

Note to Clients:

Some of you have asked about the move from FDLXX (Fidelity U.S. Treasury Money Market) which was paying very little interest to FCASH Money Market or FSLXX, Fidelity Select Money Market both of which are paying more interest. (Rest assured that there were NO LOSSES in any of these funds.) Although banks are closing at an alarming rate 4 more last week, I do not see the extreme danger we were in at the beginning of 2009 in the banking industry. Don't get me wrong; if I wasn't able to move 100% of your money into the U.S. Treasury Money Market in a matter of minutes, I would not be making this move. Believe me; banks are still in a lot of trouble based on the closings we have seen to date.

Hi everyone,

I really hope that you all are having a wonderful summer. I just got back from Lake Leelanau where I was vacationing with my 3 sisters and lots of family. I believe that there were over 35 of us this year.

Shari and I are rested and ready to take on the second half of this year. Our goal is very much in tack; to earn up to 7% this year on your portfolios.

The following is an update on our investment strategy and how the first half of 2009 has went:

As I have explained in my last two emails, I do not want our gold positions to stop-out. I realize that we have loss some value in these positions, but these losses are only temporary. I regard our positions in gold and silver as core holdings; which means I want to hold on to them for the long-term because of all the reasons I have stated in my previous two emails.

We have seen gold up to the 940 level this week. However I did decide to short our gold position recently by adding DGZ when gold hit a daily and weekly sell signal. I am expecting a short term downdraft in gold to as low as \$808 by the end of July. Long-term is still very bullish. The reason for the reaction here in gold over the last couple of days is anticipation of inflation coupled with some rather robust earnings numbers from companies like Goldman Sachs. And short term sentiment, believing that inflation is going to come roaring back...it is, but we're not quite there yet.

I would be wrong on gold on the short term if we see a close back above \$949 an ounce level. I don't expect that to happen. Short of that, gold remains in a short term bear mode with a one month 3-4 week decline coming up that could be very sharp and very surprising to a lot of people. Our position in DGZ will counter this expected down-trend and keep our values intact.

Long term everything remains good for a major move to the upside in gold once this short term cyclical downturn is out of the way. If there is any change I will let you know via my emails.

We got some good action Wednesday in the market because the PPI (producer price index) released by the government for the month of June came out higher than expected. Surprising the market is up .7% which is quite a hefty jump that's consistent with my longer term views that inflation will come roaring back. However, on the short term basis most of that .7% increase is due to the rally that we saw over the last couple months in gasoline and oil prices. Nevertheless, it's caused a sharp reaction in the markets.

The key level to watch was DOW reaching 8450. The DOW above 8450 will mean that the rally that I've been projecting into the summer months possibly even into September should continue.

Since, we did hit this level on the DOW that signaled us to reduce our exposure to BEARX which is an inverse S&P 500 fund. We sold half of this fund to allow our portfolios to go up with the market. Note: Fidelity doesn't charge you a fee to buy or to sell BEARX.

We are seeing a lot of choppy action in from oil. It dropped down around \$58 a barrel which led us to buy DUG; this is an inverse oil fund, and like gold, oil is rallying again up \$1.30 to about \$61, very, very, choppy.

We're also seeing some choppy action in some of the other natural recourse markets, but no major trend changes there, either on the long term which remains positive or on the short term which remains choppy to lower even dropping as low as \$50. So we will hold on to our DUG position for now which will protect our portfolio if oil does head back down to lower levels.

These are shaping up to be some great trading markets, but we must exercise caution. I believe there is going to be some weird swings. There is no change in the intermediate or longer term trends; I believe the market will be up more than down.

Now for the first half of 2009:

I think Jon Markman, MSN Money explains it best from his article "Why hope (or fear) is a bad bet now"

Thanks to the manifested "green shoots" I don't think any analyst has had a clear picture of what is going on any more.

Take a look at the trading in the year's first half. The headline numbers don't look too bad: The S&P 500 Index was up 2%, while the Dow Jones industrials were down 3%. That's about as flat as you can get. But real results are much different because of the violence of the down move in February Jon says," when so many despairing bulls sold at a loss, never to buy back, and the violence of the up move in March, when many scornful bears shorted and were crushed".

Those market gods are so devious sometimes Jon continues. You see their game, right? Most of the green-shoots crowd waited way too long to come around to that point of view and therefore managed to catch only a sliver of the rebound around May, according to New York Stock Exchange trading-volume data. And most of the weed-killing crowd has bad-mouthed the recovery so much that they have likewise had depressed results. It's as if all the hopes and fears of a generation are being buried in the same unmarked grave.

Wal-Mart is a great example of the sort of stock that has beat up both the green-shooters and the weed killers. Bears knew coming into this year that consumers are in a world of hurt would primarily shop at discount stores, so they thought it would be clever to go long Wal-Mart shares and short-sell high-end retailers such as Coach. Meanwhile, bulls believed that middle-class tax rebates, handouts from the government's Making Work Pay program and jobless benefits would be spent at Wal-Mart on necessities. This made Wal-Mart a pick everyone could believe in.

