



Paul R. Ried Financial Group, LLC

Security for your future

A MESSAGE FROM YOUR FINANCIAL TEAM

Second Quarter 2012

July 9, 2012

Dear Clients,

In the second quarter, the markets took it upon themselves to remind investors of the risks they may have been ignoring during the strong first quarter. As many European countries have continued to fall deeper into recession, worries are increasing regarding the sustainability of China's rapid growth. In this scenario, the U.S. has fared relatively well so far. However, in a globalized world where many of the largest U.S. companies get over 50 percent of their revenue overseas -- the US is not immune from these problems, particularly if they persist. Actually, the U.S. stock market¹ ended the second quarter up approximately nine percent for the year while international stock markets² struggled to manage three percent (which all came on the last day of the quarter).

World-Wide Politics

Who would have ever thought the world would pay so much attention to Greek elections? It's amazing how focused the financial markets have become on world-wide politics. However, in a crisis stemming from unsustainable government debts, it stands to reason the markets would focus on who these officials are or what decisions they may make.

Despite market reactions to the monthly "agreements"—or lack thereof—among European politicians, the reality is their debts were not built overnight and neither will an "agreement" solve their underlying problem overnight. It is best to take the day-to-day news with a grain of salt and not overreact to any single news event. After all, when the president of the Eurogroup, Jean-Claude Juncker, readily admits that "When it becomes serious, you have to lie," investors would be well advised to take their words with a healthy dose of skepticism.

Opportunities in Uncertainty

All the negative news headlines regarding Europe have caused many investors to sell stocks based solely on the location of their headquarters. This can create opportunities for observant active managers. It is not where a company is headquartered, but where a company earns its revenue, that is ultimately the driver of long-term returns. Many international stock markets currently offer dividend yields nearly twice the level found in the U.S. We believe it is important to utilize active managers who have the flexibility to take advantage of these opportunities wherever they may present themselves.

Election Season

With the U.S. elections only four months away, there is one prediction I can make with a high degree of confidence: By the end of this year, you will be pretty tired of hearing the terms "ObamaCare" and "Fiscal Cliff" (if you are not already).

The Patient Protection & Affordable Care Act (otherwise known as ObamaCare) and the expiration of the Bush-era tax cuts scheduled simultaneously with spending cuts (otherwise known as the Fiscal Cliff) are most certainly big issues deserving attention. However, as is usually the case when it comes to politics, a lot of attention is paid to outcomes at the extremes while reality usually turns out to be somewhere in the middle. While it is nearly certain that some of the planned taxes will go up and some of the planned spending cuts will take place, we believe it is very unlikely that absolutely nothing will be done to blunt the immediacy of their impact (although the uncertainty is likely to make markets nervous).

In conclusion

As we have said in the past, since the underlying cause of the stress on markets is government debt, the outcomes will ultimately be determined by the unpredictable decisions of those government officials. Unfortunately, many governments have let the problems grow to such levels that no good options remain. Therefore, the ongoing debate among politicians is about who will ultimately pay for past mistakes. It is unlikely that this uncertainty will be resolved anytime soon, so we can expect financial markets both here and abroad to hang on every word of every "agreement" or lack of one.

We are dedicated to assisting you in meeting your long-term goals and objectives by utilizing flexible, active managers within a broadly diversified portfolio. We appreciate your trust and encourage you to call with any questions that may arise.

Sincerely, your Financial Team

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¹ US stock market as represented by the S&P 500

² International stock markets as represented by the MSCI EAFE

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