

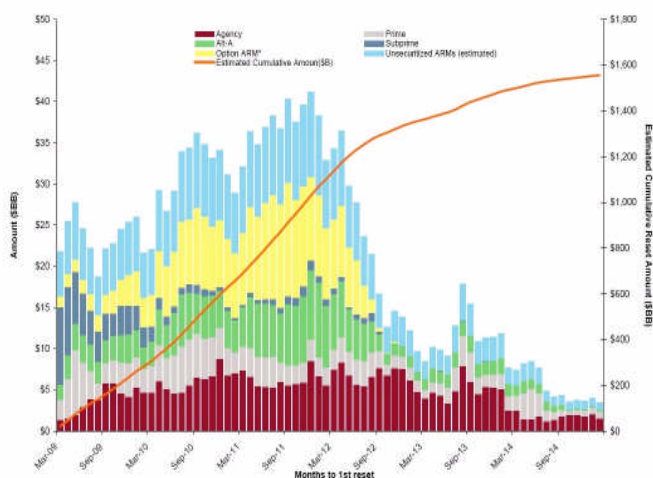
### Observations

- The estimated GDP decline of 1% in the second quarter is being touted as good news. Before the party gets started, **let's look at a few facts.** First, this figure is an early estimate and will likely be revised. How many noticed that the **GDP for 2008 was revised from a growth rate of 1.1% to only 0.4%?** It takes time for the government to gather all the data to provide a more reliable figure. The changes to definitions, classifications and statistical methods that were also introduced this quarter need to be examined. The -1% figure will change.
- Make no mistake that **Washington has replaced Wall Street as the financial capital of America.** If, and it is a big if, cap and trade and health insurance overhaul will significantly increase government spending and the burden on the private sector, it will not only negatively impact the economy, but hurt private earnings which in turn will dampen the stock market's ability to rise and could impact corporate debt repayment. Tread carefully.

### Facts & Figures of Importance

#### Economic

Adjustable Rate Mortgages Due for Re-set Over the Next Five Years



\*Option ARMs show estimated reset schedule based on current negam rate. Source: Credit Suisse (US Mortgage Strategy). LoanPerformance, FHFM/3N

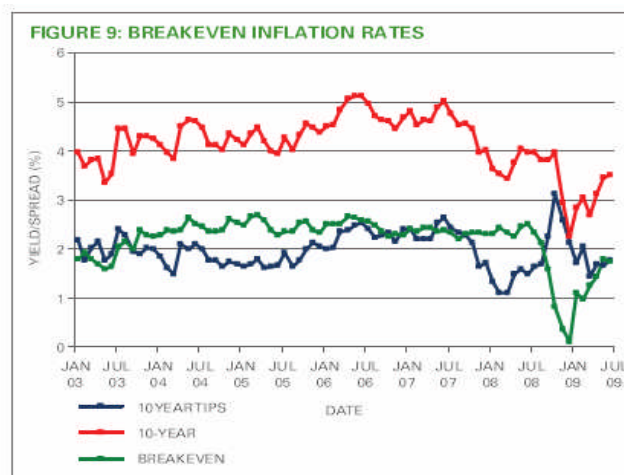
Uh-oh. There are many more mortgages with floating interest rates due to reset over the coming three years. Unless mortgage rates decline this spells more trouble for the residential real estate market. Expect prices to continue to soften for at least another year as there still is excess inventory. Commercial real estate may even be worse.

#### Economic Outlook

- More of the same as we bounce along the bottom for the next several months. A healthy healing will take time.
- Employment is the key to the US economy. Most forecasts call for the unemployment rate to peak just above 10%. Expect to hear the term "jobless recovery", which is tossed about near the end of almost every economic downturn.

#### Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	896	8,945
7/31/09	2.53%	3.52%	987.48	10,159
YTD Return			10.97%	11.79%



Source: Barclays Capital Live, as of 6/30/2009

Ten year TIPS are expecting inflation in the 1½% - 2% range.

