

KETRON FINANCIAL, LLC

MARKET WATCH BY GLEN CALKINS

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Our strategy of minimizing debt instrument investments, increasing diversified investment in the emerging economies of the world, and focusing on finding and selecting the best and most successful companies in the world, is a program that I believe, diminishes portfolio risk and increases return opportunity. Reactionary trading to the noise in the market can be a very dangerous investment alternative.

I am sure that the news from Washington has changed since I wrote this. As we know, things are both better and worse than they seem. Here are a few observations and opinions regarding the political/investment world.

We are still the largest economy in the world. Fundamentally, our economy is strong and diverse. Our debt and spending have reached a serious level of imbalance and could create serious future economic problems.

A political debate of consequence can be very helpful in elevating and resolving contentious issues. I am no fan of economic brinksmanship. I would rather see elected officials engaging in an open and rational process and taking fiscal responsibility in their votes/decisions. Solving our problems will take a series of decisions and adjustments over time. These adjustments are likely to include significant redefinitions of social spending. To some of us that may be seen as a breach of trust or contract. Increasing the rate of growth/the size of our economy could serve as an offset to commitment reductions.

Including the USA, over 62% of the world economies have an equal or larger debt obligation as a percent of their GDP (Gross Domestic Product), including 16 European nations and Japan.

According to the Federal Reserve, the homeowners of our nation have lost over \$7 trillion of their home equity in the housing crisis. This is a major problem to economic growth and spending. Our national tax revenues/receipts are 88% payroll based (including Social Security and Unemployment). To me, that means we need higher employment and both a higher level and sense of spendable money in the middle class.

The emerging economies as a group have greatly outperformed the developed economies for over 20 years and that is likely to continue. The economy of the large corporations is alive and well. The S&P 500 corporate earnings are at an all time high. The stronger corporations have been defensive in building their balance sheets as they observe the domestic and international economic and political risk. Those companies that have strong resources, product advantage, and excellent management are likely to continue to outperform their competition.

China's influence will probably grow significantly in the world rebalancing in the next decade.

As always, we appreciate working with you and welcome the opportunity to improve our service to you. When we can be of help, please call.

Glen

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