running up more debt to get out of a debt crisis is counterintuitive and in the long term, counterproductive. The downgrade speaks more to the currency value than anything. U.S. Treasuries will be repaid in full, though that repayment may be with heavily devalued U.S. Dollars. In light of the downgrade, government securities saw an increase in demand, so the ability to pay wasn't being questioned; the U.S. government still enjoys borrowing costs that other nations wish for. Fortunately, like any other lender, "company management" at U.S.A., Inc. is subject to shareholder vote, and both sides of the political spectrum need to hear what the downgrade and the equity market are saying in response to the current

management's course of action. If the debt downgrade brings more attention to the budget issues and the political process, perhaps there is a silver lining in an otherwise ugly moment.

The Economy

Another issue that is providing a storm cloud of uncertainty is the struggling U.S. economy. There is debate as to if we are moving into a recession or continuing to stay out of one. The current U.S. economy still shows confusing signs and this in turn is accelerating fear for many investors. Our current view is that there is a lot of cause for concern, but not cause for panic.

As we consider the current environment, we are encouraged by the strength we see coming out of corporate America. On the whole, recent earnings announcements have been strong, revenues are up and balance sheets show healthy cash positions. It is our hope that these strong fundamentals will continue to drive growth of the U.S. economy.

Another positive note is that the continuation of low interest rates could continue to help the economy. The Federal Reserve is determined to keep interest rates at low levels to stimulate the economy and bring down unemployment. This could attract more investors into stocks in search of better returns.

What to Do?

As we all know, in times of crisis, many people tend to overreact and sometimes do not make the best decisions. For now, the most important step to take is to ask yourself three questions:

1. **Have my financial timelines changed?**
2. **Have my financial goals changed?**
3. **Has my risk tolerance changed?**

If the answer to any of these questions is **YES**, then we should have a discussion regarding these changes.

Otherwise, we do not plan to make any changes to our client portfolios as a result of what has happened during the past few weeks. Rest assured, we will continue to evaluate the markets and their underlying drivers with an eye towards minimizing risk and maximizing long-term returns in all the strategies we manage. As always, if a decision is made to adjust your strategy, our moves will be measured and based on careful analysis, not emotion. We will communicate any proposed changes at that time.

We hope this information has been helpful. As always, if you wish to discuss any aspect of your financial wellbeing in more detail, please do not hesitate to contact us.

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