



Dear Valued Client:

August 4, 2011

Given the extreme market volatility over the past few weeks, we thought it was appropriate to communicate our thoughts on recent events. The political sparring over the debt ceiling generated a great deal of uncertainty about the stability and credit quality of our government. Although the Budget Control Act was signed into law earlier this week, it is apparent the real cause of our rising deficit, Social Security and Medicare, were not fully addressed. Unfortunately for all of us, it seems like our elected government is more concerned with the 2012 election than providing a viable long-term solution to the deficit.

The recent political events caused other uncertainties to come to the forefront such as future government spending to help spur the economy, the ever present lackluster housing sector, and the state of our national unemployment rate.

Please know that the recent news is not all bad: Corporate America is showing record earnings and profits over the quarter. The bad news is that they are hoarding cash as a protective measure until there is more clarity with our fiscal policy. There is no question that fiscal policy restraint is critical for the long-term; but it is our opinion that the government needs to provide more guidance and action (e.g. future stimulus) to reassure that they are committed to keeping the economy on track.

It is very typical in July and August to see increased volatility due to lower average volumes. We do think that the recent stock market reversal will subside and the 10 year yield at 2.50 percent is short lived. Our well-diversified portfolios, as intended, are designed to help limit any short term losses. Although we are watching the short-term market fluctuations, we are always looking ahead to the future with a long-term perspective. In fact, our Investment Committee has recently decided to maintain shorter maturities and lower duration in anticipation of rising interest rates in the future: this strategy will help preserve bond principal during a rising interest rate environment.

We are closely watching how the Fed will react next week to the recent turn of events. It is clear that their guidance could help settle the uncertainty that the government has caused over the past weeks.

We are available at your convenience to answer any questions. We are hope you are having a fun and relaxing summer.

Warm Regards,

-Locust Capital Management