



August 4, 2011

Dear Valued Client,

In light of the debt ceiling agreement in Washington and the downward volatility in stocks recently, this month's investment letter will consist of a question and answer format that will succinctly address some of the questions and concerns that are on our client's minds.

- What are the details of the debt ceiling bill that the President recently signed into law?

In exchange for a \$2.1 trillion increase in the debt ceiling, the law calls for about \$917 billion in discretionary spending caps over 10 years, which will be balanced between defense & non-defense spending. Additionally, there will be a Congressional committee consisting of 6 members from each party that will seek an additional \$1.5 trillion of deficit cuts by December. If the committee cannot agree on how to reduce this \$1.5 trillion in deficit, automatic cuts will commence in 2013. Social Security, Medicaid, food stamps, & unemployment insurance are exempt from automatic cuts.

- The debt ceiling was raised 7 times while George W. Bush was president and was raised 3 times with President Obama before this most recent agreement. Why was there so much political theater surrounding this increase?

The intense & divided debate reflects the recent change in political powers in Congress and the growing concern of our fiscal deficit, which borrows 40 cents of every federal dollar we spend, amounting to around 9% of our gross domestic product (GDP). Historically, federal deficits have grown roughly in line with the growth rate of GDP, which have not produced significant cause for concern. Now that debt is growing at a much faster pace than our economy, the unsustainable nature of this trend is worrisome in light of the fact that federal debt is now equal to our nation's annual economic output, measured by GDP.

- Will the United States lose its AAA credit rating and what will be the impact if it does?

It's unclear what Standard & Poor's plans to do with their rating, but Moody's recently affirmed their AAA rating for the United States, but continued to have them on negative watch for a possible future downgrade. Clearly defining the lines between what constitutes AAA versus AA rated debt can be subjective, so unless there are mandates to exclusively hold AAA rated debt, most investors will continue to hold treasury debt regardless if it's AA or AAA. According to the International Monetary Fund, the US dollar represents 60.7% of the world's currency reserves, so even if rates do



increase modestly due to increased risk assumption, the dollar will continue to be the world's reserve currency and US treasuries will continue to be the core debt instrument of the financial world for the foreseeable future. Longer-term, however, we would not be surprised if more existing owners of treasury securities pursue greater diversification over time.

- Why has the stock market performed so weak of late?

Investors have responded negatively to recent economic reports that continue to indicate a slowing rate of growth. First Quarter GDP was revised down to 0.4% and initial reading on second quarter GDP was 1.3%, both of which were below expectations. Manufacturing, which was one of the bright spots of the economy, has also shown a slower pace of growth. These reports have produced greater uncertainty for the 2nd half of 2011 and investors have sold stocks in lieu of this uncertainty, despite overall robust earnings reports from companies reporting second quarter results.

- What have we been doing specifically in light of this increased volatility?

Before the debt ceiling debate was finalized, we created cash for our older clients who need liquidity for their 2011 required minimum distribution (RMD). For clients who have allocations to individual stocks, we took advantage of the downside volatility and used cash to purchase initial positions in Medtronic (MDT) and to a lesser degree, Berkshire Hathaway (BRK-B). As we've said many times before, down market environments produce opportunities for us to deploy cash into high quality enterprises selling at meaningful discounts to their intrinsic value. While we don't necessarily keep score on short-term performance, we do believe these two investments will produce attractive long-term returns for clients. If Berkshire declines a little more, we'll likely purchase this company across a broader number of client accounts. Medtronic was purchased because it possesses the characteristics we like in a business: High & relatively stable profitability and returns on capital, sustainable competitive advantages, large generator of free cash flow, and a very modest price. Growth in their business has been somewhat stagnant recently, which is the reason the stock is valued as low as it is, but we feel that even with modest growth assumptions, the stock remains undervalued.

We hope this discussion has been helpful. Thank you for your continued trust and confidence you've placed in our firm. Should you have any further questions, never hesitate to call.

Sincerely,

Scott Smith, Investment Analyst



COULTER & JUSTUS
FINANCIAL SERVICES, LLC

687 Emory Valley Road, Suite A
Oak Ridge, TN 37830
phone: (865) 481-0385
(888) 469-0220
fax: (865) 483-7930
web: cj-fs.com

The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stocks weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance.

The opinions and forecasts expressed may not actually come to pass. This information is subject to change at any time, based on market and other conditions and should not be construed as a recommendation of any specific security or investment plan. The advisor does not guarantee the accuracy and completeness, nor assume liability for loss that may result from the reliance by any person upon such information or opinions. Past performance does not guarantee future results.

Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although it doesn't guarantee a profit, it may be able to reduce the volatility of your portfolio.