



Defining Quality[®]

IS THE ECONOMY GIVING US WHAT WE WANT OR WHAT WE NEED?

It seems the market wants more jobs and more home sales. In neither case is the market sufficiently satisfied with recent reports.

The news on the housing front did not improve with the July report on August 24 by the National Association of Realtors. Sales of existing homes plunged by 27.2% last month which is equal to an annualized rate of 3.83 million units. It was the lowest total in 15 years. Previously reported June sales were revised downward to 5.26 million units from 5.37 million units. Total year sales are expected to be about 5 million which would be slightly above the average of 4.9 million units recorded over the past 20 years.

The S&P/Case-Shiller 20-city index of home prices reported on August 31 that home prices gained 1% in June from a month earlier and was up 4.2% from a year earlier. But the gains decelerated from May results indicating a possible slowdown according to S&P.

The monthly reports concerning retail sales have been disappointing analysts who believe more robust growth in consumption is required if the economy is to grow and avoid a "double dip."

Our view is to simply ramp up consumption is short sighted. It is true spending is required to increase growth in GDP as well as increasing demand for new jobs. In spite of the markets' disappointment, we see positive signs.

The first is the personal savings rate. Beginning in 2005 the personal savings rate has been steadily improving. Consider the following yearly savings rates over the past five years:

2005	1.40%
2006	2.38%
2007	2.05%
2008	4.08%
2009	5.93%

In the first half of 2010 the savings rate was 5.85%.

We interpret the modest improvements in economic growth to be very positive when the increase in the personal savings rate is part of the analysis.

Much of the lack luster improvement in the economy can be explained by increased savings which we believe will prove to be far more beneficial than

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resorting to borrowing and spending like that which drove the economy during the past 10 years.

It is our opinion the personal savings rate will return to levels common during the 1970's. [about 9.5%]

Data suggests the economy is entering a period of higher and sustained savings and investment which is likely to endure for 10-20 years with peak savings reaching 10-12% in the next few years.

We do not believe the higher savings rate will result in deflation. It is our view the economy will continue to improve albeit at slower rates.

There is another explanation for less than expected growth in GDP. The increase in productivity is reducing the need for hiring new workers. Our view is diminished demand for increased labor is not a short-term phenomenon. Rather it is a consequence of technology becoming more important in the out put of each unit of production. It is a "drag" on the economy but it is not likely to cause a "double dip."

In spite of higher savings rates and reduced demand for labor, earnings have exceeded Wall Street estimates for six consecutive quarters.

Our view is the positive influences for the economy coming from increased savings and higher productivity outweighs the short-term disappointment in GDP growth and high unemployment rates.

Where Wall Street sees failure in the current economy, we at Curran see success. Eventually increases in demand for labor will evolve as the economy continues its slow but sustainable recovery.

We continue to recommend the purchase of high quality equities. The biggest market risks we see are in long-term fixed income investments. There we see the potential for substantial market losses when inflation concerns arise. For those finding safe harbor in cash equivalents and maturities less than five years after selling out of equities, all they may achieve is the avoidance of risk. What they obviously lose is the potential for significant gains if the money should have been more appropriately invested in equities.

The right investment reason to be invested in fixed income would be asset allocation. In those cases we recommend increasing exposure to equities by reducing cash and fixed income. As always we affirm investment asset allocation models are to be maintained with periodic tactical changes. The tactical change we recommend now is: increase equities and decrease fixed income.

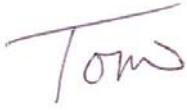
With regard to fixed income, emphasis should be to hold highest quality short-term securities and to minimize holdings of longer term bonds.

The only strategy justifying buying and holding bonds in today's low rate environment is one designed to take advantage of deflation. Without deflation

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buyers and holders of long-term bonds are assuming too much risk and more than they may understand. We call it unwittingly taking risk.

Like the recent bubble in real estate prices and the 1990's bubble in technology stocks, denial of the absurd when investing becomes apparent only after the crash.



The comments above are provided as a general market overview and should not be considered investment advice or predictive of any future market performance. Information is derived from sources believed to be reliable; however Curran Investment Management cannot guarantee its accuracy.