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Subject: **Update: August 5, 2011 - Market Correction**
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PLANNING

Dear Clients,

As of the time of this writing, the Dow has swung up and down in a range of over 400 points today; it started out the day going up to 11,554 at about 10 AM, was down as low as 11,140 at noon today, was back to about 11,546 at 2 PM and as of 3:30 PM is back to about where it started. Do the math. That is a swing of about 4% down and back up over the course of a few hours. That is a good indicator that the "market" doesn't really know what it believes right now and is subject to significant emotional swings. At this point, I am not making any trades or moving any investments from where we are right now. We did our harvesting (selling stocks and buying bonds) back in May and I believe our defensive portfolio position should stay in place for now.

With the market's tendency to over-react both on the upside and downside, patience should pay off in a market like this. The markets have dropped by about 10% from the highs reached in April & May. That is not an over-reaction; rather it is just a plain vanilla correction condensed into 8 days.

Why has it gone down so quickly, especially when a debt ceiling deal was struck? Not unlike most drops, there are a few things going on here. 1. I don't think the market liked the resolution that our government came up with on the debt ceiling and budget deficit. 2. The market is pricing in some of the long-term implications of a nation (the USA) being strapped with so much debt that we will have no real chance as GDP growth in the 3% range any time soon. 3. The credit ratings agencies keep sending off the warning signals about credit ratings around the globe, USA included.

The first two points above (1. debt ceiling resolution = kick the can down the road, and 2. slower US economic growth due to poor fiscal health) have been addressed in recent writings to you (on May 13th and July 18th). The third point regarding the credit ratings agencies bears a bit more explanation.

Credit Rating Agencies: Standard & Poors, Moody's Investor Service, Fitch Ratings, Ltd.

The most powerful position in the world used to be the office of the President of the United States of America. That cannot be said anymore and it has nothing to do with who is in the oval office. The most powerful position in the world is now held by credit ratings agencies. All told, I believe there are about 75 of them worldwide, of which the 3 most prominent are S&P, Moody's, and Fitch. It is these three that I want to focus on because they have been causing havoc in the markets with their announcements about various countries being put on "downgrade watch" or outright cutting their credit rating. With just simple press releases, these three companies have been causing turmoil around the globe. These are the same ratings agencies that had AAA ratings (the best you could get) on Fannie Mae & Freddie Mac just before they imploded. The same agencies completely missed the Lehman Brother's case, AIG, Bear Stearns, mortgage backed bonds, etc. Now, the ratings agencies are seemingly downgrading everything in sight. Each downgrade sets off a crisis-like reaction and if there wasn't a crisis there to begin with, a crisis is created by the downgrade announcement.

My question is this: What credibility do these agencies have? My answer is "NONE." The way I see it, the agencies are self-serving and want us to accept their analysis as infallible, so much so that we cease to think for ourselves. That is what happened leading up to the housing and bank meltdown and you know how short our memories are.....

Sticking to the plan, I will continue to monitor the market "correction" and when it turns into a bona-fide bear market, I will start moving some money back into international stocks at a measured pace. Who knows, maybe Apple will come down to a point where we can buy more. This is a long-term strategy and will take some time to bear fruit. I believe that the market is wrestling with the idea that the intermediate future of the US is not looking so good and that we will have to "eat our peas" as the President said recently. You know, peas are actually good for you.....

For now, I am off to eat some veggies. Have a great weekend.

Best Regards,

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