

The Keystone Connection

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Data continues to confirm that the most severe economic downturn since the Great Depression was on the cusp of ending as Q2 2009 ended and Q3 2009 began.

Although the U.S. economy contracted by 1.0% in Q2 2009 versus Q1 2009, the pace of decline was much less severe than in prior quarters. Inventory de-stocking accounted for most of the decline in GDP in Q2. Outside the massive drawdown in inventories, the economy only contracted by 0.2% in Q2. Consumer spending was weak, falling 1.2%, as consumers continued to buy only the items they need, not the items they want.

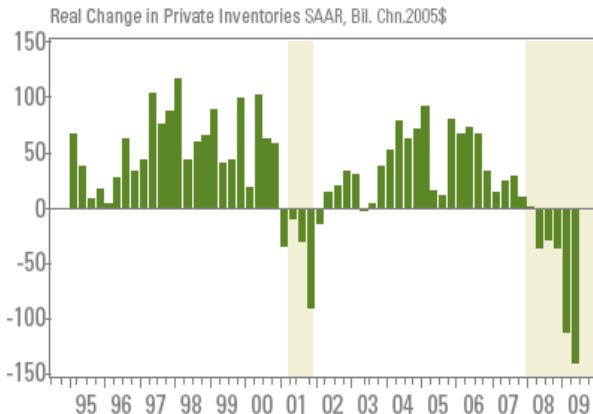
We expect that consumers will be a bit more willing to purchase non-essential items in 2H 2009 as the economy improves, the labor and housing markets stabilize, and the “wealth effect” (rising equity prices and rising home prices) kicks in.

July 22 (Bloomberg) -- [Goldman Sachs Group Inc.](#)'s repayments to the government of last year's bailout money, including an agreement today to repay warrants, generated a 23 percent annualized return for U.S. taxpayers.

Goldman Sachs agreed to the Treasury's request for \$1.1 billion to repay warrants the government received when it invested \$10 billion in the New York-based firm last October. The payment is in addition to \$318 million in preferred dividends.

Business capital spending was weak again as well, but exhibited far less weakness in Q2 than it did in Q1. Housing detracted from GDP for the 14th consecutive quarter in Q2. Business spending on structures (malls, office parks, industrial buildings) was weak again in Q2, as financing remained tight. Government spending, which was inexplicably weak in Q1 2009 given that the U.S. was fighting two wars and the worst recession since the Great Depression, rebounded in Q2, led by defense spending. State and local government spending remained tepid, and the risk is that state and local spending remains weak as states, cities and towns continue to deal with weak revenue growth.

2 Massive Inventory Drawdown in First Half of 2009 Sets the Stage for Recovery



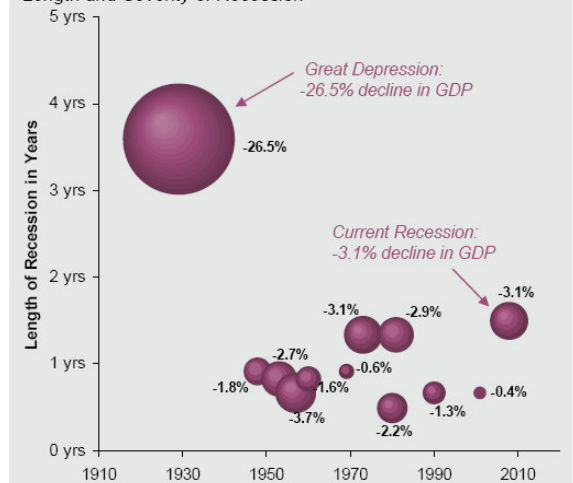
Source: Bureau of Economic Analysis, Haver Analytics 08/03/09

The move in sentiment in the financial markets from depression to recession to recovery took only five months. But the shift in sentiment is unlikely to end there—next may come fears of inflation and the concerns about the challenging “exit strategy” While enthusiasm over the prospects for recovery may act as a positive for stock and bond market performance, investors may soon turn their attention to the potential threat of inflation and the challenges associated with how the Fed manages that threat by exiting the extraordinary support measures taken to address the crisis in the economy and financial system. We adhere to our 2009 year-end target for the S&P 500 of 1000-1050. However, we believe the recent surge may soon begin to fade, giving way to a sideways but volatile market in the next few months.

The best news we think people should be focused on, is the record drawdown in business inventories over the first half of 2009, and especially in Q2. Why? In the wake of the collapse of Lehman Brothers and the seizing up of global financial markets that followed, businesses cut production, spending, and jobs to the bone in late 2008 and the first half of 2009, as they braced for a repeat of the Great Depression. Now that the Great Depression scenario is off the table, businesses may need to rethink some of those cuts over the second half of 2009.

More business spending means more production, more hiring, less job loss, and less inventory de-stocking in the second half of 2009.

The Great Depression and Post War Recessions



Source: NBER, BEA, J.P. Morgan Asset Management.

Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data. Data are as of 06/30/09.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.



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Dates of Interest

September's
 Gemstone: Sapphire
 Flower: Morning Glory

September 14, 1814 - Francis Scott Key wrote "The Star Spangled Banner."

Sept. 2-5 Celebrate America
www.celebrateamericashow.com

Sept 13- Grandparents Day
www.grandparents-day.com

Sept. 19-Halloween Harvest and Corn Maze Grand Opening
www.awhc.org

Sept. 26 USU Homecoming
www.usu.edu/homecoming

Nov 6 - Nov 7
 Logan Holiday Gift Show

"Humanity is not a gift of nature; it is a spiritual achievement to be earned."
 Richard Bach

Market Watch

As of July 31, 2009

	YTD	1 Year
DOW	+ 6.56%	-16.56%
S&P 500	+ 10.97%	-19.89%
NASDAQ	+ 25.46%	-14.87%
Aggregate Bond	+ 3.54%	+ 7.81%

Indices are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." -Warren Buffett

??? Monthly Trivia ???

The first 25 correct answers will be put in a drawing for a gift certificate to Hamilton's. Answers should be emailed to tonnie.miller@lpl.com.

Good Luck & Have Fun!!!

Of the original Dow Jones Industrial Average stocks, which is the only one still a part of DJIA with its original name?

- A. Procter & Gamble
- B. DuPont
- C. ExxonMobil
- D. General Electric



Charles Dow, a journalist, introduces the Dow Jones Industrial Average on May 26, 1896

Getting Ready for Fall: Once a Month Cooking

Fill the freezer to make the transition back to the fall routine easier!



When it comes to OAMC, it pays to be organized. Use your extra herbs and vegetables that have accumulated over the summer, right now. Have them cleaned, chopped and waiting in the refrigerator. Breaking up prep work over a couple days can help ease the magnitude of cooking a month's work of meals in a day. Add fresh fruits and veggies such as salad or carrots and dip at the time of serving. Pick fresh sides that complement the meal, available year around and won't break the bank. Some great recipes can be found at www.bettycrocker.com, community blog's.

Resume Bloopers and Mistakes

"Personal: I'm married with 9 children. I don't require prescription drugs.
 "Note: Please don't misconstrue my 14 jobs as 'job-hopping'. I have never quit a job."

"Marital Status: Often. Children: Various."

"Here are my qualifications for you to overlook."

"The company made me a scapegoat - just like my three previous employers."

"While I am open to the initial nature of an assignment, I am decidedly disposed that it be so oriented as to at least partially incorporate the experience enjoyed heretofore and that it be configured so as to ultimately lead to the application of more rarefied facets of financial management as the major sphere of responsibility."

"My goal is to be a meteorologist. But since I have no training in meteorology, I suppose I should try stock brokerage."

"Instrumental in ruining entire operation for a Midwest chain operation."

"I procrastinate - especially when the task is unpleasant."

