Portfolio Shift Commentary: July 26, 2011

As of Friday morning, Republicans and Democrats continued to play chicken with each other over the debt-ceiling issue, seemingly oblivious to (or willing to risk) the stakes involved if a resolution is not reached over the next few days or so. Prime time speeches on Monday by President Obama and House Speaker Boehner did little to soothe debt ceiling worries as it still appears that the two sides are still far apart. As the deadline approaches, we think we will be hearing and seeing lots of conflicting reports.

Being optimists, we do think that Congress and the Administration will reach some kind of agreement that allows for an increase in the debt ceiling in early August. We just don't know what that agreement will look like. Regardless of the outcome, we feel that lack of clarity and uncertainty will remain high. So on July 26, we added new defensive positions to help protect the portfolios.

As part of this shift, we continued to increase our portfolio dividend yield. We feel a higher yield along with higher cash positions will help dampen recent volatility. To help accomplish this we added a high yield position along with a treasury inflation protection (TIP) position. We also reinitiated our position in gold as we feel this will help hedge the portfolios from continued fall out and wrangling that is occurring in Washington.

Despite our near term concerns, we still feel the markets are on firm footing. Quarterly earnings are coming in very strong and are a positive indicator that domestic markets are moving in the right direction. We believe that we will make it through this rough patch and end the year on a constructive high note.

As always, we thank you for your continued support.

Sincerely,

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The price of gold has been subject to dramatic movements over short periods of time and may be affected by elements such as currency devaluations or revaluations, economic conditions within an individual country, trade imbalances, or trade or currency restrictions between countries. As a result, the market prices of securities of companies mining or processing gold may also be affected.

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