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Dear Client,

Second Quarter Market Update and Dealing with Our Debt

The first half of this year provided some earth-shaking events (no pun intended) that created volatility in the marketplace. Some of the events that come to mind are the Japanese earthquake and tsunami, European debt problems, and a string of weaker U.S. economic data. Year-to-date, the Dow Jones Industrial Average[1] produced a positive performance of 7.2% through June 30, 2011.

As we move into the second half of the year, all eyes and ears are focused on the battle in Washington to raise the debt limit and compromise on spending cuts.

Following is some history and background on the U.S. debt ceiling limit:

> The concept of a debt ceiling was first introduced back in 1917 when Congress authorized the federal government to borrow up to $11.315 billion to fund U.S. participation in World War I. Since then, it has been raised many times, often with political debate and theatre. The current legal limit is $14.294 trillion; a limit which we essentially hit in mid-May 2011. Even after reaching the limit, there are some technical adjustments that the Treasury Department can employ to postpone actual default. However, Treasury now estimates that they will reach the limit of these adjustments by Tuesday, August 2, 2011, at which point, without an increase in the debt limit or alternatively, truly immediate, massive tax increases or spending cuts, the U.S. will default on its debt.

With all the media hype currently underway, investors are focused on something I believe is unlikely to happen. I believe there is a higher probability that leaders in Washington will agree on spending cuts and tax increases to avoid a crisis. Here is my rationale:

1. The mere risk of a U.S. default on its obligation would ripple around the world and create a world-wide economic slowdown. Politicians are fully aware of what is at risk, and do not want to be responsible for this type of event. Given the fact that U.S. unemployment continues to struggle, politicians are more anxious than not to get this issue resolved in a timely manner.

2. Politicians understand that the mere risk of a default will drive up interest rates substantially in a very short time. This would significantly increase the cost of financing our debt in the future.

3. The bond market is not giving any signs that the U.S. would even come close to defaulting on its debt. If interest rates were rising at this time, it would send a signal that the risk of a default is increasing. On the contrary, interest rates remain stable.

This doesn't mean that the market won't be extremely volatile in the weeks ahead, leading up to an eventual compromise agreement between the Democrats and Republicans. Market volatility and the uncertainty of a potential agreement will challenge investors to stick with their investment plans, which have been developed over time and for each personal situation. Warren Buffet once said, "Developing a well thought out investment strategy is relatively easy; sticking with the strategy is the hard part".

We are just starting to get second quarter corporate earnings announcements. I anticipate corporate earnings to be more positive in the second half of this year, creating support at the current levels and potentially giving way to more opportunities in the second half of this year.

Thank you, again, for the opportunity to work with you. If you have any questions or comments, don't hesitate to send an email or give me a call.

Sincerely,

Mike Ovshak, CFP®

[1] *All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.*