



FINANCIAL FOCUS

A NEWSLETTER FROM
FLEISHEL FINANCIAL ASSOCIATES
AN INDEPENDENT REGISTERED INVESTMENT ADVISOR

Clarity and Confidence for Life

Economic and Market Update- Budget Deficit, Debt Ceiling and Credit Ratings....

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August 2011

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It's certainly been a wild summer ride in the capital markets and political landscape. We've all been through so much already in the last decade, it would be nice to have some order and stabilization but this is the world we live in. However, with danger and fear in the markets, we also can find opportunity. To attempt to bring some semblance of balance and reason to the turmoil, we've outlined some negatives and positives to keep things in perspective.

Negatives

U.S. credit rating lowered First we had the acerbic and indecisive Congress bring us to the brink of default at the last hours before the deadline. The result was a heaping measure of mediocrity called the Budget Control Act of 2011 to raise the U.S. debt ceiling. In the minds of the people at the Standard & Poor's rating agency, they did not make adequate cuts in the deficit so they lowered the U.S. credit rating to AA from AAA. This puts our credit rating lower than countries like Britain, Germany, France or Canada. The downgrade could affect consumers and investors in the form of higher interest rates on bonds and thus higher rates on mortgages and other types of loans.

The outlook on the new U.S. credit rating is negative, S&P said in a statement that another downgrade is possible within the next 12-18 months unless Congress gets a handle on significantly reducing the budget deficits. "The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium - term debt dynamics," S&P said.

Even with the downgrade, the U.S. will likely still be able to pay its bills for years to come and remains a good credit risk. For investors looking for the conservative investments, Treasuries still present one of the best short-term solutions. Also, other big countries have been downgraded and were still able to borrow at low rates.

Stock Market Declines - At the time of this writing, at 1,119.46,(as of close on 8/8/11) the S&P 500 has now slumped almost 18% from its April 29 closing high of 1,360.14, putting the market into what Wall Street considers a "correction" – generally defined as a pullback of 10% to 20% (declines greater than 20% are considered bear markets). For perspective, the market experienced a 16% correction in the summer of 2010 before rebounding after Fed Chairman Ben Bernanke announced the monetary stimulus policy widely referred to as QE2. While declines of this nature are obviously a matter of concern, it's also very important not to overreact, regardless of your stage in life, since recoveries can happen quickly in the markets.

European Debt Issues - In Europe, a second major rescue package for Greece did not reassure investors, who have begun to focus on the debt problems confronting the much larger and more important economies of Italy and Spain driving up interest rates on that debt. It's obvious that Greece, Ireland and Portugal won't be able to pay all their debts, but they're small fry. European politicians and central bankers are slowly acknowledging that their big public bailout is going to have to be a lot bigger. The European banks holding suffering sovereign debt are going to have to take a haircut.

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Securities Offered Through
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Economic and Market Update (continued from page 1...)



Positives

Bargain buys in equities - One of the old reliable rules of investing is that perceived risk and actual risk, tend to be inversely correlated. The more dangerous and scary the markets appear today, the more likely they are to potentially produce generous returns tomorrow. Instigated fear in the media and talking heads often seems to be a good barometer for future bull markets. Studies on bull and bear market cycles since the 40's show that on average, it takes 2.2 years to reach the old peak on the S&P 500 stock index. (J.P. Morgan: Guide to the Markets 3rd Quarter 2011). At this date we are pushing almost 4 years from the October 9th, 2007 peak. Equities

are still quite fairly valued at around 12x forward looking estimates for all the companies in the S&P Index. If it takes another twelve months to recover to the 2007 peak, there is more than a 20% upside from here to that level. Although we are careful not to predict or time the markets, according to Raymond James Chief Market Strategist Jeff Saut, all the signs point to an oversold condition of the markets which may soon translate into buying opportunities that could reward disciplined investors.

The two most dangerous emotions of any investor are greed and fear as documented by a regularly updated (Dalbar) study of the average investor's behavior and how over-reactions cause them to underperform most of the major benchmarks. By liquidating the riskier components, they will most likely miss out on the inevitable rebound that is likely to occur.

Unemployment slightly improved- On August 5th, the Labor Department reported better than expected U.S. employment as the country had added 117,000 jobs in July, exceeding analysts' expectations. These and other economic trends will play a large role in determining whether investors can regain their confidence in the near-term.

Corporate Earnings – Corporate profits are up about 16 percent from a year ago, while nominal GDP rose only 3.7 percent, according to Yardeni Research. In part, that's because big companies draw much of their profit from overseas. Even though economic growth here is crawling, second-quarter gross domestic product growing at a mere 1.3 percent rate, according to the early estimate.

The recovery since 2009 has largely been driven by good news in manufacturing and rising exports, notes Juli Niemann of Smith Moore & Co. Now that machine is sputtering, with the July purchasing managers report showing factory orders up only slightly. A mild recession wouldn't necessarily torpedo the corporate profit gravy train upon which stock prices tend to ride. American corporations can grow profits much faster than the economy moves.



