

Summer Newsletter #2 – 2011

This newsletter will only address the current state of the markets ... We will publish our next full newsletter some time in October.

Market Commentary

We would like to share our thoughts on the market's current volatility and the negative sentiment surrounding it. As we write this, the Dow Jones Industrial Average (DOW) is at 11,444. By the time you read this (after we have cleared our commentary through compliance and printed and mailed or emailed the newsletter to you), the markets will certainly be at another price point. *

- 1) **The Debt Ceiling** - It seems that these discussions were about as frustrating to the American people and the rest of the citizens of the world as they could have been. We witnessed a degree of political posturing and mud-slinging that was not only ridiculous, but embarrassing as well. Congress wasted so much energy and time that we were left wondering when they would act in the country's best interest and fine-tune their skills at the art of compromise. There was no doubt in our minds that the August 2nd deadline would be met (as it has been so many times in the past); no politician would want a government default on his or her record. However, what we did not expect was that they would keep delaying so long and avoid much of the hard work that really needs to be done—namely to itemize exactly what and where these cuts will be. In our opinion, what we are witnessing now is the market (meaning all of us investors) saying "Are you kidding me? You didn't finish your homework and we don't like that!"
- 2) **S&P Downgrade** – We believe that the S&P downgrade was extraordinarily well telegraphed. For weeks this credit rating agency had clearly stated that if Congress waited until the deadline to raise the Debt Ceiling and if the bill raising the limit was not specific about how the debt was going to be handled, that they would downgrade the US debt rating. Downgrading the US debt does not mean that the S&P rating agency thinks that the US will default, but it might lead to higher interest rates for consumer borrowing. We believe that Congress thought they could get away with posturing and stalling and that the US could continue to claim a AAA rating. Their bluff was called. Congress can't have it both ways; AAA status cannot be maintained unless the nation's leaders are willing to do the hard work that needs to be done. What we need is leadership, not blaming the S&P rating agency.

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- 3) Market performance - On March 9, 2009 the DOW was at 6,547 and the NASDAQ was at 1,268. Since that low we have seen the DOW climb a dizzying 75% and the NASDAQ an equally stunning 99% (as of 8/4/11). It's not unexpected that the market would take a breather after such a climb.
- 4) Job creation and Real Estate values - The economic engine has needed more than lower interest rates to get the train back on the track of long term prosperity. We have needed job creation and some indicator of a recovering real estate market. As we have stated before, job growth is usually the last indicator that an economic recovery is underway. While job creation has remained elusive, there is a glimmer in some selected areas of our country that real estate is starting to stabilize and in some areas of the country, prices are on the rise.

What does this all mean? It means that there are many issues that have converged to create an environment which leaves many with a lot to fret about. Our hope is that some serious work gets accomplished in Washington by the November 23rd deadline and that this work helps the country's economic engine. However, we don't make recommendations based on hope. We base them on our collective experience as advisors and investors in all kinds of challenging times. What has continued to work time and time again is to remain focused on the long term. Investing in quality investments, maintaining discipline, and realizing we are long-term investors and not short-term traders will no doubt continue to be a successful recipe.

As always, if you have any questions or concerns that you would like to discuss with us, please do not hesitate to contact us.

**All indices are unmanaged and investors cannot actually invest directly into an index. Past performance is not indicative of future results. The NASDAQ Composite Index measures all NASDAQ domestic and non U.S. based common stocks listed on the NASDAQ Stock Market. The Dow Jones Industrial Average is a price weighted average of 30 actively traded blue chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks.*

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