



Asset management  
as individual as you

## Global Fears Drive U.S. Markets

By Joseph M. Valicenti  
President/CEO

All three major indices began in positive territory in the first part of the second quarter. The European sovereign debt issue from Greece, Portugal, Spain, Italy and Ireland created jitters around the world because of possible insolvency. Coupled with the Gulf oil spill and the failed containment efforts, the largest oil disaster in U.S. history is creating volatility and economic concerns to the Gulf region. These events created uncertainty in the global marketplace and carried over to the U.S. markets in the month



of May (Chart 1). The markets bounced back at the beginning of June as Germany and the European Union (EU) propped up and supported Greece's debt. In the later part of the month of June, market uncertainty and weaker than expected consumer confidence created fears again with the global slowdown of Europe.

While many companies continue to have strong balance sheets and corporate profits, the future valuations and expectations will vary based on economic uncertainty, volatility and fears of a double-dip recession.

We will continue to evaluate macro and micro economic and financial events in order to meet your personalized financial needs and goals.

Chart 1

Valicenti Advisory Services, Inc. Comparative Index Period Returns From 03-31-10 Through 06-30-10						
	DJIA	S&P 500	NASDAQ	Lehman Muni Bond Index	Citi Corp Corporate Bond Index	US Treas. Bill Index (90 day)
03-31-10 to 04-30-10	1.60	1.61	2.64	1.38	1.83	0.00
04-30-10 to 05-31-10	-7.74	-8.06	-8.29	0.85	-0.39	0.00
05-31-10 to 06-30-10	-3.35	-5.22	-6.55	0.07	2.12	0.00
<b>Cumulative Returns: 03-31-10 to 06-30-10</b>	-9.41	-11.45	-12.04	2.31	3.58	0.00

*“The budget should be balanced, the treasury should be refilled and the public debt should be reduced. The arrogance of public officialdom should be tempered and controlled. And the assistance to foreign lands should be curtailed, lest we become bankrupt.”*

Cicero, 63 B.C.

## Consumer Health Update:

By Andrew R. Clark, CFP®  
Portfolio Manager

With the recent disruption in the European debt markets and a focus on government debt levels, there has been a growing concern of a double-dip recession and calls for further government intervention. While implications of a frozen credit market would certainly place significant strain on the economic recovery, the U.S. economy is actually displaying more strength than most market pundits, politicians and media outlets have disseminated to the general public. The growing momentum should be sufficient to more than offset the risks of a double-dip



recession and should eliminate the need for any additional government stimulus. As we have discussed in the past, the health of the U.S. economy relies on the willingness and the ability of consumers to spend. The degree of economic contraction is often dictated by the magnitude of disruption in consumers' spending. The recent recession reflected a full scale economic contraction with consumers unable to spend due to frozen credit markets, banks inability to lend and the aggregate level of consumer indebtedness, along with the self fulfilling prophecy that results from a shift in consumer psychology away from spending.

While consumer spending declined at near unprecedented levels in 2008, we have witnessed resurgence in year-over-year spending growth since last summer. Consumer spending levels are now growing at an annualized rate of 2.0% (Graph 1). While the current growth trend is still below the 50-year average of 3.7%, the 2.0% coupled with consumer spending accounts for 2/3 of the U.S. economy. This should be sufficient to sustain positive economic growth going forward.

As consumers return to more normalized spending practices, it is important to gauge the sustainability of personal spending. A key indicator for consumer health is the Federal Reserve's U.S. Household Debt Service Ratio. The household debt service ratio is an estimate of the average

household's debt payments to its disposable personal income. The ratio peaked in March of 2008 at just under 14%, indicating that \$0.14 of every \$1 in net income was allocated to debt payments (Graph 2). The debt service ratio now stands at 12.5%, a level last recorded in December 2000. While some may argue that a 1.5% decrease is insignificant, it represents an 11% relative improvement within 24 months versus the 40 months required for the debt service ratio to increase by 1.5%. With household debt levels improving, there is an increased probability that consumer spending will continue to drive the economy higher.

