

NEWS RELEASE

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Brady Investment Counsel LLC

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Today's Market Action

Geneva - Dear Clients,

We are watching your accounts and the markets closely. Obviously, the stock market is correcting. We are not convinced; however, the real reason is well understood. Last week it was the debt ceiling. This week it is the U.S. credit rating downgrade. However, we can say with conviction the market is trading below fair, long-term value. But until we better understand the true catalyst for the downturn, we believe the best move is to hold tight to your current stock/bond/cash allocations. Note, even though the market is undervalued, our plan of attack is different from 2009. Back then our conviction on adding equity exposure was high because we understood the problem and the fix. Today we are still working on the problem.

The equity market has been in correction mode since the end of April. We know it is tempting to try and time the market. "Let's get out now and get back in when things are better." The problem is the strategy does not work. Simply, the future is impossible to predict. Over the weekend, how many of the talking head experts you saw or read thought U.S. Treasuries would be in strong rally mode the day after the downgrade?? Well, the 7-10 year Treasury ETF closed up a whopping 1.6% today! You read this correctly. In spite of the rating downgrade, U.S. Treasuries posted an impressive, 1.6% one-day gain today.

Markets correct for all kinds of reasons. The big and most bothersome corrections typically happen around some kind of systemic event. Our conviction is there's nothing out there brewing anywhere even close to the 2008 Financial Crisis. That said, something is very likely wrong...and it's unlikely it has much to do with the fact that expected GDP growth has been revised down to 2.4% from 3.1%.

We know many big hedge funds are having a bad year...again. We also know many were selling short U.S. Treasuries in front of QEII ending betting Treasury prices would drop once the Fed stopped buying. That bet (prediction of the future) could not have been more wrong. Treasuries are up over 8% since the stock market began to correct in April 2011. If those who shorted covered today, they did so at a sizable loss.

History has taught when hedge funds get it wrong, they get it really wrong. Also, when a big hedge fund goes down there's typically collateral damage due to their financial leverage. Fortunately our financial system is well capitalized, unlike it 2008, and the playbook for bailing out financial institutions is recently written and well understood.

Investing in quality is the best defense and offense. Your portfolios are well invested in quality. Acting on conviction is the only way to invest. If we are wrong about a potential systemic event, then the market will rally and you are well positioned to benefit. If there is a systemic event in the future, we will work diligently to understand the problem and its solution. Only then will we make the decision to add or decrease asset class allocations.

Do not hesitate to call with questions.

Dave

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