Second Opinion Service



Many of our clients and friends are no doubt encountering others who are uncertain about whether their portfolio is structured properly to potentially weather the current and future storms. They also may not be sure about whether they are on track to achieve their retirement and other goals. Something like a "financial check up" may be in order to help provide some clarity and confidence for their life. That's why we have been providing the **Second Opinion Service** which includes a detailed analysis of their current holdings to determine their exposure to certain asset classes, sectors and numerous other risk factors. It also includes completing a Risk Profile Questionnaire to accurately assess the appropriate investment goals, risk tolerance parameters and asset mix that's suitable for their situation. There may be some who are going through life events like retirement, loss of a spouse, sale of a business or an inheritance that triggers the need to review these issues. Please direct them to our website at fleishelfinancial.com to see what their Second Opinion Report would look like and call us with any questions..

The Budget Control Act of 2011

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After a last-minute agreement finally brought the stalemate over the nation's debt ceiling to a close; President Obama signed the Budget Control Act of 2011 into law on August 2, 2011, enabling the U.S. Treasury to avoid defaulting on existing obligations.

The Budget Control Act of 2011 left all sides with plenty to argue about over the next few months. In addition to increasing the debt ceiling, it would bring down the federal budget deficit by an estimated \$2.1 trillion over the next ten years. It also sets the stage for more debate over how to achieve that \$2.1 trillion reduction, focusing on spending cuts rather than increased revenues. Here are some of the key provisions.

The debt ceiling will be increased in stages.

- The \$14.3 trillion debt ceiling will be increased immediately by \$400 billion, and by another \$500 billion after September. The increases will allow the Treasury to pay bills without interruption after August 2.
- Assuming deficit reduction measures are adopted by the end of the year; an additional \$1.2 trillion to \$1.5 trillion in borrowing authority will be available in 2012, which is believed to take care of the Treasury's needs until 2013. Though Congress could vote to disapprove the additional borrowing authority, that action could be vetoed, which would prevent a rerun of the recent uncertainty.

Immediate limits are imposed on discretionary spending

- Caps on domestic and defense spending will cut an estimated \$900 billion to \$1 trillion--roughly the same amount as the initial increase in the debt ceiling--from federal budgets over the next decade.

A Joint congressional committee will seek \$1.5 trillion in additional deficit reduction.

- A special joint select committee of 12 Democrats and Republicans from both the House and Senate will be charged with finding ways to reduce the deficit by an additional \$1.5 trillion. The committee, which must be appointed within two weeks after the legislation is signed, is directed to report its proposals by November 23, 2011; by December 2, it must submit legislation to implement them. Both houses of Congress must vote on that legislation, which cannot be amended, by December 23.

Additional spending cuts, 2012 debt ceiling increase tied to deficit reduction agreement

- The joint committee's deficit reduction proposals will determine the amount of an additional increase in the debt ceiling. If the committee's proposals are approved by Congress, the debt ceiling will be increased in 2012 by the amount saved by the deficit reduction measures. If the committee cannot agree on how to cut the deficit by at least \$1.2 trillion, or if Congress doesn't approve the committee's proposals, the new debt ceiling increase would be limited to \$1.2 trillion.
- To try to prevent gridlock on the committee, failure to agree on at least \$1.2 trillion in deficit reduction would automatically trigger an additional \$1.2 trillion in broad-based spending cuts beginning in January 2013. The cuts would apply to both defense spending, such as the Departments of Defense and Homeland Security, and to nondefense spending, such as payments to Medicare providers. However, Medicare cuts would be limited to 2% of the program's cost, and programs such as Social Security, veterans benefits, food stamps, and Supplemental Security Income (SSI) would be exempt.

Balanced budget amendment would give authority to increase debt ceiling

- President Obama also would be granted immediate authority to increase the debt ceiling by \$1.5 trillion if Congress were to pass by year's end a constitutional amendment requiring a balanced budget. Such an amendment also would need to be ratified by three-quarters of the states.

Subsidized loans for graduate students eliminated

- Subsidized-interest Stafford Loans for graduate and professional students (other than those in state-required teaching or certification programs) will end after July 1, 2012, though unsubsidized loans will still be available. The Act also adds \$17 billion in mandatory funds over two years for Pell Grants to compensate for the funding gap.

How to Reach Us

Please note that we are not able to initiate security or investment purchase or sales via email or voice mail. You must speak directly to a representative of our office for any trades to occur. For other communications, our email addresses and phone extensions follow.

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Fleishel Financial Associates ADV Update

As required by the Securities and Exchange Commission for all Registered Investment Advisors, we have updated our form ADV. This is a regulatory disclosure form that provides our clients and prospective clients with information about our firm's background, service offerings and fees. Please contact our office to receive your copy of this updated document for your files.



Office Closings:

. Labor Day— Monday, September 5th, 2011

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