

High Desert Investment Advisors

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Serving Your Personal Investment Needs Since 2003

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We have just completed a week of extreme market volatility. In fact, for someone who has been around a very long time, 30+ years in this business, more or less, this is the most volatility I have ever seen. I was sitting at my desk managing assets in 1987, and on 911, and during the Long Term Capital failure, so you know that I have seen volatility. Even when I was trading the Futures Market, the volatility during the past week exceeded that kind of market volatility.

What this says is that now is a good time for investors, and in particular, retirees, to be out of the stock market, waiting for better opportunities; waiting to see stability as well as better economic prospects, globally and domestically.

Actually, the U.S. economy is in pretty good shape for future growth. The economic numbers indicate that growth will continue and is likely to develop stronger momentum.

However, if European banks are allowed to fail because they hold sovereign debt, this will have a significant global economic effect; interdependent economies, including the U.S. will slow, and another recession - with the potential for a depression - will occur.

The European bank problem is a difficult one for the European Union, as a political body, to deal with. Political decisions to provide sufficient resources to fend off bank failures and serious liquidity problems, will be monumentally difficult, in the current political environment.

For now, our investment goal must be focused on preservation of capital. The time will come, sometime in the future, when it will be appropriate to reinvest and to think of growth.

The cash that has been generated through the recent sale of equities, will be placed into the Franklin Adjustable US Government Securities fund. It is a no-load fund; current yield is 2.18%; average bond duration is 1.50 years. With the Federal Reserve Bank statement that interest rates will remain low until at least mid-2013, this fund is very safe and will have very low volatility.

Money placed in the Franklin fund will be money that is designated for reinvestment into the stock market, at a time when our models indicate that timing is right to reinvest. Having that cash located in a single fund, makes it easy to know the amount designated for reinvestment into equities. It also provides a monthly dividend, and yield, that is greater than is available in any other money market account or short term bond or CD asset. It is available whenever we are ready to access it. If you prefer other alternatives, please call Iris or me.

From a technical analysis standpoint, it appears that it will be a minimum 4-5 weeks before it is time to consider reinvesting - and that is only if the market goes back to S&P 1300 and holds at that level or higher (Friday, the S&P closed at 1179). The reinvestment decision really depends on what the economic numbers show, and on what is happening in Europe with regard to sovereign debt as it relates to bank liquidity and bank financial stability.

For now, it is time to wait. There will be a time, in the future, to reinvest.

Please call if you have any need to talk. Both Iris and I are here to learn of your concerns and to help you manage your assets successfully. We have a lot of experience in this business. That doesn't mean that we have a crystal ball and know what the future holds. What it does mean is that we have a very good sense about preserving capital, and about how to make your assets grow and last for the remainder of your life.

Do not hesitate to call and discuss your concerns. That is what we are here for (among other things).

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Sincerely,

Dick Brackett
High Desert Investment Advisors

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