



August 15, 2011

I would like to use this month's letter to discuss the unparalleled market volatility experienced over the past 3 weeks. Negative global macroeconomic issues have dominated the news cycle and given investors plenty to worry about. We've fielded many calls and answered many questions from our client base – including: what is causing the current volatility; what is ARS planning to do; and what, if anything do they (the client) need to do?

What is causing the current market volatility? We believe there are 3 main issues responsible for the current volatility. The volatility began with the protracted debt ceiling negotiations as fear of a potential US debt default grabbed the headlines. A solution was finally agreed upon but this didn't stop Standard & Poor's from downgrading US Debt. Hopefully this was a wake-up call to our leaders to address our country's debt levels and future obligations. On the heels of this, panic hit the Euro zone as the risk of potential sovereign debt defaults escalated. Europe's banking system may be experiencing a financial crisis much like the U.S. did nearly 3 years ago. The third issue that weighed on the markets was the recently reported weak 2nd Quarter GDP numbers and the downward revision of 1st Quarter GDP. These weaker than expected GDP numbers have led to discussions about the possibility of the U.S. slipping into a "double-dip" recession.

What is interesting to note is that these issues deal primarily with governments and their inflated balance sheets as a result of decades of overspending combined with the unfavorable demographics of an aging workforce. While many developed governments are facing some very serious decisions, corporations are financially strong as ever with healthy balance sheets, generating lots of cash and continuing to grow earnings.

What is ARS planning to do? Fortunately, for the past three to four months we have been shifting to a more defensive allocation. We continue to allocate capital to corporate bonds and certain individual equities with attractive risk/reward characteristics. The Federal Government stated its intention to keep short term rates low for the foreseeable future (mid 2013). Attractive areas to allocate capital in this extremely low interest rate environment are high quality, dividend paying equities that have the ability to continue to grow earnings and dividends even in a slowing economic environment along with corporate bonds with yields considerably greater than Treasuries.

Given the already conservative positioning of most of our clients accounts, the recent volatility didn't demand a major allocation shift. However, we used the recent volatility to sell some of our broad-market exposure, such as the Vanguard Total Stock Market ETF (VTI), and replace it with high-quality individual names such as, Johnson & Johnson (JNJ), General Mills (GIS), and CVS Corp (CVS), among others.

At this point money has been flowing away from stocks, corporate bonds and many commodities to high quality, liquid treasury securities and gold. From here we would expect markets to continue to experience above average volatility as the developed world grapples with high levels of debt, current funding needs and weak economic growth.

What do our client's need to do? Nothing. Rest assure that no matter what happens both at home or abroad, we will continue to do our very best to deliver to you quality financial advice that has been associated with ARS for the past 14 years. This has been our emphasis and will continue to be. No matter what happens in this crazy world we will keep assessing global and domestic "events" and potential pitfalls while managing risk on your behalf working diligently to meet your goals and objectives.

In these uncertain times, it is more important than ever that you call us if you have any questions or concerns. We are only a phone call away. On behalf of the whole team at ARS, we thank you for your continued trust and support.

Regards,

Tony Anderson
President & C.E.O.

P.S. – recently we changed our company name to ARS Wealth Advisors, which we believe does a better job of describing our true business. Please rest assured that nothing else has changed and that we are committed to providing you with the highest level of personalized customer service.