

Playing Chicken or Playing Chicken Little? Either way, something juvenile comes to mind.

The last few weeks have been nerve-wracking and distressing if you've had the misfortune to watch and read the media frenzy over the debt ceiling and deficit debate. And just when we thought an agreement would calm the markets and we could get back to focusing on fundamentals of the markets and their underlying instruments, we've been handed a new drama to digest. It certainly is difficult to ignore.

Volatility in the markets, including a stunning down 512 point day (Dow Jones), evoked memories of 2008. Fortunately and unfortunately that year is fresh in our minds. In 2008 the S & P (Standard & Poor's) 500 Index dropped 37%; in 2009 it was up 26% and up 15% in 2010. Days like these are upsetting, yet we remind ourselves of our long term time horizon and our commitment to quality investments.

Last Friday evening, S & P, one of three primary ratings agencies, downgraded U.S. Debt one notch down from the top stating, "...the downgrade reflects our view that the effectiveness, stability and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree ..". U.S. Bonds are still considered the safest bonds to hold around the world and the market has responded by pushing yields lower – a sign of confidence.

Throughout these last few weeks, little positive news has gained attention. Would it surprise you to learn that corporations, as a group, are turning record profits on par with the peak of the market in 2007? Cash held on S & P 500 company balance sheets is at an all time high of about 27% compared to approximately 15% in 2000. Corporations – stocks – are significantly better positioned than they were leading into 2008. Is the sky falling? It doesn't look like it from most balance sheets. There are headwinds that may challenge or derail this struggling recovery, but currently, the underlying elements to the stock market, the companies themselves, are positioned well for economic challenges.

Attached below is a link to our "Predictable & Unpredictable" list as a reminder that we cannot invest & plan based on unpredictable elements. The primary "predictable": the stock market, in the long run, reflects the value and growth of the underlying companies. Link is here: <http://pinehaveninv.com/Documents/Predictables.pdf>

We hope you are finding time to enjoy the summer.