Falcon Financial Management, Inc.

August 4, 2011

Dear Friends,

To say that the times we are living in are strange is probably one of the biggest understatements I can make.

I am writing this letter to you as the House is preparing to vote on a plan to avert the Debt Ceiling deadline. I do not know what theses esteemed members of congress are going to do. Whatever it is, it will provide another reminder of how dysfunctional government processes have become.

Our representatives to government have become so polarized that every speech is full of inflammatory words designed to provide the news media (one of this crisis's true villains) with a sound byte. The idea of doing what is best for the country has arguably been set aside for most of the elected officials in an effort to continue to be elected.

That has brought us to the threat of default.

Let's start with what is default. By definition it means not paying our bills. Even if a compromise agreement is not reached the bill that must be paid first is the interest on the national debt, the Treasury bills and bonds. The debate over raising the debt ceiling will not keep the United States from paying that bill. The treasury has money available to pay the bill. Tax revenues are received by the government every month; they are not enough to pay all the bills so the government may have to pick and choose for a short time.

I have confidence that the deadlock will soon be resolved and all the bills will be paid. So does the international community that buys our bonds.

When the investors lack confidence in your ability to repay a loan they charge you a higher interest to compensate for the additional risk. Today our ten year Treasury bill is about 3%. Less than the rate a comparable investment in bonds earns in most of the world. It has not risen because of the noise from Washington; the world knows we will pay our debt. If they were really worried the interest rate would be climbing and the stock market would be dropping faster than a falling knife. An example of the interest rate that we would be paying on government debt if investors were really afraid of default can be found in the interest rate Greece is paying …. 16%.

I am very frustrated by the manipulation and selective choice of facts that both the media and our government representatives continue to exhibit.

They are trying to scare everyone and frankly they have done a pretty good job of it.

2631-B NW 41st St. ♦ Gainesville, FL 32606 ♦ (352) 375-7977 ♦ (888) 841-6209 ♦ Fax: (352) 338-1229 ♦ E-mail: ffm@ffmonline.com
Visit us online at www.ffmonline.com

This, however, differs from the calamity in September 2008. In 2008 we had real investments and real companies that were facing financial ruin because of the systemic meltdown that was occurring. The stocks of those companies fell in value because they were worth less because of their exposure to toxic assets, loans and obligations. The near total collapse of the Financial Industry dragged down the whole system and exposed a fundamental problem that had created an asset bubble.

There is no asset bubble involved now. Stocks, as valued by their Price/Earnings Ratio, are fairly valued, they are not over priced. Many companies have hoarded cash because of their uncertainty in the economic course we are taking. That means they are financially healthy.

The ISM index will come out on August 1st. We have had 23 months of an expanding economy based on the Index. Over the last two months the ISM index has been trending up and is well above the magic number of 50 (an ISM index above 50 indicates an expanding economy and a number less than 50 indicates a contracting economy).

I will not be surprised to see the stock market rally ahead and the interest on Treasuries to go down when the crisis is over, probably by the time you actually receive this letter.

That said, I am not abandoning the mantra that I cling to as a result of the last decade; *plan for the worst, hope for the best.*

Many of you are currently holding on to cash because, like the big companies, you are uncertain of the future. Probably not a bad thing.

You must understand that you are sacrificing potential return for safety. I know of no way to get high returns without risk (unfortunately I have seen how to get low returns with lots of risk). Do not stress about the low returns you may be getting in your savings accounts or money markets. Your money is relatively safe and liquid.

The near future may be a great opportunity to get some of the cash out of savings and in to the markets, especially if we see a draw back in the stock market in the next 30-60 days.

Most of our clients are relatively conservatively positioned. Most of our portfolios have a mix of annuities (with living benefits), REIT'S, and some gold, as well as the traditional stocks and bonds.

We recognize that preserving your principal is vital to your long-term results. We have revisited many of our financial plans over the course of the year and we have evaluated them based on an expected return of 6% (a note for compliance purposes; past returns are not a guarantee of future performance). Ultimately your planning dictates how much risk we have to take to get you to the fincial independence you want and what we need to do to make it last for your lifetime.

If your goals have changed we need to reevaluate your portfolio and be sure that your investments are in sync with your goals.

We have recognized that interest must eventually go up, so if you have an opportunity to lock in rates while they are at these historic lows you should.

We expect that inflation is higher than the government numbers suggest and that higher inflation is in the future. I don't expect to see us revisit the hyperinflation of the Carter years, but I do expect inflation to move up in the not to distant future.

As you will see from our Scoreboard, stocks struggled in the last quarter. They have bounced back since the beginning of July.

You should expect continued volatility in the stock market. That said, I remain cautiously optimistic and a bit bullish.

The Scoreboard
(www.investmentadvisor.com)

	2008	2009	1stQ 2010	2ndQ 2010	3rdQ 2010	4thQ 2010	2010	1stQ 2011	2ndQ 2011
DJIA	**-33.8%**	**18.8%**	**4.1%**	**-10.0%**	**10.4%**	**7.3%**	**11.0%**	**7.1%**	**-1.1%**
S&P 500	**-38.5%**	**23.5%**	**4.9%**	**-11.9%**	**10.8%**	**10.2%**	**12.8%**	**5.9%**	**-1.7%**
NASDAQ	**-40.5%**	**43.9%**	**5.7%**	**-12.0%**	**12.3%**	**12.0%**	**16.9%**	**5.0%**	**-2.1%**
LBAB	**5.2%**	**5.9%**	**1.8%**	**3.5%**	**2.5%**	**-1.3%**	**6.5%**	**0.4%**	

(Investors cannot invest directly in indexes)

I also want to invite all of you to join Chris and me on Saturday mornings at 8:30, where we will continue to be hosting Dollars and Sense on 97.3 FM. Our show is also available, if you are not in Gainesville, via the Internet. So check us out on Saturday mornings. If you have questions or topics that you would like us to be discussing then please give Chris a phone call or drop him a line at Chris@ffmonline.com.

We are here to solve problems. It's what we do. Do not hesitate to let Darla or me know if there is anything you need from us. When we can assist, we will.

I also want to take this opportunity to ask you to remember us when friends and family are struggling with these same questions going forward.

Many folks are in retirement plans that don't offer them the kind of investment and planning advice that we provided for you. We have built this business on referrals, on the idea of working with a lot of people just like you. We appreciate you and would like to help those around you.

Thank you for your continued friendship and support.

Best wishes,

Jeff Davis, CFP®
President

All economic and performance information is historical and not indicative of future results. All views expressed in this letter are those of Jeff Davis, CFP® and should not be construed as investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards