

THE MASTERS

WEALTH MANAGEMENT GROUP

Gary C. Mastrodonato, CEA presents:

Wake Up Call for America!

Late Friday night (August 5th) Standard & Poor's announced that the coveted U.S. debt rating of AAA was reduced to AA+! It is the first time in the history of the United States (since ratings began) that it's been less than AAA. While Standard & Poor's announced their downgrade two other independent rating agencies, Moody's and Fitch, confirmed their AAA view of our U.S. credit and are currently maintaining their positions. Why then did Standard & Poor's decide to drop our vaunted AAA? According to a Standard & Poor's director, Congress and the White House took too long to raise the debt ceiling and the amount reached to reduce the debt was too small. Standard & Poor's did however confirm our A-1+ short-term rating (highest available) and removed both the short-term and long-term ratings from credit-watch! Both of those ratings were placed on credit-watch on July 14, 2011 with negative implications. In addition the transfer and convertibility (T&C) assessment of the likelihood of official interference in the ability of U.S. based public and private-sector issuers to secure foreign exchange or debt service remained "AAA"! The reason we were taken off credit-watch was because of the August 2nd passage of the "Budget Control Act Amendment of 2011" which removed any perceived immediate threat of a payment default posed by delays to raise the government debt ceiling. The act as well appears to provide sufficient claims to allow us to evaluate the likely course of U.S. fiscal policy for the next few years.

One serious question that we have to ask has to do with the timing of this announcement! What in the world motivated Standard & Poor's to drop the U.S. debt rating right now in light of an already 10% correction in the S&P 500 Stock Market Index? This company (S&P) in our opinion has done harm to America before without considering the consequences of their actions! Remember that Standard & Poor's (along with other rating agencies) granted AAA status to many collateralized mortgage obligations that invested in sub-prime mortgage obligations that were then bundled by Wall Street brokers and sold as investments to the public and pensions alike. As you know many these top rated investments ended horribly!

In a further explanation Standard & Poor's stated "that they lowered the rating because of the prolonged controversy over raising the statutory debt ceiling (\$14.3 trillion) and the related fiscal policy debate which indicated that further near-term progress containing the growth in public spending, especially entitlements (Social Security and Medicare) or on reaching an agreement on raising revenues is less likely than we previously assumed, and will remain a contentious and fitful process. We (S&P) also believe that the fiscal consolidation plan that Congress and the administration agreed to this past week falls short of the amount that we believe is necessary to stabilize the general government debt by the middle of the decade". In plain English, the acrimony and continuous discord that exists in Washington which obviously postponed their decision on the debt ceiling to the 11th hour

indicates that neither the Senate or the House of Representatives nor the White House understands what's in the best interest of our country. Unfortunately they will all most likely continue to postpone the enactment of a meaningful action plan. The Republicans voice their aversion to raising taxes and the Democrats refuse to address real and meaningful spending cuts. This creates a political impasse that is not only disappointing, but extremely disturbing to all Americans regardless of political persuasion. The markets hate uncertainty and it's obvious to us now that so does Standard and Poor's.

How will the stock market react? No doubt negatively at first. The bond market, believe it or not, may see a flight to Treasuries even with our lower AA+ rating. But looking past the initial reaction to this downgrade Washington will now have to seriously address these spending and tax issues and formulate a bipartisan meaningful solution to our long-term debt problems.

Opportunities will be a bi-product of this downgrade and our investment strategies we believe will further confirm going forward that our investment process and tactical asset management will succeed in mitigating risk and aid in the protection and progress of your portfolios. We are monitoring every aspect of this problem and have already personally talked with or heard from many of our fund managers. We are listening carefully to their professional opinions and viewpoints.

We will continue to communicate to you throughout the week on any new developments and of course report by email any strategic changes that might be necessary to safeguard your portfolio(s) even further.



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