



# TANISTRY

WEALTH MANAGEMENT

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INVESTMENT UPDATE

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## CRISIS MANAGEMENT UPDATE

As expected, the Government resolved the debt ceiling crisis with an 11<sup>th</sup> hour agreement avoiding default. The agreement however, did not satisfy Standard and Poor's, which downgraded U.S. debt from AAA to AA+ after Friday's market close. The market reaction, unlike most downgrades, caused Government Bonds to rally (the 10 year yield dropped to 2.31% from 2.56%). Stocks however had their largest drop since 2008. The S&P 500 dropped 6.7% while the Russell 2000 (small cap index) declined 8.9%.

The markets do not fear a U.S. default but recognize the significant economic uncertainty that the downgrade symbolizes. Skyrocketing sovereign debt superimposed on a weak economic environment raises questions as to the sustainability of the very healthy earnings corporations have realized in 2010 and 2011 to date.

We recognize the temptation to bail out of risk assets (fearing the worst) but we know that reacting emotionally usually has a negative outcome. Selling after stocks decline may avoid further losses (if markets continue falling), however the choice then becomes accepting zero return in money markets indefinitely, or trying to find a good point to re-enter markets. This "comfort point" to re-enter will more often than not be after markets have recovered. This is likely to be at a higher point than that which stocks were sold.

A properly diversified portfolio designed to meet risk tolerance should help control volatility and avoid decisions based on emotional reactions.

This newsletter was prepared by Summit Financial Resources, Inc. The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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