Paul R. Ried Financial Group, LLC
Security for your future

THE RECENT MARKET EVENTS IN PERSPECTIVE
August 12th, 2011

Many investors have expressed some real concern about the debt ceiling. Now that the default on our debt has been averted, you may ask, "Why are the markets continuing down?" The short answer is that in the midst of political rhetoric about the debt ceiling, we have been getting some very disappointing economic data. The economy is looking weaker. Following concerns about the debt ceiling, coupled with Standard and Poor's lowering the United States' long-term rating from AAA to AA+, and the troubling European debt issues, we're seeing significant market volatility and lower equity prices. This activity reflects adjustments to market values as well as emotional reactions surrounding the financial news.

As we indicated in our last quarterly "Message from your Financial Team", our key concerns continue to be U.S. and international government debt, jobs and market valuations. The AA+ rating simply brought the seriousness and immediacy of this to the public's forefront. There are issues in the U.S. with lower than expected second-quarter GDP growth and disappointing manufacturing numbers, as well as a concern that the mix of policies that are being enacted will be insufficient to move us toward a path of sustainable fiscal solvency. This was in the midst of fears that the global economy might be in for a longer period of multi-year, sub-par growth. Further, it is expected that, in the near term, government spending cuts may actually worsen an already weak global economy.

All of this brings back fears of a new recession. Given that the debt ceiling and the S&P downgrade is yesterday's news, you may be hearing more about this in the coming days and weeks. Recessions are generally defined as a broad-based fall in economic activity – employment, output and sales. These are only visible in hindsight. As of this time, many of the most relevant coincident and lagging indicators continue to indicate growth– although sluggish growth. However, the probability of another recession is certainly higher now than it was this time last year. Recent economic reports, especially in the U.S., have been disappointing, but they point to slow growth.

We are, in fact, in a long-term economic cycle of deleveraging at all levels. This includes consumers and corporations. In addition, countries will need to grapple with the difficult task of reducing debt and increasing revenue to move toward economic sustainability and sound fiscal management. The global economy is changing, and change is always difficult. This situation is no exception. We ask you to be prepared for additional volatility in the days, weeks and months ahead. Making major decisions in times of heightened emotions generally results in a poor and compromised outcome.

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As you know, in designing your portfolio we have taken into consideration your personal goals including your return objective, income needs, risk temperament and time horizon. We are staying abreast of current economic developments, as well as actively monitoring your money management companies and will make changes as appropriate. At any time, please do not hesitate to contact your financial team if your feel your objectives have changed or have any questions or concerns.

Sincerely, Your Financial Team

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