

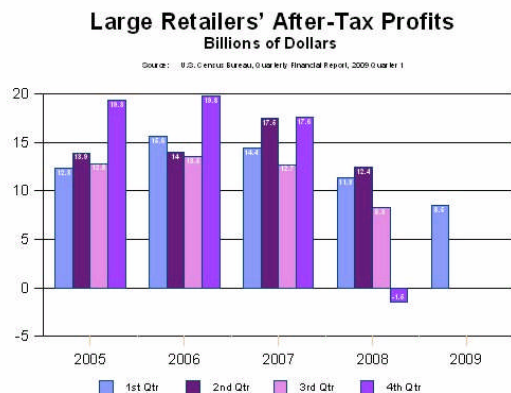
Observations

- While we often are critical of government, one agency with substantial credibility is the Congressional Budget Office. This agency provides insightful and valuable information. The CBO clearly states the federal budget is on an unsustainable path as the federal debt grows much faster than the economy over the long run. As the problem is not biting us on the backside today, most people, including the politicians, are ignoring this sleeping King Kong. When the gorilla awakens, watch out as he will want to be fed and we have a banana shortage.
- The high levels of deficit spending which will lead to higher taxes and interest rates at some point do not bode well for America. These ambitious programs of nationalized healthcare, environmental change (cap and tax), and rescuing big business may be well intentioned, however both text book and real-life economics show us that these policies when implemented will do more harm than good. The more you delve into the complexities of solving these problems, the more challenging it is to identify the real problems as opposed to the symptoms. There is no guarantee the cure will work and in fact, may end up causing more damage in the long-run.

Facts & Figures of Importance

Economic

This chart is showing us just how much the slow down in consumer spending is impacting retailers. Retailers now must wrestle with profit versus profit margin over the next few years as consumers hold onto their wallets. Consumers will be even more focused on price/value.



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
6/30/09	1.64%	3.53%	919	9,428
YTD Return			3.16%	3.75%

Baltic Dry Index (shown below) while rising are still is only at 2004 levels. The Harpex index also shows that the worst may be behind us.



Economic Outlook

- Interest rates appear to be staying in a range as investors try to sort out the impact of weak demand, long-term credit concerns, and liquidity. Each pushes and pulls rates in a different direction. This will not be a ride for the kids.
- The Federal Reserve statement last week expects inflation to remain subdued for some time. When inflation finally starts to take hold, it will take some time to tame.
- We are either at or close to the economic bottom unless the consumer cuts back even more. It will be a bumpy ride along the bottom for the next several months.

Investment Outlook

- It is unlikely either the economy or stock market will recover in a V-shape. The bounce back from the stock market lows of early March appears normal in hindsight. Additional pop in the equity markets is more likely further down the road than in the near term. It's all about earnings outlook.
- Given the sluggish demand, the commodity speculators may be in for an unpleasant surprise. Oil supplies remain high with demand well off its peak. Geopolitical events are always a concern with short-term oil supplies. Other natural resources may also see a short-term adjustment.

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Insightful Thoughts of Others

Most Americans do want different health care: They want 2009 medicine at 1960 prices. Americans spent much less on health care in 1960 (5 percent of GDP as opposed to 18 percent now). They also spent much less -- nothing, in fact -- on computers, cell phones and cable and satellite television

- George Will

Collectively, we will save more, spend less, and waste less. It may not even be a less pleasant world when we get used to it, but for several years it will cause readjustment problems.

- Jeremy Grantham

The obvious solution to both dollar weakness and higher yields is to move quickly towards a more balanced budget once a sustained recovery is assured, but don't count on the former or the latter.

- Bill Gross



Chattanooga Times Free Press *Bennett*

A Few More Things

- ❑ When was the last time you read the Declaration of Independence, Constitution, and Bill of Rights? Take 30 minutes or so, and click on the links to read now or print-out and read this week. Do the same thing with your state constitution. Then use reliable and unbiased sources to evaluate the performance of all branches of government. Turns out those gentlemen of 200 some years ago while not perfect, set up something exceptional.
- ❑ A world with only two choices can be bland. Would you want a limited choice of either drinking Coke or Pepsi? Surveys show the majority of Americans are more in the middle and do not have a strong allegiance to either the donkeys or the elephants. So then why is there not a more moderate party that can blunt the extremes of the two existing parties (obviously money)? Better yet, why not a third and fourth party that will create more meaningful debate before laws are passed and can prevent a single party from pushing an agenda too far?
- ❑ With the circus in Congress and at the White House, it is easy to overlook our judicial branch. Credit Supreme Court nominee Justice Sotomayor for saying "...because the court of appeals is where policy is made: And I know this is on tape and I should never say that because we don't make law." Actually the court of appeals may end up making policy by clarifying what the legislative branch cannot clearly articulate. If we desire better judges, we better elect representatives who can write and enact more effective and unambiguous laws.
- ❑ The headlines over the next few months may be misleading on what is really happening in the economy. Employment figures are the key to a healthy economy. When people are out of work or concerned about their job security, they do not spend money unless necessary. Workers at the automakers and other manufacturers will be returning as furloughs come to an end. This is not job creation. Nor is government creating jobs efficient for the health of a long-term capitalistic society. Beware of a false comeback on the labor market front.
- ❑ Look for foreclosures to increase as programs suspending legal actions against delinquent homeowners expire.
- ❑ Have a Happy 4th of July and enjoyable summer. Celebrate the spirit of Christmas, July 4th, Thanksgiving and the other days of remembrances each and every day. Holidays are not just about family, friends, and great food. Let's never forget the great sacrifices that people have made in the past and continue to make today so that we may enjoy and nurture for tomorrow the liberty that we enjoy in America.

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