

August 2, 2011

Dear Valued Investor:

The hard fought debate in Washington has come to an end. A two-step deal to lift the debt ceiling by \$2.1 trillion and cut about \$2.4 trillion in spending over a decade has been signed into law. The increase to the debt ceiling has lifted some of the uncertainty that has weighed on investors, businesses, and consumers, who were unsettled by talk about a possible new and deep financial crisis.

Still, the deal does not go far enough to put the United States on a path of fiscal sustainability, with deficits projected to continue to rise, nor does it decisively remove the threat of a downgrade to the nation's AAA credit rating. The size of the spending cuts will have minimal impact on the economy in the near term as they will be phased in slowly with little effect until 2013, after the next election.

While investors may be relieved by the agreement to raise the debt ceiling and avoid default, the market is likely to continue to be held captive by Washington for the rest of 2011. The budget agreement that averted a government shutdown earlier this year, and provided a preview of the current battle in Washington, only funded the government for the 2011 fiscal year which ends September 30, 2011. While the current deal making in Washington may alleviate the problem of "running out of debt capacity", the government will soon "run out of money" if another deal is not reached by the end of next month to avoid a shutdown. And, this will be exacerbated by the vote by Congress over the \$1.5 trillion second round of spending cuts and boost to the debt ceiling, which is set for December 23. These two events combined will mean another market-volatility inducing budget and debt battle is on tap for early this fall.

While raising the debt ceiling was an important hurdle to clear, the latest battle over the national debt reflects only a small portion of the nation's total liabilities. The biggest budgetary expenses are Medicare, Medicaid, and Social Security, which account for nearly half of all spending and seven times what is spent on servicing the nation's debt. Until these items are addressed through politically polarizing entitlement cuts and/or revenue increases, the nation is still not on a path to fiscal sustainability, resulting in the markets having to deal with continued fiscal fights for the foreseeable future.

In the near term, investors may refocus their attention on the economy. While economic growth may remain below average and data may be volatile, any signs of improvement could inspire investors to re-engage the

markets and reduce defensive positions now that the debt ceiling concerns are lifting. One outcome is clear, volatility is here to stay. As always I encourage you to contact your financial professional with any questions.

Sincerely,



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**LPL Financial**

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