



August 18, 2010

D3 Business Update:

We have nearly finished your investment performance review meetings. **We are now looking for tax saving opportunities for clients** with investments in brokerage accounts.

Speaking of taxes, **most of the energy tax credits are set to expire at the end of this year.** If you are considering a purchase of new energy efficient doors, windows, heating or cooling units to take advantage of a tax credit, give us a call if you have any questions about your eligibility to qualify.

Mortgage interest rates have fallen to record low levels. 30-year fixed rates are 4.25% for loans under \$417,000 to credit worthy borrowers. **Anyone who qualifies with a current rate over 5.50% should consider refinancing.** Call us if you have questions.

This month, we have included our annual client satisfaction survey. Please fill it out and send it back in the postage paid envelope. We will compile the results and share them at **our Annual Client Appreciation Dinner, which we are planning on hosting on Saturday, November 13th.** Please keep the night open on your calendar. We will send out an invitation.

D3 Investment Outlook and Strategy:

Most U.S. companies have reported second quarter earnings, which were generally higher than Wall Street estimates. However, economic data released during the past month was consistently lower than consensus forecasts. Retail sales and home sales are slowing. The manufacturing sector is still growing, but the rate of growth is slowing. Many economists are lowering their estimates for third quarter GDP growth from around 3% to less than 2%. The Federal Reserve, acknowledging its concern about the slowing economy, announced that it would resume buying U.S. Treasury bonds in the open market to ensure that interest rates remain low.

A disappointing characteristic of this economic recovery is the very slow pace at which companies are hiring new workers. We've read some interesting research on why this is occurring. Many small and medium-sized companies are still uncertain as to how the new health care bill will impact their health care costs in 2011. They are also uncertain as to how much tax rates will rise next year. Additionally, during this recovery, workers cannot move as easily to cities where job growth is positive because of the difficulties in selling their homes. Also, there is a mismatch between the skill set of many unemployed Americans and the skills that hiring companies are seeking. Many people who lost their jobs in the mortgage or residential housing industries don't have the skills to work in the growing industries of health care or technology.

Even though the economy is recovering, many Americans are spending less and reducing their debt

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levels this year. Therefore, many companies are having difficulties forecasting any significant growth in sales for the remainder of this year, and into 2011. Consequently, managers are forcing their existing staff to work longer hours, or hiring temporary workers to meet small increases in demand.

State and local governments are also feeling the effects of reduced consumer spending and lower home values. Lower tax revenue is forcing state and municipal governments to cut back their spending and lay off workers. Most municipal governments are required by law to present a balanced budget to their constituents during June and July every year. The National Conference of State Legislatures projects state budget gaps to total \$83.9 billion for fiscal 2011. This means significant cuts or higher taxes, and tax increases are not very tolerable to voters when the unemployment rate is higher than 9%. While lower state and local government spending is considered a positive by many people, it does negatively impact economic growth.

Consequently, the volatility in the stock market that we forecasted last month is continuing. Pessimists are fearful that the economy could slip back into a recession if growth continues to slow. The optimists point out that low interest rates and government stimulus policies will maintain positive economic growth. They also argue that large company stocks are very cheap. Dividend yields on these stocks are higher than the yield on 10-year Treasury Notes, which are yielding 2.6%, near all time lows. Most interest rates have fallen to historically low levels because these pessimistic investors, all over the world, continue to sell their stock funds and money market funds and buy bond funds in record amounts. We are not that pessimistic. **We think the economy will continue to grow at a rate between 1% and 2% for next 12 months.**

Lastly, we have been researching alternative mutual funds, which are designed to help reduce the volatility of client portfolios and generate positive cash flows. We have selected two funds, which we will be adding to comprehensive and advanced asset management client portfolios. These funds invest the majority of their cash in the bond markets, but have the flexibility to invest opportunistically in other attractively priced asset classes all over the world.

Last But Not Least:

With the economy and global stock markets as uncertain as they are, we continue to work to identify risks and opportunities that could affect your financial plan. Thank you for allowing us to help you navigate through these uncertain times.

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