Taking the analysis of consumer health even further, we need to determine whether the improved household debt service ratio is the result of a reduction in household debt levels or if the ratio is benefiting from improved household earnings. A sustained consumer recovery can only be achieved through a combination of lower debt and higher earnings or if earnings grow faster than new debt is accumulated. The data over the past 24 months supports the notion that the household debt service ratio is benefiting from both lower levels of personal indebtedness and improving household earnings.

According to the Federal Reserve, the level of U.S. mortgage debt has declined on a year-over-year basis since the first quarter of 2008 (Graph 3). The level of U.S. mortgage debt now stands at \$10.24 billion, down 3.5% from the \$10.61 billion of 2008. The contraction in mortgage debt outstanding is the first significant decrease since the Federal Reserve started to keep track of mortgage debt in 1952.

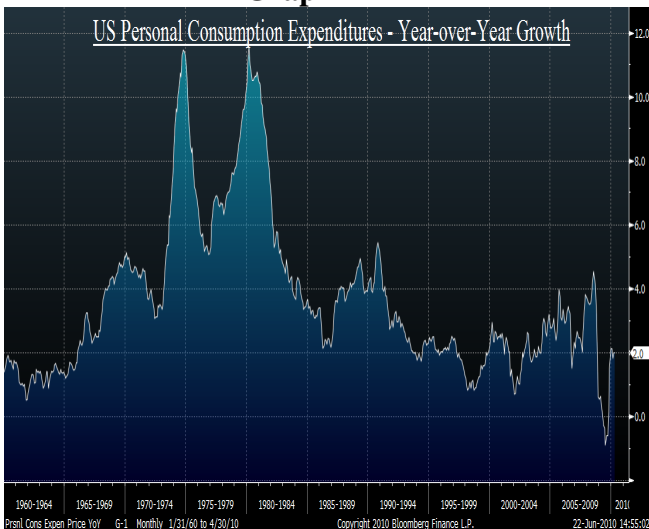
The Federal Reserve also maintains data for the level of consumer credit outstanding for individuals, excluding mortgage related debt. Consumer credit has followed a similar pattern as mortgage debt outstanding over the past two years. Consumer credit outstanding is now \$2.44 billion, down 5.4% from the 2008 high of \$2.58 billion.

As household debt levels have been declining on an aggregate dollar basis, the average household income has also been

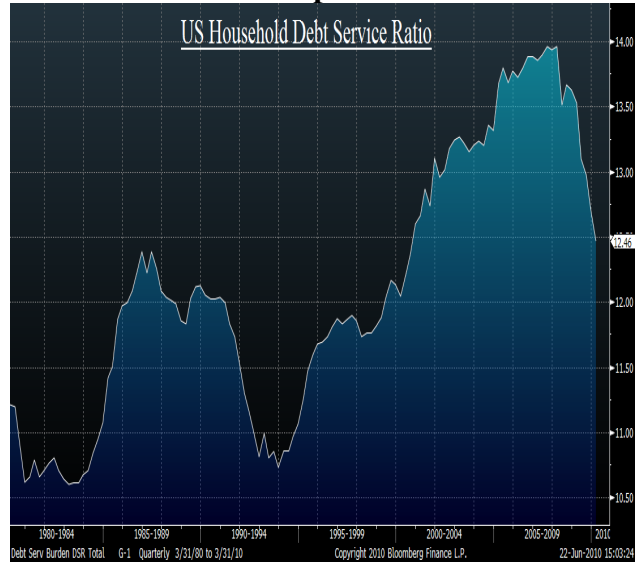
improving. Personal income consists of all income received by persons, including government and business transfer payments, government interest, welfare funds and private trust funds. In the recent recession, the average personal income rate actually declined on a year-over-year basis for only the third time since 1948. Despite the atypical contraction in average household earnings during the recession, the average personal income rate has experienced a sharp recovery over the past 6 months. For the most recent quarter, earnings grew by nearly 2.0% on an annualized basis. If the current trend continues, personal earnings should achieve pre-recessionary growth levels by the end of 2010.

