



AUGUST 2011 INVESTMENT UPDATE

Dear Friends and Clients,

Another week, another bruising for U.S. stock investors. For the fourth consecutive week, all the major stock indexes ended in the red after another volatile ride. From hope to horror in less than 30 days. The stock market's panicky decline since July 7th has highlighted some real weaknesses, particularly in the U. S. and European economies, that policymakers will have to address if the bull is to resume course again. Then, the drama of headlines that led to the August 2nd deadline to increase the debt ceiling. With the European sovereign-debt melodrama already weighing on investors' minds, fear of an imminent downgrade in the U. S. government's credit rating triggered an avalanche of selling. We feel that the market, in its own cold-blooded way, is admonishing Congress and the President to enact definite, convincing policies to cure America's fiscal imbalances. There is very little time left for fiddle – faddle. Starting next year, a tsunami of baby boomers will begin to overwhelm the nation's retirement system. If our leaders can't pull together within the next three or four months, investor confidence may spiral downward triggering another recession on Wall Street.

Having said all of this, one can still be a successful investor without trying to defend against every short-term downdraft in the stock market. Since the major bottom in March 2009, the S & P 500 Index has treated us to ten pullbacks of 5% or more. Along the way, numerous players have driven themselves crazy by jumping out of stocks during dips, only to buy back in after prices rallied again. Furthermore, on August 9th, over three loud dissenting votes, the Central Bank's policymaking committee of the Federal Reserve Board declared its intent to keep a target of zero to 0.25% on the key short-term federal funds rate "at least through mid – 2013." With the risk of Fed tightening off the table until 2013, we can now expect most investors to shift out of low – yielding vehicles, such as bank accounts and money market funds and into high – yielding investments such as utility stocks, master limited partnerships and certain bond funds excluding Treasuries. For us, however, a diversified and well-balanced portfolio is part of our strategy to help us sleep comfortably during these turbulent times.

At this point, it seems to us that the most commonly cited "causes" for the recent decline have been with us for some time: sluggish economies in most of the industrialized world, coupled with a struggle by certain peripheral governments to service their debt. We also know that the private sector has made great strides in adapting to lackluster economic growth. Businesses have cut costs and built cash reserves.

We believe that this volatility is due to a crisis in confidence rather than economic fundamentals. It is important to not allow our own psychological bias hinder our investment returns, as we discussed in the July Special investment Update, which we mailed only to our wealth management clients on July 22, 2011 and is available on our website, www.farmandcpa.com. We feel that this crisis in confidence and the current volatility are due to the psychological issue of the uncertainty in the global economy.

As far as our investment strategy is concerned, we continue to maintain our standard two-pronged strategy, which is to maintain a substantial exposure to common stocks (and mutual funds) as long as there is a reasonable prospect for double-digit returns. Furthermore, we will continue to take profits more frequently so that we could gradually increase our weighting in the fixed income portion of our portfolios.