But whenever an idea is agreed upon by virtually everyone, its way too good to be true; lacking a surprise effect, it's useless. Plus both sides were blind to some painful trouble facing the U.S. stock market's second-largest company. Wal-Mart came into 2009 hoping for expansion internationally but has had to face up to abysmal failures in Germany, South Korea and Hong Kong, and much-slower-than-expected expansion elsewhere in China. Plus Wal-Mart appears to be negatively leveraged to every business reform initiative of the Obama administration, as many of the proposed labor, health care and carbon emission laws will pull profits directly from the

anti-union retailing giant's bottom line. Shares are down 12% in 2009, one of the worst results in the major indexes.

Meanwhile, froufrou retailers like leather goods maker Coach and yoga apparel maker Lululemon Athletica were sold so hard in the spring -- under the assumption that the consumer was dead -- that they became terribly under owned. They were anything but a consensus pick. And as a result, true contrarians were able to rush into the void to buy cheap shares, more than doubling the value of each

Blame the bad math I mentioned on Analysts at Trim Tabs Research reported last week (.pdf file) that the government's Bureau of Economic Analysis is painting a wildly inaccurate picture of the health of U.S. consumers. The statistics agency reported that personal savings as a percentage of personal disposable income was a stunning 6.9% in May, the highest since December 1993. That's about 7 percentage points above the rate of 2008, and it suggested a new era of frugality.

Ha -- you knew that couldn't be right. Trim Tabs' analysis, which is based on real-time income tax deposits rather than mathematical models, suggests that the real savings rate is a lousy 0.9%, not 6.9%. This is bad news for both optimists and pessimists, which fits my both-sides-lose theory to a T. It shows that consumers are in much worse shape than government statistics suggest and therefore have little money available to make house payments or pay for yoga gear bought on credit.

How did the government get it wrong? According to Trim Tabs, two temporary factors lifted the savings rate: Social Security recipients got one-time payments of \$250 in May as part of the stimulus package, while another huge chunk of money went to welfare recipients. Strip out those anomalies, and the savings rate drops to 4.8%. Meanwhile, Trim Tabs' analysis of daily Treasury Department data suggests that the government models -- which are based on lagging Quarterly Census of Employment and Wages data from last year and thus have not been updated to reflect the true impact of the recession -- greatly overestimate wages, salaries and dividend income. Using live data and backing out one-time payments, the analysts conclude the real savings rate is less than 1%.

To be more specific, using its outdated model, the Bureau of Economic Analysis reported in May that personal income had risen 0.3% year over year despite the worst recession and employment crash in 70 years. That's craziness.

Trim Tabs' model, using real-time data, shows that personal income fell 3.6% year over year in May while salaries and wages sank 4.8%. That's much more believable. The bureau won't catch up to what's really happening in the economy until its data is updated through the first quarter of this year, and then it'll likely show a big drop.

If Trim Tabs is right -- and I trust its work -- then a key reason for a lot of the green shoots showing up is bad mathematical modeling, not positive data. Yet this is not a win for either side. To the extent that green-shooters are relying on Bureau of Economic Analysis data for their optimism about the future, they're wrong now. But to the extent that bears will rely on bureau data in the future, they'll also be wrong. Everybody loses, which is just the way the market devils like it.

Optimism over government assistance is colliding with reality most vividly in the housing market. Southern California real-estate analyst Gary Watts, who earned a reputation as "Scary

Gary" because of dire predictions that panned out two decades ago, told an industry trade group in Orange County last month that low home prices and mortgage rates are not enough to turn around that region's benighted market because they're outweighed by shrinking access to credit and lower wages.

According to an account in the Orange County Register, Watts said the core problem is that lack of move-up buyers. While demand for homes selling for \$500,000 is hot, sellers of those homes no longer have any equity. He said that they end up with nothing to invest in a bigger house, so sales of more-expensive homes are dead in the water. That has led to price wars, longer times on the market and more foreclosures for upper-income area residents at a time when adjustable-rate mortgages, called option ARMs, are also resetting at the highest rate in the past five years. In short, don't expect these people to buy a lot of yoga gear this fall. The bottom line is that both optimistic and pessimistic investors -- the contrarians and the anti-contrarian contrarians -- need to retain a healthy skepticism for the data that they are using for their arguments. That sounds like a recipe for a headache.

Talk to you soon,

Val, Shari and Brian
Cascade Financial Group

Source: Jon Markman, MSN Money

This communication, including attachments, is for the exclusive use of addressee and may contain proprietary, confidential and/or privileged information. If you are not the intended recipient, any use, copying, disclosure, dissemination or distribution is strictly prohibited. If you are not the intended recipient, please notify the sender immediately by return e-mail, delete this communication and destroy all copies.

If you wish to be taken off this mailing list and not receive future "Weekly Updates", please reply back with "Unsubscribe" in the subject line. If you wish to have this "Weekly Update" sent to an alternate email address, please reply back providing the new email address