This Publication Brought To You Courtesy Of:

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CLIENT BULLETIN

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- ***Security Update***

In order to provide maximum security for sensitive information such as social security and account numbers, I have installed software from Erado onto our e-mail system that will automatically encrypt any e-mails we send out to you that contain sensitive information. As a result, you may be asked to click on a link to go to Erado's website to retrieve the e-mail securely. My apologies for any inconvenience, but keeping your financial information secure is my highest priority.

- ***The Last Word on Oil – for Now***

Over the past two months we delved into the economics of oil. With all of the turmoil in the Middle East, it has continued to be a headline grabber. Behind the headlines, however, global inventories of oil are growing due to constrained demand for oil due to higher oil prices (the cure for high commodity prices, after all, is high commodity prices). The most likely path of the price of a barrel of oil then is to moderate. The market should continue to be well supplied with oil in any case. It is not as if any of the oil producing nations can afford to stop selling oil since it is their only export of note. So even as citizens of many Middle East countries chant "death to America" at public gatherings, they will continue to sell oil to us on global markets. A strange relationship to say the least.

- ***More Pressing Matters***

Taking center stage is the state of the federal government's financial situation and the politics surrounding it. We will most likely have many months and years to explore this topic so it is important to have a clear understanding of the basic numbers and terms before going too far in the analysis.

- ***What's the Problem?***

The United States government has operated with varying levels of annual deficits and occasional surpluses for 200+ years so why is the current deficit situation of any significant

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concern? The first answer is the scale of the deficit. The sheer magnitude of the annual shortfall relative to our earnings (Gross Domestic Product or GDP) threatens the government's ability to continue to function in its present state.

In 2008, before the recession even began, the federal budget deficit was **$455 billion**. This represents the annual shortfall of government revenue (mostly taxes we pay) when compared to expenditures. In 2009, the deficit tripled to **$1.4 trillion** ($2.4 trillion in revenue vs. expenditures of $3.8 trillion). The deficit dropped a bit in 2010 to $1.3 trillion in part because repayments under the Troubled Asset Relief Program (TARP) were higher than anticipated. For 2011, the administration is projecting an all-time high deficit of **$1.6 trillion**. That figure is 11% of the country's GDP – the highest percentage since the end of World War II. (Office of Management & Budget).

- ***Deficit leads to Debt***

The aforementioned ***deficit*** represents the country's annual shortfall, similar to a family spending more than it earns in a given year. Just like a family that practices deficit spending for years will go further and further into ***debt***, the federal government has accumulated $14.1 trillion of debt, roughly equal to 100% of GDP. That figure represents $127,000 in debt for each U.S. household. Most economists will agree that some federal debt, just like some household debt, is o.k. as long as it remains reasonable relative to income. What is "reasonable" is debatable, but there is no denying that we are pushing the upper limits by anyone's definition. (Office of Management & Budget)

- ***Forcing Events***

Given the propensity of politicians to forego giving citizens a message of austerity for fear of not being reelected, some "forcing events" will most likely need to take place before any substantive action takes place in regard to the governments' fiscal situation:

- Sometime this month the Treasury will be poised to exceed its borrowing authority. Congress' failure to increase this debt limit could be a critical juncture in the process.
- Once that hurdle has been passed, Congress still needs to decide how to fund the government's operations for the fiscal year that begins in October of 2012. This decision will involve consideration of the current administration and GOP Senator Paul Ryan proposals being bandied about now.
- A forcing event can also be external. China and other foreign purchasers of our national debt may decide to slow their purchases of Treasury securities thereby forcing us to raise interest rates.

- ***Warning signs***

The harbingers of this situation are already upon us. Earlier this year the International Monetary Fund (IMF) chastised the U.S for failing to take action to reign in its rising federal debt. At the same time, Standard & Poors rating agency downgraded the U.S. credit outlook to "negative". This announcement should not have been a surprise to anyone.

**The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance.*