

August 3, 2011

Good Morning,

*Given the political, economic, and market naysayers I wanted to reach out to you and give you my interpretation of the current climate.*

*First, the debt ceiling issue: The debt ceiling is the maximum, or total, borrowing power of a governmental entity - in this case, the US government. First, there was so much fear mongering surrounding the issue that it put the world into a panic; social security checks will stop, veterans won't be paid, the US will default on its bond payments... This eventuality would have come to light - **eventually** if something wasn't done (disregard the idea of cutting wasteful spending!), not August 2nd. Warren Buffet has provided the best solution for fixing the debt ceiling issue: In a recent interview with CNBC, Warren Buffett told CNBC anchor Becky Quick, "I could end the deficit in 5 minutes, you just pass a law that says anytime there is a deficit of more the 3% of GDP, no sitting member of Congress will be eligible for re-election."*

*Next, the economic situation: Is the economy fantastic? No, but this is not news - this has been the reality for the past three years. Although, the economy has been, and continues to, strengthen. Recent economic reports have shown that the private sector is adding jobs, the manufacturing index came in at a reading that, although it showed some slowing over the previous months, still showed expansion in the manufacturing sector, and another recent reading, mortgage applications, showed an uptick in consumers (housing/real estate) activity.*

*The market is essentially "throwing a tantrum." The debt ceiling was risen (which the market wanted) but contained some less than desirable items, and the economy is still strengthening, but at a decreasing rate. We're in the midst of earnings season (when companies report profits and provide expectations for the future) and they have been quite good. Profits are still rising, and future outlook is still fairly strong. Most indicative of the markets' tantrum; the relationship between the Volatility Index (\$VIX) (fear gauge) and the performance of the market. The Volatility Index has remained relatively low, while at the same time the markets performance has been quite poor during the past few months. During a rational market the \$VIX and the market should move in an inverse relationship; presently one is moving sideways while the other is moving negatively. The market is saying, "I'm not scared, but I don't want to play."*

*Putting this all in to context, how do we participate? We continue to hold good positions until there is strong conviction, or a reason, not to own them. And, we don't put new money to work until the market stabilizes and quits with its "tantrum." As you know, I commonly quote Warren Buffet so I'll leave you with this, "Be fearful when others are greedy, and greedy when others are fearful."*

*Please send a note or give a call with any questions or comments.*

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