#### Investment Outlook

- Ten year TIPS pricing may be expecting low inflation, however, the inflows into TIPS ETFs is up four-fold over the last year as are other TIPS investments. TIPS are a wise hedge against inflation, which is a looming.
- Earnings this quarter were decent given the low expectations. Soft revenues are a concern looking ahead.

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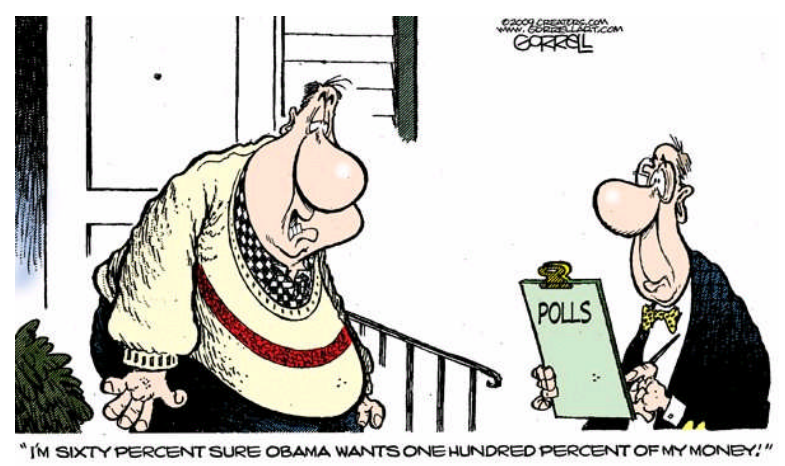
### Insightful Thoughts of Others

Those who would give up essential liberty to purchase a little temporary safety deserve neither liberty nor safety. – Benjamin Franklin

Americans in the most personal, daily ways feel they are less free than they used to be. And they are right, they are less free. – Peggy Noonan

Liberty means responsibility. That is why most men dread it. – George Bernard Shaw,

Those who deny freedom to others deserve it not for themselves. – Abraham Lincoln



### A Few More Things

- ❑ **A look behind the number that 47 million Americans do not have health insurance.** Approximately 10 million are not US citizens (US Census Bureau). That leaves 37 million uninsured. Another 14 million are eligible for Medicaid or SCHIP (Blue Cross Blue Shield); leaving 23 million uninsured. There were 18 million under age 34, who are generally healthy and have made a choice to not purchase insurance and 17 million had incomes greater than \$50,000 (Census Bureau). Eliminate any double counting and a more accurate figure of the uninsured is more likely 8 million. How many of those people are between jobs or at a new job waiting for health insurance to become effective is unknown. Bottom line is uninsured health “problem” is being overblown.
- ❑ **Root for Main Street to push back hard at Washington** for all the “fixes” that are being proposed. All too often we witness the Law of Unintended Consequences. Elected officials need to hear from their constituents so that can better understand how we common folk live our lives. Get ‘em spending more time outside the Beltway.
- ❑ **The original TARP plan** in the fall of 2008 was the purchase of \$700,000,000,000 (that’s billion) of troubled assets (read loans that have a snowball’s chance in hell of being repaid in full). TARP today consists of 12 government programs with a potential **price tag of \$3,000,000,000,000 (now trillion)** or more than four times the cost of the original proposal. Give a teenager your credit card when they go shopping and the credit card company has a cap on what you may spend. Any cap the government puts in place is just blasted right through!
- ❑ Investing and **markets are often driven by emotion rather than facts and logic.** The S&P 500 is still down 20% over the past 12 months. The economy should be evaluated based on facts and figures. Shame on Newsweek for declaring the recession is over. If a recession is defined by two straight quarters of economic decline, where are have there been two quarters of economic growth? If it is January in New England and the temperature rises into the 50s for a few days, nobody thinks winter is over. Do not trust the media unless there is solid and reliable factual information backing up their story.
- ❑ Matt Taibbi’s article in [Rolling Stone on Goldman Sachs](#) is a must read on how **Wall Street and Washington DC have wrecked havoc on our economy and financial system.** This is what serious journalism should strive to be.

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