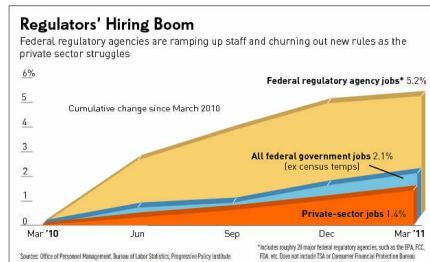


Observations

- From where does the next government intervention come if at all? The Fed? The President and Congress? The Dems got shellacked in the 2010 elections largely due to government spending and the deficit. You may have heard that there will be an election in 2012. So what can the President do to aid the economy as weak employment will harm the chances of his re-election. Is the Federal Reserve out of ammunition? Artificially low interest rates and printing money the past few years have not worked, nor is there credible proof that is prevented a deeper economic calamity.
- When you hear rebuilding from hurricanes and other natural disasters will stimulate the economy, hold tight to your wallet. If we are in a recession, we do not intentionally destroy things only to rebuild them so to spur the economy.
- Remember in the words of Benjamin Graham, "in the short-term the stock market is a voting machine, while in the long-term it is a weighing machine." Markets almost always face an uncertain future. Anybody showing you a graph of a market going straight up or straight down is not being completely truthful. Keep expectations on an even keel.

Facts & Figures of Importance

Economic



Regulatory agencies have increased the number of employees by 13% since 2009 while private sector jobs have fallen by 5.6%. So why the heck is there a need for more regulation? We all can agree on sensible regulation, but please explain how the increased costs of complying with ambiguous or outdated regulations contribute to the success of America. Think about this. More people are employed by Federal regulatory agencies than by McDonalds, Ford, Boeing, and Disney combined.

Economic Outlook

- Until there is political will to "get out of the way" and let the invisible hand of the market sweep away the waste, economies in the US and most of Europe will remain stuck with more risk tilted to the downside.
- Unknown forms for new governments in the Middle East likely increase instability in energy markets.
- It's not all rosy in China either. With an aging population that is enjoying a higher standard of living, the government must deal with economic turmoil of its best customers (the US & Europe) while keeping the masses happy. They wanted to be a world leader. Spotlights on.

Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
YE 2006	4.70%	4.71%	1,336	14,257
YE 2007	3.45%	4.04%	1,468	14,819
YE 2008	1.94%	2.96%	896	9,087
YE 2009	2.69%	3.85%	1,115	11,562
YE 2010	2.06%	3.38%	1,258	13,360
8/31/11	0.96%	2.23%	1,219	12,856
YTD Return			-1.77%	-2.39%

Winner's Curse

Behavioral finance can educate people how not to make poor decisions. The study of the Winner's Curse is just one item that you should keep in mind if you find yourself in a bidding or auction situation. Make sure you have the correct information and know the real value of the item you are bidding on. It is very likely that someone will overbid just for the satisfaction that he or she "won". Some examples include stocks when they are offered at an initial public offering (think of dot com busts from the 1990s) or free agents in sports (they paid how much for that guy?) or an item at a charity auction (it retails for \$50, but I won it at auction for only \$250!) Just give to the charity and buy the item yourself.

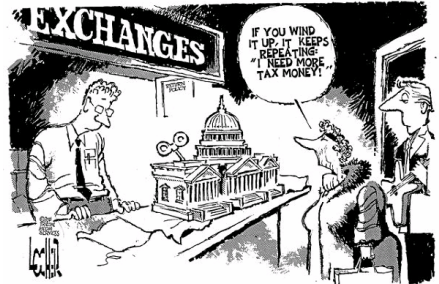
Investment Outlook

- Do you see companies en mass folding and people quitting their jobs because of the economy and boo-hoo headlines? Have faith that good will conquer evil and free markets (with sensible regulation) will prevail. And light a candle.
- The space between the extremes offers opportunities to those who are careful some long-term values. Being too conservative by overweighting US Treasuries or too aggressive by going all in on aggressive growth stocks is not a winning long-term strategy. Being an owner of an entity that pays dividends and has growth opportunities belongs in almost every portfolio. Cash flow wins the day.

Insightful Thoughts of Others

Mark Twain has reportedly said...

- Always do right. This will gratify some people and astonish the rest.
- Clothes make the man. Naked people have little or no influence on society.
- Facts are stubborn, but statistics are more pliable.
- It's no wonder that truth is stranger than fiction. Fiction has to make sense.
- Laws control the lesser man. Right conduct controls the greater one.
- Patriotism is supporting your country all the time, and your government when it deserves it.



A Few More Things

- Time to play the **earnings game** (or cycle). So you are the CEO of a publicly traded company. Should you provide earnings guidance on a quarterly or annual basis, or not provided any guidance? If you decide to issue earnings guidance, should you try to be accurate and disclose all, knowing the competition is watching? Should you set the bar a tad high to motivate the organization to reach further? Should you set the guidance slightly lower in order to provide a positive surprise to Wall Street? Better yet, why not decide depending upon the outlook for the market and your firm? After all is not your job and in your best interests to drive the stock price higher?
- You're never alone in a **schizophrenic financial market**. Let's set this up correctly. The US government has outstanding debts over \$14 trillion in addition to somewhere between \$50 to \$100 trillion, depending upon how you do the math, in future liabilities (Social Security, Medicare, Medicaid...etc.). Annual budgets for the past two years have shown over a trillion deficit. Raising taxes on those with incomes over \$200,000 will be a drop in the ocean towards shrinking the deficit and repaying debts. Yet the instinct of nervous investors is to rush in to purchase US Treasury obligations, which pushes yields well below inflation levels. In other words the investor gives the spending junkie more money and subsidizes the payments so that it actually costs the investor in real dollars. Please hold my money Uncle Sam and pay me 1% for the next five years while inflation increases at 3%. Please remember to tax me on that 1% interest.

On the other hand, equities are tossed aside like an old rag? What new information came to equity markets in the past month that has not been known for at least the past year that scared investors? Owning stocks represents equity in the profits and cash flow of those businesses. Yes, valuations matter as it is better to sell (and not purchase) businesses that are overvalued and buy businesses that are undervalued.

- The speculation is whether or not Greece should remain in the European Union given its financial problems. Has thought been given to the financially strongest nation in the EU, **Germany, leaving?** Is Germany better off as an independent nation or as a member of the EU. The European nations with financial problems cannot expect the stronger nations to bail them out without meaningful concessions (read financial austerity and improving their work ethic).
- Enjoy Labor Day weekend.** Beware of politicians, clueless executives, and the media returning from vacation with folly plans of grandeur to save the world based on a book they read. Be assured these plans involve your wallet or labor!

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