Geoffrey Lenk 508-428-1645

LENK LADNER
Investment Solutions

John Ladner 508-420-1684

MARKET COMMENTARY August 15, 2011

Dow Jones Industrial Avg.	**12,414.34**	**Standard and Poor's 500**	**1320.64**
2011(YTD) +7.2%	2nd Qtr. +0.8%	2011(YTD) +5.0%	2nd Qtr.+0.4%

"While the Democrats worry about the prospects of the Democrats, and the Republicans worry about the well-being of the Republicans, who worries about America? No one. Which the American people have noticed, and which adds to the dangerous alienation … of the age. "Peggy Noonan, Wall Street Journal, May 1, 2010

Overview- Deficit Demons Haunt Wall Street – We have been hoodwinked! The Washington ruling class of both political parties and their dependable allies in the media have tried to convince us the legislation to raise the debt ceiling passed by Congress and signed by the President averted a financial catastrophe. Since that notable signing, our stock market has registered a significant decline. In fact the S&P 500 fell 15% in a mere 13 days, enough to rattle even the most seasoned investor. Further compounding the economic challenges facing the President and his counterparts in Congress, Standard and Poor's (S&P), one of the top credit rating agencies, lowered the rating of the United States Friday for the first time ever from AAA to AA+. The rationale provided by the rating agency emphasized the contentiousness of the debt ceiling wrangling, rather than the country's ability to honor its debt obligations. Since the children were not playing together well in the sand box, the adult did something extreme to gain their attention. Although this stern warning is not a total surprise and can be justified, the "victims" in Washington are already grousing about how unfair and unwarranted this judgment is. Have the politicians forgotten the families they represent must live on a budget? Cities and towns are required to abide by a budget. Most states have balanced budget requirements. The largest entity of all, the federal government, feels it can ignore this basic law of finance – to live within its means. Apparently those who live in the rarified air of Washington D.C. have come to believe since they control the printing presses and can issue debt, seemingly without limit, they can spend as much as they want on whatever they want. They regard available revenues as an incidental consideration. S&P's message is simple. "You are mistaken. Get your house in order." There may be good reason to question the reliability of the messenger, but the message is warranted.

The Economy – Earlier this year, many economists were predicting a pickup in growth during the second half of the year, however that was before all the heated debt ceiling brouhaha in Washington. The political scrum led to the assertion the United States was on the verge of defaulting on its debts. You could sense uncertainty beginning to build in consumers and investors. This changing sentiment followed closely on the heels of another significant disruption - the Japanese nuclear plant disasters and the subsequent worldwide economic dislocations. While our leaders are arguing over the preconditions to raise our debt ceiling, the European Union is struggling to contain its own debt crisis, which started in Greece; spread to Ireland and Portugal; and now is threatening Spain and Italy. The sources of the stress are real estate, banking, and sovereign debt. Sounds familiar, doesn't it? This confluence of negative events has raised the specter of a second recession in the United States, the feared "double-dip". In acknowledging this possibility it is important to remember the standard policy measures, both monetary and fiscal, commonly used to thwart a possible recession have already been this time?" Opinions of the opposing political parties are likely to be even more strident in this environment making it increasingly difficult to achieve consensus. Meanwhile as the economy exhibits additional signs of weakness, our "leaders" in Washington have nothing to offer except more partisan platitudes.

A further complication stems from the debt ceiling agreement, which focuses on deficit reduction as opposed to economic stimulus. Both parties acknowledge the critical need for job growth, yet their debate is limited to how to reduce spending or increase taxes, neither of which, does anything to boost employment. Their paralysis only serves to weaken the confidence level of business and the consumer. Our economy is in a fragile state and the best we can hope for is a slow and steady recovery. The likelihood of a double dip has been increasing each day.

The Markets - The only way to describe the current stock and bond markets is "no place to hide". Due to the persistent efforts of the Federal Reserve to encourage banks to lend, interest rates have declined to levels not seen in decades As a result, fixed income investors seeking a higher yield must either accept lower quality or longer maturities if they expect to secure a higher return. Both choices mean increased risk to one's principal if interest rates rise. The perverse result is savers are punished and risk takers are advantaged.

Investors' blood pressures have been soaring in recent weeks as a result of the unpredictable stock market gyrations. The first domino to fall was the trench warfare in Congress over the debt ceiling. Next sovereign debt issues and the viability of certain large banks roiled the Eurozone. That was followed by concerns the United States might slip back into recession. The combination was too much for investors to bear, and they started heading for the exits. Fortunately, the economy has been able to maintain its growth trajectory, however modest. The silver lining is the value has returned to the stock market as a result of the correction. A month ago value was scarce; now it is much easier to identify. Now is an ideal time to begin reestablishing or adding to positions while many investors are still searching for their security blankets. Uncertainty creates opportunity, but it presupposes a recovery will follow.

Consider the stark contrast of available returns, you can earn 3-4% with high quality, dividend paying stocks, such as Abbott Labs, Chevron, GE, Intel, Pepsico, and Proctor & Gamble. Even more enticing are the dividend yields for AT&T and Verizon, which approach six percent. Many good electric and gas utilities yield 4-5%. If minimizing risk and volatility is the primary goal, investors can look to money market funds, which provide virtually no return. The same applies to U.S. Treasury Bills. This is the stark choice resulting from the Federal Reserve's policies.

Odds and Ends – Each year at this time we are required to provide you a copy of our privacy statement, as are most other financial service organizations. We regard safeguarding the financial information you have shared with us as a integral part of our fiduciary responsibility to you. One piece of information we ask you to share with us, if you have not already is your e-mail address. Having it allows us to communicate more effectively with you either about general events in the financial world or your specific financial situation. On that same note, we now have a common address (@lenkladner.com). The sole difference is it begins with our first names (either Geoff, John, Carie, or Connie). As Labor Day approaches, we can all down-shift to cruising mode as our family, friends and other visitors return to their routines. Enjoy our wonderful fall season. JML