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Dear Client:

I hope you and your loved ones are well.

As discussed in my last newsletter to you, we went to cash with the Quant part of all portfolios on July 22<sup>nd</sup>, reducing our equity exposure to less than 30%. This was not a "Quant" decision at the time, but my own, for the reasons stated, i.e. debt ceiling mess and bad economic numbers. The markets have declined significantly since then and are approximately 11% off their April highs. Your portfolios are down, but only a fraction of that and have held up well. We'll see how it plays out but this certainly has every appearance of being the significant correction I have been talking about for months. As discussed we have stayed conservative in anticipation, and on the 22<sup>nd</sup> made the first move to protect your portfolios. We are fully prepared to reduce more, should the indicators we follow – which are far more than simply the Quant system – show a further breakdown is likely.

The debt downgrade we have all been waiting for occurred Friday. Standard and Poors reduced their rating on US debt from AAA to AA+ (Moody's and Fitch have maintained their AAA rating). This, of course, is not good by any measure. Whether the markets have already priced it in or not we will see, but it comes at a vulnerable time and it may supply further impetus on the downside anyway. We are prepared for it and will take further defensive measures if necessary. Remember that corrections are strange animals, though, and do not go in a straight line. So we need to keep in mind that there are sometimes reactive bounces upward that can be fairly strong but short-lived, then a resumption downward again. We are watching for that as well. In any case my own opinion is that this correction is not done. Therefore we will err on the side of caution.

There is a bigger question than the debt downgrade however, that is driving markets, and that is: "Are we heading into another recession, or is this merely an economic slowdown?" The chances for a recession have heightened for sure. Our Macro Economic System, which measures economic indicators, has seen a precipitous decline. It is not in "Bear Territory" yet, but we are watching it closely. Other systems we follow also have seen significant declines in their indicators. What's important about this question is if we are headed into another recession, stock prices are still too high; if it's just a slowdown, they're getting cheap. But either way we have more downside potential in my view. How much depends on the recession question.

Having said that I do not see evidence yet that we're facing the magnitude of the decline we saw in 2008-09. Anything is possible of course, but there isn't evidence for this now. I also feel there is at least a chance of a rebound later this year. Why? Several reasons. Credit markets are very strong, interest rates are very low, corporate profits are at historical highs, and a steep decline in stock prices usually creates bargains for the long term. With the exception of low rates, these are not the conditions we had in 2008-09. Also typically the 3<sup>rd</sup> year of an election cycle is positive. In fact our studies show it is the most positive of the 4. None of these factors are guarantees but if they hold true this year then the further the market goes down the stronger it will have to bounce back to achieve a positive level. So our stance is protect now, wait this correction out, then hopefully be ready for a possible rebound should one occur.

We remain vigilant for any possibility and will keep you posted on what we see and what's happening.

Thank you,

Peter J Nagle, CFP, M.A.R.

*PS I will have an exciting announcement later this week on a new position we have filled in our firm. I think you will be very pleased.*

*Disclosure: The preceding was provided by Peter J Nagle Financial Management, LLC, a Registered Investment Adviser located at 155 Broad St, Milford, CT 06460, (203)874-3133. This report has been derived from information considered reliable but it cannot be guaranteed as to its accuracy or completeness. Certain sections of this Commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and when redeemed, may be worth more or less than their original cost. Investors should consider the investment objectives, risks, charges and expenses of any investment carefully before investing. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market, made up of over 3,000 components. This newsletter is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This newsletter is distributed for informational purposes only and should not be construed as investment advice or a recommendation to sell or buy any security or other investment, or undertake any investment strategy. It does not constitute a general or personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors.*