Summing up the data points, we find that consumer debt levels have contracted by roughly 2.0% per year over the past two years, personal income is on pace to grow at least 2.0% this year and the household debt service ratio is improving nearly 5.0% per year on a relative basis. These pivotal statistics help support the continuation of consumer spending and its direct benefit on the growth of the U.S. economy. With the health of the consumer continuing to improve, there should be fewer concerns about a double-dip recession or calls for additional government stimulus. These factors should translate into increased corporate profits and the creation of additional jobs. We will continue to focus on these economic variables going forward and we'll adjust our forecasts to any future trend changes in order to most effectively manage the investment related risks of your assets.

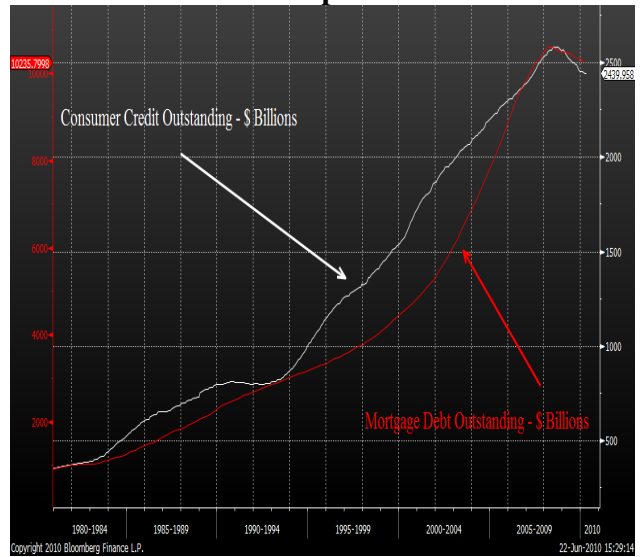
**Graph 1**



**Graph 2**



**Graph 3**



**Putting your affairs in order**

*By Ralph H. Roberts, Jr.  
Vice President/Client Services*

**W**e would like to remind you that certain documents and benefits need to be reviewed and updated from time to time. We all have good intentions, but

many times these items, which may have a profound impact on our lives as well as the lives of others, are the last to receive our attention.

The documents include:

- ✓ Healthcare Proxy
- ✓ Trusts
- ✓ Powers-of-Attorney
- ✓ Last Will and Testament
- ✓ Living Will

The benefits include:

- ✓ 401(k), 403b plans, etc.
- ✓ Pension benefits
- ✓ Health insurance
- ✓ Life insurance

Planning for now and the future will not only benefit you, but also your heirs. As any of the following may apply to you, we suggest that you address them:

- ✓ Beneficiaries
- ✓ Educational expenses
- ✓ Gifting
- ✓ Purchase of a car
- ✓ Purchase of a home/second home

Should you require accounting, banking or legal advice, etc., for any of the above listed items, we would be happy to furnish you with the names of appropriate professionals.

## Employee Spotlight

*By Ralph H. Roberts, Jr.  
Vice President/Client Services*

Bringing with her over 14 years of communication skills and customer service, Melissa Dixon joined Valicenti Advisory Services, Inc. in January 2008 as the receptionist in our Tax and Business Services Department.



In May 2010, Melissa accepted the position of Marketing Assistant. Her initiative and work quality will serve her well in assisting with the direction of the Marketing Department.

## Investment Strategy

*By Jeffrey S. Naylor  
Executive Vice President/CFO*

The second quarter remained volatile with both domestic and global concerns such as sovereign debt, the Gulf oil crisis, consumer spending and unemployment to name a few, at the forefront of investors and market considerations. That being said, corporate fundamentals continued to show improvement with stronger than expected earnings overall and the U.S. economy showing modest signs of improvement.



The Federal Reserve maintained its stance on interest rates, leaving rates at 0% to 0.25% for the foreseeable future, as inflation remains in check. With that decision, our fixed income is still focused on shorter term maturities.

We continue to see corporate fundamentals showing modest improvement going forward this year and we continue to look for opportunities in the equity markets as they present themselves.

Currently, we have an asset mix of 5% to 10% in cash, 30% to 40% in fixed income and 45% to 60% in equities. The asset mix will vary based on client specific directions, needs for income and risk levels.

## PASS IT ON...

If you think we do a good job for you, please refer your friends and family. We will make sure they can't wait to thank you!

